



HONG KONG FERRY (HOLDINGS) COMPANY LIMITED
香港小輪(集團)有限公司

(Stock Code 股份代號: 50)



2017
INTERIM REPORT
中期報告



INTERIM RESULTS AND DIVIDENDS

The unaudited consolidated net profit after taxation of the Group for the six months ended 30 June 2017 amounted to HK\$167 million, representing an increase of 35% as compared with the figure for the first half year of 2016. Earnings per share amounted to HK\$0.47 as compared with HK\$0.35 over the corresponding period of 2016.

The Board of Directors (the “Board”) declared an interim dividend of HK10 cents per share (2016: interim dividend of HK10 cents per share) in respect of the year ending 31 December 2017. The interim dividend will be paid on or about Thursday, 28 September 2017 to shareholders whose names appear on the register of members at the close of business on Tuesday, 19 September 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the period under review, the profit of the Group was mainly derived from the sale of residential units of Green Code and car parking spaces of Shining Heights.

Property Development and Investment Operations

During the period, the profit of the Group from the sale of residential units of Green Code and car parking spaces of Shining Heights amounted to HK\$75 million. Since the pre-sale of the Harbour Park project, currently in construction, in early 2016, the Group had sold over 97% of the residential units. The project is expected to be completed in early 2018.

The leasing of the rental properties of the Group was satisfactory during the period. The gross rental income from the commercial arcades amounted to HK\$48 million. At the end of the reporting period, the commercial arcades of The Spectacle and Metro6 were fully let whereas the occupancy rates of the commercial arcades of Metro Harbour Plaza and Shining Heights were 99% and 96% respectively. The commercial podium of Green Code consists of two floors with a total gross floor area of approximately 136,000 sq. ft. and the occupancy rate was around 90%.

Joint Venture Company

The joint venture company (the “Joint Venture Company”) owned by the Group and Empire Group Holdings Limited, each holding 50% of the shareholdings, has secured a loan facility (the “Loan Facility”) of HK\$3,000,000,000 from the banks for the purpose of financing the development project in Tuen Mun Town Lot No. 547 located at Castle Peak Road, Castle Peak Bay, Area 48, Tuen Mun in May this year. The project is for residential use with a site area of 165,766 square feet and a gross floor area of approximately 663,000 square feet, and is expected to be completed in 2021.

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\$7.9 million as a result of the improvement in shipyard business. An increase of 79% in profit was recorded as compared with the same period last year.

Securities Investment

A profit of HK\$34 million was recorded in the Group's securities investment during the period.

Prospects

Despite the uncertainties of Brexit and the Korean Peninsula crisis, the global economy improved in the first half of 2017. The US economy fostered relatively strong growth in the first half of the year. The Federal Reserve had raised interest rates again in the first half of the year for the second time and forewarned the reduction of its balance sheet. With the further implementation of reform and the improvement in corporate profits, the Chinese economy also recorded good growth this year. The Hong Kong economy demonstrated growth momentum in the first half of the year with GDP growing by 4.3% over the same period a year earlier, being boosted by an upward stock market, active property market and favorable economic outlooks for the year. With the launch of the Bond Connect in July 2017, foreign investors will increase their participation in the capital market of China, thereby further strengthening the position of Hong Kong as an international financial centre.

The liquidity in Hong Kong's monetary system is currently plentiful and Hong Kong dollar's short term interest rate will remain unchanged in the immediate future. With the stimulation of tender prices of government lands repeatedly hitting record highs, residential properties in Hong Kong have reached a level of adaption and consolidation, with prices getting quite unaffordable by the general public. Prior to the emergence of new factors affecting demand and supply, primary sale will continue to dominate the residential market, while the second-hand sales turnover will stalemate.

The Group will aggressively sell the remaining residential flats together with car parking spaces in the second half year and will continue to explore suitable investment opportunities.

Management Discussion and Analysis (Continued)

Financial Review

Review of Results

During the six months ended 30 June 2017, the Group's revenue amounted to HK\$240 million, representing a decrease of 6% as compared with that recorded in the same period last year. This was mainly attributable to the decrease in the sales of Shining Heights.

The consolidated net profit after taxation of the Group for the six months ended 30 June 2017 was HK\$167 million, representing an increase of 35% as compared with a profit of HK\$124 million for the same period last year. The reason for the increase in profit is already mentioned in the section of Management Discussion and Analysis of this report.

Liquidity, Financial Resources and Capital Structure

As at 30 June 2017, shareholders' funds of the Group amounted to HK\$5,896 million, representing a slight increase of 1.8% as compared with the corresponding figure as at 31 December 2016. The increase was mainly due to the net effect of the proceeds realised from the sale of residential units of Green Code and car parking spaces of Shining Heights, the gains on revaluation of the Group's investment properties, gains on securities investment and the payment of dividends.

There was no change to the capital structure of the Group during the period.

As at 30 June 2017, current assets of the Group stood at HK\$2,731 million and current liabilities was HK\$754 million. Current ratio of the Group slightly increased from 3.5 as at 31 December 2016 to 3.6 as at 30 June 2017, mainly due to the increase in cash and bank balances.

Charge of Assets

As at 30 June 2017, shares in the Joint Venture Company were charged to secure the Loan Facility made available by banks to the Joint Venture Company. Details of the Loan Facility, the relevant guarantees granted and the securities provided are set out in note 23 on page 33 and note 24(a)(xiii) on page 39 to the interim financial report.

Gearing Ratio and Financial Management

As there was no borrowing, gearing ratio was not shown. 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.

Employees

As at 30 June 2017, the Group employed about 200 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 will be closed on Monday, 18 September 2017 and Tuesday, 19 September 2017, during which period no requests for the transfer of shares will be accepted.

In order to qualify for the interim 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, 15 September 2017.

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 maintain high standard of corporate governance. In the opinion of the Board, the Company has complied with the code provisions of the Corporate Governance Code (the "Code") 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 2017.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") 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 standard set out in the Model Code during the six months ended 30 June 2017.

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 2017 and reviewed the accounting principles and practices adopted by the Group and have also discussed interim review, internal control and financial reporting matters with the management. The unaudited interim financial report for the six months ended 30 June 2017 has been reviewed with no disagreement by the Audit Committee.

The interim financial report for the six months ended 30 June 2017 is unaudited, but has 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 on page 40.

Remuneration Committee

The Remuneration Committee held its meeting in June 2017. The Remuneration Committee currently comprises four independent non-executive directors and two executive directors.

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:

Dr. Lam Ko Yin, Colin was awarded the Silver Bauhinia Star (SBS) by The Government of the Hong Kong Special Administrative Region on 30 June 2017.

Mr. Wong Man Kong, Peter retired as an independent non-executive director of Chinney Investments, Limited, a listed company, at the conclusion of its annual general meeting held on 25 August 2017.

Other Information (Continued)

Disclosure pursuant to Rules 13.20 and 13.22 of the Listing Rules

As at 30 June 2017, the Group had granted financial assistance and a guarantee to Win Standard Enterprises Limited, the Joint Venture Company held indirectly by the Company as to 50% and Empire Group Holdings Limited ("Empire Group") as to 50% as set out below:

	Group's attributable interest	Amount of advances made by the Group <i>Note 1</i> HK\$'000	Guarantee given for the Joint Venture Company in respect of a bank facility <i>Note 2</i> HK\$'000	Total financial assistance made available by the Group HK\$'000
The Joint Venture Company	50%	1,378,110	1,500,000	2,878,110

Notes:

- Such advances were funded (in proportion to the Group's 50% equity interest in the Joint Venture Company) by the Group's internal resources and from its cash deposits, to finance the payment of the land premium of HK\$2,708,800,000 and professional fees incurred in relation to the acquisition of Tuen Mun Town Lot No. 547 located at Castle Peak Road, Castle Peak Bay, Area 48, Tuen Mun, New Territories, Hong Kong (the "Land") from the Government by public tender.
- In May 2017, a loan facility agreement was entered into among, among others, the Joint Venture Company (as borrower), the Company (as guarantor), a subsidiary of Empire Group (as guarantor), Empire Group and the financial institutions named therein (as lenders) in relation to a term loan facility in the aggregate principal amount of HK\$3,000,000,000 for the purpose of financing and refinancing the demolition cost, construction cost and professional fees in relation to the development on the Land and the selling and marketing expenses in relation thereto. The loan facility is secured by, among others, a corporate guarantee granted by the Company in respect of 50% of the loan facility.

The advances made by the Group to the Joint Venture Company consisted of an amount due from the Joint Venture Company and a loan to the Joint Venture Company. The amount due from the Joint Venture Company was unsecured, interest-bearing at a rate to be agreed between the Group and Empire Group and have no fixed terms of repayment (subject to the deed of subordination and assignment in favour of the lenders of the loan facility). The loan to the Joint Venture Company was unsecured, interest-bearing at a rate to be agreed between the Group and Empire Group and recoverable on demand (subject to the deed of subordination and assignment in favour of the lenders of the loan facility).

Other Information (Continued)

Disclosure pursuant to Rules 13.20 and 13.22 of the Listing Rules

(continued)

Pursuant to Rule 13.22 of the Listing Rules, a combined statement of financial position of the Company's affiliated companies (as defined in the Listing Rules) with financial assistance from the Group and the Group's attributable interest in those affiliated companies as at 30 June 2017 are presented as follows:

	Combined statement of financial position <i>HK\$'000</i>	Group's attributable interests <i>HK\$'000</i>
Non-current assets	17,508	8,754
Current assets	2,758,266	1,379,133
Current liabilities	(69,552)	(34,776)
Total assets less current liabilities	2,706,222	1,353,111
Non-current liabilities	(2,720,213)	(1,360,107)
Net liabilities	(13,991)	(6,996)

The combined statement of financial position of the Company's affiliated companies was prepared by combining their statements of financial position, after making adjustments to conform with the Group's significant accounting policies and re-grouping into significant classification in the statement of financial position, as at 30 June 2017.

On behalf of the Board
Dr. Lam Ko Yin, Colin
Chairman

Hong Kong, 18 August 2017

DISCLOSURE OF INTERESTS

Directors' Interests in Securities

As at 30 June 2017, the interests and short positions of each Director of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or which were notified to the Company or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Interests

	THE COMPANY				Approximate percentage of the total number of issued shares
	Personal Interests	Corporate Interests	Family Interests	Total Interests	
	Number of Shares	Number of Shares	Number of Shares	Number of Shares	
Dr. 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	119,017,090 (Note 5 on page 11)	–	119,816,310	33.63%
Mr. Leung Hay Man	2,250	–	–	2,250	0.00%
Mr. Li Ning	–	–	119,017,090 (Note 4 on page 11)	119,017,090	33.41%
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	Family Interests
	Number of Shares	Number of Shares
Dr. Lee Shau Kee (Note 1)	5	–
Mr. Li Ning (Note 2)	–	5

Disclosure of Interests (Continued)

Directors' Interests in Securities (continued)

Interests (continued)

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

Notes:

- 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 total number of issued shares of HLD. Rimmer (Cayman) Limited and Riddick (Cayman) Limited as trustees of the 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.
- 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.
- 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 total number of issued shares of HLD. Rimmer (Cayman) Limited and Riddick (Cayman) Limited as trustees of the 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.
- 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 2017.

Disclosure of Interests (Continued)

Substantial Shareholders and Others

As at 30 June 2017, 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:

	Number of shares in which interested	Approximate percentage of the total number of issued shares
Substantial Shareholders		
Henderson Land Development Company Limited (<i>Note 1</i>)	119,017,090	33.41%
Pataca Enterprises Limited (<i>Note 1</i>)	119,017,090	33.41%
Wiselin Investment Limited (<i>Note 1</i>)	48,817,090	13.70%
Henderson Development Limited (<i>Note 2</i>)	119,017,090	33.41%
Hopkins (Cayman) Limited (<i>Note 3</i>)	119,017,090	33.41%
Rimmer (Cayman) Limited (<i>Note 3</i>)	119,017,090	33.41%
Riddick (Cayman) Limited (<i>Note 3</i>)	119,017,090	33.41%
Mr. Li Ning (<i>Note 4</i>)	119,017,090	33.41%
Dr. Lee Chau Kee (<i>Note 5</i>)	119,816,310	33.63%
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:

1. These 119,017,090 shares included the 48,817,090 shares, 23,400,000 shares, 23,400,000 shares and 23,400,000 shares respectively beneficially owned by Wiselin Investment Limited, Graf Investment Limited, Mount Sherpa Limited and Paillard Investment Limited, all of which were subsidiaries of Pataca Enterprises Limited which in turn was a subsidiary of Henderson Land Development Company Limited ("HLD").
2. These 119,017,090 shares are duplicated in the interests described in Note 1. Henderson Development Limited ("HD") beneficially owned more than one-third of the total number of issued shares of HLD.
3. These 119,017,090 shares are duplicated in the interests described in Notes 1 and 2. Rimmer (Cayman) Limited and Riddick (Cayman) Limited as trustees of the 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.
4. By virtue of the SFO, Mr. Li Ning was taken to be interested in these 119,017,090 shares as Mr. Li's spouse was one of the discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust. These 119,017,090 shares are duplicated in the interests described in Notes 1, 2 and 3.
5. 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 119,017,090 shares which are duplicated in the interests described in Notes 1, 2 and 3. Together with his personal shareholding of 799,220 shares, Dr. Lee Chau Kee was taken to be interested in 119,816,310 shares (approximately 33.63% of the total number of issued shares of the Company) as at 30 June 2017.

Save as disclosed, as at 30 June 2017, the Company has not been notified of any other relevant interests or short positions in the shares or underlying shares of the Company.

INTERIM FINANCIAL REPORT

Consolidated Statement of Profit or Loss

For the six months ended 30 June 2017 – unaudited

	Note	Six months ended 30 June	
		2017 HK\$'000	2016 (restated) HK\$'000
Continuing operations			
Revenue	3(a)	239,516	255,191
Direct costs		(107,477)	(117,749)
		132,039	137,442
Other revenue	3(a)	30,764	20,971
Other net income	4	25,991	33,659
Valuation gains on investment properties	3(d)	29,674	46,306
Impairment loss on available-for-sale securities		–	(46,281)
Selling and marketing expenses		(8,251)	(17,578)
Administrative expenses		(21,972)	(20,770)
Other operating expenses		(1,411)	(1,782)
Profit from operations	3(b)	186,834	151,967
Share of profits less losses of associates		391	290
Share of loss of a joint venture		(85)	–
Profit before taxation	6	187,140	152,257
Taxation	7	(20,219)	(23,399)
Profit for the period from continuing operations		166,921	128,858
Discontinued operation			
Loss for the period from discontinued operation	5	–	(5,163)
Profit attributable to equity shareholders of the Company		166,921	123,695
Earnings/(loss) per share – Basic and diluted	10		
– Continuing operations		\$0.47	\$0.36
– Discontinued operation		–	(0.01)
		\$0.47	\$0.35

The notes on pages 18 to 39 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 8.

Interim Financial Report (Continued)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2017 – unaudited

	Note	Six months ended 30 June	
		2017 HK\$'000	2016 HK\$'000
Profit attributable to equity shareholders of the Company		166,921	123,695
Other comprehensive income for the period (after tax and reclassification adjustments):	9		
Item that may be reclassified subsequently to profit or loss:			
Available-for-sale securities:			
net movement in securities revaluation reserve		31,755	(18,022)
Total comprehensive income attributable to equity shareholders of the Company		198,676	105,673

The notes on pages 18 to 39 form part of this interim financial report.

Interim Financial Report (Continued)

Consolidated Statement of Financial Position

At 30 June 2017

	Note	At 30 June 2017 (unaudited)		At 31 December 2016 (audited)	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets					
Investment properties	11		2,080,305		2,050,655
Other property, plant and equipment			56,596		58,957
Interest in leasehold land			41,084		41,769
			<u>2,177,985</u>		<u>2,151,381</u>
Interest in associates	12		9,546		10,449
Interest in a joint venture	13		1,354,310		1,354,395
Available-for-sale securities	14		429,722		661,542
Deferred tax assets			5,454		5,248
			<u>3,977,017</u>		<u>4,183,015</u>
Current assets					
Inventories	15		517,278		487,162
Trade and other receivables	16		593,294		853,769
Other financial assets	17		–		20,000
Cash and bank balances	18		1,592,166		949,449
Tax recoverable			28,111		22,174
			<u>2,730,849</u>		<u>2,332,554</u>

Interim Financial Report (Continued)

Consolidated Statement of Financial Position (continued)

At 30 June 2017

	Note	At 30 June 2017 (unaudited)		At 31 December 2016 (audited)	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current liabilities					
Trade and other payables	19	708,889		629,706	
Tax payable		45,312		41,288	
		<u>754,201</u>		<u>670,994</u>	
Net current assets			<u>1,976,648</u>		<u>1,661,560</u>
Total assets less current liabilities			<u>5,953,665</u>		<u>5,844,575</u>
Non-current liabilities					
Net employee retirement benefits liabilities		5,144		4,468	
Deferred tax liabilities		52,431	57,575	50,062	54,530
NET ASSETS			<u>5,896,090</u>		<u>5,790,045</u>
CAPITAL AND RESERVES					
Share capital	20		1,754,801		1,754,801
Reserves			<u>4,141,289</u>		<u>4,035,244</u>
TOTAL EQUITY			<u>5,896,090</u>		<u>5,790,045</u>

The notes on pages 18 to 39 form part of this interim financial report.

Interim Financial Report (Continued)

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2017 – unaudited

	Note	Share capital HK\$'000	Securities revaluation reserve HK\$'000	Other capital reserves HK\$'000	Retained profits HK\$'000	Total HK\$'000
Balance at 1 January 2016		1,754,801	(31,220)	605	3,927,919	5,652,105
Changes in equity for the six months ended 30 June 2016:						
Profit for the period		–	–	–	123,695	123,695
Other comprehensive income		–	(18,022)	–	–	(18,022)
Total comprehensive income		–	(18,022)	–	123,695	105,673
Dividends approved in respect of the previous year	8(b)	–	–	–	(92,631)	(92,631)
Balance at 30 June 2016 and 1 July 2016		1,754,801	(49,242)	605	3,958,983	5,665,147
Changes in equity for the six months ended 31 December 2016:						
Profit for the period		–	–	–	112,983	112,983
Other comprehensive income		–	46,893	–	649	47,542
Total comprehensive income		–	46,893	–	113,632	160,525
Dividends declared in respect of the current year	8(a)	–	–	–	(35,627)	(35,627)
Balance at 31 December 2016 and 1 January 2017		1,754,801	(2,349)	605	4,036,988	5,790,045
Changes in equity for the six months ended 30 June 2017:						
Profit for the period		–	–	–	166,921	166,921
Other comprehensive income		–	31,755	–	–	31,755
Total comprehensive income		–	31,755	–	166,921	198,676
Dividends approved in respect of the previous year	8(b)	–	–	–	(92,631)	(92,631)
Balance at 30 June 2017		1,754,801	29,406	605	4,111,278	5,896,090

The notes on pages 18 to 39 form part of this interim financial report.

Interim Financial Report (Continued)

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2017 – unaudited

	Note	Six months ended 30 June	
		2017 HK\$'000	2016 HK\$'000
Net cash generated from/(used in) operating activities		433,847	(236,462)
Investing activities			
Payment for purchase of available-for-sale securities		(64,213)	(121,534)
Proceeds from disposal of available-for-sale securities		344,786	111,462
Proceeds from disposal of financial assets designated at fair value through profit or loss		22,930	18,982
Decrease in bank deposits with maturity over three months at acquisition		–	283,800
Other cash flows arising from investing activities		(2,002)	11,312
Net cash generated from investing activities		301,501	304,022
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		642,717	(25,071)
Cash and cash equivalents at 1 January		949,449	2,108,057
Cash and cash equivalents at 30 June	18(a)	1,592,166	2,082,986

The notes on pages 18 to 39 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

1. Basis of Preparation

This interim financial report has 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 18 August 2017.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of an interim financial report 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.

This interim financial report contains 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 2016 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA.

The interim financial report is unaudited, but has 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 40.

The financial information relating to the financial year ended 31 December 2016 that is included in the interim financial report as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2016 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company’s auditor has reported on those financial statements. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

Notes to the Unaudited Interim Financial Report (Continued)

2. Changes in Accounting Policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

- Amendments to HKAS 7, *Statement of cash flows: Disclosure initiative*
- Amendments to HKAS 12, *Income taxes: Recognition of deferred tax assets for unrealised losses*

These developments have had no material impact on the Group's interim financial report.

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.

Continuing operations:

- Property development: development and sale of properties.
- Property investment: rental income from leasing of properties.
- Ferry, shipyard and related operations: income from operation of dangerous goods vehicular ferry service and ship repairs and maintenance services and sales of goods on cruise vessels.
- Securities investment: dividend, interest and other income from debt and equity securities investments.

Discontinued operation:

- Travel operation: income from management and operation of travel agency services.

The travel operation has been disposed of and classified as discontinued operation and the related information has been set out in note 5.

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 most 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 Interim Financial Report (Continued)

3. Segment Reporting (continued)

Segment results (continued)

The segment information for the six months ended 30 June 2017 and 2016 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	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Continuing operations:						
Property development	112,412	123,387	–	–	112,412	123,387
Property investment	65,501	58,848	–	–	65,501	58,848
Ferry, shipyard and related operations	74,798	78,977	592	1,487	74,206	77,490
Securities investment	10,277	7,864	–	–	10,277	7,864
Others	36,892	38,749	29,008	30,176	7,884	8,573
	299,880	307,825	29,600	31,663	270,280	276,162
Discontinued operation:						
Travel operation	–	39,628	–	117	–	39,511
	299,880	347,453	29,600	31,780	270,280	315,673
Analysed by:						
Continuing operations						
Revenue					239,516	255,191
Other revenue					30,764	20,971
					270,280	276,162
Discontinued operation						
Revenue					–	38,855
Other revenue					–	656
					–	39,511
					270,280	315,673

The principal activities of the Group are property development, property investment, ferry, shipyard and related businesses and securities investment after the Group's travel operation had been disposed of in the second half of the year 2016.

Revenue 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 Interim Financial Report (Continued)

3. Segment Reporting *(continued)*

Segment results *(continued)*

(b) Segment result

	Reportable segment profit Six months ended 30 June	
	2017 HK\$'000	2016 HK\$'000
Continuing operations:		
Property development	74,741	106,678
Property investment <i>(note 3(d))</i>	64,402	78,828
Ferry, shipyard and related operations	7,852	4,386
Securities investment	34,452	(43,914)
Others <i>(note 3(e))</i>	5,387	5,989
	186,834	151,967
Discontinued operation:		
Travel operation	–	(5,060)
	186,834	146,907

(c) Reconciliation of reportable segment profit – Continuing operations

	Six months ended 30 June	
	2017 HK\$'000	2016 HK\$'000
Continuing operations:		
Reportable segment profit derived from external customers of continuing operations	186,834	151,967
Share of profits less losses of associates and a joint venture	306	290
Profit before taxation from continuing operations in the consolidated statement of profit or loss	187,140	152,257

Notes to the Unaudited Interim Financial Report (Continued)

3. Segment Reporting *(continued)*

Segment results *(continued)*

- (d) The segment result of the “Property investment” included valuation gains on investment properties of HK\$29,674,000 (2016: HK\$46,306,000).
- (e) “Others” mainly comprises interest income, corporate expenses and exchange gains/losses.

4. Other Net Income

	Six months ended 30 June	
	2017	2016
	HK\$'000	(restated) HK\$'000
Costs adjustment <i>(note)</i>	106	34,151
Net profit on disposal of available-for-sale securities	21,995	5,291
Net profit/(loss) on disposal of financial assets designated at fair value through profit or loss	2,930	(10,040)
Net profit on disposal of investment properties	–	2,508
Income from sale of spare parts	560	215
Net exchange losses	(35)	(10)
Sundry income	435	1,544
	25,991	33,659

Note: Costs adjustment represents the revision of the original construction costs of the properties completed in prior years, confirmed by the surveyors during the six months ended 30 June 2017 and 2016.

5. Discontinued Operation

On 14 July 2016, the Group entered into a sale and purchase agreement with Miramar Travel Limited, a subsidiary of Miramar Hotel and Investment Company, Limited, to dispose of the Group’s entire interest of HYFCO Travel Agency Limited and its subsidiary (“HYFCO Travel Group”) at an aggregate consideration based on an agreed value of HK\$5,000,000.

Upon completion of the disposal of HYFCO Travel Group, the Group’s travel operation ceased. Accordingly, the operation of HYFCO Travel Group was classified as discontinued operation.

Notes to the Unaudited Interim Financial Report (Continued)

5. Discontinued Operation *(continued)*

The disposal of HYFCO Travel Group was completed on 6 October 2016 and the Group's travel operation ceased thereafter.

The results of the discontinued operation for the prior period is as follows:

	Travel operation Six months ended 30 June 2016 <i>HK\$'000</i>
Revenue	38,855
Direct costs	(33,356)
	5,499
Other revenue	656
Other net income	65
Administrative expenses	(4,135)
Other operating expenses	(7,145)
Loss before taxation	(5,060)
Income tax	(103)
Loss for the period	(5,163)

6. Profit Before Taxation

Profit before taxation is arrived at after charging/(crediting) the amounts as set out below. The disclosures presented in this note include those amounts charged/(credited) in respect of the discontinued operation.

	Six months ended 30 June	
	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Amortisation of leasehold land premium	685	685
Cost of inventories	36,562	39,221
Depreciation	2,928	2,896
Dividend income from listed investments	(2,616)	(5,409)
Interest income	(17,737)	(11,279)

Notes to the Unaudited Interim Financial Report (Continued)

7. Taxation

	Six months ended 30 June	
	2017 HK\$'000	2016 (restated) HK\$'000
Current tax – Hong Kong Profits Tax		
Provision for the period	18,102	21,580
Over-provision in respect of prior year	(46)	(1,140)
	18,056	20,440
Deferred tax		
Origination and reversal of temporary differences	2,163	2,959
	20,219	23,399

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2016: 16.5%) to the estimated assessable profits for the six months ended 30 June 2017.

8. Dividends

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

	Six months ended 30 June	
	2017 HK\$'000	2016 HK\$'000
Interim dividend declared and paid after the interim period of HK10 cents (2016: HK10 cents) per ordinary share	35,627	35,627

The interim dividend declared and paid after the interim period has not been recognised as a liability at the end of the reporting period.

- (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	
	2017 HK\$'000	2016 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 2016: HK26 cents) per ordinary share	92,631	92,631

Notes to the Unaudited Interim Financial Report (Continued)

9. Other Comprehensive Income

	Six months ended 30 June	
	2017 HK\$'000	2016 HK\$'000
Available-for-sale securities:		
Changes in fair value recognised during the period	54,403	(121,245)
Reclassification adjustments for amounts transferred to profit or loss:		
– profit on disposal	(22,648)	56,942
– impairment losses	–	46,281
Net movement in the securities revaluation reserve during the period recognised in other comprehensive income	31,755	(18,022)

Tax effect of the above components of other comprehensive income is HK\$Nil.

10. Earnings Per Share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of HK\$166,921,000 (six months ended 30 June 2016: HK\$123,695,000), which represented by the profit from continuing operations of HK\$166,921,000 (six months ended 30 June 2016: HK\$128,858,000) and the loss from discontinued operation of HK\$Nil (six months ended 30 June 2016: HK\$5,163,000), and 356,273,883 (2016: 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 2017 and 2016, therefore diluted earnings per share are the same as basic earnings per share for both periods.

11. Investment Properties

All of the Group's investment properties were revalued as at 30 June 2017. The valuations were carried out by an independent firm of surveyors, DTZ Cushman & Wakefield, using the same valuation techniques as were used by this valuer when carrying out the valuations at 31 December 2016.

Based on the valuations, a net gain of HK\$29,674,000 (2016: HK\$46,306,000) has been recognised in profit or loss during the period.

Notes to the Unaudited Interim Financial Report (Continued)

12. Interest in Associates

	At 30 June 2017 (unaudited) HK\$'000	At 31 December 2016 (audited) HK\$'000
Share of net assets	(387)	344
Amounts due from associates	16,727	16,899
	16,340	17,243
Less: impairment loss	(6,794)	(6,794)
	9,546	10,449

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

13. Interest in a Joint Venture

	At 30 June 2017 (unaudited) HK\$'000	At 31 December 2016 (audited) HK\$'000
Share of net liabilities	(90)	(5)
Loan to a joint venture	1,354,400	1,354,400
	1,354,310	1,354,395

The loan to a joint venture is unsecured, interest-bearing at a rate to be agreed by the Group and the joint venture partner and recoverable on demand. The balance is not expected to be recovered within one year. During the period and as at 30 June 2017, the balance did not bear any interest.

Notes to the Unaudited Interim Financial Report (Continued)

14. Available-for-Sale Securities

	At 30 June 2017 (unaudited) HK\$'000	At 31 December 2016 (audited) HK\$'000
Listed debt securities outside Hong Kong	178,374	183,056
Listed equity securities		
– in Hong Kong	251,348	454,259
– outside Hong Kong	–	24,227
	251,348	478,486
	429,722	661,542
Market value of listed securities	429,722	661,542
Fair value of individually impaired available-for-sale securities	3,606	56,705

As at 30 June 2017, certain of the Group's listed available-for-sale equity 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.

During the period, impairment losses of HK\$Nil (2016: HK\$46,281,000) on these investments were recognised in profit or loss.

Notes to the Unaudited Interim Financial Report (Continued)

15. Inventories

Inventories in the consolidated statement of financial position comprise:

	At 30 June 2017 (unaudited) HK\$'000	At 31 December 2016 (audited) HK\$'000
Property development		
Properties under development for sale	384,584	326,518
Completed properties held for sale	121,158	150,429
	505,742	476,947
Other operations		
Trading stocks	1,535	1,596
Spare parts and consumables	1,024	1,462
Work in progress	8,977	7,157
	11,536	10,215
	517,278	487,162

16. Trade and Other Receivables

	At 30 June 2017 (unaudited) HK\$'000	At 31 December 2016 (audited) HK\$'000
Trade receivables	317,991	332,960
Less: allowance for doubtful debts	(2,151)	(2,151)
	315,840	330,809
Cash held by stakeholders	135,546	457,828
Other receivables and prepayments	118,181	64,720
Amount due from a joint venture	23,727	412
	593,294	853,769

Notes to the Unaudited Interim Financial Report (Continued)

16. Trade and Other Receivables (continued)

All of the trade and other receivables except for instalment receivables of HK\$214,123,000 (31 December 2016: HK\$219,596,000) 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 of HK\$69,355,000 (31 December 2016: HK\$72,405,000) which are unsecured, interest-free and have no fixed terms of repayment.

The amount due from a joint venture is unsecured, interest-bearing at a rate to be agreed by the Group and the joint venture partner and has no fixed terms of repayment. During the period and as at 30 June 2017, the balance did not bear any interest.

Included in trade and other receivables are trade debtors (net of allowance for doubtful debts) with the following ageing analysis based on due date at the end of the reporting period:

	At 30 June 2017 (unaudited) HK\$'000	At 31 December 2016 (audited) HK\$'000
Current	281,384	289,963
1 to 3 months overdue	28,514	32,303
More than 3 months but less than 12 months overdue	5,618	8,320
More than 12 months overdue	324	223
	315,840	330,809

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.

17. Other Financial Assets

	At 30 June 2017 (unaudited) HK\$'000	At 31 December 2016 (audited) HK\$'000
Financial assets designated at fair value through profit or loss	–	20,000

The balance as at 31 December 2016 represented investments in equity-linked notes and index-linked notes. These investments were, upon initial recognition, designated by the Group as financial assets at fair value through profit or loss with subsequent changes in fair values recognised in profit or loss. During the six months ended 30 June 2017, the Group has redeemed these investments.

Notes to the Unaudited Interim Financial Report (Continued)

18. Cash and Bank Balances

(a)	At 30 June 2017 (unaudited) HK\$'000	At 31 December 2016 (audited) HK\$'000
Deposits with banks and other financial institutions	1,550,874	939,251
Cash at bank and in hand	41,292	10,198
Cash and cash equivalents in the condensed consolidated cash flow statement	1,592,166	949,449

(b) Major non-cash transactions

During the six months ended 30 June 2017, the Group has payable in relation to additions of properties under development for sale of HK\$18,138,000 (2016: HK\$13,412,000) and additions of available-for-sale securities of HK\$Nil (2016: HK\$61,352,000) arising from the redemption of other financial assets upon maturity. These additions have no cash flow impact to the Group.

19. Trade and Other Payables

All of the trade and other payables except for an amount of HK\$12,777,000 (31 December 2016: HK\$11,453,000) 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 of HK\$86,789,000 (31 December 2016: HK\$109,201,000) which are unsecured, interest-free and repayable within 30 - 45 days or have no fixed terms of repayment.

Included in trade and other payables are trade payables with the following ageing analysis based on due date at the end of the reporting period:

	At 30 June 2017 (unaudited) HK\$'000	At 31 December 2016 (audited) HK\$'000
Due within 1 month or on demand	104,093	125,562
Due after 1 month but within 3 months	1,047	1,341
More than 12 months	9	9
	105,149	126,912

Notes to the Unaudited Interim Financial Report (Continued)

20. Capital and Reserves

Share capital

	At 30 June 2017		At 31 December 2016	
	Number of shares ('000)	HK\$'000	Number of shares ('000)	HK\$'000
Ordinary shares, issued and fully paid:				
At 30 June/31 December	356,274	1,754,801	356,274	1,754,801

21. Fair Value Measurement of Financial Instruments

(a) Financial assets measured at fair value

(i) Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period 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

	Fair value at 30 June 2017 HK\$'000	Fair value measurements as at 30 June 2017 categorised into		
		Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
Recurring fair value measurements				
Financial assets:				
Available-for-sale securities:				
– Listed	429,722	429,722	–	–

Notes to the Unaudited Interim Financial Report (Continued)

21. Fair Value Measurement of Financial Instruments (continued)

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

(i) Fair value hierarchy (continued)

	Fair value measurements as at 31 December 2016 categorised into			
	Fair value at 31 December 2016	Level 1	Level 2	Level 3
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Recurring fair value measurements				
Financial assets:				
Available-for-sale securities:				
– Listed	661,542	661,542	–	–
Financial assets designated				
at fair value through profit or loss	20,000	–	20,000	–

During the six months ended 30 June 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2016: 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.

(ii) Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of the financial assets designated at fair value through profit or loss is based on the pricing model taking into account the market closing prices of the underlying equity securities and/or index, volatilities, correlations and interest rates, which are observable market data, at the end of the reporting period.

(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 30 June 2017 and 31 December 2016.

Notes to the Unaudited Interim Financial Report (Continued)

22. Capital Commitments

Capital commitments outstanding at 30 June 2017 not provided for in this interim financial report are as follows:

	At 30 June 2017 (unaudited) HK\$'000	At 31 December 2016 (audited) HK\$'000
Contracted for	75,316	131,693
Authorised but not contracted for	891	891
	76,207	132,584

23. Contingent Liabilities

Financial guarantees issued

At 30 June 2017, 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 and a joint venture.

Under the guarantees, the Company is liable to the amount due from the subsidiaries and the joint venture 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 end of the reporting period, 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 end of the reporting period under the guarantees issued above is the outstanding amount due to the relevant parties by its wholly-owned subsidiaries and joint venture, being HK\$64,000 (31 December 2016: HK\$110,000).

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 Interim Financial Report (Continued)

24. Material Related Party and Connected Transactions

(a) Material related party and connected transactions

- (i) In 1999, the Group entered into a development agreement (the “Agreement”) with Henderson Land Development Company Limited (“HLD”) and two wholly-owned subsidiaries of HLD (“HLD Sub 1” and “HLD Sub 2”), whereby HLD Sub 1 and HLD Sub 2 acquired the right to 50% of any proceeds from the future sale of the residential portion of the redevelopment of Metro Harbour View, Kowloon Inland Lot No. 11127 (the “MHV Property”) for a consideration of HK\$1,500,000,000.

As part of the Agreement, HLD Sub 1 and HLD Sub 2 agreed to reimburse the Group 50% of its development expenditures relating to the residential portion of the MHV Property. At 30 June 2017, an amount of HK\$272,000 (31 December 2016: HK\$268,000) remained unpaid and was included in trade and other receivables.

In February 2017, the Group entered into a deed of novation (the “Deed of Novation”) with HLD Sub 1 and HLD Sub 2 pursuant to which HLD Sub 1 transferred and assigned unto HLD Sub 2, and HLD Sub 2 took and assumed all of the rights and obligations of HLD Sub 1 under the Agreement subject to the terms and conditions as stated in the Deed of Novation. The Deed of Novation was supplemental to the Agreement.

- (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 2017. During the period, the Group received management and administrative fees in the total of HK\$50,000 (2016: HK\$75,000) 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\$50,000 (2016: HK\$8,000) from 2OK. At 30 June 2017, the amount advanced by the Group totalling HK\$4,966,000 (31 December 2016: HK\$5,236,000) 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 (“HLD Sub A”) 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\$1,045,000 (2016: HK\$1,004,000) was charged to the Group during the period. At 30 June 2017, an amount of HK\$1,056,000 (31 December 2016: HK\$1,020,000) 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 Interim Financial Report (Continued)

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

(a) Material related party and connected transactions *(continued)*

- (iv) In May 2006, the Group appointed a wholly-owned subsidiary of HLD (“HLD Sub C”) 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 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 for the year ended 31 December 2010 respectively.

During the period, there was no change in cost estimates. At 30 June 2017, an amount of HK\$2,294,000 (31 December 2016: 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 March 2011, the Group appointed another wholly-owned subsidiary of HLD (“HLD Sub D”) as the main contractor for a fee of 5% on all works relating to 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”). 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 subject to the total ceilings of the respective years.

In October 2014, the Group entered into a Fanling Prime Cost Contract Extension Letter with HLD Sub D to extend the period of payment of fees for the respective ceilings of HK\$6,800,000 and HK\$19,000,000 for the period from 1 June 2014 to 31 December 2014 and for the year ended 31 December 2015 respectively. During the period, there was no change in cost estimates. During the period ended 30 June 2016, as a result of change in the latest cost estimates, an amount of HK\$36,266,000 and HK\$1,813,000, 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 Fanling Property. At 30 June 2017, an amount of HK\$14,725,000 (31 December 2016: HK\$14,725,000), which included amounts payable to other subcontractors through the main contractor, remained unpaid and was included in trade and other payables.

Under the term of Fanling Prime Cost Contract Extension Letter, the contract expired in December 2015.

Notes to the Unaudited Interim Financial Report (Continued)

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

(a) Material related party and connected transactions *(continued)*

- (vi) In September 2013, the Group appointed HLD Sub A as the project manager of the development of Hung Hom Inland Lot No. 555, Kowloon, Hong Kong located at the junction of Gillies Avenue South and Bulkeley Street, Hung Hom, Kowloon, Hong Kong (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 the respective ceilings for the years ended 31 December 2013, 31 December 2014, 31 December 2015 and 31 December 2016 of HK\$1,300,000, HK\$2,300,000, HK\$2,300,000 and HK\$600,000 respectively. No fee has been charged during the six months ended 30 June 2017. A total fee of HK\$595,000 was charged to the Group during the six months ended 30 June 2016 and the balance had been repaid for the year ended 31 December 2016. Pursuant to the terms of the Hung Hom Project Management Agreement, the appointment of HLD Sub A as project manager expired in September 2016.
- (vii) In December 2013, the Group appointed another wholly-owned subsidiary of HLD ("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 years ended 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. Pursuant to the terms of the Hung Hom Sales Management Agreement, the appointment of HLD Sub B as sales manager expired in December 2016.

In January 2017, the Group entered into a letter agreement with HLD Sub B and HLD Sub B continued to act as the sales manager of the Group in respect of the sale and purchase of the remaining residential units of the Hung Hom Property for a further period of one year commencing from 1 January 2017 and ending on 31 December 2017. The aggregate amount of fees receivable by HLD Sub B as remuneration under the appointment shall be subject to a ceiling of HK\$1,000,000 for the year ending 31 December 2017. No fee has been charged during the six months ended 30 June 2017 and 2016. At 30 June 2017, no amount remained unpaid (31 December 2016: HK\$Nil).

- (viii) In March 2014, the Group as landlord and an indirectly non-wholly owned subsidiary of HLD as tenant agreed to renew their tenancy agreements 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 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 conducted 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 entrance 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 two Licence Agreements are subject to annual caps of respective years. Under the Tenancy Renewal Agreement and two Licence Agreements, each of their terms expired in June 2017.

Notes to the Unaudited Interim Financial Report (Continued)

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

(a) Material related party and connected transactions *(continued)*

(viii) (Continued)

In June 2017, a renewal offer letter A (“Renewal Offer Letter A”) issued by a wholly-owned subsidiary of Henderson Investment Limited (an indirectly non-wholly owned subsidiary of HLD) as tenant to HLD Sub A (as agent of the Group) in respect of the leasing of Shop Nos. G01, Portion of G31, G35-G50, Portion of G51, Portion of G52, G63-G74 and corridors and atrium on Ground Floor, MHP (“Premises 1”) and bridge area on Level 1, MHP (“Premises 2”) for a term of one year from 1 July 2017 to 30 June 2018 at a monthly rental of HK\$244,000 for Premises 1 and HK\$6,000 for Premises 2 and other ancillary expenses and a turnover rent of 7% (if any) of annual gross turnover of the tenant’s business conducted at Premises 1 and Premises 2 over HK\$50,000,000, which shall be payable monthly in arrears.

In June 2017, a renewal offer letter B (“Renewal Offer Letter B”) issued by the wholly-owned subsidiary of Henderson Investment Limited (the indirectly non-wholly owned subsidiary of HLD) as tenant to HLD Sub A (as agent of the Group) in respect of the leasing of Shop Nos. 127-161 and corridors and toilets on Level 1, MHP (“Premises 3”) for a term of three years from 1 July 2017 to 30 June 2020 at a monthly rental of HK\$238,000 for Premises 3 and other ancillary expenses and a turnover rent of 7% (if any) of annual gross turnover of the tenant’s business conducted at Premises 3 over HK\$70,000,000, which shall be payable monthly in arrears.

The aggregate amounts of rentals and other ancillary expenses receivable under the Renewal Offer Letter A and the Renewal Offer Letter B are subject to the annual ceilings for the period from 1 July 2017 to 31 December 2017, for the years ending 31 December 2018 and 31 December 2019 and for the period from 1 January 2020 to 30 June 2020 of HK\$7,500,000, HK\$11,300,000, HK\$8,000,000 and HK\$4,300,000 respectively.

During the period, an amount of HK\$5,805,000 (2016: HK\$5,664,000), being aggregate rental and fees receivable under the aforementioned lease and licences agreements in March 2014 was credited to the Group.

- (ix) In October 2015, the Group appointed HLD Sub A as the project manager of the comprehensively planned development consisting of residential component together with ancillary supporting facilities at 208 Tung Chau Street, Sham Shui Po, Kowloon, Hong Kong (the “TCS Property” or the “Proposed TCS Development”) for a term of three years commencing from 2 November 2015 in consideration for a fee equivalent to the aggregate of 1% of the construction costs of the Proposed TCS Development, subject to the annual ceilings for the years ended 31 December 2015 and 31 December 2016 of HK\$1,500,000 and HK\$4,100,000, and for the years ending 31 December 2017 and 31 December 2018 of HK\$1,600,000 and HK\$1,500,000 respectively. A total fee of HK\$344,000 (2016: HK\$344,000) was charged to the Group during the period. At 30 June 2017, an amount of HK\$344,000 (31 December 2016: HK\$688,000) remained unpaid and was included in trade and other payables.

Notes to the Unaudited Interim Financial Report (Continued)

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

(a) Material related party and connected transactions *(continued)*

- (x) In October 2015, the Group appointed HLD Sub C as the main contractor of the Proposed TCS Development for a fee of 5% on all works of the Proposed TCS Development. 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 subject to the annual ceilings for the years ended 31 December 2015 and 31 December 2016 of HK\$1,260,000 and HK\$19,990,000, and for the years ending 31 December 2017 and 31 December 2018 of HK\$16,740,000 and HK\$970,000 respectively. In accordance with the contract entered into the Group, an amount of HK\$55,706,000 (2016: HK\$17,028,000), of which HK\$6,481,000 (2016: HK\$811,000) 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 TCS Property during the period. At 30 June 2017, an amount of HK\$21,489,000 (31 December 2016: HK\$39,283,000) remained unpaid and was included in trade and other payables.
- (xi) In October 2015, the Group appointed HLD Sub B as the sales manager of the Proposed TCS Development for a term of three years commencing from the date of the first initial sale of any residential units of the TCS Property in consideration of a sales fee of 0.5% of the gross proceeds of sale (but excluding those sale and purchase agreements which were effected by third party sales agent(s)) subject to the annual ceilings for the years ended 31 December 2015 and 31 December 2016 of HK\$700,000 and HK\$2,000,000, and for the years ending 31 December 2017 and 31 December 2018 of HK\$600,000 and HK\$200,000 respectively. No fee has been charged during the period ended 30 June 2017. A total fee of HK\$120,000 was charged to the Group during the period ended 30 June 2016. At 30 June 2017, an amount of HK\$96,000 (31 December 2016: HK\$96,000) remained unpaid and was included in trade and other payable.
- (xii) In October 2015, the Group entered into a letter agreement with HLD Sub B and appointed HLD Sub B as the agent of the Group to lease certain shops and spaces of Mira Place One (formerly known as Miramar Shopping Centre) ("Premises 4") for the marketing services of the TCS Property for the period from 5 November 2015 to the earlier of 4 January 2017 and the date on which the last residential unit in the TCS Property is sold, subject to the respective ceilings of HK\$2,000,000 for the period from 5 November 2015 to 31 December 2015 and HK\$3,600,000 for the period from 1 January 2016 to 4 January 2017. The letter agreement expired in January 2017.

In January 2017, the Group entered into a second letter agreement with HLD Sub B and HLD Sub B continued to act as the agent of the Group to lease the Premises 4 for use as show flats and sales office for the sale of the residential units of the TCS Property for the period from 5 January 2017 to the earlier of 4 May 2017 and the date on which the last residential unit in the TCS Property is sold, subject to the ceiling of HK\$1,700,000. The second letter agreement expired in May 2017.

A total fee of HK\$988,000 (2016: HK\$1,646,000) was charged to the Group during the period. At 30 June 2017, an amount of HK\$2,193,000 (31 December 2016: HK\$1,920,000) remained unpaid and was included in trade and other payables.

Notes to the Unaudited Interim Financial Report (Continued)

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

(a) Material related party and connected transactions *(continued)*

- (xiii) In May 2017, a loan facility agreement was entered into among, among others, a joint venture company (the “Joint Venture Company”) (as borrower), held indirectly by the Company as to 50% and the joint venture partner as to 50%, the Company (as guarantor), a subsidiary of the joint venture partner (as guarantor), the joint venture partner and the financial institutions named therein (as lenders) in relation to a term loan facility in the aggregate principal amount of HK\$3,000,000,000 for the purpose of financing and refinancing the demolition cost, construction cost and professional fees in relation to the development on Tuen Mun Town Lot No. 547 located at Castle Peak Road, Castle Peak Bay, Area 48, Tuen Mun, New Territories, Hong Kong and the selling and marketing expenses in relation thereto (the “Loan Facility”). The Loan Facility is secured by, among others, a corporate guarantee in respect of 50% of the Loan Facility and a funding undertaking for project cost overrun (with completion guarantee) given by the Group (on a several basis and pro rata to the Group’s 50% equity interest in the Joint Venture Company), as well as a share charge in respect of the issued share capital of the Joint Venture Company and a deed of subordination and assignment in respect of all indebtedness currently owing and which may in future become owing by the Joint Venture Company to its shareholders.
- (xiv) At 30 June 2017, HLD, a substantial shareholder (as defined in the Listing Rules) of the Company is interested in approximately 33.41% (31 December 2016: 33.41%) of the total number of issued shares of the Company.

Dr. Lee Shau Kee, being a director of the Company, is deemed to have been interested in the above transactions (except note 24(a)(xiii)) as a deemed controlling shareholder of HLD.

To the extent the above transactions (except note 24(a)(xiii)) 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 24(a)(v), (vi), (vii), (viii), (ix), (x), (xi) and (xii) above constitute connected transactions and/or continuing connected transactions (as defined in Chapter 14A of the Listing Rules).

25. Non-Adjusting Events after the Reporting Period

After the end of the reporting period, the directors declared the interim dividend. Further details are disclosed in note 8(a).

26. Comparative Figures

Certain comparative figures have been adjusted to conform to the disclosure requirement in respect of the discontinued operation set out in note 5 to the interim financial report. In addition, the comparative figures in the consolidated statement of profit or loss have been restated as if the operation discontinued in the prior period had been discontinued at the beginning of the prior period.

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 interim financial report set out on pages 12 to 39 which comprises the consolidated statement of financial position of Hong Kong Ferry (Holdings) Company Limited (the “Company”) as of 30 June 2017 and the related consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, 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 an interim financial report 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 report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report 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 report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2017 is 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

18 August 2017



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