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*Board of Directors*

Dr. Fu Yuning (*Chairman*)  
 Mr. Zhao Huxiang (*Vice-Chairman*)  
 Mr. Li Yinquan  
 Mr. Hu Zheng  
 (appointed on 29 June 2004)  
 Mr. Meng Xi  
 Mr. Li Yi (*Managing Director*)  
 Mr. To Wing Sing  
 Mr. Yu Liming  
 Mr. Tsang Kam Lan\*  
 Mr. Kut Ying Hay\*  
 Mr. Koo Kou Hwa\*  
 Mr. Lee Yip Wah Peter\*  
 Mr. Zhou Qifang  
 (resigned on 29 June 2004)

\* *independent non-executive director*

*Registered Office*

38th Floor East, China Merchants Tower  
 Shun Tak Centre  
 168-200 Connaught Road Central  
 Hong Kong

*Company Secretary*

Mr. Leung Chong Shun, Practising Solicitor

*Principal Bankers*

China Merchants Bank  
 Bank of China (Hong Kong) Limited  
 Hang Seng Bank Limited  
 The Hongkong and Shanghai Banking  
 Corporation Limited  
 Industrial and Commercial Bank of  
 China (Asia) Limited  
 BNP Paribas Hong Kong Branch  
 ING Bank N.V.

*Auditors*

PricewaterhouseCoopers

*Legal Adviser*

Linklaters

*Stock Code*

0144

*Registrars*

Computershare Hong Kong Investor  
 Services Limited  
 17th Floor, Hopewell Centre  
 183 Queen's Road East  
 Hong Kong

*Website*

<http://www.cmhico.com>



## OPERATIONS REVIEW

The Group is engaged in transportation infrastructure industry with ports business as its core. Its current operations include ports and port-related businesses, toll road business and oil tanker business. The Group adopts a “customer-orientation” service principle and endeavours to become the “Leading Port Operator in China”. Through an orderly establishment of a strategic network of hub ports, as well as the coordination and combination of resources, the Group further consolidated its leading position in the market for its core ports business. In the first half of the year, a remarkable growth was recorded for the Group’s ports and related business. Other segments also achieved satisfactory performance.

For the six months ended 30 June 2004 (the “Period”), consolidated profit attributable to shareholders amounted to HK\$832,000,000, an increase of 33.8% over the same period last year, of which, profit from ports and related businesses amounted to HK\$678,000,000, an increase of over 46.1% of the same period last year. The profit from ports and related businesses accounted for 81.5% of the Group’s total profit, an increase of 6.9% from that of 74.6% of last year, which reflected that the core port business became our major source of profit. Profit from toll road operation amounted to HK\$83,000,000, up 25.9% over the same period last year. Profit from the oil tanker

business amounted to HK\$83,000,000, a decrease of 9.2% over the same period last year.

For the first half of the year, the Group’s turnover was HK\$1,124,000,000 an increase of 13.2% over the same period last year, of which the ports and related business accounted for HK\$897,000,000, an increase of 20.1% over the same period last year. For the first half of the year, the Group’s share of turnover of its subsidiaries, associates and jointly controlled entities amounted to HK\$4,789,000,000, representing a growth of 33.0% over the same period last year, of which the turnover from ports and related businesses of its subsidiaries, associates and jointly controlled entities accounted for HK\$4,429,000,000, an increase of 36.8% over the same period last year.

## PORTS AND RELATED BUSINESS

Consolidated profit after tax and minority interests of the Group’s ports and related businesses was HK\$678,000,000, which accounted for 81.5% of the total profit of the Group, representing a growth of 46.1% over the same period last year. Turnover of this segment was HK\$897,000,000, and the turnover attributable to the Group from its associates and jointly controlled entities was HK\$4,429,000,000, representing a growth of 20.1% and 36.8% over the same period last year.

## Ports business

For the first half of the year, out of the Group’s consolidated profit, HK\$440,000,000 was achieved from the Group’s ports business, an increase of 40.0% over the same period last year, accounting for 64.9% of total profit from ports and related business. For the first half of the year, the turnover from the Group’s ports operations was HK\$359,000,000, together with the sharing of turnover of associates and jointly controlled entities, the turnover was HK\$1,433,000,000, an increase of 39.8% and 36.8% over the same period last year, respectively.



### Container throughput in Western Shenzhen as invested in and managed by the Group for the first half of 2004

	For the first half of 2004 (‘000 TEU)	For the first half of 2003 (‘000 TEU)	Growth rate	Market share in Shenzhen Port for the first half of the year	2003 Market share in Shenzhen Port
Shekou Container Terminals (Phrase I and II)	1,002	634	58.1%	16.6%	14.3%
Chiwan Container Terminals	1,144	720	58.9%	18.9%	15.3%
CMPS	461	389	18.6%	7.6%	8.2%
Chiwan Wharf	392	217	80.4%	6.5%	5.6%
Haixing Harbour	142	132	7.3%	2.3%	2.8%
Subtotal for the Group’s terminals in Western Shenzhen port area	3,141	2,092	50.1%	51.9%	46.3%
<b>Total for Shenzhen Port</b>	<b>6,048</b>	<b>4,580</b>	<b>32.0%</b>	<b>100.0%</b>	<b>100.0%</b>

For the first half of the year, the total container throughput of the ports in which the Group had invested amounted to 5,770,000 TEU, an increase of 29% compared with the same period last year, of which the ports in Mainland China recorded a throughput of 3,186,000 TEU, representing a growth of 51.3% over the same period last year. This exceeded the growth rate of total TEU throughput of Mainland China and other regions and accounted for 12% of the throughput from all ports in Mainland China. The Group’s market share in each location has also increased at different rates. For the first half of the year, container throughputs of the terminals in western Shenzhen invested and managed by the Group were 3,141,000 TEU, and maintained a rapid growth. The growth rate over the same period last year was 50.1%, 18% higher than the average growth rate of 32% in Shenzhen Port for the first half of the year. The market share in Shenzhen Port increased from 46.3% in 2003 to 51.9% for the first half of the year. Compared to ports business in Mainland China, the growth rate of ports business in Hong Kong has slowed down.

For the first half of the year, the increase in throughput of Kwai Chung container terminals was less than that of River Trade Terminal and the Midstream market. For the first half of the year, the container throughput of ports business in Hong Kong invested by the Group grew by 9.2% to 2,585,000 TEU, compared with the same period last year. The rate of increase of throughputs from China Merchants Container Services Limited, the wholly-owned subsidiary of the Group, was 43.2%, which was higher than the growth rate of the Hong Kong overall market and the midstream market during the same period.

For the first half of the year, the bulk cargo throughput in the terminals in Mainland China invested by the Group experienced different rates of increase. The ports in Shenzhen and Zhangzhou processed a throughput of 17,400,000 tones, an increase of 19% compared with the same period last year. The bulk cargo throughput of the terminals in western Shenzhen, invested and managed by the Group, was 15.96 million tones, an increase of 17% compared with the throughput of the same period last year and continuing to account for over 95% of bulk cargo throughput of the ports.



For the first half of the year, the operation of air freight terminal, invested by the Group in Hong Kong, achieved promising results exceeding general market performance. This air freight terminal operation processed 249,000 tones of cargo, up by 21.1% compared with the same period last year and exceeding the overall market growth rate of 17.3% for the processing of cargoes in Hong Kong air cargo terminals.

### **Container manufacturing and related businesses**

The ports related businesses of the Group include container and paint manufacturing. Substantial improvement was achieved for overall operational performance for the first half of the year. Consolidated profit after tax and minority interests was HK\$238,000,000, an increase of 59.2% over the same period last year. Turnover of the container manufacturing and related businesses was HK\$538,000,000, which represents the turnover of the Group's subsidiary, Hempel-Hai Hong (China) Limited ("Hempel-Hai Hong"), which together with the sharing of turnover of the Group's associates and jointly controlled entities amounted to HK\$3,000,000,000, representing an increase of 9.7% and 36.8% respectively over the same period last year.

### **Sales of dry cargo containers and reefers by CIMC for the first half of 2004**

	For the first		Growth rate
	half of 2004 (Ten thousand TEU)	half of 2003 (Ten thousand TEU)	
Dry cargo containers	66.6	52.1	27.7%
Reefer	3.6	2.7	32.7%
Special cargo containers	2.3	1.4	62.0%
<b>Total</b>	<b>72.5</b>	<b>56.3</b>	<b>28.8%</b>

The Group is the largest shareholder of China International Marine Containers (Group) Ltd ("CIMC"), which is the largest container manufacturer in the world. CIMC continues to retain the largest global market share in dry cargo containers and reefers, accounting for over 50% of dry cargo containers globally. It also continues to rank number one globally in the dry cargo containers sector for eight consecutive years. For the first half of the year, CIMC sold a total 720,000 TEU of various cargo containers, representing a growth rate of 28.8% over the same period last year. For the first half the year, CIMC generated turnover and profit of HK\$10,533,000,000 and HK\$876,000,000, representing an increase of 170% and 77% respectively over the same period last year.



In respect of paint manufacturing business, the Group is the controlling shareholder of Hempel-Hai Hong, which is the largest manufacturer of container paints and marine paints in Mainland China. For the first half of the year, Hempel-Hai Hong sold a total of 32.81 million litres of different kinds of paints, an increase of 5.6% compared with the same period last year.

### TOLL ROAD BUSINESS

The Group has interests in five toll roads in Mainland China and in Hong Kong Western Harbour Tunnel. Consolidated profit after tax and minority interests of toll road business for the first half of the year was HK\$83,000,000, representing an increase of 25.9% compared with the same period last year.

Development trend for our toll road business remained stable, recording steady growth. During the Period, total natural traffic flow of the Group's toll road business in Mainland China and Hong Kong was 21,240,000 vehicles, an increase of 9% compared with the same period last year, of which the traffic flow of the five toll roads in Mainland China was 14,090,000 vehicles in aggregate, an increase of 7% compared with the same period last year. The natural traffic flow of Hong Kong Western

Harbour Tunnel for the first half of the year was 7,140,000 vehicles, which compared with the relatively low traffic flow recorded for the same period last year due to the outbreak of SARS, accounts for considerable growth at a rate higher than the increase in traffic flow for the five toll roads in Mainland China in aggregate.

### OIL TANKER BUSINESS

The Group now operates seven Aframax oil tankers with a total tonnage of 660,000 tons. Consolidated profit after tax of oil tanker business for the first half of the year was HK\$83,000,000, a decrease of 9.2% over the same period last year. There was a drop in the earnings of the oil tanker business, which was attributable to the decrease in operating days for oil tankers as a result of scheduled dry docking for three of the Group's oil tankers. Operating income was reduced due to a fall in the utilization rate, which affected the profit contribution of the oil tanker business. As further discussed on pages 8 and 34 below, the Group has on 25 August 2004 entered into an agreement to dispose of the oil tanker assets and their related interests to China Merchants Group Limited, the parent of the Group.

### OUTLOOK AND PROSPECTS

The Group performed satisfactorily as a whole during the first half of this year. Growth was continuously recorded from the terminal operation business with ports business as its core. Auxiliary service business related to the core business segments also developed rapidly. Composition of business segments was optimized. Contribution of earnings from our core principal operations was significantly enhanced. It is expected that with the gradual implementation of the Group's strategy and the strengthening in capabilities with respect to management and control, the scale and operating competitiveness of the Group's core port business will be further enhanced.

During the first half of this year, gross national product, and total imports and exports of Mainland China were RMB5,877.3 billion and US\$523 billion, which respectively increased by 9.7% and 39.0% as compared with the same period last year. The economy performed well as a whole. The macro-economic control measures allowed the steady and rapid growth in the economy of Mainland China, which in turn created a favourable factor for the continuous and steady growth of the





economy for the second half of the year. It will also promote the economic development of Hong Kong under the backdrop of closer economic integration between Mainland China and Hong Kong, and will provide a favourable external environment for the Group's economic activities in Mainland China and Hong Kong. Rapid growth in imports and exports resulted from the rapid development of the economy as a whole. Following the further integration of Mainland China with the international market, new impetus will be created to fuel the growth of trading business. There is no doubt that growth in imports and exports will promote the development of logistics and its auxiliary services industries which the Group believes would provide more opportunities for developments as well as broaden the scope of such development for our ports business and container manufacturing and related business.

A strategic network of hub ports for the Group's ports business in Mainland China has been fundamentally established. Investment in infrastructure at the Pearl River Delta, Yangtze River Delta, Xiamen Bay Economic Zone and Bohai Bay Economic Zone are in full force. It is expected that, by the end of this year, about 11 berths will be added to the Group's portfolio, compared to the end of 2003, as a result of its investment in terminals throughout the PRC. It is also expected that operation will commence in phases from the second half of 2004 and early 2005. With the commencement of operation for these new berths, the Group's capabilities in its ports business will be enhanced generally. They will play a role in improving the synergy of the Group's ports development strategies on a regional basis, thus gradually consolidating and expanding the Group's existing ports business network.

Apart from the ports business with a focus in the operation of terminals, the Group has also proactively cultivated and developed auxiliary value-added service business related to its ports business. The Group always emphasizes and stresses the importance of value-added business such as terminal auxiliary service to the development of its ports business. With a "customer-orientation" service principle in its mission of services, and a "people-orientation" principle in its mission of operation, efforts are devoted to develop an interactive platform that can offer efficient services and convenient network environment to its customers. Followed by the operation of South China Shuttle and the electronic data interchange platform, which is a fast track customs clearance, inspection and monitoring system that connects with customs, examination and quarantine. Port-Bond Zone collaboration between Shenzhen and Qingdao was embarked on by the Group with an aim to provide integrated one-stop services on ports and bonded zones to customers. Upon the orderly establishment and finalization of its strategic network, it is expected that the Group will achieve remarkable improvement as to the operating environment for the investment and management of its ports and terminals.





With respect to container manufacturing and related businesses, the Group expects that, being driven by the growth in ports and marine transportation in the world, in particular, Mainland China, there is still considerable room of growth for its container manufacturing business. The Group will continue to leverage on the advantages of CIMC in terms of competitiveness and market positioning, and enhance its capabilities in strategic research for the industry in the global market, so as to further consolidate its leading position and profitability in the global container manufacturing market.

With respect to the paint manufacturing business, it will capitalize on the development opportunities arising from both container and marine transportation industries, so as to sustain its existing leading position in the container paint and vessel paint market. More efforts will be devoted to the formation of strategic alliance within the Group so as to capitalize on the strength in operating as an integrated entity.

The toll road business will continue to benefit from the continuous and steady development of the economy in Mainland China. The Group expects that growth in such business will remain steady. Taking into account the features on the operation of the Group's existing toll road business, the Group is now proactively conducting research and exploring different aspects to the plan for the optimization of its asset composition in relation to the toll road business. It will continue to explore in depth means in capital operation, so as to maximize the value and earnings for the Group.

In order to further strengthen its development of core business segments and consolidate the investment and operation strategies with port infrastructure as core, it was resolved by the Group on 25 August 2004 to dispose of the oil tanker assets and their related interests to China Merchants Group Limited, the parent of the Group. The transfer of oil tanker assets constitutes a connected transaction and will be subject to approval by the shareholders in a general meeting. Details of the transaction has been disclosed by public announcement on 25 August 2004.

During the first half of this year, results were achieved through finalizing and enhancing the establishment and perfection of the management and control system with respect to strategies, operation, human resources, information technology and safety production. Construction of terminals and investment in auxiliary projects are in the pipeline. Preparatory work as to the pre-operation of the projects are proceeding as scheduled. It is expected that new berths will commence operation successively from the beginning of 2005. This is expected to bring new profit opportunities for the Group. Through adjustment of strategies on the composition of business segments for recent years, the Group's business segment composition became clearer, its core operation became more prominent, and its management system became more comprehensive. It is the firm belief of the Group that, faced with a rapidly developing external business environment, the Group is capable of securing more room for development as well as greater return to its shareholders at the same time, relying upon the Group's investment in network resources in both Mainland China and Hong Kong, its professional management and its team of dedicated and committed staff.



### LIQUIDITY AND TREASURY POLICIES

The amount of cash held by the Group as at 30 June 2004 amounted to HK\$433,000,000, 6% of which was denominated in Hong Kong dollars, 43% in US dollars and 51% in Renminbi.

The Group's source of funds is mainly derived from its 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 over HK\$1,000,000,000 for ports investments. Given sufficient cash on hand, the Group should have sufficient working capital to satisfy its daily operational needs and with a low debt level, the Group may borrow funds to satisfy any future additional investment projects whenever capital is needed.

### SHARE CAPITAL AND FINANCIAL RESOURCES

As at 30 June 2004, the Company had issued a total of 2,140,992,974 shares. During the Period, the Group issued 850,000 shares for the exercise of share options and received HK\$4,200,000 pursuant to such exercise.

As at 30 June 2004, the Group carried outstanding loans in the amount of HK\$156,000,000, all of which are short-term credit facility. The amount of bank loans was increased by HK\$120,000,000 from the end of 2003 mainly for the investment in new projects. The outstanding bank loans were all unsecured.

The bank loans' interest rates were floating.

As at 30 June 2004, the Group's gearing ratio (dividing interest-bearing liabilities by net assets) was 1.2%, representing a slight increase from 0.3% at the end of the previous year.

All bank loans were denominated in US dollars or HK dollars. As such, the Company did not employ any financial instrument to hedge the said loans and bonds for the Period.

The Group's assets are mainly denominated in HK dollars, US 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 2004, the Group did not have any charge on its assets.

### CONTINGENT LIABILITIES

As at 30 June 2004, the Group had given guarantees for bank loans and overdrafts of associates and an investee in the amount of HK\$31,000,000.

### EMPLOYEES AND REMUNERATION

As at 30 June 2004, the Group had 2,933 full-time employees, of which 345 were working in Hong Kong, 17 were working overseas and 2,571 were in Mainland China. Employee remuneration amounted to HK\$104,000,000 for the Period, representing 10.9% of the total operating expenses of the Group. The Group undertakes a review of salaries and the extent of salary increment annually, with close reference to the Group's results, 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 Group. 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 HK15.0 cents per share for the Period, representing an increase of 15% compared with the 2003 interim dividend of HK13.0 cents per share. The dividend rate is 38.6%. The interim dividend will be payable on 14 October 2004 to shareholders whose names appear on the Register of Members of the Company on 8 October 2004.

### CLOSURE OF REGISTER

The Register of Members will be closed from 4 October 2004 to 8 October 2004 (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 30 September 2004.



## DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2004, the interests of the directors of the Company in the securities of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), as recorded in the register required to be kept by the Company under Section 352 of the SFO were as follows:

Name of Director	Capacity	Nature of interest	Number of shares of the Company	Number of shares in the Company subject to share options granted*	Percentage of aggregate long position in shares to the issued share capital as at 30 June 2004
Dr. Fu Yuning	Beneficial owner	Personal interest	—	2,100,000	0.10%
Mr. Zhao Huxiang	Beneficial owner	Personal interest	—	1,400,000	0.07%
Mr. Li Yinquan	Beneficial owner	Personal interest	—	300,000	0.01%
Mr. Meng Xi	Beneficial owner	Personal interest	—	700,000	0.03%
Mr. Zhou Qifang	Beneficial owner	Personal interest	—	350,000	0.02%
Mr. Li Yi	Beneficial owner	Personal interest	—	900,000	0.04%
Mr. Yu Liming	Beneficial owner	Personal interest	—	450,000	0.02%
Mr. Lee Yip Wah Peter	Beneficial owner	Personal interest	100,000	—	0.005%
			<b>100,000</b>	<b>6,200,000</b>	<b>0.295%</b>

\* Included share options granted under the Terminated Scheme and Existing Scheme.

Save as disclosed above, as at 30 June 2004, none of the directors or chief executive of the Company or any of their associates had any interests and short positions in the shares, underlying shares and debenture of the Company or any of its associated corporations (within the meaning of the SFO) which are required, pursuant to section 352 of the SFO, to be entered in the register which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), to be notified to the Company and the Stock Exchange.

Apart from the share option schemes disclosed below, at no time during the Period was any of the Company, its subsidiaries, its fellow subsidiaries or its holding companies a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## Share option schemes

### (a) Terminated Scheme

Under the share option scheme of the Company adopted on 26 June 1992 (the "Terminated Scheme"), the Directors of the Company may, at their discretion, grant options to any director or employee of the Company or any of its subsidiaries to subscribe for shares in the Company at a price equal to the higher of the nominal value of the shares or not less than 80% of the average of the closing prices of the shares of the Company for the five trading days immediately preceding the date of offer of the options. The maximum number of shares in respect of which options may be granted may not exceed 10% of the issued share capital of the Company at the time of granting of the options. Under the terms of the Terminated Scheme, a director or employee may only exercise share

options granted after he or she has completed two years service with the Group.

The Terminated Scheme was terminated on 20 December 2001 ("Termination Date") without prejudice to the rights and benefits of and attached to those options granted thereunder which were outstanding as at that date. No further grants were made after the Termination Date. Following the termination, the provisions of the Terminated Scheme remained in force and effect to the extent necessary to give effect to the exercise of any option granted prior to the Termination Date.

The share options granted are not recognised in the financial statements until they are exercised. As at 30 June 2004, the total number of shares which might be issued pursuant to exercise of options granted under the Terminated Scheme was 6,500,000 shares, which represented approximately 0.3% of the total issued share capital of the company as at 30 June 2004.

Details of the share options outstanding at 30 June 2004 which have been granted under the Terminated Scheme are as follows:

Name	Date of grant	Exercise price HK\$	Options held at 1 January 2004	Options exercised during the Period <i>Note</i>	Options cancelled during the Period	Options held at 30 June 2004
<b>Director</b>						
Dr. Fu Yuning	1 March 2000	5.054	1,500,000	—	—	1,500,000
Mr. Zhao Huxiang	1 March 2000	5.054	1,100,000	—	—	1,100,000
Mr. Zhou Qifang	19 September 2000	5.615	350,000	—	—	350,000
			<b>2,950,000</b>	<b>—</b>	<b>—</b>	<b>2,950,000</b>
<b>Continuous contract employees</b>						
(I)	1 March 2000	5.054	2,050,000	50,000	—	2,000,000
(II)	19 September 2000	5.615	750,000	—	—	750,000
(III)	24 May 2001	5.630	100,000	—	—	100,000
(IV)	6 July 2001	5.610	700,000	—	—	700,000
			3,600,000	50,000	—	3,550,000
			<b>6,550,000</b>	<b>50,000</b>	<b>—</b>	<b>6,500,000</b>

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

*Note:*

The weighted average closing market price per share immediately before the dates of which the share options were exercised was HK\$11.80.

**(b) Existing Scheme**

Under the share option scheme (the “Existing Scheme”) approved by the shareholders of the Company at an Extraordinary General Meeting of the Company held on 20 December 2001 (“Adoption Date”), the Board may, at their discretion, invite any director or employee of the Company or any of its subsidiaries or associates (“Eligible Persons”), to take up options to subscribe for fully paid ordinary shares (“Shares”) in the Company subject to the terms and conditions stipulated therein.

In view of the on-going support given to the Company by China Merchants Holdings (Hong Kong) Company Limited, an intermediate holding company of the Company, together with its subsidiaries (excluding the Group) and associated companies (together, the “CMHK Group”), the Board considered that it is in the best interest of the Company to extend the Existing Scheme to directors and employees of members of the CMHK Group. A resolution was passed at the Extraordinary General Meeting held on 27 August 2002 to amend the Existing Scheme to effect such extension of Eligible Persons.

Details of the share options outstanding at 30 June 2004 which have been granted under the Existing Scheme are as follows:

Name	Date of grant	Exercise price HK\$	Options held at 1 January 2004	Options exercised during the Period	Options cancelled during the Period	Options held at 30 June 2004
<b>Director</b>						
Dr. Fu Yuning	11 October 2002	4.985	600,000	—	—	600,000
Mr. Zhao Huxiang	11 October 2002	4.985	300,000	—	—	300,000
Mr. Li Yinquan	11 October 2002	4.985	300,000	—	—	300,000
Mr. Meng Xi	11 October 2002	4.985	700,000	—	—	700,000
Mr. Li Yi	11 October 2002	4.985	900,000	—	—	900,000
Mr. Yu Liming	11 October 2002	4.985	450,000	—	—	450,000
			3,250,000	—	—	3,250,000
<b>Continuous contract employees</b>						
(I) The Group	11 October 2002	4.985	4,100,000	700,000	—	3,400,000
(II) CMHK Group	11 October 2002	4.985	2,300,000	100,000	—	2,200,000
			6,400,000	800,000	—	5,600,000
			<b>9,650,000</b>	<b>800,000</b>	<b>—</b>	<b>8,850,000</b>

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

*Note:*

The weighted average closing market price per share immediately before the date of which the share options were exercised was HK\$11.08.

### Substantial Shareholders

As at 30 June 2004, the following persons, other than a director or chief executive of the Company, have interest or short position in the shares and underlying shares of the Company as recorded in the register of the Company required to be kept by the Company under section 336 of the SFO:

#### Long Positions

Name of Substantial Shareholder	Capacity	Number of Shares held	Total interest	Total interest as percentage of issued shares
China Merchants Group Limited	Interest of Controlled Corporation	1,121,011,351	1,121,011,351 (Notes 1 & 2)	52.36%
China Merchants Steam Navigation Company Limited	Interest of Controlled Corporation	1,094,567,584	1,094,567,584 (Notes 1 & 2)	51.12%
China Merchants Holdings (Hong Kong) Company Limited	Interest of Controlled Corporation	1,094,567,584	1,094,567,584 (Notes 1 & 2)	51.12%
China Merchants Union (BVI) Limited	Beneficial Owner	310,520,410	310,520,410 (Notes 1 & 2)	14.50%
Cheer Far Development Limited	Beneficial Owner	510,513,584	510,513,584 (Notes 1 & 2)	23.84%





Name of Substantial Shareholder	Capacity	Number of Shares held	Total interest	Total interest as percentage of issued shares
Blue Sky International Investments Limited	Beneficial Owner	173,533,590	173,533,590 (Notes 1 & 2)	8.11%
J.P. Morgan Chase & Co.	Beneficial Owner	610,700	109,268,213 (Notes 3 & 4)	5.10%
	Investment Manager	50,923,000		
	Custodian corporation/ approved lending agent	57,734,513		

*Notes:*

- 1,121,011,351 shares held by China Merchants Group Limited represent the aggregate of 310,520,410 shares held by China Merchants Union (BVI) Limited, 510,513,584 shares held by Cheer Far Development Limited, 100,000,000 shares held by Bluewater International Investments Limited, 173,533,590 shares held by Blue Sky International Investments Limited and 26,443,767 shares held by Orienture Holdings Company Limited.
- China Merchants Group Limited is deemed to be interested in the shares held by its wholly owned subsidiaries Orienture Holdings Company Limited, Blue Sky International Investments Limited, Bluewater International Investments Limited, Cheer Far Development Limited, China Merchants Union (BVI) Limited, China Merchants Holdings (Hong Kong) Company Limited and China Merchants Steam Navigation Company.
- Among 109,268,213 shares held by J.P. Morgan Chase & Co., 57,734,513 shares are shares in the lending pool.

4. The following is a breakdown of the interests in shares held by J.P. Morgan Chase & Co.:

#### Long Positions

Name of Controlled Corporation	Name of Controlling Shareholder	Percentage of control	Direct/ Indirect Interest	Long Position Number of Shares held
JP Morgan Chase Bank	J.P. Morgan Chase & Co.	100	Direct	60,084,513
J.P. Morgan Fleming Asset Management Holdings Inc	J.P. Morgan Chase & Co.	100	Indirect	46,107,000
J.P. Morgan Fleming Asset Management (Asia) Inc.	J.P. Morgan Fleming Asset Management Holdings Inc	100	Indirect	45,629,000
JF Asset Management Limited	J.P. Morgan Fleming Asset Management (Asia) Inc.	99.99	Direct	45,055,000
JF International Management Inc.	J.P. Morgan Fleming Asset Management (Asia) Inc.	100	Direct	574,000
J.P. Morgan Fleming Asset Management (UK) Limited	Robert Fleming Asset Management Limited	100	Direct	478,000
Robert Fleming Asset Management Ltd.	Robert Fleming Holdings Ltd.	99.96	Indirect	478,000
Robert Fleming Holdings Ltd.	J.P. Morgan Fleming Asset Management Holdings Inc	96	Indirect	478,000
J.P. Morgan Whitefriars Inc.	J.P. Morgan Overseas Capital Corporation	100	Direct	610,700
J.P. Morgan Overseas Capital Corporation	J.P. Morgan International Finance Limited	100	Indirect	610,700
J.P. Morgan International Finance Limited	J.P. Morgan International Inc	100	Indirect	610,700
J.P. Morgan International Inc.	JP Morgan Chase Bank	100	Indirect	610,700
JP Morgan Chase Bank	J.P. Morgan Chase & Co.	100	Indirect	610,700
J.P. Morgan Investment Management Inc.	J.P. Morgan Chase & Co.	100	Direct	1,720,000
J.P. Morgan Investment Management Limited	J.P. Morgan Investment Management Inc.	100	Direct	746,000
J.P. Morgan Investment Management Inc.	J.P. Morgan Chase & Co.	100	Indirect	746,000

#### Short Positions

Nil

Save as disclosed above, the register required to be kept by the Company under section 336 of the SFO showed that the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company as at 30 June 2004.



### 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 Period, in compliance with Appendix 14 to the Rules Governing the Listing of Securities of Stock Exchange except that non-executive directors of the Company were not appointed for a specific term but are subject to retirement by rotation and re-election at the Company's 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 Period.

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

For the Period, 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, 6 September 2004

## Condensed Consolidated Income Statement

For the six months ended 30 June 2004

	Note	Unaudited Six months ended 30 June	
		2004 HK\$'000	2003 HK\$'000
<b>Turnover</b>			
Company and subsidiaries		1,123,663	992,916
Share of associates and jointly controlled entities		3,665,255	2,608,495
	2	4,788,918	3,601,411
<b>Companies and subsidiaries</b>			
Turnover			
Continuing operations		909,108	769,777
Discontinuing operation	3	214,555	223,139
	2	1,123,663	992,916
Cost of sales		(786,402)	(677,765)
Gross profit		337,261	315,151
Other revenues			
Continuing operations		19,414	35,497
Discontinuing operation	3	65	8,485
		19,479	43,982
Distribution costs		(86,146)	(75,535)
Administrative and other operating expenses		(81,198)	(78,600)
Operating profit			
Continuing operations		111,227	118,467
Discontinuing operation	3	78,169	86,531
	4	189,396	204,998
Finance costs	5	(2,530)	(11,960)
Share of profits less losses of			
Associates		616,398	476,772
Jointly controlled entities		165,764	57,923
Profit before taxation		969,028	727,733
Taxation			
Continuing operations		(101,622)	(74,519)
Discontinuing operation	3	—	—
	6	(101,622)	(74,519)
Profit after taxation		867,406	653,214
Minority interests		(35,785)	(31,872)
Profit attributable to shareholders		831,621	621,342
Dividend	7	321,021	272,716
Basic earnings per share	8	HK38.85 cents	HK30.09 cents
Fully diluted earnings per share	8	HK38.70 cents	HK29.99 cents

## Condensed Consolidated Balance Sheet

As at 30 June 2004

	Note	Unaudited 30 June 2004 HK\$'000	Audited 31 December 2003 HK\$'000
<b>ASSETS</b>			
Non-current assets			
Intangible assets	9	198,927	468,752
Property, plant and equipment	9	6,027,271	4,545,272
Interests in associates		3,761,306	3,539,919
Interests in jointly controlled entities		3,515,458	2,974,976
Investments in infrastructure joint ventures		75,002	77,665
Investments in securities		457,655	455,701
Other non-current assets		113,509	500,000
Deferred tax assets		16,401	16,401
		<b>14,165,529</b>	<b>12,578,686</b>
Current assets			
Inventories		190,291	151,113
Amounts due from intermediate holding company and fellow subsidiaries		69,209	48,922
Amounts due from associates		221,485	152,183
Debtors, deposits and prepayments	10	611,524	555,961
Other investments		60,274	85,977
Bank balances and cash		432,710	956,804
		<b>1,585,493</b>	<b>1,950,960</b>

## Condensed Consolidated Balance Sheet (Continued)

As at 30 June 2004

	Note	Unaudited 30 June 2004 HK\$'000	Audited 31 December 2003 HK\$'000
Current liabilities			
Creditors and accruals	11	516,029	487,728
Amounts due to intermediate holding company and fellow subsidiaries		182,300	22,264
Amounts due to associates		521	1,048
Taxation payable		14,668	11,131
Short-term bank loans	12	156,000	40,000
Dividend payable		620,641	—
		<u>1,490,159</u>	<u>562,171</u>
Net current assets		<u>95,334</u>	<u>1,388,789</u>
Total assets less current liabilities		<u>14,260,863</u>	<u>13,967,475</u>
Non-current liabilities			
Other loans		248,376	285,133
Deferred tax liabilities		135,909	7,622
		<u>384,285</u>	<u>292,755</u>
Minority interests		<u>839,319</u>	<u>866,366</u>
Net assets		<u>13,037,259</u>	<u>12,808,354</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	13	214,099	214,014
Reserves		12,502,139	11,973,699
Proposed dividends	7	321,021	620,641
Shareholders' funds		<u>13,037,259</u>	<u>12,808,354</u>

## Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2004

	Unaudited								
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve (goodwill) HK\$'000	Assets revaluation reserve HK\$'000	Capital redemption reserve HK\$'000	Translation reserve HK\$'000	Statutory reserves HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2004	214,014	8,475,300	(141,762)	422	70	6,286	192,082	4,061,942	12,808,354
Exchange differences from translation of Financial Statements of subsidiaries, associates and jointly controlled entities not recognised in the consolidated income statement	—	—	—	—	—	13,702	—	—	13,702
Profit for the period	—	—	—	—	—	—	—	831,621	831,621
Transfer to reserves	—	—	—	—	—	—	7,487	(7,487)	—
Dividend	—	—	—	—	—	—	—	(620,641)	(620,641)
Issue of shares	85	4,155	—	—	—	—	—	—	4,240
Share issue expenses	—	(17)	—	—	—	—	—	—	(17)
<b>At 30 June 2004</b>	<b>214,099</b>	<b>8,479,438</b>	<b>(141,762)</b>	<b>422</b>	<b>70</b>	<b>19,988</b>	<b>199,569</b>	<b>4,265,435</b>	<b>13,037,259</b>
At 1 January 2003	205,658	8,058,421	(197,635)	—	70	(4,477)	158,839	3,220,742	11,441,618
Exchange differences from translation of Financial Statements of subsidiaries, associates and jointly controlled entities not recognised in the consolidated income statement	—	—	—	—	—	2,465	—	—	2,465
Profit for the period	—	—	—	—	—	—	—	621,342	621,342
Transfer to reserves	—	—	—	—	—	—	5,900	(5,900)	—
Dividends	—	—	—	—	—	—	—	(308,488)	(308,488)
Issue of shares	4,123	205,569	—	—	—	—	—	—	209,692
Share issue expenses	—	(84)	—	—	—	—	—	—	(84)
<b>At 30 June 2003</b>	<b>209,781</b>	<b>8,263,906</b>	<b>(197,635)</b>	<b>—</b>	<b>70</b>	<b>(2,012)</b>	<b>164,739</b>	<b>3,527,696</b>	<b>11,966,545</b>



## Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2004

	Unaudited	
	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
Net cash inflow from operating activities		
Continuing operations	(12,492)	108,844
Discontinuing operation	126,578	133,927
	114,086	242,771
Net cash used in investing activities	(777,937)	146,856
Net cash used in financing activities	117,692	182,742
(Decrease)/increase in cash and cash equivalents	(546,159)	572,369
Cash and cash equivalents at 1 January	1,022,249	822,784
Effect of foreign exchange rate changes	(3,639)	2,461
Cash and cash equivalents at 30 June	472,451	1,397,614
Analysis of balances of cash and cash equivalents		
Bank balances and cash	432,710	1,397,614
Other investments	39,741	—
	472,451	1,397,614

## Notes to Condensed Interim Financial Statements

### 1. Basis of preparation and accounting policies

These unaudited consolidated condensed interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25, “Interim Financial Reporting” issued by the Hong Kong Society of Accountants.

These condensed interim accounts should be read in conjunction with the 2003 annual accounts of the Group.

The accounting policies used in the preparation of these condensed interim accounts are consistent with those adopted in the annual accounts for the year ended 31 December 2003.

## 2. Segment information

## Analysis of the Group's revenue and results by business segments for the six months ended 30 June 2004

	Six months ended 30 June															
	Ports and port-related operations						Non-ports operations									
	Ports operation		Container manufacturing and related operations		Subtotal		Toll road operation		Oil tanker operation (Note 3)		Other operations		Subtotal		Group	
2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	
<b>Income statement</b>																
<b>Turnover</b>																
Company and subsidiaries	358,690	256,510	538,222	490,808	896,912	747,318	—	10,263	214,555	223,139	12,196	12,196	226,751	245,598	1,123,663	992,916
Share of associates and jointly controlled entities	1,074,353	791,035	2,457,252	1,699,191	3,531,605	2,490,226	133,650	118,269	—	—	—	—	133,650	118,269	3,665,255	2,608,495
	<u>1,433,043</u>	<u>1,047,545</u>	<u>2,995,474</u>	<u>2,189,999</u>	<u>4,428,517</u>	<u>3,237,544</u>	<u>133,650</u>	<u>128,532</u>	<u>214,555</u>	<u>223,139</u>	<u>12,196</u>	<u>12,196</u>	<u>360,401</u>	<u>363,867</u>	<u>4,788,918</u>	<u>3,610,411</u>
<b>Company and subsidiaries</b>																
Turnover	358,690	256,510	538,222	490,808	896,912	747,318	—	10,263	214,555	223,139	12,196	12,196	226,751	245,598	1,123,663	992,916
Segment results	86,440	52,243	45,241	55,171	131,681	107,414	(651)	22,583	82,624	90,990	(5,981)	(444)	75,992	113,129	207,673	220,543
Unallocated income less expenses															(18,277)	(15,545)
Operating profit															189,396	204,998
Finance costs															(2,530)	(11,960)
Share of profits less losses of																
Associates	368,937	335,632	247,461	108,852	616,398	444,484	—	—	—	—	—	32,288	—	32,288	616,398	476,772
Jointly controlled entities	64,359	3,522	—	—	64,359	3,522	89,144	56,667	—	—	12,261	(2,266)	101,405	54,401	165,764	57,923
Profit before taxation															969,028	727,733
Taxation															(101,622)	(74,519)
Profit after taxation															867,406	653,214
Minority interests															(35,785)	(31,872)
Profit attributable to shareholders															831,621	621,342

## 2. Segment information (Continued)

The Group is organised into two main business segments:

- |                                       |     |  |
|---------------------------------------|-----|--|
| Ports and related operations include: | (a) | container terminal operation, bulk and general cargo terminal operation, port transportation and airport cargo handling operation by the Group and the Group's associates and jointly controlled entities; and |
|                                       | (b) | paint manufacturing by the Group and container manufacturing by the Group's associates and jointly controlled entities   |
| Non-ports operations include:         | (a) | toll road operation by the Group and the Group's jointly controlled entities; and  |
|                                       | (b) | oil tanker operation by the Group  |

Other operations of the Group mainly comprise the holding of properties and dealing in securities, neither of which are of a sufficient size to be reported separately.

The turnover named as company and subsidiaries refers to the Company and subsidiaries' respective turnover. The turnover named as share of associates and jointly controlled entities refers to the Group's share of associates and jointly controlled entities' respective turnover.

There are no material sales or other transactions between business segments.

The Group's two business operations are managed in its headquarters in Hong Kong and other offices in Mainland China. As the Group's oil tanker business covers the world's shipping routes, the Directors consider that it would not be meaningful to allocate turnover and operating profit of the oil tanker business to specific geographical segments. The Group's other businesses are mainly in Hong Kong and Mainland China as follows:

- |                |   |  |
|----------------|---|--|
| Hong Kong      | — | ports operation, container and paint manufacturing and related operations and property holding |
| Mainland China | — | ports operation, container manufacturing and related operations and toll road operation        |
| Others         | — | container manufacturing and related operations   |

There are no material sales or other transactions between the geographical segments for the six months ended 30 June 2004 (the "Period").

## 2. Segment information (Continued)

An analysis of the Group's turnover and contribution to operating profit for the Period by geographical segment is as follows:

	Six months ended 30 June			
	Turnover		Operating profit	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Operations other than oil tanker business:				
Hong Kong	162,637	150,965	(6,966)	3,777
Mainland China	680,861	579,038	108,219	106,067
Others	65,610	39,774	5,519	4,164
Oil tanker business, global scale (Note 3)	214,555	223,139	82,624	90,990
	<u>1,123,663</u>	<u>992,916</u>	<u>189,396</u>	<u>204,998</u>

## 3. Discontinuing operation

The core business of the Group includes port and related businesses. It has been the strategy of the Group to continue to strengthen and develop its port and related businesses through investment in new port projects, the acquisition of high quality port business and divestment of non-core businesses.

The Directors consider that the existing scale of the oil tanker business of the Group is relatively small and requires substantial investment to purchase more oil tankers for further expansion. In addition, the Group has not been involved in the day-to-day management and operations of its oil tankers business which are operated and managed by a fellow subsidiary. Hence, the Directors are of the view that the oil tanker business does not complement the core business of the Group, and therefore its disposal will benefit the Group by allowing the management and Directors to focus the resources of the Group on port and related businesses.

The board of Directors of the Group resolved to dispose its oil tanker business on 25 August 2004. The disposal subject to approval from the shareholders in general meeting. The financials of the oil tanker business are disclosed in the condensed interim accounts as a discontinuing operation.

**3. Discontinuing operation** (Continued)

The net assets of the oil tanker business is summarised as follows:

	<b>30 June 2004 HK\$'000</b>	31 December 2003 HK\$'000
Total assets	<b>1,160,472</b>	1,147,669
Total liabilities	<b>(47,682)</b>	(24,756)
Net assets	<b>1,112,790</b>	1,122,913

**4. Operating profit**

Operating profit is stated after crediting and charging the following:

	<b>Six months ended 30 June</b>	
	<b>2004 HK\$'000</b>	2003 HK\$'000
<b>Crediting</b>		
Net unrealised gains on listed and other investments	—	2,655
Amortisation of negative goodwill (included in administrative expenses)	<b>6,269</b>	6,269
Gain on disposal of property, plant and equipment	<b>604</b>	—
<b>Charging</b>		
Cost of inventories sold	<b>393,455</b>	342,458
Depreciation, impairment and amortisation on:		
Property, plant and equipment	<b>100,232</b>	82,164
Goodwill (included in administrative expenses)	<b>7,963</b>	7,690
Toll roads operating rights (included in cost of sales)	—	3,537
Loss on disposal of property, plant and equipment	—	11,439
Staff costs	<b>104,396</b>	85,400

**5. Finance costs**

Interest on:

Bank borrowings, wholly repayable within five years  
 Convertible bonds, wholly repayable within five years

**Six months ended 30 June**

2004 HK\$'000	2003 HK\$'000
2,530	3,264
—	8,696
<b>2,530</b>	<b>11,960</b>

**6. Taxation**

The amount of taxation charged to the consolidated income statement represents:

Hong Kong profits tax  
 PRC enterprise income tax  
 Deferred taxation

**Six months ended 30 June**

2004 HK\$'000	2003 HK\$'000
9,628	2,253
11,174	17,659
235	(16,592)
<b>21,037</b>	<b>3,320</b>
Share of taxation attributable to associates:	
36,966	34,682
37,657	22,146
—	6,863
<b>74,623</b>	<b>63,691</b>
Share of taxation attributable to jointly controlled entities:	
4,444	2,398
1,518	5,110
<b>5,962</b>	<b>7,508</b>
<b>101,622</b>	<b>74,519</b>



**6. Taxation (Continued)**

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the Period.

The Group's operations in Mainland China are subject to the Enterprise Income Tax of the People's Republic of China (the "PRC") under which the standard income tax rate is 33% on assessable profits. The Group's certain major operating subsidiaries, associates and jointly controlled entities are exempted from PRC Enterprise Income Tax in the first two to five profit making years and followed by a 50% reduction in the PRC Enterprise Income Tax for the three to five years thereafter.

No provision for taxation has been made in respect of the oil tanker business as the shipping companies of the Group have no assessable income under any relevant jurisdiction for the Period (2003: Nil).

**7. Interim Dividend**

Interim dividend of HK15.0 cents per ordinary share (2003: HK13.0 cents per ordinary share)

**Six months ended 30 June**

2004	2003
HK\$'000	HK\$'000
<b>321,021</b>	<b>272,716</b>

**8. Earnings per share**

The calculation of basic and diluted earnings per share are based on the following data:

Earnings for the purpose of basic earnings per share

Effect of dilutive potential ordinary shares:

Interest on convertible bonds

Earnings for the purpose of fully diluted earnings per share

**Six months ended 30 June**

2004	2003
HK\$'000	HK\$'000
<b>831,621</b>	<b>621,342</b>
—	8,696
<b>831,621</b>	<b>630,038</b>

**Six months ended 30 June**

2004	2003
Number of shares	

Weighted average number of ordinary shares for the purpose of basic earnings per share

Effect of dilutive potential ordinary shares:

Options

Convertible bonds

Weight average number of ordinary shares for the purpose of fully diluted earnings per share

<b>2,140,745,721</b>	<b>2,064,952,685</b>
<b>7,943,599</b>	<b>5,303,245</b>
—	30,393,355
<b>2,148,689,320</b>	<b>2,100,649,285</b>

**9. Capital expenditures**

	<b>Intangible assets</b>	<b>Property, plant and equipment</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000
Net book value as at 1 January 2004	468,752	4,545,272	5,014,024
Exchange adjustments	—	16,836	16,836
Additions	43,609	1,566,365	1,609,974
Disposals	—	(550)	(550)
Reclassification	(311,740)	(420)	(312,160)
Depreciation, amortisation and impairment	(1,694)	(100,232)	(101,926)
Net book value as at 30 June 2004	<u>198,927</u>	<u>6,027,271</u>	<u>6,226,198</u>

**10. Debtors, deposits and prepayments**

Included in debtors, deposits and prepayments are trade debtors and their ageing analysis is as follows:

	<b>0-30 days</b>	<b>31-60 days</b>	<b>61-120 days</b>	<b>Over 120 days</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 30 June 2004	<u>204,653</u>	<u>62,705</u>	<u>84,420</u>	<u>76,466</u>	<u>428,244</u>
Balance at 31 December 2003	<u>159,168</u>	<u>93,700</u>	<u>75,744</u>	<u>69,207</u>	<u>397,819</u>

The Group has a credit policy of allowing an average credit period of 60 days to its trade customers.

**11. Creditors and accruals**

Included in creditors and accruals are trade payables and their ageing analysis is as follows:

	<b>0-30 days</b>	<b>31-60 days</b>	<b>61-120 days</b>	<b>Over 120 days</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 30 June 2004	<u>242,167</u>	<u>11,380</u>	<u>17,761</u>	<u>11,885</u>	<u>283,193</u>
Balance at 31 December 2003	<u>90,021</u>	<u>105,222</u>	<u>18,134</u>	<u>7,230</u>	<u>220,607</u>

**12. Short-term bank loans**

	<b>30 June 2004 HK\$'000</b>	31 December 2003 HK\$'000
Bank loans, unsecured	<b>156,000</b>	40,000

**13. Share capital**

	<b>Authorised Ordinary shares of HK\$0.1 each</b>	
	<b>No. of shares</b>	<b>HK\$'000</b>
At 1 January and 30 June 2004	3,000,000,000	300,000
	<b>Issued and fully paid Ordinary shares of HK\$0.1 each</b>	
	<b>No. of shares</b>	<b>HK\$'000</b>
At 1 January 2004	2,140,142,974	214,014
Issue of shares on exercise of share options	850,000	85
At 30 June 2004	2,140,992,974	214,099

During the Period, the Company has issued shares as follows:

<b>Date of issue</b>	<b>No. of shares issued</b>	<b>Exercise price per share HK\$</b>	<b>Nominal value of shares issued HK\$'000</b>	<b>Premium on shares issued HK\$'000</b>	<b>Total consideration HK\$'000</b>
7 January 2004	100,000	4.985	10	488	498
16 January 2004	50,000	4.985	5	244	249
3 February 2004	100,000	4.985	10	488	498
13 February 2004	100,000	4.985	10	488	498
4 March 2004	300,000	4.985	30	1,467	1,497
19 March 2004	100,000	4.985	10	488	498
31 March 2004	50,000	4.985	5	244	249
13 April 2004	50,000	5.054	5	248	253
	<b>850,000</b>		<b>85</b>	<b>4,155</b>	<b>4,240</b>

**13. Share capital** (Continued)

During the Period, no ordinary shares were repurchased and cancelled.

The Terminated Scheme was approved and adopted at an Extraordinary General Meeting of the Company held on 26 June 1992 and was terminated at an Extraordinary General Meeting of the Company held on 20 December 2001. The Existing Scheme was approved and adopted by the shareholders at the meeting on 20 December 2001. During the Period, no options to subscribe for ordinary shares of the Company was granted under the Existing Scheme. As at 30 June 2004, there were 6,500,000 options and 8,850,000 options outstanding which are exercisable subject to the terms of the Terminated Scheme and the Existing Scheme respectively.

**14. Contingent liabilities**

	<b>30 June 2004 HK\$'000</b>	31 December 2003 HK\$'000
Guarantees for bank loans of associates	24,449	49,545
Guarantees for bank loans of an investee	6,630	6,630
	<u>31,079</u>	<u>56,175</u>

**15. Capital commitments**

(a) *Capital commitments for property, plant and equipment*

	<b>30 June 2004 HK\$'000</b>	31 December 2003 HK\$'000
Authorised but not contracted for	—	1,764,545
Contracted but not provided for	1,729,420	193,555
	<u>1,729,420</u>	<u>1,958,100</u>

**15. Capital commitments** (Continued)*(b) Capital commitments for investments*

	<b>30 June 2004 HK\$'000</b>	31 December 2003 HK\$'000
Contracted but not provided for		
– Jointly controlled entities	<b>100,115</b>	128,982
– Port projects	<b>267,532</b>	545,023
	<b>367,647</b>	674,005

**16. Related party transactions**

Significant related party transactions which were carried out in the normal course of the Group's business are as follows:

	<b>Six months ended 30 June</b>	
	<b>2004 HK\$'000</b>	2003 HK\$'000
<b>Holding companies and fellow subsidiaries</b>		
Rental received	<b>12,196</b>	12,196
Rental paid	<b>15,673</b>	15,673
Transportation services fee paid	<b>723</b>	591
Warehouse services fee paid	<b>530</b>	1,710
Cargo handling fee received	<b>771</b>	3,369
Management fees paid	<b>5,951</b>	6,061
<b>Associates and other related parties</b>		
Sales of paints	<b>187,866</b>	164,095
Rental received	<b>214</b>	214
Rental paid	<b>5,005</b>	5,005
Deposits by the Group	<b>73,258</b>	157,284
Interest on deposits	<b>2,106</b>	3,505
Management fees received	<b>–</b>	468
<b>Other connected parties</b>		
Royalties paid	<b>17,338</b>	16,347
Sales of paints	<b>65,609</b>	39,774
Interest paid	<b>166</b>	229

**16. Related party transactions** (Continued)

The above transactions were entered into on the following bases:

- (i) Transportation services fee, warehouse services fee, cargo handling fee, royalties and sales were charged at negotiated prices by reference to market rates.
- (ii) Management fee was charged at cost plus a percentage mark-up and by reference to turnover.
- (iii) Rentals charged by the Group were in accordance with the tenancy agreements.
- (iv) Rentals charged to the Group were in accordance with the tenancy agreements.
- (v) Interest paid and received was based on prevailing market rates.

**17. Subsequent events**

On 25 August 2004, the Group entered into a sale and purchase agreement with China Merchants Group Limited, its ultimate holding company, to dispose an equity interest of 100% in Ming Wah Universal (Bermuda) Company Limited, a wholly owned subsidiary engaged in the oil tanker business, for an aggregate consideration of HK\$1,310,000,000. The consolidated net asset value of the subsidiary attributable to the Group as at 30 June 2004 was approximately HK\$1,112,790,000.

On 29 June 2004, a subsidiary of the Group has entered into a financing facility agreement with seven financial institutions pursuant to which the subsidiary has been granted a syndicated loan facility in an aggregate amount of up to HK\$1,200,000,000.