

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 2004. 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 2004 amounted to HK\$56.6 million, a 34.2% increase compared with HK\$42.2 million for the first half of 2003. Basic earnings per share were HK\$0.23.

DIVIDENDS

A first quarterly interim dividend of HK\$0.05 per share absorbing a total amount of HK\$12.9 million was paid on 21 July 2004. Your directors have today declared a second quarterly interim dividend of HK\$0.05 per share payable on 27 October 2004 to shareholders registered on 7 October 2004. The share register will be closed from 6 October to 7 October 2004.

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 11 October 2004. 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

In contrast to the same period last year when the outbreak of Severe Acute Respiratory Syndrome ("SARS") was at its climax, the performance of the economy in the first half of 2004 was much more encouraging. With reducing deflationary pressure and improving employment situation, both consumer confidence and business sentiments have revived, as reflected in the robust recovery in retail sales, rising property prices and increased stock market turnover. We believe that the economic outlook for the rest of this year remains positive under improved market sentiment, though uncertainty about the impacts of rising interest rates and oil prices continues to damp the scene.

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 as at 30 June 2004 was slightly over 200,000. The overall usage of auto-toll facilities in all eleven toll roads and tunnels was about 50%, with the highest usage at the Western Harbour Tunnel at over 62%. The daily transactions handled by Autotoll were close to 326,000 with toll amount of approximately HK\$5.5 million. In order to broaden its scope of services and sources of income, Autotoll launched a pilot of a Global Positioning System ("GPS") in July, aimed at providing fleet management service to corporate customers.

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

Despite a decline in income from motorcycle training courses, HKSM recorded a slight increase of 4% in the number of driving lessons demanded for the period under review as compared with the previous corresponding period. It is also pleasing that the new driving courses relating to the Mainland China reciprocal driving licences scheme were well received since its launching in May 2004. However, in order to sustain a long-term growth for the future, HKSM will continue to strive for higher productivity through various quality enhancement programs.

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

As a result of the territory's economic upswing and improvement in total cross harbour traffic, the traffic volume and market share of the Western Harbour Tunnel have rebounded to the level before the SARS outbreak. Its daily throughput during the first half year under review was about 39,300 vehicle journeys, representing an increase of 12% as compared with the corresponding period in 2003.

As a measure to increase revenue, WHTCL has implemented its third toll increase with effect from 4 July 2004. Toll charges for private cars and light buses have risen by HK\$3 to HK\$40 and HK\$50 respectively, while toll charge for motorcycles has risen by HK\$2 to HK\$22. Toll increases for goods vehicles of different categories are HK\$5 and HK\$10. Single and double decked buses are charged HK\$70 (increased by HK\$10) and HK\$100 (increased by HK\$15) respectively. Tolls on taxis and additional axles, however, remain unchanged. Although WHTCL has increased toll charges twice for certain vehicle categories in two consecutive years, most of the vehicle categories are still charged substantially lower than the gazetted toll level.

Hong Kong Tunnels & Highways Management Company Limited ("HKTHMCL") — 37% owned

HKTHMCL has managed the busiest Cross-Harbour Tunnel at Hunghom under a Management, Operation and Maintenance ("MOM") Contract with the Government for a two-year period expired on 31 August 2004. The extension of the contract for a further 24 months to 31 August 2006 has been confirmed.

COMMENTARY ON INTERIM RESULTS

(I) Review of 2004 Interim Results

The Group's unaudited profit attributable to shareholders for the six months ended 30 June 2004 amounted to HK\$56.6 million, an increase of 34.2% compared with HK\$42.2 million for the last corresponding period. Earnings per share were HK\$0.23, an increase of 21.1% compared with HK\$0.19 for the last corresponding period. The improvement in 2004 interim results was mainly attributable to the increase in profit contribution from both motoring school operations and tunnel operations, which were adversely affected by the SARS crisis last year.

The Group's turnover for the period under review was HK\$123.6 million, an increase of HK\$4.0 million or 3.3% as compared to the HK\$119.7 million recorded in the same period last year.

HKSM recorded an increase in turnover of 4.0% to HK\$113.9 million as a result of an increase in tuition fees income due to higher demand for driving lessons and increase in the lesson income unit rate as compared with the last corresponding period, though this was partly offset by a reduction in income from motorcycle lessons. Moreover, the gross profit margin and operating profit are further improved as a result of the continuing efforts in controlling cost.

The share of profits of associated companies, primarily contributed by the operations of the Western Harbour Tunnel, has increased by 75.1% to HK\$40.7 million from HK\$23.2 million recorded in the last corresponding period. Improvement in the performance of WHTCL was the aggregate result of an increase in toll revenue and a substantial reduction in interest expenses due to prevailing lower interest rates.

HKTHMCL, 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 a jointly controlled entity, Autotoll Limited, which operates an electronic toll collection system, was HK\$10.5 million for the first half year under review against the HK\$9.6 million recorded in the last corresponding period, representing an increase of 9.8% as a result of moderate growth in the number of subscribers.

The Group's financial costs for the period under review, amounting to HK\$1.6 million, were primarily due to the issues of convertible notes in 2002 at an interest rate of 3.5% per annum.

The Group's share of taxation of associates was primarily due to the utilisation of deferred tax assets by WHTCL. With effect from 1 January 2003, in order to comply with Statement of Standard Accounting Practice 12 (revised) "Income taxes", WHTCL has recognised deferred tax assets in respect of the future benefit of tax losses, as the management of WHTCL considers it is probable that future taxable profits will be available against which the assets can be utilised. As a result, WHTCL recorded a taxation charge for the period under review.

(II) Investments

As at 30 June 2004, the Group maintained a portfolio of investments, primarily in blue-chip securities, with an aggregate market value of HK\$345.6 million. Dividend income received therefrom in the first six months amounted to HK\$5.4 million.

(III) Liquidity and Financial Resources

As at 30 June 2004, the Group had bank balances and deposits in the amount of HK\$264.2 million. Banking facilities available are sufficient to meet the foreseeable funding needs for working capital and capital expenditure. These facilities had not been utilized by the Group during the period under review.

As at 30 June 2004, 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 1.2% as at 30 June 2004 (31 December 2003: 6.2%).

(IV) Comments on Segmental Information

The principal activity of the Company is investment holding.

The principal activities of the Company's subsidiaries, associates and a jointly controlled entity are the operation of motoring schools, tunnels and 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 672 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 amounted to HK\$58.5 million.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2004, the interests and short positions of the directors 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	% of issued share capital
Cheung Chung Kiu (<i>Note 1</i>)	Corporate interest	76,392,358	29.55%

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."). Yugang International Limited ("Yugang"), through an indirect wholly owned subsidiary, owned 34.25% of the issued share capital of Y. T. 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	% of issued share capital
Cheung Chung Kiu	52,647,059 (<i>Note 2</i>)	20.37%

Note 2: This represents the number of shares issuable upon exercise of the remainder of the 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	% of issued share capital
Cheung Chung Kiu	Convertible note (Note 3)	HK\$80,457,060 convertible into 20,630,015 new shares at a conversion price of HK\$3.90 per share (Note 4)	7.98%

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 2004.

SHARE OPTIONS

As at 30 June 2004, 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 2004, the interests or short positions of the persons, other than directors, 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 (Note 1)	% of issued share capital	Interest in share options (Note 2)	% of issued share capital	Interests in equity derivatives (Note 3)	% of issued share capital
Palin Holdings Limited	76,392,358	29.55%	52,647,059	20.37%	HK\$80,457,060	7.98%
Chongqing	76,392,358	29.55%	52,647,059	20.37%	HK\$80,457,060	7.98%
Yugang	76,392,358	29.55%	52,647,059	20.37%	HK\$80,457,060	7.98%
Yugang International (B.V.I.) Limited	76,392,358	29.55%	52,647,059	20.37%	HK\$80,457,060	7.98%
Funrise Limited	76,392,358	29.55%	52,647,059	20.37%	HK\$80,457,060	7.98%
Y. T.	76,392,358	29.55%	52,647,059	20.37%	HK\$80,457,060	7.98%
Y. T. Investment Holdings Limited	76,392,358	29.55%	52,647,059	20.37%	HK\$80,457,060	7.98%
Honway	76,392,358	29.55%	52,647,059	20.37%	HK\$80,457,060	7.98%

Note 1: The 76,392,358 shares set out in this column refer to the same block of shares beneficially owned by Honway and are duplicated in Mr. Cheung's interest in shares on page 5 of this report.

Note 2: The 52,647,059 underlying shares set out in this column refer to the same block of shares issuable upon exercise of the remainder of the Option and are duplicated in Mr. Cheung's interest in share options 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 convertible 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. 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, other than a director, who, as at 30 June 2004, 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 RULES 13.20 AND 13.22 OF THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED

(I) Financial Assistance

In relation to the provision of financial assistance by the Company to 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 2003, obligations in relation to the abovementioned financial assistance by the Group continued to exist as at 30 June 2004. Total advances given by the Group to WHTCL including accrued interest thereon amounted to HK\$1,126.0 million as at 30 June 2004.

Terms of the Financial Assistance

WHTCL, a consortium, was granted a thirty-year franchise to construct and operate the Western Harbour Tunnel ("WHT") in accordance with the Western Harbour Crossing Ordinance enacted on 22 July 1993. The construction of the WHT was completed in April 1997 at a total cost of HK\$7 billion. In addition to external loan finance, the project was partly financed by the shareholders' fund of the consortium in the form of equity and shareholders' loan in proportion to their shareholdings.

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 certain financial parameters of a syndicated loan being fulfilled. No security is provided to the Group for the loan.

(II) Guarantee

The Company entered into a guarantee ("Guarantee") on 25 June 2002 in favour of The Hongkong and Shanghai Banking Corporation Limited ("HSBC"), given for the benefit of HKTHMCL, a company which is owned as to 37% by the Company, to the extent of approximately HK\$18.9 million, which becomes effective as from 1 September 2002. The Guarantee is given to HSBC in return for it providing a guarantee in favour of the Government of the Hong Kong SAR 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.

(III) Proforma Balance Sheet of Affiliated Companies

Set out below is a combined proforma balance sheet of WHTCL and HKTHMCL as at 31 July 2004 (being the latest practicable date for determining the relevant figures):

	<i>HK\$'000</i>
Total assets	6,095,368
Other liabilities	(2,867,372)
	<u>3,227,996</u>
Share capital and reserves	182,183
Shareholders' loans	3,045,813
	<u>3,227,996</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, 17 September 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the six months ended 30 June 2004 - unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
	Note	2004 \$'000	2003 \$'000
Turnover	2	123,639	119,675
Other revenue		5,606	5,478
Other net income		528	15
Direct costs and operating expenses		(56,505)	(54,445)
Selling and marketing expenses		(14,211)	(16,589)
Administrative and corporate expenses		(27,677)	(29,806)
Operating profit before finance costs		31,380	24,328
Finance costs	3	(1,632)	(3,180)
Operating profit	2	29,748	21,148
Share of profits less losses of associates		40,704	23,244
Share of profit of a jointly controlled entity		10,498	9,565
Profit from ordinary activities before taxation	3	80,950	53,957
Income tax	4	(15,508)	(5,202)
Profit from ordinary activities after taxation		65,442	48,755
Minority interests		(8,862)	(6,595)
Profit attributable to shareholders for the interim period		56,580	42,160
Dividends attributable to the interim period:	5(a)		
Interim dividend declared during the interim period		12,926	12,421
Interim dividend declared after the interim period end		12,957	12,459
		25,883	24,880
Earnings per share	6		
Basic		23 cents	19 cents
Diluted		19 cents	16 cents
Profit for the period is retained by:			
The Company and its subsidiaries		16,312	10,936
Associates		32,470	23,244
Jointly controlled entity		7,798	7,980
		56,580	42,160

The notes on pages 16 to 27 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET

As at 30 June 2004 - unaudited

(Expressed in Hong Kong dollars)

	Note	30 June 2004		31 December 2003	
		\$'000	\$'000	\$'000	\$'000
Non-current assets					
Fixed assets			113,472		75,534
Interest in associates			1,187,169		1,149,151
Interest in a jointly controlled entity			16,918		9,120
Investments			345,573		330,615
Deferred tax assets			1,180		1,180
			<u>1,664,312</u>		<u>1,565,600</u>
Current assets					
Inventories			662		516
Loan receivable	8		50,000		—
Trade and other receivables	9		18,023		58,707
Cash and cash equivalents			264,193		331,373
			<u>332,878</u>		<u>390,596</u>
Current liabilities					
Trade and other payables	10		140,748		143,576
Convertible notes	11		82,457		—
Taxation payable			4,763		3,250
Dividends payable			12,980		647
			<u>240,948</u>		<u>147,473</u>
Net current assets			<u>91,930</u>		<u>243,123</u>
Total assets less current liabilities			<u>1,756,242</u>		<u>1,808,723</u>
Non-current liabilities					
Convertible notes	11		—		(82,457)
Interest free loan	12		(20,000)		(20,000)
Deferred tax liabilities			(2,800)		(2,800)
			<u>(22,800)</u>		<u>(105,257)</u>
Minority interests			<u>(42,419)</u>		<u>(42,857)</u>
NET ASSETS			<u>1,691,023</u>		<u>1,660,609</u>
CAPITAL AND RESERVES					
Share capital	13		258,512		250,552
Reserves	14		1,432,511		1,410,057
			<u>1,691,023</u>		<u>1,660,609</u>

The notes on pages 16 to 27 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2004 - 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 2004	250,552	891,850	1,984	33,135	30,000	453,088	1,660,609
Dividends approved in respect of the previous financial year (note 5(b))	607	1,894	—	—	—	(12,527)	(10,026)
Net profit for the interim period	—	—	—	—	—	56,580	56,580
Dividends declared in respect of the current interim period (note 5(a))	—	—	—	—	—	(12,926)	(12,926)
Revaluation deficit	—	—	—	(3,214)	—	—	(3,214)
Exercise of share options	7,353	17,647	—	—	(25,000)	—	—
At 30 June 2004	258,512	911,391	1,984	29,921	5,000	484,215	1,691,023
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 (note 5(b))	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 (note 5(a))	—	—	—	—	—	(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

The notes on pages 16 to 27 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2004 - unaudited

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2004 \$'000	2003 \$'000
Net cash inflow from operating activities	61,512	22,091
Net cash outflow from investing activities	(108,512)	(21,036)
Net cash (outflow)/inflow before financing	(47,000)	1,055
Net cash (outflow)/inflow from financing	(20,180)	21,916
(Decrease)/increase in cash and cash equivalents	(67,180)	22,971
Cash and cash equivalents at 1 January	331,373	302,281
Cash and cash equivalents at 30 June	264,193	325,252
Analysis of the balances of cash and cash equivalents		
Deposits and cash at banks	264,193	325,252

The notes on pages 16 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

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 Institute of Certified Public Accountants ("HKICPA"). 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 HKICPA.

The financial information relating to the financial year ended 31 December 2003 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 2003 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 19 March 2004.

The same accounting policies adopted in the 2003 annual financial statements have been applied to the interim financial report.

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 2003 annual financial statements.

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	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
<i>Principal activities</i>				
Motoring school operations	113,949	109,588	25,298	16,230
Investment and other activities	9,690	10,087	15,141	15,415
	<u>123,639</u>	<u>119,675</u>	<u>40,439</u>	<u>31,645</u>
Unallocated operating expenses			(9,059)	(7,317)
Finance costs			(1,632)	(3,180)
			<u>29,748</u>	<u>21,148</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	
	2004	2003
	\$'000	\$'000
(a) Finance Costs		
Interest on convertible notes	1,431	2,945
Other borrowing costs	201	235
	<u>1,632</u>	<u>3,180</u>
(b) Other items		
Depreciation	10,292	9,545
Cost of inventories consumed	6,119	6,132
Contributions to defined contribution retirement schemes	2,398	2,536
Net profit on sale of fixed assets	(528)	(15)
Dividend income from listed investments	(5,401)	(5,281)
Interest income	(6,588)	(7,602)
	<u>(6,588)</u>	<u>(7,602)</u>

4 Income Tax

	Six months ended 30 June	
	2004	2003
	\$'000	\$'000
Current tax		
Hong Kong Profits Tax	4,574	4,174
Deferred taxation		
Reversal of temporary differences	—	(857)
Effect of increase in tax rate on deferred tax balances at 1 January	—	300
Share of associate's taxation	8,234	—
Share of a jointly controlled entity's taxation	2,700	1,585
	<u>15,508</u>	<u>5,202</u>

The provision for Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profits for the six months ended 30 June 2004.

5 Dividends

(a) Dividends attributable to the interim period

	Six months ended 30 June	
	2004 \$'000	2003 \$'000
Interim dividend declared of 5 cents per share (2003: 5 cents per share)	12,926	12,421
Interim dividend declared after the interim period end of 5 cents per share (2003: 5 cents per share)	12,957	12,459
	<u>25,883</u>	<u>24,880</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	
	2004 \$'000	2003 \$'000
Final dividend in respect of the previous financial year, approved and paid during the interim period, of 5 cents per share (2003: 5 cents per share)	12,527	10,460

6 Earnings per share

(a) Basic

The calculation of basic earnings per share is based on the profit attributable to shareholders of \$56,580,000 (2003: \$42,160,000) and the weighted average of 251,240,576 ordinary shares (2003: 222,294,390 shares) in issue during the period.

(b) Diluted

The calculation of diluted earnings per share is based on the profit attributable to shareholders of \$57,761,000 (2003: \$44,590,000) and the weighted average number of ordinary shares of 296,778,043 (2003: 275,407,876 shares) after adjusting for the effects of all dilutive potential ordinary shares.

(c) Reconciliations

	2004 Number of shares	2003 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	251,240,576	222,294,390
Deemed issue of ordinary shares for no consideration	23,251,775	4,628,477
Deemed issue of ordinary shares from conversion of convertible notes	22,285,692	48,485,009
	<hr/>	<hr/>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>296,778,043</u>	<u>275,407,876</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	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Turnover	113,949	109,588	1,507	1,502	1,800	1,800	6,383	6,785	—	—	123,639	119,675
Other revenue	—	—	5,548	5,478	—	—	58	—	—	—	5,606	5,478
Total revenue	<u>113,949</u>	<u>109,588</u>	<u>7,055</u>	<u>6,980</u>	<u>1,800</u>	<u>1,800</u>	<u>6,441</u>	<u>6,785</u>	<u>—</u>	<u>—</u>	<u>129,245</u>	<u>125,153</u>
Segment result	25,298	16,230	7,055	6,980	1,693	1,686	6,393	6,749	—	—	40,439	31,645
Unallocated operating expenses	—	—	—	—	—	—	—	—	—	—	(9,059)	(7,317)
Operating profit before finance costs	—	—	—	—	—	—	—	—	—	—	31,380	24,328
Finance costs	—	—	—	—	—	—	(1,632)	(3,180)	—	—	(1,632)	(3,180)
Operating profit	—	—	—	—	—	—	—	—	—	—	29,748	21,148
Share of profits less losses of associates	—	—	40,704	23,244	—	—	—	—	—	—	40,704	23,244
Share of profit of a jointly controlled entity	—	—	—	—	10,498	9,565	—	—	—	—	10,498	9,565
Profit from ordinary activities before taxation	—	—	—	—	—	—	—	—	—	—	80,950	53,957
Income tax	(4,279)	(2,942)	(8,234)	(289)	(2,995)	(1,879)	—	(92)	—	—	(15,508)	(5,202)
Profit from ordinary activities after taxation	—	—	—	—	—	—	—	—	—	—	65,442	48,755
Minority interests	(6,085)	(3,755)	—	—	(2,777)	(2,840)	—	—	—	—	(8,862)	(6,595)
Profit attributable to shareholders for the interim period	—	—	—	—	—	—	—	—	—	—	<u>56,580</u>	<u>42,160</u>
Depreciation for the interim period	8,132	9,166	—	—	—	—	—	—	2,160	379	10,292	9,545

8 Loan receivable

On 25 June 2004, Grand Fork Limited, a wholly-owned subsidiary of the Company, entered into an unsecured loan agreement with an unrelated party in an amount of \$50 million. It bears interest at prime or best lending rate as quoted by The Hongkong and Shanghai Banking Corporation Limited in Hong Kong from time to time plus 2% per annum. During the interim financial period, Grand Fork Limited received interest on the loan of approximately \$58,000. The loan was fully repaid on 14 September 2004.

9 Trade and other receivables

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

	30 June 2004 \$'000	31 December 2003 \$'000
Current	529	382
1 to 2 months overdue	43	55
2 to 3 months overdue	70	—
More than 3 months overdue	411	417
	<u>1,053</u>	<u>854</u>

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

Trade and other receivables include deposits paid amounting to \$4,114,000 (31 December 2003: \$4,633,000) which are expected to be recovered after one year.

10 Trade and other payables

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

	30 June 2004 \$'000	31 December 2003 \$'000
Due within 1 month or on demand	1,446	382
Due after 90 days	10	20
	<u>1,456</u>	<u>402</u>

Trade and other payables include deposits received amounting to \$118,000 (31 December 2003: \$118,000) which are expected to be settled after one year.

11 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.

Neither CN I nor CN II were converted during the interim financial period.

12 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.

On 18 June 2004, \$25 million non-refundable deposit were converted into 7,352,941 ordinary shares.

13 Share capital

	No. of shares '000	Amount \$'000
<i>Issued and fully paid:</i>		
At 1 January 2004	250,552	250,552
Shares issued in lieu of dividends	607	607
Shares issued on exercise of share option	7,353	7,353
	<hr/>	<hr/>
At 30 June 2004	<u>258,512</u>	<u>258,512</u>

On 13 May 2004, 606,948 shares were issued as fully paid new shares in lieu of the final cash dividend for the year ended 31 December 2003, at a value of \$4.12 per share. Amounts totalling \$1.9 million were credited to the share premium account.

On 18 June 2004, \$25.0 million share options were converted by the holder into 7,352,941 ordinary shares at a value of \$3.4 per share. An amount of \$17.7 million was credited to the share premium account upon the exercise of share options 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 2004, 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 2004	891,850	1,984	33,135	30,000	453,088	1,410,057
Dividends approved in respect of the previous financial year (<i>note 5(b)</i>)	1,894	—	—	—	(12,527)	(10,633)
Net profit for the interim period	—	—	—	—	56,580	56,580
Dividends declared in respect of the current interim period (<i>note 5(a)</i>)	—	—	—	—	(12,926)	(12,926)
Revaluation deficit	—	—	(3,214)	—	—	(3,214)
Exercise of share options	17,647	—	—	(25,000)	—	(7,353)
At 30 June 2004	911,391	1,984	29,921	5,000	484,215	1,432,511

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.

15 Capital commitments

The Group had capital commitments outstanding and not provided for at 30 June 2004 as follows:

	30 June 2004 \$'000	31 December 2003 \$'000
Authorised and contracted for	<u>10,266</u>	<u>14,883</u>
Authorised but not contracted for	<u>—</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 (c).

- (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 2004 was \$1,126.0 million (31 December 2003: \$1,120.4 million).

The Group received interest income and management fee income from WHTCL of \$5.5 million (2003: \$5.5 million) and \$1.4 million (2003: \$1.3 million) respectively.

- (b) The Group received consultancy fees from a jointly controlled entity of \$1.8 million (2003: \$1.8 million).
- (c) The interest expense payable in respect of the convertible notes issued to Honway Holdings Limited ("Honway"), a substantial shareholder of the Company for the six months ended 30 June 2004 was \$1.4 million (2003: \$1.8 million)

17 Contingent liabilities

At 30 June 2004, the Group had the following contingent liabilities:

(a) *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 2003: \$150 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 2004, these facilities were not utilised by the Company.

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

There is an arrangement between HKSM and its banker where the bank provides guarantees 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 2003: \$1.7 million).

(c) *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 2003: \$18.9 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.

(d) *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 its ultimate shareholder, China Merchants Holdings (International) Company, Limited) and Adwood Company Limited (as well as by its ultimate shareholders, 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 Tunnel ("WHT") up to the date WHT 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 WHT. The maintenance certificate had not been issued at 30 June 2004.

18 Post balance sheet event

On 17 September 2004, 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 12 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 Institute of Certified Public 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 Institute of Certified Public 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 2004.

KPMG

Certified Public Accountants

Hong Kong, 17 September 2004