Management Discussion and Analysis

OPERATIONS REVIEW

The Group's principal operations include: ports business, container manufacturing and related businesses, toll road business and oil tanker business.

For the six months ended 30 June 2003 (the "Period"), the Group's principal businesses of the ports business and the oil tanker business recorded satisfactory returns. Consolidated profit after tax and minority interests amounted to HK$621,300,000, representing an increase of 24.3% over the same period of last year. Among these, profit from the ports business amounted to HK$314,200,000, representing an increase of 44.7% over the same period of last year; profit from the container manufacturing and related businesses amounted to HK$149,600,000, representing an increase of 62.9% over the same period of last year; profit from the oil tanker business amounted to HK$91,000,000, representing an increase of 37.8% over the same period of last year and profit from the toll road business amounted to HK$65,700,000, representing a decrease of 52.6% over the same period of last year.

Ports business

Investment projects	Percentage of shareholding	Notes
Modern Terminals Limited ("MTL")	22.1%	Second largest shareholder
China Merchants Container Services Limited ("CMCS")	100.0%	Wholly-owned
Asia Airfreight Terminal Company Limited ("AAT")	20.0%	Third largest shareholder
Shekou Container Terminals Limited ("SCT I")	32.5%	Largest shareholder
Shekou Container Terminals (Phase II) Company Limited ("SCT II")	51.0%	Largest shareholder
China Nanshan Development (Group) Inc ("CND") (with shareholdings in Shenzhen Chiwan Wharf Holdings Ltd. ("Chiwan Wharf") and Chiwan Container Terminal Co. Ltd. ("Chiwan Container Terminal"))	37.0%	Largest shareholder
China Merchants Port Services (Shenzhen) Co. Limited ("CMPS")	100.0%	Wholly-owned
China Merchants Holdings (Pacific) Limited ("China Merchants Pacific") (which holds Shenzhen Haixing Harbour Development Co. Ltd.)	24.0%	Single largest shareholder
Zhangzhou China Merchants Port Co. Ltd. ("Zhangzhou CM Port")	49.0%	Second largest shareholders, under the Company's management
Shenzhen Mawan Wharf Co., Ltd. ("Mawan 0#Port")	60.0%	Controlling through a joint venture
Shenzhen Mawan Port Service Co., Ltd. ("Mawan New 5#Port")	60.0%	Controlling through a joint venture
Shenzhen Mawan Terminals Co., Ltd. ("Mawan New 6#, 7#Port")	60.0%	Controlling through a joint venture
Shenzhen Cyber-Harbour Network Co. Ltd. ("Shenzhen Cyber-Harbour")	62.5%	Joint investment with an associated company
Ningbo China Merchants International Container Company Ltd. ("Ningbo CM Container")	25.0%	Second largest shareholder

New Investment projects	Percentage of shareholding	Notes
China Merchants Maritime & Logistics (Shenzhen) Ltd. ("Shenzhen Shipping Logistics")	60.0%	Joint investment with an associated company
Ningbo Daxie China Merchants International Terminals Co., Ltd. ("Ningbo Daxie")	45.0%	Largest Shareholders, under the Company's management

The ports business, among the Group's core businesses, attracts major investment focus. Consolidated profit after tax and minority interests of the Group's ports business for the first half of the year amounted to HK$314,200,000, representing an increase of 44.7% compared with the consolidated profit after tax and minority interests of HK$217,200,000 over the same period last year. Profit contribution from the ports business amounted to 50.6% of the total profit of the Group, thus becoming the main source of profit of the Group. Turnover for the first half of the year amounted to HK$256,500,000 (comprising the turnover amounts of CMPS and CMCS), representing an increase of 65.7% over the same period last year.

For the first half of the year, the total container throughput of the ports in which the Group had invested amounted to 4,460,000 TEU, representing an increase of 36% compared with the 3,270,000 TEU for the same period last year. Among these, the ports in western Shenzhen, located in the Pearl River Delta Estuary, recorded a throughput of 2,090,000 TEU in the first half of the year, representing an increase of 49% compared with the 1,400,000 TEU for the same period last year, which represented 46% of the total container throughput handled by all the ports in Shenzhen. In particular, SCT business has been record high. Its business growth of 80% for the first half of the year is the highest among all ports in Shenzhen. For the first half of the year, the container ports in Hong Kong in which the Group had invested handled a container throughput of 2,360,000 TEU, representing an increase of 27% over last year.

For the first half of the year, Berth No. 0 of the Mawan Project, led by the Group, has been in operation since May; the infrastructure of a container berth in respect of the SCT II project was completed and has commenced operation in August; the infrastructure of Berth Nos. 4 and 5 in respect of Zhangzhou Ports was completed and has commenced operation; Ningbo Daxie has been duly incorporated, and infrastructure works have begun; Shenzhen Shipping Logistics, established with an associate, has begun to provide a full range of value-added services for the terminal. The Company is actively capturing sources of goods from eastern and western Pearl River Delta Estuary to support business development of the ports in western Shenzhen. It is expected that they will start to generate direct revenue and improve the operating environment for the Group in the

second half of the year. In respect of the management and operation of the ports business, on one hand the respective western terminals of Shenzhen had been in active cooperation regarding business collaboration and sharing of terminal resources, for instance in the mutual cooperation on the use of container berths by SCT I and CMPS, and on the other hand, active efforts had been made by the respective western terminals of Shenzhen in the construction of the barge network in the Pearl River Delta, increasing the number of shipping lines from four to seven, thereby substantially increasing the number of containers shipped. Shenzhen Cyber-Harbour under the Group is engaged in electronic data interchange platform for customs declaration purpose, serving ports in western Shenzhen. During the first half of the year, it commenced to offer electronic customers declaration services for various terminals on the ports located at western Shenzhen. Efficiency for customs declaration of goods was enhanced significantly. These arrangements have fuelled the growth in the ports business for the first half of the year.

Modern Terminals Limited: MTL is located in Kwai Chung, Hong Kong and operates Berths Nos. 1, 2 and 5 and Pier No. 8 (the west side). Its principal business is container handling services. For the first half of 2003, MTL handled 1,930,000 TEU of container throughput, which was 23% higher than the 1,570,000 TEU handled same period last year. The throughput handled by MTL in the Period amounted to approximately 32% of the total market share for the Kwai Chung Terminals in Hong Kong.

China Merchants Container Services Limited: CMCS is located on Tsing Yi Island, Hong Kong. It provides mid-stream container handling operation and related services. For the first half of 2003, CMCS handled 430,000 TEU of containers, an increase of 48% over the 290,000 TEU handled same period last year.

Asia Airfreight Terminal Company Limited: AAT is the second largest exclusive air freight licensee in cargo terminal services at the Hong Kong International Airport. AAT provides carriers with services including custom management and clearance, physical goods handling, preparation of documentation and special handling of cargo. For the first half of the year, AAT handled 210,000 tons of cargo, 10% more than the 190,000 tons handled same period last year, representing approximately 20% of the total market share in Hong Kong.

Shekou Container Terminals Limited: SCT I is located in the Shekou port area in western Shenzhen, the PRC, operating Berths No. 1 and No. 2 of the three jetties of Shekou. SCT's business includes the loading and unloading of containers, freight forwarding, container land haulage, barge and feeder services. For the first half of the year, SCT handled a record high container throughput of 630,000 TEU, compared with 350,000 TEU of same period last year. This represented an increase of 80%.

China Nanshan Development (Group) Inc.: CND is the controlling shareholder of Chiwan Wharf and Chiwan Container Terminal. Chiwan Wharf and Chiwan Container Terminal operate terminals in the Chiwan port area in western Shenzhen, the PRC. Chiwan Wharf's business includes port loading and unloading of containers, warehousing, transportation for bulk and general cargo and containers. Chiwan Container Terminal's business includes the loading and unloading of containers in the port, warehousing and transportation. For the first half of the year, the two companies together handled a container throughput of 930,000 TEU, compared with the 680,000 TEU handled same period last year, representing an increase of 37%. The volume of bulk and general cargo handled was 3,660,000 tons, compared with 3,290,000 tons of same period last year representing an increase of 11%. Among them, Chiwan Container Terminal handled a container throughput of 710,000 TEU, an increase of 40% over the same period of last year.

China Merchants Port Services (Shenzhen) Co. Limited: CMPS is situated in the Shekou port area in western Shenzhen, the PRC, and is engaged in the loading and unloading of containers, freight forwarding, containers land haulage, barge and feeder services. For the first half of the year, CMPS handled a container throughput of 390,000 TEU, compared with 280,000 TEU of same period last year representing an increase of 39%. It also handled a throughput of 5,990,000 tons of bulk and general cargo, compared with 5,210,000 tons for the same period last year, representing an increase of 15%.

China Merchants Holdings (Pacific) Limited: China Merchants Pacific is interested as to 33% in Shenzhen Haixing Harbour Development Co. Ltd. Shenzhen Haixing Harbour Development Co. Ltd. is situated in the Mawan area in western Shenzhen, the PRC. It is engaged in the operation of Berths Nos. 1, 2, 3 and 4, port loading and unloading, freight forwarding, container land haulage, barge and feeder services. For the first half of the year, it handled a container throughput of 133,000 TEU, compared with the 95,000 TEU for the same period of last year, representing an increase of 40%. It handled a throughput for bulk and general cargo of 5,140,000 tons, compared with the throughput of 3,240,000 tons for bulk and general cargo for the same period of last year, representing an increase of 59%.

Zhangzhou China Merchants Port Co. Ltd.: Zhangzhou CM Port is situated at the Zhangzhou Economic Development Zone, Fujian, the PRC and is one of the three channels of trade with Taiwan approved by the PRC Government. The Company is responsible for the development, construction, operation and management of the port. For the first half of the year, Berth No. 3 operated by the Company handled a cargo throughput of 1,120,000 tons, an increase of 58% over the same period last year — a remarkable growth rate. Berths No. 4 and 5 have been in operation since July 2003 and is expected to enhance the annual operating capability significantly.

Container manufacturing and related businesses

Investment Projects	Percentage of Shareholding	Notes
China International Marine Containers (Group) Ltd. ("CIMC")	27.3%	Largest shareholder
Hempel-Hai Hong (China) Co. Ltd. ("Hempel-Hai Hong") (formerly known as Hempal-Hai Hong Coatings Co. Ltd.)	64.0%	Controlling shareholder
PPG Coatings (Hong Kong) Co. Ltd. ("PPG Coatings")	30.0%	Second largest shareholder
Valspar Hai Hong Co. Ltd. ("Valspar Hai Hong")	40.0%	Second largest shareholder

The Group's container manufacturing and related businesses, including the container manufacturing and the paint manufacturing businesses, also achieved impressive results for the first half of the year.

Consolidated profit after tax and minority interests of the Company's container manufacturing and related businesses for the year was HK$149,600,000, compared with the consolidated profit after tax and minority interests of HK$91,900,000 same period last year, representing an increase of 62.9%. Turnover for the year was HK$490,800,000, which was the combined turnover of the Company and Hempel-Hai Hong, representing an increase of 52.2% compared with the turnover of HK$322,400,000 same period last year.

The Company is the largest shareholder of CIMC. CIMC is the largest container manufacturer in the world and has, for seven consecutive years, had the largest global market share in the dry cargo container sector and has been ranked number one globally in the reefer sector, continued with its trend last year. For the first half of the year, CIMC sold a total of 560,000 TEU of various cargo containers, representing a double growth rate over 280,000 TEU of the same period last year.

Hempel-Hai Hong, of which the Company is the controlling shareholder, mainly manufactures port-related paints for containers and marine, and is now the largest manufacturer of container paints and marine paints in the PRC. For the first half of the year, Hempel-Hai Hong sold a total of 31,080,000 litres of different kinds of paints, representing an increase of 62% compared with 19,220,000 litres for the same period last year. The increase was mainly attributed to the increase in the sales of container paints.

Toll road business

Investment Projects	Percentage of Shareholding	Distribution Ratio
Ningzhenluo Expressway（寧鎮駱公路）	60.0%	60.0%
Guihuang Expressway（貴黃公路）	60.0%	100.0%
Yuyao Expressway（余姚公路）	60.0%	70.0%
Guiliu Expressway（桂柳公路）	40.0%	90.0%
Luomei Expressway（羅梅公路）	33.3%	100.0%
Western Harbour Tunnel in Hong Kong（香港西區隊道）	13.0%	13.0%

The Group has five toll roads and one toll tunnel, and the total mileage of the toll roads amounts to 332 km.

Consolidated profit after tax and minority interests of toll road business for the first half of the year was HK$65,700,000, compared with the consolidated profit after tax and minority interests of HK$138,500,000 for the same period last year, representing a decrease of 52.6%. It was attributable to reducing 3 toll roads in the Period and the effects of SARS, compared with that of the same period of last year. Turnover of the toll road business included the turnover of Ningzhenluo Expressway, which amounted to HK$10,300,000, representing an increase of 3.7% compared with the turnover of HK$9,900,000 last year.

Due to the effects of SARS, the rate of growth in the traffic volume of the Group's toll roads slowed down for the first half of the year. Traffic volume of the five toll roads in the PRC totalled 13,130,000 vehicles for the first half of the year, representing an increase of 11% over the same period last year. The traffic volume of the Western Harbour Tunnel in Hong Kong was 6,320,000 vehicles for the first half of the year, a decrease of 12% over the same period of last year.

The Company aims to strengthen the management of the toll road business to achieve higher cost-effectiveness. Currently, the ISO9000 international standard has been implemented in four expressway companies. Additionally, the Company has successfully regained the management right for the Ningzhenluo project in the first half of the year. These are all advantageous in achieving the Company's objective of strengthening the management of its toll road projects.

Oil tanker business

Consolidated profit after tax for the oil tanker business of the Group for the first half of the year was HK$91,000,000, representing an increase of 37.8% as compared with the consolidated profit after tax of HK$66,000,000 for the first half of last year. Turnover was HK$223,100,000, representing an increase of 21.8% as compared with HK$183,300,000 for the same period last year.

The Company's oil tanker business is operated by Ming Wah Universal (Bermuda) Company Limited ("Ming Wah Bermuda") in which the Company holds a 100% interest. Ming Wah Bermuda operates seven Aframax oil tankers with a total tonnage of 660,000 tons.

As a result of factors such as the war between the United States and Iraq, the volume of crude oil shipped increased and therefore significant growth was seen both in the time charter equivalent and spot rate, thereby driving the growth in profit of the oil tanker business.

OUTLOOK AND PROSPECTS

In the first half of the year, both Hong Kong and some of the provinces and cities in the PRC were hit by SARS. However, the impact of SARS had not impeded the high growth of the PRC economy. The GDP of the PRC for the first half of the year still exceeded 8%. At the end of June, the Closer Economic Partnership Arrangement ("CEPA") was entered into between Hong Kong and the PRC which enabled closer integration

between the Hong Kong and the PRC economies, which in turn should assist in the speedy recovery of the Hong Kong economy in light of the rapid development of the economy of the PRC. An integral aspect of the CEPA is to promote the further development of the logistics industry both in Hong Kong and in the PRC. This should bring about promising opportunities to the Group's ports business and the container manufacturing and related businesses which are operated in both territories. The Group aims to capitalise on these favourable opportunities, expand the business presence of its ports business in the PRC and enhance the cost-effectiveness of its operations and management, so as to enhance its leading position in the ports business in the PRC.

On the heels of the Group's ports investment plans having been finalised (with each investment plan being implemented smoothly), the ports business of the Group should gradually crystallise into a network in the PRC. In the next five years, a network is expected to be formed

stretching and interacting between the Pearl River Delta, Zhangxia Economic Zone, Yangtze River Delta and pan-Bohai Economic Zone. By then, 55 berths are expected to be operated by the Group, which is 30 more than the number of berths currently operated by the Group, and the expected total throughput of its terminals is expected to be 20,100,000 TEU, which is 12,600,000 TEU more than the current throughput. As a result, the Group's business presence of terminal operation is expected to be greatly increased.

The operating environment of the Group's terminals is expected to see marked improvement in the few years to come. For example, in respect of the Group's key investments in the western Shenzhen ports, conditions of both shipping and land routes will be gradually improved. In respect of the routes on land, strong support has been given by the government of Shenzhen on road improvement works facilitating the transportation between the western Shenzhen ports, such as northward shift of Southern Port Route and westward shift of Western Port Route and all these works should be completed in one or two years' time. By then, both the water and land routes in the western Shenzhen ports will be markedly improved. In the first half of the year, with the help of the Company, the two terminal operating companies of the Group, namely SCT and Chiwan Container Terminal, participated in the CSI agreement which is led by the customs and excise department of the United States, making them the first PRC terminal operating companies to be a party to this agreement. On one hand, this should improve clearance procedures administrated by the customs and excise department of the United States in respect of cargo departing from our terminals. On the other hand, such arrangements are expected to assist in bringing the operations of the western Shenzhen ports in line with international standards, thereby heightening their competitiveness and creating favourable conditions for international shipping lines. Fourteen shipping lines were added to SCT and Chiwan Container Terminal in the first half of the year, reflecting their increased market competitiveness. As to customs declaration for ports, the Group will continue to promote the application of the electronic customs declaration platform developed by it at various customs in Pearl River Delta region. This will in turn foster the joint declaration activities implemented at various customs at the Pearl River Delta region for the delivery of goods from ports located at Western Shenzhen, and significant reduction in the time for declaration of customs. Following the implementation of various measures above, the overall operating environment for the ports at Western Shenzhen will be enhanced in a comprehensive manner. At the same time, the potential competitive advantage will be further demonstrated.

In respect of the container manufacturing and related business, it is expected that CIMC will continue to consolidate its existing favourable position. The box-type semi-trailers business showed positive growth. In the first half of the year, two major semi-trailer manufacturers in the PRC and the underlying assets of the fifth largest semi-trailer manufacturer in the United States were acquired by the Group, which represented another step towards the Company's target of "becoming a world leader in the semi-trailer sector in five years". In respect of paint manufacturing, the Group's leading position in the paint manufacturing business, in particular in container paint and marine paint manufacturing, is expected to continue to consolidate given its technological strengths and in the wake of the progress of its container paint manufacturing business.

In respect of the toll road business, it is expected that operating results will improve steadily. Growth is expected to come from the following three areas: firstly, growth in the PRC economy will naturally bring about growth in traffic volume; secondly, as the toll rates of the five expressways of the Group are lower than the industry's average and as market conditions change, there will be much potential for growth; thirdly, with the Group's centralised and standardised management of its toll road business, the administrative cost should be lowered over time. The Group will further optimise the asset structure of its toll road business and strengthen the management of the toll road projects, thereby continually achieving better returns in respect of the business.

Both the management and all staff will continue with their commitment and efforts to develop the Group's businesses. With the China Merchants Group's extensive connections and solid foundation in Hong Kong, the PRC and overseas, and with the Group's clear positioning for its businesses and proactive strategies, it will make active efforts to identify new business opportunities, optimise its asset structure and strive to achieve better returns for its shareholders.

WORKING FUND AND TREASURY POLICIES

The amount of cash held by the Group as at 30 June 2003 amounted to HK$1,400,000,000, 25% of which is denominated in Hong Kong dollars, 23% in US dollars and 52% in Renminbi.

The Group's sources of funds mainly come from operating activities and investment returns from associates and joint ventures,

which generate stable cash flow for the Group. For the first half of the year, the Group contributed capital of HK$500,000,000 for further investment items. Given sufficient cash on hand and a low debt level, the Group should have sufficient working capital to satisfy daily operational needs and any future additional investment projects.

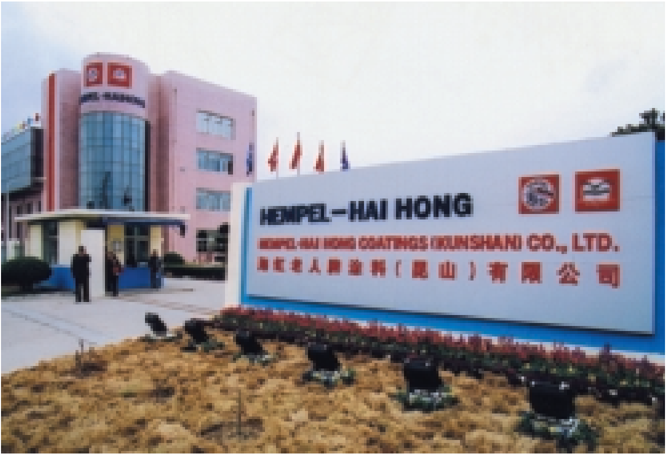
SHARE CAPITAL AND FINANCIAL RESOURCES

As at 30 June 2003, the Company had issued a total of 2,097,812,737 shares. During the Period, the Group issued 10,834,000 shares for the exercise of share options and received HK$54,000,000 for the issue of shares pursuant to such exercise. It has, additionally, issued 30,393,349 shares as a result of the conversion of convertible bonds.

As at 30 June 2003, the Group carried outstanding loans in the amount of HK$125,000,000, of which short-term credit facility and bank loans of a term less than one year amounted to HK$89,000,000. The amount of bank loans has been reduced by HK$19,000,000 from the end of 2002, being loans due and payable by the Group. The outstanding bank loans are all unsecured.

As at 30 June 2003, the balance of the convertible bonds for the Group amounted to HK$161,000,000. As bonds amounting to US$20,000,000 were converted into the Company's shares for the first half of the year, the balance of the convertible bonds decreased by HK$155,000,000 compared with the same period of last year, and the balance of convertible bonds had also been converted in full into the Company's shares on or before 28 July 2003.

The bank loans' interest rates are floating and the interest rates for convertible bonds are fixed.



As at 30 June 2003, the Group's gearing ratio (dividing interest-bearing liabilities by net assets) was 2.4%, representing a further decrease from the 4% at the end of the previous year.

All bank loans and convertible bonds are denominated in US dollars or HK dollars. As such, the Company does not employ any financial instrument to hedge the said loans and bonds.

The Group holds its assets mainly in HK dollars, U.S. dollars and Renminbi. The Board is of the view that, given the pegged exchange rate between HK and US dollars and the limited possibility for the Renminbi to depreciate in the future, it is not necessary to arrange for hedging of the Group's foreign currency investments.

ASSETS CHARGE

As at 30 June 2003, the Group did not have any charge on its assets.

CONTINGENT LIABILITIES

As at 30 June 2003, the Group had given guarantees for bank loans and overdrafts of subsidiaries, associates, an investee and convertible bonds in the amount of HK$330,000,000.

EMPLOYEES AND REMUNERATION

As at 30 June 2003, the Group had 2,830 full-time employees, of which 347 were working in Hong Kong, 17 were working overseas and 2,466 were in the PRC. Personnel expenses amounted to HK$85,000,000 for the 6 months ended 30 June 2003, representing 10.2% of the total operating expenses of the Group for the period ended 30 June 2003. The Group undertakes a review of salaries and the extent of salary increment annually, with close reference to the relevant labour market and economic situation.

The Group also provides internal training to staff and provides bonuses based upon staff performance and profits of the Company. This acts as an incentive for motivating employees to provide greater contribution to the Group. The Group has a share option scheme whereby employees of the Group may be granted options to acquire shares in the Company.

INTERIM DIVIDEND

The Board has declared an interim dividend of HK13 cents per share for the 6 months ended 30 June 2003, representing an increase of 85.7% compared with the 2002 interim dividend of HK7 cents per share. The dividend rate is 43.9%, representing an increase of 52.5% compared with 2002 interim dividend rate . The interim dividend will be payable on 14 October 2003 to shareholders whose names appear on the Register of Members of the Company on 10 October 2003.

CLOSURE OF REGISTER

The Register of Members will be closed from 6 October 2003 to 10 October 2003 (both days inclusive), during which no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers and the relevant share certificates must be lodged with the Company's Registrars, Computershare Hong Kong Investor Services Limited at 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:00 p.m. on 3 October 2003.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN EQUITY OR DEBT SECURITIES

As at 30 June 2003, the interests of the directors of the Company in the securities of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company under Section 352 of the SFO were as follows:

(a) The following director holds ordinary shares of HK$0.10 each in the Company:

	Number of Shares
Mr. Lee Yip Wah Peter	60,000

(b) SHARE OPTION SCHEMES

Terminated Scheme

The following directors hold options to subscribe for shares in the Company pursuant to the share option scheme adopted by the Company on 26 June 1992 (the "Terminated Scheme"):

Name of director	Date of grant	Exercise price	Options held at 1 January 2003	Options exercised during the Period[1]	Options lapsed during the Period	Options held at 30 June 2003[2]
Dr. Fu Yuning	1 March 2000	5.054	1,750,000	250,000	—	1,500,000
Mr. Zhou Qifang	19 September 2000	5.615	350,000	—	—	350,000
Mr. Zhao Huxiang	1 March 2000	5.054	1,220,000	120,000	—	1,100,000
Mr. Yu Liming	1 March 2000	5.054	350,000	350,000	—	—
			3,670,000	720,000	—	2,950,000
Continuous contract employees of the Group						
(I)	1 March 2000	5.054	2,314,000	64,000	—	2,250,000
(II)	19 September 2000	5.615	1,002,000	26,000	26,000	950,000
(III)	24 May 2001	5.630	700,000	—	—	700,000
(IV)	6 July 2001	5.610	700,000	—	—	700,000
			4,716,000	90,000	26,000	4,600,000
			8,386,000	**810,000**	**26,000**	**7,550,000**

During the Period, no share options have been cancelled under the Terminated Scheme.

The above outstanding share options can be exercised at any time during a period of 6 years commencing on the date of grant of the options.

Existing Scheme

The following directors hold options to subscribe for shares in the Company pursuant to the share option scheme adopted on 20 December 2001 and revised on 27 August 2002 (the "Existing Scheme"):

	Date of grant	Exercise price	Options held at 1 January 2003	Options exercised during the Period[1]	Options lapsed during the Period	Options held at 30 June 2003[2]
Dr. Fu Yuning	11 October 2002	4.985	1,200,000	600,000	—	600,000
Mr. Zhou Qifang	11 October 2002	4.985	700,000	700,000	—	—
Mr. Zhao Huxiang	11 October 2002	4.985	900,000	500,000	—	400,000
Mr. Li Yi	11 October 2002	4.985	1,200,000	—	—	1,200,000
Mr. Li Yinquan	11 October 2002	4.985	700,000	354,000	—	346,000
Mr. Meng Xi	11 October 2002	4.985	700,000	—	—	700,000
Mr. To Wing Sing	11 October 2002	4.985	800,000	—	—	800,000
Mr. Yu Liming	11 October 2002	4.985	700,000	200,000	—	500,000
			6,900,000	2,354,000	—	4,546,000
Continuous contract employees						
(I) The Group	11 October 2002	4.985	13,200,000	2,920,000	500,000	9,780,000
(II) CMHK Group	11 October 2002	4.985	9,800,000	4,750,000	—	5,050,000
			23,000,000	7,670,000	500,000	14,830,000
			29,900,000	**10,024,000**	**500,000**	**19,376,000**

During the Period, no share options have been granted or cancelled under the Existing Scheme.

The above outstanding share options may be exercised at any time during a period of 10 years commencing from the date of grant of the options.

Notes:

1. The weighted average closing market price per share immediately before the dates on which the share options were exercised was HK$6.64.

2. The total number of shares involved in the options outstanding at Period end represents 1.26% of the issued share capital of the Company as at the date of this report.

Other than the shares and the share options set out above, none of the directors or the chief executive or employees of the Company had any interest or short position in any of the securities of the Company or any associated corporation that is required to be entered in the register kept by the Company pursuant to Section 352 of the SFO; or would be required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2003, the interests of every person, other than a director of the Company, in the issued shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Long Position

	Ordinary Shares held	Percentage of total issued shares
Templetion Asset Management Limited	110,237,000	5.25%
Shinning Hope Ltd.	120,000,000	5.72%
China Merchants Union (BVI) Ltd.	149,286,410	7.12%
Blue Sky International Investments Ltd.	173,533,590	8.27%
J.P. Morgan Chase & Co	204,551,713	9.75%
Cheer Far Development Limited	510,513,584	24.34%
China Merchants Holdings (Hong Kong) Company Limited	1,053,333,584 *	50.21%
China Merchants Steam Navigation Company Limited	1,053,333,584 **	50.21%
China Merchants Group Limited	1,080,843,351 ***	51.52%

* *The 1,053,333,584 shares beneficially held by China Merchants Holdings (Hong Kong) Company Limited ("CMHK") represent the aggregate of 510,513,584 shares held by Cheer Far Development Limited ("Cheer Far"), 173,533,590 shares held by Blue Sky International Investments Limited ("Blue Sky"), 149,286,410 shares held by China Merchant Union (BVI) Limited ("CMU"), 120,000,000 shares held by Shinning Hope Limited ("Shinning Hope") and 100,000,000 shares held by Bluewater International Investments Limited ("Bluewater"). Cheer Far, CMU, Blue Sky, Shinning Hope and Bluewater are all wholly-owned subsidiaries of CMHK. By virtue of the SFO, CMHK was deemed to be interested in 1,053,333,584 shares of the Company.*

** *CMHK is a wholly-owned subsidiary of China Merchants Steam Navigation Company Limited ("CMSN"). By virtue of the SFO, CMSN was deemed to be interested in 1,053,333,584 shares of the Company.*

*** *The 1,080,843,351 shares in which China Merchants Group Limited ("CMH") had an interest represent the aggregate of 1,053,333,584 shares in which CMSN had an interest and 27,509,767 shares held by Orienture Holdings Company Limited ("Orienture"). CMSN and Orienture are both wholly-owned subsidiaries of CMH. By virtue of the SFO, CMH was deemed to be interested in 1,080,843,351 shares of the Company.*

Apart from the foregoing, as at 30 June 2003, no person or corporation had any interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO as having an interest in 5 per cent. or more of the issued shares of the Company.

PRACTICE NOTE 19 TO THE LISTING RULES

The Group has certain bank loan facilities, throughout the continuance of which, CMH, the controlling shareholder of the Company holding 51.52% of the issued shares of the Company as at 30 June 2003, is required to maintain directly or indirectly a particular percentage of the issued voting shares of the Company. Details of the bank loan facilities utilised as at 30 June 2003 and the performance obligation of CMH are disclosed below in accordance with paragraph 3.9 of Practice Note 19 to the Listing Rules:

Bank loan facility	Percentage of the issued voting share capital of the Company required to be held by CMH
US$9,150,000 repayable by 4 equal semi-annual instalments until 7 June 2005	Being the largest single shareholder

Save as disclosed above, there is no other disclosure required to be made by the Company pursuant to Practice Note 19.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

None of the directors is aware of information which would reasonably indicate that the Company is not, or was not, for any part of the 6 months ended 30 June 2003, in compliance with Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange except that non-executive directors of the Company are not appointed for a specific term as they are subject to retirement by rotation at the annual general meeting in accordance with the Articles of Association of the Company.

AUDIT COMMITTEE

The Audit Committee of the Company comprises four independent non-executive directors. The Audit Committee has reviewed and confirmed the unaudited interim results announcement and report for the 6 months ended 30 June 2003.

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

For the 6 months ended 30 June 2003, the Company and its subsidiaries did not purchase, sell or redeem any of the Company's listed securities.

By Order of the Board
Dr. Fu Yuning
Chairman

Hong Kong, 28 August 2003