

The board of directors of The Cross-Harbour (Holdings) Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2003. The results have been reviewed by the Company's audit committee and auditors. An independent review report of the auditors is set out on page 28 of this report.

The Group's unaudited profit attributable to shareholders for the first half of 2003 amounted to HK\$42.2 million, a 9.3% decline compared with HK\$46.5 million for the first half of 2002. Basic earnings per share were HK\$0.19.

DIVIDENDS

A first quarterly interim dividend of HK\$0.05 per share absorbing a total amount of HK\$12.4 million was paid on 21 July 2003. Your directors have today declared a second quarterly interim dividend of HK\$0.05 per share payable on 15 October 2003 to shareholders registered on 24 September 2003. The share register will be closed from 23 September to 24 September 2003, both days inclusive.

The second quarterly interim dividend will be satisfied in cash with a scrip dividend option. A circular giving details of the scrip dividend scheme and the form of election will be mailed to shareholders on or around 26 September 2003. The scrip dividend scheme is conditional upon the grant of listing of and permission to deal in the new shares to be issued pursuant thereto by the Listing Committee of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

BUSINESS REVIEW AND PROSPECTS

The outbreak of Severe Acute Respiratory Syndrome ("SARS") in early March this year was definitely a setback to the Hong Kong economy. This has adversely affected the performance of the three major business segments of the Group. However, the conclusion of the Closer Economic Partnership Arrangement ("CEPA") which will take effect on 1 January 2004, and the recent measures by the Central Government on relaxation on tourism to Hong Kong will go some way to accelerating the pace of economic integration between Hong Kong and Mainland China. The economic outlook for the rest of this year is therefore more positive than the first half of the year, although rising unemployment, lingering deflation as well as falling property prices are still negative factors which cannot be ignored.

The Autopass Company Limited ("Autopass") - 70% owned

Autotoll Limited ("Autotoll") - effectively 35% owned

The main asset of Autopass is its 50% stake in Autotoll, which provides electronic toll clearing facilities in Hong Kong covering eleven different toll roads and tunnels. There are forty-seven auto-toll lanes in operation at present. The total number of tags in circulation was around 195,000 as at 30 June 2003. The overall usage of auto-toll facilities in all eleven toll roads and tunnels was 50% with the highest usage at Western Harbour Tunnel at over 65%. The daily transactions handled by Autotoll were close to 307,000 with toll amounts of approximately HK\$5.1 million per day.

The Hong Kong School of Motoring Limited ("HKSM") - 70% owned

Despite a decline of 9% in the number of driving lessons demanded as compared with the previous corresponding period, HKSM recorded an increase of 14% in income from motorcycle training courses. Despite unfavourable factors such as the difficult business environment and severe price competition, HKSM has been able to improve its operating margin through various cost rationalization exercises. During the outbreak of SARS, HKSM took various precautionary measures to instill confidence in its customers that the HKSM is a safe and hygienic environment for learner drivers. Some of these measures will be maintained although Hong Kong has been removed from the list of SARS-affected areas.

Western Harbour Tunnel Company Limited ("WHTCL") - 37% owned

As a measure to maximize its revenue, WHTCL raised its tolls for certain categories of vehicles with effect from 16 February 2003. Toll charges for private cars and light buses have risen by HK\$2, while the increments for single and double decked buses are HK\$10 and HK\$15 respectively. However, due to the reduction in total cross harbour traffic as a result of SARS, WHTCL suffered a significant decline in its daily throughput. The average daily number of vehicle journeys for the first half year was 34,900, representing a decrease of 11.6% as compared with the corresponding period in 2002. WHTCL's market share therefore decreased from 17.1% in 2002 to 15.7% in the first half year under review. On top of this, the opening of the West Rail in the second half year also imposes uncertainty on the recovery of total cross harbour traffic as well as the throughput of the Western Harbour Tunnel in the near future.

Hong Kong Tunnels and Highways Management Company Limited ("HKTHMCL") - 37% owned

HKTHMCL is managing the busiest Cross-Harbour Tunnel at Hunghom under a second Management, Operation and Maintenance Contract for a period of two years up to 31 August 2004, with an option for The Government of the HKSAR to extend for a further period of up to twenty-four months.

COMMENTARY ON INTERIM RESULTS

(I) Review of 2003 interim results

The Group's unaudited profit attributable to shareholders for the six months ended 30 June 2003 amounted to HK\$42.2 million, a decrease of 9.3% compared with HK\$46.5 million for the last corresponding period. Basic earnings per share were HK\$0.19, a decrease of 20.8% compared with HK\$0.24 for the last corresponding period. The decrease in earnings per share was partly due to the enlarged share capital as a result of partial conversions of the convertible notes.

The Group's turnover for the period under review was HK\$119.7 million, a decrease of HK\$8.8 million or 6.8% as compared to the HK\$128.4 million recorded in the same period last year.

The Hong Kong School of Motoring Limited recorded a reduction in turnover of 5.5% to HK\$109.6 million as a result of a decrease in tuition fees due to lower demand for driving lessons which was partly offset by the increase in income from motorcycle lessons. This unfavourable variance was however balanced by the improvement in operating costs as a result of continued effective cost rationalization programs.

The share of profits of associated companies decreased by 8.5% to HK\$23.2 million from HK\$25.4 million recorded in the last corresponding period. The reduction in contribution from the operations of the Western Harbour Tunnel was the aggregate result of a decline in toll revenue and an increase in operating costs which were, however, mitigated by a substantial reduction in interest expenses due to prevailing lower interest rates and re-financing at a lower interest cost in August 2002.

Hong Kong Tunnels and Highways Management Company Limited, an associate undertaking the management contract for the Hunghom Cross-Harbour Tunnel, maintained stable income for the period.

The Group's share of profit before tax from Autotoll Limited, a jointly controlled entity which operates an electronic toll collection system, was HK\$9.6 million for the first half year under review against the HK\$8.6 million recorded in the last corresponding period, representing an increase of 11.7% as a result of moderate growth in the number of subscribers.

The Group's financial costs for the period under review, amounting to HK\$3.2 million, were primarily due to the issues of convertible notes in 2002 at an interest rate of 3.5% per annum.

(II) Investments

As at 30 June 2003, the Group maintained a portfolio of blue-chip securities with an aggregate market value of HK\$232.8 million. Dividend income received therefrom in the first six months of 2003 amounted to HK\$5.3 million.

On 14 January 2003, a wholly owned subsidiary of the Group acquired unlisted convertible notes issued by a company listed on the Main Board of the Stock Exchange in a total amount of HK\$15 million.

(III) Liquidity and financial resources

As at 30 June 2003, the Group had bank balances and deposits in the amount of HK\$325.3 million. Banking facilities available are sufficient to meet the foreseeable funding needs for working capital and capital expenditure. These facilities were not utilized by the Group during the period under review.

As at 30 June 2003, the Group had outstanding convertible notes of HK\$82.5 million which are unsecured, bear interest at 3.5% per annum payable annually in arrears and are due in 2005. Since its sources of income and borrowings are denominated in Hong Kong dollars, the Group is not exposed to foreign exchange rate fluctuations. The gearing ratio, which is defined as long-term debts to shareholders' funds, was 6.8% as at 30 June 2003 (31 December 2002: 16.3%).

(IV) Comments on segmental information

The principal activity of the Company is investment holding.

The principal activities of the Company's subsidiaries and a jointly controlled entity are the operation of motoring schools, the operation of an electronic toll collection system and investment. Further information on the segmental details is provided in note 7 of the interim financial report.

(V) Employees

The Group has approximately 721 employees. Employees are remunerated according to job nature and market trends, with a built-in merit component incorporated in the annual increment to reward and motivate individual performance. Apart from provident fund schemes and medical insurance, discretionary bonuses and employee share options are awarded to employees of the Group at the discretion of the directors, depending upon the financial performance of the Group. Total staff costs for the first six months of 2003 amounted to HK\$58.9 million.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2003, the interests and short positions of the directors of the Company in the shares, underlying shares and debentures of the Company as recorded in the register kept under section 352 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") were as follows:

(I) Interests in shares

| Name | Nature of interest | No. of ordinary shares |
|------------------------------------|--------------------|------------------------|
| Cheung Chung Kiu (<i>Note 1</i>) | Corporate interest | 69,039,417 |

Note 1: Mr. Cheung Chung Kiu ("Mr. Cheung") was deemed to be interested in the above shares by virtue of his indirect shareholding interest in Honway Holdings Limited ("Honway") which owned these shares. Honway was an indirect wholly owned subsidiary of Y. T. Realty Group Limited ("Y. T. Realty"). Yugang International Limited ("Yugang"), through an indirect wholly owned subsidiary, owned 34.25% of the issued share capital of Y. T. Realty. Mr. Cheung and Chongqing Industrial Limited ("Chongqing") owned 0.63% and 37.79% of the issued share capital of Yugang respectively. Chongqing was owned as to 35% by Mr. Cheung, as to 30% by Prize Winner Limited which was owned by Mr. Cheung and his associates, and as to 30% and 5% by Peking Palace Limited ("Peking Palace") and Miraculous Services Limited ("Miraculous Services") respectively. Peking Palace and Miraculous Services were companies controlled by Palin Discretionary Trust, the objects of which included Mr. Cheung and his family.

(II) Interests in share options

| Name | No. of underlying shares |
|------------------|---------------------------------|
| Cheung Chung Kiu | 60,000,000 (<i>Note 2</i>) |

Note 2: This represents the maximum number of shares issuable upon exercise of the entire option granted on 24 June 2003 (the "Option") pursuant to the share option agreement dated 9 May 2003 made between the Company and Honway, details of which are set out in the Company's circular dated 2 June 2003. Mr. Cheung was deemed to be interested in these underlying shares by virtue of his indirect shareholding interest in Honway as described in Note 1 above.

(III) Interests in debentures

| Name | Type of debenture | Balance of the principal amount of the debenture and no. of underlying shares |
|------------------|---------------------------|--|
| Cheung Chung Kiu | Convertible note (Note 3) | HK\$80,457,060 convertible into 21,745,151 new shares at a conversion price of HK\$3.70 per share (Note 4) |

Note 3: Honway held the convertible note. Honway has a right to convert the whole or part of the principal amount of the convertible note into shares at any time and from time to time, from the date of issue of the convertible note up to the third anniversary of the issue of the convertible note in amounts of not less than HK\$1 million on each conversion. Mr. Cheung was deemed to be interested in the underlying shares in respect of the convertible note by virtue of his indirect shareholding interest in Honway as described in Note 1 above.

Note 4: This represents the interest in the underlying shares derived from the convertible note with the outstanding amount of HK\$80,457,060. The conversion price is HK\$3.50 per share for the period from the date of issue of the convertible note up to the first anniversary of the date of issue of the convertible note ("First Year"), HK\$3.70 per share for the period from the date immediately following the first anniversary of the date of issue of the convertible note up to the second anniversary of the date of issue of the convertible note and HK\$3.90 per share for the period from the date immediately following the second anniversary of the date of issue of the convertible note up to the third anniversary of the date of issue of the convertible note ("Third Year"), subject to adjustment. The total number of the underlying shares in respect of the convertible note changes from the First Year to the Third Year.

All the interests disclosed above represent long positions in the shares, underlying shares and debentures of the Company.

Save as disclosed herein, there was no interest recorded in the register kept under section 352 of the SFO as at 30 June 2003.

SHARE OPTIONS

As at 30 June 2003, the directors and employees of the Company had the following interests in options over new shares in the Company granted under the Company's share option scheme adopted on 8 May 2001:

| Type of participant | No. of outstanding options at the beginning and at the end of the period | Date of grant | Vesting period | Exercise period | Exercise price per share |
|---------------------|--|----------------|----------------|------------------------------|--------------------------|
| Directors | Nil | N/A | N/A | N/A | N/A |
| Other employees | 19,200,000 | 30 August 2001 | Nil | 30 August 2001 to 7 May 2011 | HK\$2.492 |

No options lapsed and no options were granted, exercised or cancelled during the period.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2003, the interests or short positions of the persons, other than directors of the Company, in the shares and underlying shares of the Company as recorded in the register kept under section 336 of the SFO were as follows:

| Name | Interests in shares <i>(Note 1)</i> | Interests in share options <i>(Note 2)</i> | Interests in equity derivatives <i>(Note 3)</i> |
|---------------------------------------|---|--|--|
| Palin Holdings Limited | 69,039,417 | 60,000,000 | HK\$80,457,060 |
| Chongqing | 69,039,417 | 60,000,000 | HK\$80,457,060 |
| Yugang | 69,039,417 | 60,000,000 | HK\$80,457,060 |
| Yugang International (B.V.I.) Limited | 69,039,417 | 60,000,000 | HK\$80,457,060 |
| Funrise Limited | 69,039,417 | 60,000,000 | HK\$80,457,060 |
| Y. T. Realty | 69,039,417 | 60,000,000 | HK\$80,457,060 |
| Y. T. Investment Holdings Limited | 69,039,417 | 60,000,000 | HK\$80,457,060 |
| Honway | 69,039,417 | 60,000,000 | HK\$80,457,060 |

Note 1: The 69,039,417 shares set out in this column refer to the same block of shares beneficially owned by Honway and are duplicated in the interest in shares of Mr. Cheung on page 5 of this report.

Note 2: The 60,000,000 underlying shares set out in this column refer to the same block of shares issuable upon exercise of the entire Option and are duplicated in the interest in share option of Mr. Cheung on page 5 of this report.

Note 3: The amount of HK\$80,457,060 set out in this column refers to the balance of the principal amount of the convertible note held by Honway, the same note as described under the sub-section headed "Interests in debentures" on page 6 of this report.

Note 4: Each of Palin Holdings Limited, Chongqing, Yugang, Yugang International (B.V.I.) Limited, Funrise Limited, Y. T. Realty and Y. T. Investment Holdings Limited was deemed to be interested in the above shares and underlying shares of the Company by virtue of their direct/indirect shareholding interest in Honway as described in Note 1 of the section headed "Directors' Interests in Securities" on page 5 of this report.

All the interests disclosed above represent long positions in the shares and underlying shares of the Company.

Save as disclosed herein, there was no person known to the directors of the Company, other than a director of the Company, who, as at 30 June 2003, had an interest or a short position in the shares and underlying shares of the Company as recorded in the register kept under section 336 of the SFO.

DISCLOSURE UNDER PRACTICE NOTE 19

(I) Financial assistance

In relation to the provision of financial assistance given by the Company to Western Harbour Tunnel Company Limited ("WHTCL"), a 37%-owned associate of the Company, as previously disclosed in the Company's annual report and financial statements for the year ended 31 December 2002, obligations in relation to the abovementioned financial assistance by the Group continued to exist as at 30 June 2003. Total advances given by the Group to WHTCL including accrued interest thereon amounted to HK\$1,114.8 million as at 30 June 2003.

Terms of the financial assistance

The loan to WHTCL bears interest at such rate as may be agreed from time to time among all the shareholders of WHTCL, currently being fixed at 1% per annum. The loan is repayable on demand as may from time to time be agreed among WHTCL's shareholders, subject to a syndicated loan having been fully repaid by WHTCL before any repayment of the loan except in certain circumstances. No security is provided to the Group for the loan.

(II) Guarantee

The Company entered into a guarantee (the "Guarantee") on 25 June 2002 in favour of The Hongkong and Shanghai Banking Corporation Limited ("HSBC"), given for the benefit of Hong Kong Tunnels and Highways Management Company Limited ("HKTHMCL"), a company which is 37% owned by the Company, to the extent of approximately HK\$18.9 million, which became effective on 1 September 2002. The Guarantee is given to HSBC in return for it providing a guarantee in favour of The Government of the HKSAR on behalf of HKTHMCL to secure the performance of an agreement in relation to the operation and management of the Cross-Harbour Tunnel at Hunghom and the operation and maintenance of the tunnel equipment by HKTHMCL. The Group has given a guarantee of HK\$30.0 million to HSBC in this respect as at 30 June 2003, of which HK\$11.1 million relates to an agreement which ended on 31 August 2002. The latter expired on 31 August 2003.

(III) Proforma balance sheet of affiliated companies

Set out below is a combined proforma balance sheet of WHTCL and HKTHMCL as at 31 July 2003 (being the latest practicable date for determining the relevant figures) required to be disclosed under Practice Note 19 to the listing rules of the Stock Exchange (the "Listing Rules"):

| | <i>HK\$'000</i> |
|----------------------------|------------------|
| Total assets | 6,200,145 |
| Other liabilities | (3,265,096) |
| | <u>2,935,049</u> |
| Share capital and reserves | (80,526) |
| Shareholders' loans | 3,015,575 |
| | <u>2,935,049</u> |

PURCHASE, SALE OR REDEMPTION OF SHARES

During the period under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any shares in the Company.

CODE OF BEST PRACTICE

None of the directors is aware of information that would reasonably indicate that the Company is not, or was not, for any part of the accounting period covered by the interim financial report, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

AUDIT COMMITTEE

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the unaudited interim financial statements.

On behalf of the Board
Yeung Hin Chung, John
Managing Director

Hong Kong, 5 September 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the six months ended 30 June 2003 - unaudited

(Expressed in Hong Kong dollars)

| | Note | Six months ended 30 June | |
|---|------|--------------------------|----------------|
| | | 2003 \$'000 | 2002 \$'000 |
| Turnover | 2 | 119,675 | 128,426 |
| Other revenue | | 5,478 | 4,811 |
| Other net income | | 15 | 1 |
| Direct costs and operating expenses | | (54,445) | (60,187) |
| Selling and marketing expenses | | (16,589) | (16,816) |
| Administrative and corporate expenses | | (29,806) | (31,597) |
| Operating profit before finance costs | | 24,328 | 24,638 |
| Finance costs | 3 | (3,180) | (1,169) |
| Operating profit | 2 | 21,148 | 23,469 |
| Share of profits less losses of associates | | 23,244 | 25,415 |
| Share of profit of a jointly controlled entity | | 9,565 | 8,563 |
| Profit from ordinary activities before taxation | 3 | 53,957 | 57,447 |
| Taxation | 4 | (5,202) | (4,416) |
| Profit from ordinary activities after taxation | | 48,755 | 53,031 |
| Minority interests | | (6,595) | (6,536) |
| Profit attributable to shareholders for the interim period | | 42,160 | 46,495 |
| Dividends attributable to the interim period: | 5(a) | | |
| Interim dividend declared during the interim period | | 12,421 | 10,277 |
| Interim dividend declared after the interim period end | | 12,459 | 10,336 |
| | | 24,880 | 20,613 |
| Earnings per share | 6 | | |
| Basic | | 19 cents | 24 cents |
| Diluted | | 16 cents | 22 cents |
| Profit for the period is retained by: | | | |
| The Company and its subsidiaries | | 10,936 | 15,850 |
| Associates | | 23,244 | 25,415 |
| Jointly controlled entity | | 7,980 | 5,230 |
| | | 42,160 | 46,495 |

The notes on pages 15 to 27 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET

As at 30 June 2003 - unaudited
(Expressed in Hong Kong dollars)

| | Note | 30 June 2003 | | 31 December 2002 | |
|--|------|--------------|------------------|------------------|------------------|
| | | \$'000 | \$'000 | \$'000 | \$'000 |
| Non-current assets | | | | | |
| Fixed assets | | | 82,795 | | 91,420 |
| Interest in associates | | | 1,080,801 | | 1,052,079 |
| Interest in a jointly controlled entity | | | 14,694 | | 6,714 |
| Investments | | | 247,753 | | 231,757 |
| | | | <u>1,426,043</u> | | <u>1,381,970</u> |
| Current assets | | | | | |
| Inventories | | | 605 | | 601 |
| Trade and other receivables | 8 | | 61,802 | | 42,608 |
| Cash and cash equivalents | | | 325,252 | | 302,281 |
| | | | <u>387,659</u> | | <u>345,490</u> |
| Current liabilities | | | | | |
| Trade and other payables | 9 | | 140,863 | | 136,523 |
| Taxation | | | 5,033 | | 1,577 |
| Dividends payable | | | 12,512 | | 10,458 |
| | | | <u>158,408</u> | | <u>148,558</u> |
| Net current assets | | | <u>229,251</u> | | <u>196,932</u> |
| Total assets less current liabilities | | | <u>1,655,294</u> | | <u>1,578,902</u> |
| Non-current liabilities | | | | | |
| Convertible notes | 10 | | (82,457) | | (215,000) |
| Interest free loan | 11 | | (20,000) | | — |
| Deferred taxation | 12 | | (2,743) | | (3,300) |
| | | | <u>(105,200)</u> | | <u>(218,300)</u> |
| Minority interests | | | <u>(37,728)</u> | | <u>(39,195)</u> |
| NET ASSETS | | | <u>1,512,366</u> | | <u>1,321,407</u> |
| CAPITAL AND RESERVES | | | | | |
| Share capital | 13 | | 248,413 | | 207,954 |
| Reserves | 14 | | 1,263,953 | | 1,113,453 |
| | | | <u>1,512,366</u> | | <u>1,321,407</u> |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2003 - unaudited

(Expressed in Hong Kong dollars)

| | Share capital \$'000 | Share premium \$'000 | Capital reserve \$'000 | Investment revaluation reserve \$'000 | Share option reserve \$'000 | Revenue reserve \$'000 | Total \$'000 |
|--|----------------------------|----------------------------|------------------------------|--|--------------------------------------|------------------------------|------------------|
| At 1 January 2003 | 207,954 | 785,935 | 1,984 | (56,701) | — | 382,235 | 1,321,407 |
| Shares issued in lieu of dividends declared in previous financial year | 1,241 | 2,834 | — | — | — | — | 4,075 |
| Dividends approved in respect of the previous financial year | 1,349 | 2,874 | — | — | — | (10,460) | (6,237) |
| Net profit for the interim period | — | — | — | — | — | 42,160 | 42,160 |
| Dividends declared in respect of the current interim period | — | — | — | — | — | (12,421) | (12,421) |
| Conversion of convertible notes | 37,869 | 94,674 | — | — | — | — | 132,543 |
| Revaluation surplus | — | — | — | 839 | — | — | 839 |
| Granting of share options | — | — | — | — | 30,000 | — | 30,000 |
| At 30 June 2003 | 248,413 | 886,317 | 1,984 | (55,862) | 30,000 | 401,514 | 1,512,366 |
| At 1 January 2002 | 193,572 | 751,015 | 1,984 | (9,645) | — | 355,535 | 1,292,461 |
| Shares issued in lieu of dividends declared in previous financial year | 979 | 2,145 | — | — | — | — | 3,124 |
| Dividends approved in respect of the previous financial year | 994 | 2,375 | — | — | — | (9,728) | (6,359) |
| Net profit for the interim period | — | — | — | — | — | 46,495 | 46,495 |
| Dividends declared in respect of the current interim period | — | — | — | — | — | (10,277) | (10,277) |
| Conversion of convertible notes | 10,000 | 25,000 | — | — | — | — | 35,000 |
| Revaluation deficit | — | — | — | (35,788) | — | — | (35,788) |
| At 30 June 2002 | 205,545 | 780,535 | 1,984 | (45,433) | — | 382,025 | 1,324,656 |

The notes on pages 15 to 27 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2003 - unaudited

(Expressed in Hong Kong dollars)

| | Six months ended 30 June | |
|--|--------------------------|----------------|
| | 2003 \$'000 | 2002 \$'000 |
| Net cash inflow from operating activities | 22,091 | 22,264 |
| Net cash outflow from investing activities | (21,036) | (55,359) |
| | <hr/> | <hr/> |
| Net cash inflow/(outflow) before financing | 1,055 | (33,095) |
| Net cash inflow from financing | 21,916 | 230,430 |
| | <hr/> | <hr/> |
| Increase in cash and cash equivalents | 22,971 | 197,335 |
| Cash and cash equivalents at 1 January | 302,281 | 192,364 |
| | <hr/> | <hr/> |
| Cash and cash equivalents at 30 June | 325,252 | 389,699 |
| | <hr/> <hr/> | <hr/> <hr/> |
| Analysis of the balances of cash and cash equivalents | | |
| Deposits with banks and other financial institutions | 325,252 | 389,699 |
| | <hr/> <hr/> | <hr/> <hr/> |

The notes on pages 15 to 27 form part of this interim financial report.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

1 Basis of preparation and change of accounting policy

(a) *Basis of preparation*

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports", issued by the Hong Kong Society of Accountants ("HKSA"). KPMG's independent review report to the board of directors is included on page 28.

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the HKSA.

The financial information relating to the financial year ended 31 December 2002 included in the interim financial report does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2002 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 28 March 2003.

The same accounting policies adopted in the 2002 annual financial statements have been applied to the interim financial report excepted as disclosed in note 1(b) below.

The notes on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2002 annual financial statements.

(b) Change of accounting policy

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonably probability to crystallise in the foreseeable future. Deferred tax assets were not recognized unless their realisation was assured beyond reasonable doubt. With effect from 1 January 2003, in order to comply with Statement of Standard Accounting Practice 12 (revised) issued by the HKSA, the Group adopted a new policy for deferred tax as set out in note 1(c) below. The effect of such change is not material to the interim financial report.

(c) Taxation

- i. Taxation for the year comprises current and deferred tax. Income tax is recognised in the profit and loss account except to the extent that it relates to items recognized directly to equity, in which case it is recognised in equity.
- ii. Current tax is expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.
- iii. Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases respectively. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. The limited exceptions are temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

2 Turnover and operating profit

The analysis of the principal activities of the operations of the Company and its subsidiaries during the financial period is as follows:

| | Turnover | | Operating profit | |
|---------------------------------|--------------------------|----------------|--------------------------|---------------|
| | Six months ended 30 June | | Six months ended 30 June | |
| | 2003 | 2002 | 2003 | 2002 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| <i>Principal activities</i> | | | | |
| Motoring school operations | 109,588 | 115,908 | 16,230 | 16,275 |
| Investment and other activities | 10,087 | 12,518 | 15,188 | 13,903 |
| | <u>119,675</u> | <u>128,426</u> | <u>31,418</u> | <u>30,178</u> |
| Unallocated operating expenses | | | (7,090) | (5,540) |
| Finance costs | | | (3,180) | (1,169) |
| | | | <u>21,148</u> | <u>23,469</u> |

During the interim financial period, more than 90% of the operations of the Company and its subsidiaries in terms of both turnover and operating profit were carried out in Hong Kong.

3 Profit from ordinary activities before taxation

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

| | Six months ended 30 June | |
|--|--------------------------|---------------|
| | 2003 | 2002 |
| | \$'000 | \$'000 |
| (a) Finance Costs | | |
| Interest on convertible notes | 2,945 | 762 |
| Other borrowing costs | 235 | 407 |
| | <u>3,180</u> | <u>1,169</u> |
| (b) Other items | | |
| Depreciation | 9,545 | 9,869 |
| Cost of inventories consumed | 6,132 | 6,333 |
| Contributions to defined contribution retirement schemes | 2,536 | 2,178 |
| Net profit on sale of fixed assets | (15) | (1) |
| | <u>18,173</u> | <u>18,681</u> |

4 Taxation

| | Six months ended 30 June | |
|--|--------------------------|--------------|
| | 2003 | 2002 |
| | \$'000 | \$'000 |
| Hong Kong taxation | 4,174 | 3,865 |
| Deferred taxation | | |
| Reversal of temporary differences | (857) | (540) |
| Effect of increase in tax rate on deferred tax balances at 1 January | 300 | — |
| Share of a jointly controlled entity's taxation | 1,585 | 1,091 |
| | <u>5,202</u> | <u>4,416</u> |

The provision for Hong Kong profits tax is calculated at 17.5% (2002: 16%) of the estimated assessable profits for the six months ended 30 June 2003.

In March 2003, the Government of the HKSAR announced an increase in the profits tax rate applicable to the Group's operations in Hong Kong from 16% to 17.5%. This increase has been taken into account in the preparation of the Group's 2003 financial statements.

5 Dividends

(a) Dividends attributable to the interim period

| | Six months ended 30 June | |
|--|--------------------------|----------------|
| | 2003 \$'000 | 2002 \$'000 |
| Interim dividend declared of 5 cents per share (2002: 5 cents per share) | 12,421 | 10,277 |
| Interim dividend declared after the interim period end of 5 cents per share (2002: 5 cents per share) | 12,459 | 10,336 |
| | <u>24,880</u> | <u>20,613</u> |

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

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

| | Six months ended 30 June | |
|---|--------------------------|----------------|
| | 2003 \$'000 | 2002 \$'000 |
| Final dividend in respect of the previous financial year, approved and paid during the interim period, of 5 cents per share (2002: 5 cents per share) | 10,460 | 9,728 |

6 Earnings per share

(a) Basic

The calculation of basic earnings per share is based on the profit attributable to shareholders of \$42,160,000 (2002: \$46,495,000) and the weighted average of 222,294,390 ordinary shares (2002: 197,175,524 shares) in issue during the period.

(b) Diluted

The calculation of diluted earnings per share is based on the profit attributable to shareholders of \$44,590,000 (2002: \$47,135,000) and the weighted average number of ordinary shares of 275,407,876 (2002: 214,353,513 shares) after adjusting for the effects of all dilutive potential ordinary shares.

(c) Reconciliations

| | 2003 Number of shares | 2002 Number of shares |
|---|-----------------------------|-----------------------------|
| Weighted average number of ordinary shares used in calculating basic earnings per share | 222,294,390 | 197,175,524 |
| Deemed issue of ordinary shares for no consideration | 4,628,477 | 4,633,396 |
| Deemed issue of ordinary shares from conversion of convertible notes | 48,485,009 | 12,544,593 |
| | <hr/> | <hr/> |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | <u>275,407,876</u> | <u>214,353,513</u> |

7 Segment reporting

Segment information is presented in respect of the Group's business segments. Business segment information is chosen as the reporting format because this is considered by management to be more relevant to the Group's internal financial reporting.

Business segments

The Group comprises the following business segments:

Motoring school operations
 Tunnel operations
 Electronic toll operations
 Treasury

| | Motoring school operations | | Tunnel operations | | Electronic toll operations | | Treasury | | Unallocated | | Consolidated | |
|--|----------------------------|----------------|-------------------|----------------|----------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2003 \$'000 | 2002 \$'000 | 2003 \$'000 | 2002 \$'000 | 2003 \$'000 | 2002 \$'000 | 2003 \$'000 | 2002 \$'000 | 2003 \$'000 | 2002 \$'000 | 2003 \$'000 | 2002 \$'000 |
| Turnover | 109,588 | 115,908 | 1,502 | 1,587 | 1,800 | 1,835 | 6,785 | 9,096 | — | — | 119,675 | 128,426 |
| Other revenue | — | — | 5,478 | 4,811 | — | — | — | — | — | — | 5,478 | 4,811 |
| Total revenue | 109,588 | 115,908 | 6,980 | 6,398 | 1,800 | 1,835 | 6,785 | 9,096 | — | — | 125,153 | 133,237 |
| Segment result | 16,230 | 16,275 | 6,980 | 6,398 | 1,686 | 1,829 | 6,749 | 5,881 | (227) | (205) | 31,418 | 30,178 |
| Unallocated operating expenses | — | — | — | — | — | — | — | — | — | — | (7,090) | (5,540) |
| Operating profit before finance costs | — | — | — | — | — | — | (3,180) | (1,169) | — | — | 24,328 | 24,638 |
| Finance costs | — | — | — | — | — | — | — | — | — | — | (3,180) | (1,169) |
| Operating profit | — | — | — | — | — | — | — | — | — | — | 21,148 | 23,469 |
| Share of profits less losses of associates | — | — | 23,244 | 25,415 | — | — | — | — | — | — | 23,244 | 25,415 |
| Share of profit of a jointly controlled entity | — | — | — | — | 9,565 | 8,563 | — | — | — | — | 9,565 | 8,563 |
| Profit from ordinary activities before taxation | — | — | — | — | — | — | — | — | — | — | 53,957 | 57,447 |
| Taxation | (2,942) | (2,731) | (289) | (317) | (1,879) | (1,368) | (92) | — | — | — | (5,202) | (4,416) |
| Profit from ordinary activities after taxation | — | — | — | — | — | — | — | — | — | — | 48,755 | 53,031 |
| Minority interests | (3,755) | (3,772) | — | — | (2,840) | (2,764) | — | — | — | — | (6,595) | (6,536) |
| Profit attributable to shareholders for the interim period | — | — | — | — | — | — | — | — | — | — | 42,160 | 46,495 |
| Depreciation for the interim period | 9,166 | 9,575 | — | — | — | — | — | — | 379 | 294 | 9,545 | 9,869 |

8 Trade and other receivables

Included in trade and other receivables are trade receivables with the following ageing analysis:

| | 30 June 2003 \$'000 | 31 December 2002 \$'000 |
|----------------------------|---------------------------|-------------------------------|
| Current | 120 | 504 |
| 1 to 2 months overdue | 38 | 40 |
| 2 to 3 months overdue | 9 | — |
| More than 3 months overdue | 52 | 322 |
| | <u>219</u> | <u>866</u> |

Debts are normally due within one month from the date of billing, however, further credit may be granted to individual customers when appropriate.

9 Trade and other payables

Included in trade and other payables are trade payables with the following ageing analysis:

| | 30 June 2003 \$'000 | 31 December 2002 \$'000 |
|---------------------------------|---------------------------|-------------------------------|
| Due within 1 month or on demand | 4,601 | 1,778 |
| Due after 90 days | 10 | 10 |
| | <u>4,611</u> | <u>1,788</u> |

10 Convertible notes

On 8 May 2002, the Company issued convertible notes (the "CN I") amounting to \$133,000,000 with a maturity date of 8 May 2005 which bear interest at the rate of 3.5% per annum. The CN I confer rights to be converted into new ordinary shares of the Company at a conversion price of \$3.50 per share during the period from 8 May 2002 to 8 May 2003, \$3.70 per share during the period from 9 May 2003 to 8 May 2004 and \$3.90 per share during the period from 9 May 2004 to 8 May 2005 (subject to adjustment).

On 17 May 2002, 28 April 2003, 29 April 2003, 2 May 2003 and 7 May 2003, \$35 million, \$35 million, \$28 million, \$24 million and \$9 million CN I were converted into 10,000,000, 10,000,000, 8,000,000, 6,857,142 and 2,571,428 ordinary shares respectively.

On 11 June 2002, the Company issued further convertible notes (the "CN II") of \$117,000,000 with a maturity date of 11 June 2005 which bear interest at the rate of 3.5% per annum. The CN II confer rights to be converted into new ordinary shares of the Company at a conversion price of \$3.50 per share during the period from 11 June 2002 to 11 June 2003, \$3.70 per share during the period from 12 June 2003 to 11 June 2004 and \$3.90 per share during the period from 12 June 2004 to 11 June 2005 (subject to adjustment).

On 28 April 2003, 29 April 2003, 2 May 2003 and 7 May 2003, \$13.3 million, \$10.7 million, \$9.1 million and \$3.4 million CN II were converted into 3,800,000, 3,057,142, 2,604,857 and 978,840 ordinary shares respectively.

11 Share option

On 9 May 2003, the Company entered into a share option agreement with Honway Holdings Limited ("Honway") in relation to the subscription by Honway, a substantial shareholder of the Company, for a maximum of 60,000,000 new shares. In consideration for Honway paying to the Company the sum of \$50 million (\$5 million being the amount for purchasing the option and \$25 million being a non-refundable deposit payable in advance for exercise of the option and \$20 million being a 3-year interest-free term loan advanced by Honway to the Company), the Company has agreed to grant the option to Honway to subscribe for new shares in the Company. The option is exercisable from 24 June 2003 for a period of three years, at an option price of \$3.4 per share in the first year, \$3.7 per share in the second year and \$4.0 per share in the third year, subject to adjustment.

The amount received for purchasing the option of \$5 million and the \$25 million non-refundable deposit have been credited to share option reserve account, further details of which are disclosed in note 14.

12 Deferred taxation

The components of deferred tax assets and liabilities recognised in the consolidated balance sheet and the movements during the year relate to the reversal of depreciation allowances in excess of the related depreciation.

13 Share capital

| | No. of shares '000 | Amount \$'000 |
|--|-----------------------|------------------|
| <i>Issued and fully paid:</i> | | |
| At 1 January 2003 | 207,954 | 207,954 |
| Shares issued in lieu of dividends | 2,590 | 2,590 |
| Shares issued on conversion of convertible notes | 37,869 | 37,869 |
| | <u>248,413</u> | <u>248,413</u> |
| At 30 June 2003 | <u>248,413</u> | <u>248,413</u> |

On 13 January 2003 and 30 May 2003, 1,240,501 shares and 1,349,308 shares were issued as fully paid new shares in lieu of the third interim cash dividend and the final cash dividend for the year ended 31 December 2002, at a value of \$3.285 and \$3.13 per share respectively. Amounts totalling \$5.7 million were credited to the share premium account.

On 28 April 2003, 29 April 2003, 2 May 2003 and 7 May 2003, \$48.3 million, \$38.7 million, \$33.1 million and \$12.4 million convertible notes were converted by the holders into 13,800,000, 11,057,142, 9,461,999 and 3,550,268 ordinary shares respectively. An amount of \$94.7 million was credited to the share premium account upon the conversion of the notes and issue of the new shares.

Pursuant to a share option scheme established by the Company on 8 May 2001, options to purchase ordinary shares in the Company have been granted to eligible employees exercisable at a price of \$2.492 per share. The options are exercisable during the period from 30 August 2001 to 7 May 2011. As at 30 June 2003, no options were exercised and there were outstanding options in respect of a total of 19,200,000 ordinary shares of the Company.

14 Reserves

| | Share premium \$'000 | Capital reserve \$'000 | Investment revaluation reserve \$'000 | Share option reserve \$'000 | Revenue reserve \$'000 | Total \$'000 |
|--|----------------------------|------------------------------|--|--------------------------------------|------------------------------|------------------|
| At 1 January 2003 | 785,935 | 1,984 | (56,701) | — | 382,235 | 1,113,453 |
| Shares issued in lieu of dividends declared in the previous financial year | 2,834 | — | — | — | — | 2,834 |
| Dividends approved in respect of the previous financial year (note 5(b)) | 2,874 | — | — | — | (10,460) | (7,586) |
| Net profit for the interim period | — | — | — | — | 42,160 | 42,160 |
| Dividends declared in respect of the current interim period (note 5(a)) | — | — | — | — | (12,421) | (12,421) |
| Conversion of convertible notes | 94,674 | — | — | — | — | 94,674 |
| Revaluation surplus | — | — | 839 | — | — | 839 |
| Granting of share options | — | — | — | 30,000 | — | 30,000 |
| At 30 June 2003 | 886,317 | 1,984 | (55,862) | 30,000 | 401,514 | 1,263,953 |

The application of the share premium account is governed by Section 48B of the Hong Kong Companies Ordinance. The capital reserve and investment revaluation reserve have been set up and will be dealt with in accordance with the accounting policies adopted for goodwill arising on subsidiaries, associates and jointly controlled entities and the revaluation of investments in securities. The share option reserve which represents amounts received in advance of the exercise of share options will be utilised and transferred to the share capital account and the share premium account once the options are exercised. Should the options not be exercised such amount will be transferred to capital contribution reserves upon expiry of the options. Such reserves will be distributable upon discretion of the Directors.

15 Capital commitments

The Group had capital commitments outstanding and not provided for at 30 June 2003 as follows:

| | 30 June 2003 \$'000 | 31 December 2002 \$'000 |
|-----------------------------------|---------------------------|-------------------------------|
| Authorised and contracted for | <u>899</u> | <u>10,608</u> |
| Authorised but not contracted for | <u>1,100</u> | <u>—</u> |

16 Material related party transactions

During the period, the Group was involved in the following material related party transactions, none of which is regarded as a "connected transaction" as defined under the Listing Rules except for (d).

- (a) The Group extended a loan to and received interest from an associate, Western Harbour Tunnel Company Limited ("WHTCL"). The balance of the loan and interest receivable at 30 June 2003 was \$1,114.8 million (31 December 2002: \$1,109.3 million).

The Group received interest income and management fee income from WHTCL of \$5.5 million (2002: \$4.8 million) and \$1.3 million (2002: \$1.3 million) respectively.

- (b) The Group received consultancy fees from a jointly controlled entity of \$1.8 million (2002: \$1.8 million).
- (c) The interest expense payable in respect of the convertible notes issued to Honway, a substantial shareholder of the Company for the six months ended 30 June 2003 was \$1.8 million (2002: \$0.2 million).
- (d) On 9 May 2003, the Company entered into a share option agreement with Honway in relation to the subscription by Honway for a maximum of 60,000,000 new shares, further details of which are disclosed in note 11.

17 Contingent liabilities

At 30 June 2003, the Group had the following contingent liabilities:

(a) *In respect of Western Harbour Tunnel Company Limited ("WHTCL")*

A joint and several guarantee given by the Company and the other shareholders of WHTCL, namely, High Fortune Group Limited, as well as by the ultimate shareholders of High Fortune Group Limited, namely, China Merchants Holdings (International) Company Limited and Adwood Company Limited, as well as by the ultimate shareholders of Adwood Company Limited, namely, CITIC Pacific Limited and Kerry Properties Limited to the Government of the HKSAR to advance to WHTCL by way of share capital injection and/or subordinated debt an amount equal to any excess of the total costs over the budgeted cost of \$7,534 million, incurred by WHTCL in connection with the construction, financing, administration and maintenance of the Western Harbour Crossing (the "Crossing") up to the date the Crossing opened for use by the public (the "operating date") and with the replacement or repair of any of the works after the operating date but prior to the issuance of the maintenance certificate in relation to the Crossing. The maintenance certificate had not yet been issued at 30 June 2003.

(b) *In respect of Hong Kong Tunnels and Highways Management Company Limited ("HKTHMCL")*

The Group has given a guarantee to the extent of \$18.9 million (31 December 2002: \$30.0 million) to a bank in return for it providing a guarantee in favour of the Government of the HKSAR on behalf of HKTHMCL to secure the performance of an agreement in relation to the operation and management of the Cross-Harbour Tunnel and the operation and maintenance of the tunnel equipment by HKTHMCL.

(c) *In respect of The Hong Kong School of Motoring Limited ("HKSM")*

There is arrangement between HKSM and its banker for the provision of guarantees by the bank in favour of third parties. Under this arrangement, HKSM has a charge over a time deposit with that bank amounting to not less than \$1.7 million (31 December 2002: \$4.1 million).

(d) *In respect of the Company*

The Company has given two letters of undertaking in relation to the bank facilities of the Group to two banks for general facilities totalling \$150 million (31 December 2002: \$200 million) granted to the Company. The banking facilities granted are also secured by a negative pledge of certain listed investments held by the Group. At 30 June 2003, these facilities were not utilised by the Company.

18 Post balance sheet event

On 5 September 2003, the Directors declared a second interim dividend. Further details are set out in note 5(a) "Dividends".

INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF THE CROSS-HARBOUR (HOLDINGS) LIMITED

(Incorporated in Hong Kong with limited liability)

We have been instructed by the Company to review the interim financial report set out on pages 11 to 27.

Respective responsibilities of directors and auditors

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 Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent 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.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and, therefore, provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review, which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2003.

KPMG

Certified Public Accountants

Hong Kong, 5 September 2003