

Continental Mariner Investment Company Limited

CMIC

Interim Report

2004



INTERIM RESULTS

The directors (the "Directors") of Continental Mariner Investment Company Limited (the "Company") hereby announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th June, 2004 with comparative figures for the six months ended 30th June, 2003 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended 30th June,	
		2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
Turnover	2	256,053	177,428
Cost of sales		(119,718)	(109,081)
Gross profit		136,335	68,347
Other revenue		3,600	4,360
Administrative expenses		(73,413)	(62,340)
Amortisation of intangible assets		–	(399)
Amortisation of deferred licencing income		7,477	7,477
Unrealised holding loss on other investments		(403)	(48)
Surplus arising on revaluation of investment properties		8,000	–
Impairment loss on investments in securities		(5,058)	–
Profit from operations	3	76,538	17,397
Finance costs		(7,628)	(9,942)
Amortisation of goodwill arising on acquisition of associates		(6,344)	(6,578)
Share of profits of associates		11,949	23,647
Allowance for loans to jointly controlled entities		(155)	(274)
Profit before taxation		74,360	24,250
Taxation	4	(3,535)	(3,019)
Profit before minority interests		70,825	21,231
Minority interests		(9,517)	(4,841)
Profit for the period		61,308	16,390
Proposed interim dividend – HK\$0.02 per share (2003: Nil)		17,908	–
Earnings per share	5		
– Basic		7.0 cents	2.0 cents
– Diluted		6.9 cents	Not Applicable

**CONDENSED CONSOLIDATED BALANCE SHEET**

		30th June, 2004	31st December, 2003
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
Non-Current Assets			
Investment properties		706,440	698,440
Hotel properties		647,400	647,400
Property, plant and equipment		969,371	825,912
Interests in associates		521,338	459,255
Interests in jointly controlled entities		2,776	3,659
Investment in a property development project		197,271	197,271
Investments in securities		74,575	79,166
Deposit paid for a hotel project		–	30,000
		3,119,171	2,941,103
Current Assets			
Stores		821	968
Inventories		8,960	7,559
Properties held for resale		5,180	15,600
Trade and other receivables	7	177,728	153,247
Short-term loans receivable		38,332	40,201
Investments in securities		38,446	50,396
Pledged bank deposits		11,903	11,948
Bank balances, deposits and cash		463,791	243,290
		745,161	523,209
Current Liabilities			
Trade and other payables	8	259,996	246,216
Property rental deposits		4,636	4,013
Taxation		3,197	3,028
Bank borrowings – due within one year		230,105	172,675
		497,934	425,932
Net Current Assets		247,227	97,277
		3,366,398	3,038,380

		30th June, 2004	31st December, 2003
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
		(Unaudited)	(Audited)
Capital and Reserves			
Share capital	9	447,549	403,801
Reserves		2,031,984	1,925,219
		2,479,533	2,329,020
Minority Interests			
		202,016	202,531
Non-Current Liabilities			
Bank borrowings – due after one year		370,797	248,503
Other borrowing		30,290	30,290
Loan from a fellow subsidiary		168,224	168,224
Loan from minority interests of a subsidiary		63,203	–
Deferred licencing income		52,335	59,812
		684,849	506,829
		3,366,398	3,038,380

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2004

	Share capital	Share premium	Investment properties revaluation reserve	Hotel properties revaluation reserve	Exchange translation reserve	Capital redemption reserve	Goodwill reserve	PRC statutory reserves	Other capital reserve	Accumulated profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2003	403,761	1,458,243	-	9,660	(557)	15,906	(58,892)	4,435	164,137	239,726	2,236,419
Profits for the period	-	-	-	-	-	-	-	-	-	16,390	16,390
At 30th June, 2003	403,761	1,458,243	-	9,660	(557)	15,906	(58,892)	4,435	164,137	256,116	2,252,809
At 31st December, 2003	403,801	1,458,263	31,659	-	(535)	15,906	(58,892)	5,270	164,137	309,411	2,329,020
Issue of shares	50,000	-	-	-	-	-	-	-	-	-	50,000
Premium arising on issue of shares	-	112,816	-	-	-	-	-	-	-	-	112,816
Exercise of share options	1,180	-	-	-	-	-	-	-	-	-	1,180
Premium arising on issue of shares after exercise of share options	-	566	-	-	-	-	-	-	-	-	566
Shares repurchased and cancelled:											
- Repurchased of ordinary shares	(7,432)	-	-	-	-	-	-	-	-	-	(7,432)
- Premium on shares repurchased	-	-	-	-	-	-	-	-	-	(14,219)	(14,219)
- Transfer	-	-	-	-	-	7,432	-	-	-	(7,432)	-
Transfer	-	-	-	-	-	-	-	885	-	(885)	-
Dividend	-	-	-	-	-	-	-	-	-	(53,706)	(53,706)
Profits for the period	-	-	-	-	-	-	-	-	-	61,308	61,308
At 30th June, 2004	447,549	1,571,645	31,659	-	(535)	23,338	(58,892)	6,155	164,137	294,477	2,479,533

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
For the six months ended 30th June, 2004

	Six months ended	
	30th June,	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Net cash from operating activities	109,744	107,248
Net cash used in investing activities	(148,095)	(285,098)
Net cash from financing activities	258,852	127,007
Net increase (decrease) in cash and cash equivalents	220,501	(50,843)
Cash and cash equivalents at beginning of the period	243,290	347,123
Cash and cash equivalents at end of the period	463,791	296,280
Analysis of the balance of cash and cash equivalents		
Bank balances and cash	171,663	200,900
Short term bank deposits	292,128	95,380
	463,791	296,280

Notes:

1. Basis of preparation and principal accounting policies

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants ("HKSA").

The accounting policies adopted in the preparation of the condensed financial statements are consistent with those followed in the preparation of the Group's annual audited financial statements for the year ended 31st December, 2003.

2. Turnover and segments information

For the six months period ended 30th June, 2004

	Supply of electricity and gas HK\$'000	Shipping HK\$'000	Property investment and management HK\$'000	Hotel and restaurant operations HK\$'000	Manu- facturing and media HK\$'000	Financial services HK\$'000	Eliminations HK\$'000	Total HK\$'000
By principal activity								
REVENUE								
External revenue	72,410	66,121	45,165	31,845	30,015	10,497	-	256,053
Inter-segment revenue	-	-	120	-	-	-	(120)	-
Total revenue	<u>72,410</u>	<u>66,121</u>	<u>45,285</u>	<u>31,845</u>	<u>30,015</u>	<u>10,497</u>	<u>(120)</u>	<u>256,053</u>
CONTRIBUTION TO PROFIT FROM OPERATIONS								
	<u>12,149</u>	<u>45,135</u>	<u>19,658</u>	<u>7,037</u>	<u>1,941</u>	<u>4,792</u>		<u>90,712</u>
Central administrative expenses								<u>(14,174)</u>
Profit from operations								76,538
Finance costs								(7,628)
Amortisation of goodwill arising on acquisition of associates	(217)	-	-	-	(6,127)	-		(6,344)
Share of profits (losses) of associates	9,803	-	4,380	-	(2,687)	453		11,949
Allowance for loans to jointly controlled entities	-	-	(155)	-	-	-		<u>(155)</u>
Profit before taxation								74,360
Taxation								<u>(3,535)</u>
Profit before minority interests								<u>70,825</u>

For the six months period ended 30th June, 2004

An analysis of the Group's turnover by geographical location of its customers is presented below:

	The PRC* other than Hong Kong <i>HK\$'000</i>	Other parts of the world <i>HK\$'000</i>	Hong Kong <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue	<u>176,482</u>	<u>66,121</u>	<u>13,450</u>	<u>256,053</u>

* *The People's Republic of China*

Continental Mariner Investment Company Limited

For the six months period ended 30th June, 2003

	Supply of electricity and gas HK\$'000	Shipping HK\$'000	Property investment and management HK\$'000	Hotel and restaurant operations HK\$'000	Manu- facturing and media HK\$'000	Financial services HK\$'000	Eliminations HK\$'000	Total HK\$'000
By principal activity								
REVENUE								
External revenue	84,505	24,067	30,961	6,717	23,264	7,914	-	177,428
Inter-segment revenue	5,383	-	120	-	-	-	(5,503)	-
Total revenue	<u>89,888</u>	<u>24,067</u>	<u>31,081</u>	<u>6,717</u>	<u>23,264</u>	<u>7,914</u>	<u>(5,503)</u>	<u>177,428</u>
CONTRIBUTION TO PROFIT FROM OPERATIONS								
	<u>11,400</u>	<u>3,356</u>	<u>7,734</u>	<u>211</u>	<u>(3,310)</u>	<u>7,573</u>		26,964
Central administrative expenses								<u>(9,567)</u>
Profit from operations								17,397
Finance costs								(9,942)
Amortisation of goodwill arising on acquisition of associates	(451)	-	-	-	(6,127)	-		(6,578)
Share of profits (losses) of associates	9,740	-	12,408	-	(319)	1,818		23,647
Allowance for loans to jointly controlled entities	-	-	(274)	-	-	-		<u>(274)</u>
Profit before taxation								24,250
Taxation								<u>(3,019)</u>
Profit before minority interests								<u>21,231</u>

For the six months period ended 30th June, 2003

An analysis of the Group's turnover by geographical location of its customers is presented below:

	The PRC other than Hong Kong <i>HK\$'000</i>	Other parts of the world <i>HK\$'000</i>	Hong Kong <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue	<u>143,357</u>	<u>24,067</u>	<u>10,004</u>	<u>177,428</u>

3. Profit from operations

	Six months ended	
	30th June, 2004 <i>HK\$'000</i>	30th June, 2003 <i>HK\$'000</i>
Profit from operations has been arrived at after charging:		
Depreciation and amortisation of property, plant and equipment	31,075	29,745
Loss on disposal of properties held for resale	1,162	–
Loss on disposal of investment properties	–	1,915
and after crediting:		
Release of negative goodwill to other revenue	<u>–</u>	<u>440</u>

4. Taxation

	Six months ended	
	30th June, 2004 <i>HK\$'000</i>	30th June, 2003 <i>HK\$'000</i>
The charge comprises:		
Hong Kong profits tax calculated at 17.5% (six months period ended 30th June, 2003: 17.5%) of the estimated assessable profits for the period	–	–
PRC income tax	<u>2,955</u>	<u>2,147</u>
	2,955	2,147
Share of taxation of associates	<u>580</u>	<u>872</u>
	<u>3,535</u>	<u>3,019</u>

Hong Kong profits tax has not been provided as the Group has no estimated assessable profits which were earned in or derived from Hong Kong during the period.

PRC income tax is calculated in accordance with the relevant laws and regulations in the PRC.

5. Earnings per share

The calculation of basic and diluted earnings per share for the six months ended 30th June, 2004 is based on the following data:

	Six months ended	
	30th June, 2004 <i>HK\$'000</i>	30th June, 2003 <i>HK\$'000</i>
Earnings for the purposes of basic and diluted earnings per share – profit for the period	<u>61,308</u>	<u>16,390</u>

	Six months ended	
	30th June, 2004 Number of shares	30th June, 2003 Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share	877,660,976	807,522,200
Effect of dilutive potential ordinary shares in respect of share options	14,393,676	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>892,054,652</u>	<u>807,522,200</u>

6. Transfers to and from reserves

During the six months period ended 30th June, 2004, the nominal value of shares repurchased of HK\$7,432,000 was transferred from accumulated profits to capital redemption reserve and the premium on shares repurchased of HK\$14,219,000 was charged to accumulated profits. In addition, a subsidiary of the Group in the PRC appropriated net of minority interests' share of approximately HK\$885,000 out of accumulated profits to the PRC statutory reserves.

There was no transfer to and from reserves during the six months period ended 30th June, 2003.

7. Trade and other receivables

The Group has a policy of allowing credit periods ranging from 30 days to 90 days to its trade customers. The following is an aged analysis of trade receivables at the balance sheet date:

	30th June, 2004 HK\$'000	31st December, 2003 HK\$'000
0 to 30 days	31,704	29,774
31 to 90 days	6,964	9,667
More than 90 days	7,328	562
Total trade receivables	45,996	40,003
Receivables on disposal of subsidiaries	37,383	47,664
Other receivables	94,349	65,580
	<u>177,728</u>	<u>153,247</u>

8. Trade and other payables

The following is an aged analysis of trade payables as the balance sheet date:

	30th June, 2004	31st December, 2003
	HK\$'000	HK\$'000
0 to 30 days	4,684	10,817
31 to 90 days	2,121	908
More than 90 days	5,782	5,059
Total trade payables	12,587	16,784
Other payables	247,409	229,432
	259,996	246,216

9. Share capital

	Number of shares	Nominal value
		HK\$'000
Ordinary shares of HK\$0.50 each		
<i>Authorised:</i>		
At 1st January, 2004 and at 30th June, 2004	<u>1,200,000,000</u>	<u>600,000</u>
<i>Issued and fully paid:</i>		
At 1st January, 2004	807,602,200	403,801
Issue of shares	100,000,000	50,000
Exercise of share options	2,360,000	1,180
Shares repurchased and cancelled	(14,864,000)	(7,432)
At 30th June, 2004	<u>895,098,200</u>	<u>447,549</u>

10. Contingent liabilities

At 30th June, 2004, the Company had given guarantees of approximately HK\$114 million (31st December, 2003: HK\$129 million) to certain banks in respect of banking facilities granted to certain subsidiaries of the Company.

In addition, at 30th June, 2004, the Group had given a guarantee of approximately HK\$14.3 million (31st December, 2003: HK\$14.3 million) to a bank in respect of credit facilities granted to prospective purchasers of properties developed by a jointly controlled entity of the Group.

11. Capital commitments

	The Group	
	30th June, 2004	31st December, 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital expenditure contracted for but not provided in the financial statements in respect of:		
– acquisition of property, plant and equipment	12,417	13,463
– acquisition of interests in unlisted companies	31,381	78,110
	43,798	91,573
Capital expenditure authorised but not contracted for in respect of:		
– acquisition of interests in unlisted companies	–	71,000
	–	71,000

INTERIM DIVIDEND

The Directors resolved that an interim dividend of HK\$0.02 (six months ended 30th June, 2003: nil) per share be paid on or about 8th October, 2004 to the shareholders of the Company whose names appear on the register of members of the Company on 7th October, 2004.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 4th October, 2004 to 7th October, 2004 (both days inclusive) during which period no share transfer will be effected. In order to qualify for the proposed interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrars, Computershare Hong Kong Investor Services Limited at Shops 1712-6, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on 30th September, 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30th June 2004, the Group recorded a turnover of HK\$256,053,000, representing an increase of HK\$78,625,000 or 44.3% as compared with the corresponding period last year. The increase was mainly due to the increase of vessels charterhire income. Profit for the period was HK\$61,308,000, representing an increase of HK\$44,918,000 or 274% as compared with the corresponding period last year. The increase was mainly attributable to the contribution from bulk carriers and Poly Plaza.

BUSINESS REVIEW

I. Property development and investment

1. *Poly Plaza*

The Group holds 75% equity interests in Poly Plaza and a gross profit of approximately RMB32,000,000 was realized in the first half of the year. The overall results were mainly driven by the business growth of hotel suites. After the completion of renovation works of the hotel tower in September 2003, both the exterior of the tower and the level of hotel suite facilities were enhanced. In the first half of the year, Beijing has walked out from the shadow of the outbreak of SARS and tourism and business conferences were benefited from a complete rebound. It has driven the demand for hotel suites and the average occupancy rate of hotel tower reached 78% and the average hotel rates were RMB530 per day in the first half of the year, representing growths of 1.7% and 17% respectively as compared to the corresponding period last year.

2. *Shanghai Stock Exchange Building*

At 30th June, 2004 the Group owns 27% attributable interests in Shanghai Stock Exchange Building, in which the Group directly owns six floors with an aggregate floor area of approximately 13,900 sq.m. and holds 40% equity interests in a joint venture company which owns a floor area of approximately 34,000 sq.m. The average occupancy rate and rental rate were generally heightened. As at the end of June, the occupancy rate of Shanghai Stock Exchange Building remained above 90%, representing an increase of 10% as compared to the corresponding period last year while the average daily rental rate was US\$0.50 per sq.m. It is expected that the aggregate occupancy rate of the building would reached 95% in the second half of the year.

3. *Jinrong Street office building project*

The Group owns 49% equity interests in Tong Sun Limited. The sole asset of Tong Sun Limited is its co-operative joint venture interest in a Grade A office building development project located at Beijing Jinrong Street with a gross floor area of approximately 128,800 sq.m. In December 2003, Tong Sun Limited successfully disposed the entire office building to a sole purchaser and is expected that the office building will be completed and delivered to the purchaser by the end of 2005. It is also expected that the Group can fully recover the shareholders' loan and receive the dividend of preference shares after the completion of the disposal.

4. *Guangzhou hotel project*

The project is located in Tian He District, Guangzhou and proximate to the Guangzhou East Train Station. A five-star ranking business hotel with a gross floor area of approximately 60,000 sq.m. and approximately 400 suites will be built upon. The Group owns 51% interest in the project and it is expected the hotel will commence operation in late 2006.

II. Cogeneration operations and other investment projects

1. Cogenerations

In the first half of the year, the Group has completed the acquisition of 36.75% interests of Xuzhou Western Co-generation and 29.4% interests of Funing Co-generation in Jiangsu Province. The purchase price of the two cogenerations was HK\$71,000,000 in total. Currently, the Group holds equity interests ranging from 29.4% to 51% in the five cogenerations in the Yangtze River Delta.

Due to the addition of two newly-acquired cogenerations and the completion of the expansion project of Taicang Co-generation, the aggregate power generation capacity and sales volume increased for approximately 50% and 53% respectively as compared with the corresponding period last year. However, the domestic price of coal is escalating and the average power generation cost increased for 28% to 50% in the first half of the year. For the six months ended 30th June 2004, the Group's share of unaudited profit in those five cogenerations was HK\$17,000,000, maintaining the same level with that of the preceding year.

2. Cultural media and products

New Satellite TV Cartoon Channel ("Cartoon Channel")

Prior to obtaining approval of the right to broadcast programs in the PRC, the Cartoon Channel upheld the low cost operation. With effective cost control during the period, the Channel was managed to attain a better balance in the first half of the year than the corresponding period last year.

Polystar Digidisc Co. Ltd. ("Polystar")

The third phase of plant expansion of Polystar has been completed and the plant was successfully relocated to Beijing Shunyi District Tian Zhu Airport Industrial Zone (北京順義區天竺空港工業區) in May this year. At present, the annual disc production capacity of Polystar reached 80,000,000 pieces and Polystar has established itself as a disc production enterprise which is highly competitive in terms of production scale. In the first half of 2004, Polystar recorded a total sales of RMB31,117,000 and a net profit of RMB6,760,000.

3. *Shipping*

The Group owns two bulk carriers. Given the fact that the burgeoning economic growth of the PRC has drastically driven up the demand for shipping, the bulk shipping industry continued to thrive in the first half of the year. The Group's carrier "Hai Kang" has renewed its contract for another year in March this year (the peak season of shipping) and the daily charterhire rate was US\$35,000. Another carrier "Hai Ji" will be redelivered to the Group in November this year and it is expected the rental income will continue to rise.

NEW PROJECTS

1. **Shanghai Stock Exchange building**

On 11 August 2004, the Group has entered into the Shanghai Properties Acquisition Agreement to acquire 60% equity interests in Shanghai Puly Real Estate for a consideration of RMB258,000,000 (about HK\$241,121,000). The assets of Shanghai Puly Real Estate include several office units with a gross floor area of approximately 26,603 sq.m., basement with a gross floor area of approximately 7,603 sq.m. and auxiliary facilities in the Shanghai Stock Exchange Building, Shanghai, the PRC.

2. **Wuhan Hotel project**

Also on 11 August 2004, the Group has entered into the Hubei Properties Acquisition Agreement to acquire 100% equity interests in Hubei White Rose for RMB55,000,000 (about HK\$51,402,000). The Group also agreed to provide a shareholders' loan of RMB99,949,000 (about HK\$93,410,000). On completion of the Hubei Properties Acquisition Agreement, Hubei White Rose will own a 24-storey hotel called "Hubei White Rose Hotel" (湖北白玫瑰大酒店) which provides hotel and auxiliary service, White Rose Hostel (武漢白玫瑰賓館) and ancillary buildings.

3. **Port and Oils & Grains Companies**

On 23 August 2004, the Group has entered into agreements to subscribe for 35 per cent. of the equity interests in both Port and Oils & Grains Companies located in Guangdong Province for a cash consideration of HK\$77,532,000 and HK\$35,490,000 respectively. The Directors consider the investment in deep water port business would diversify the investment portfolio and will broaden the sources of income of the Group.

Together with the current cash balances, available banking facilities and cash revenue from business operations, we believed that the Group has sufficient resources to meet the funding requirement for the abovementioned new investments.

FINANCIAL REVIEW

Liquidity and capital structure

As at 30th June, 2004, the shareholders' funds of the Group amounted to HK\$2,480,000,000 (31st December, 2003: HK\$2,329,000,000), while the net asset value per share was HK\$2.77 (31st December, 2003: HK\$2.88). As at 30th June, 2004, the Group's gearing ratio (on the basis of the amount of total liabilities less total bank balances divided by shareholders' funds) was 28.5% (31st December, 2003: 29.1%).

As at 30th June, 2004, the Group had outstanding bank loans of HK\$600,902,000. In terms of maturity, the outstanding bank loans can be divided into HK\$230,105,000 (38%) to be repaid within one year, HK\$123,870,000 (21%) to be repaid after one year but within two years, HK\$231,717,000 (39%) to be repaid after two years but within five years, HK\$15,210,000 (2%) to be repaid more than five years. In terms of currency denomination, the outstanding bank loans can be divided into HK\$257,792,000 (43%) in Renminbi, HK\$97,110,000 (16%) in US dollars and HK\$246,000,000 (41%) in Hong Kong dollars.

43% of the bank borrowings of the Group are subject to fixed interest rates and the remaining 57% are subject to floating interest rates. Therefore, under circumstances of interest rates uncertainty or fluctuations or otherwise as appropriate, the Group will consider the use of hedging instruments (including interest rates swaps), in order to manage interest rate risks.

As at 30th June, 2004, the Group had a working capital of HK\$247,000,000 and total bank balances of HK\$475,000,000 (31st December, 2003: HK\$97,000,000 and HK\$255,000,000 respectively). Together with the available banking facilities and cash revenue from business operations, it is believed that the Group has sufficient resources to meet the foreseeable working capital demands and capital expenditure.

The monetary assets and liabilities and business transactions of the Group are mainly carried and conducted in Hong Kong dollars, Renminbi and US dollars. The Group maintains a prudent strategy in its foreign exchange risk management, where foreign exchange risks are minimized via balancing the monetary assets versus monetary liabilities, and foreign exchange revenue versus foreign exchange expenditures. Besides as the Hong Kong dollar is pegged to the US dollar, and the exchange rate between Hong Kong dollar and Renminbi also fluctuates slightly, the Group believes that its exposure to foreign exchange risks is not material.

Pledge of assets

As at 30th June, 2004, bank deposits amounted to HK\$11,903,000 (31st December, 2003: HK\$11,948,000), certain of the Group's investment properties of approximately HK\$684,600,000 (31st December, 2003: approximately HK\$364,600,000), other property interests and motor vessels with an aggregate net book value of approximately HK\$1,148,146,000 (31st December, 2003: HK\$1,158,220,000) and shares in certain subsidiaries and an associate were pledged to secure credit facilities granted to the Group.

Contingent liabilities

As at 30th June, 2004, the Group had given guarantees to certain banks in respect of banking facilities granted to certain subsidiaries of the Company and the amount utilized was approximately HK\$114,000,000 (31st December, 2003: HK\$129,000,000).

In addition, as at 30th June, 2004, the Group had given guarantees of approximately HK\$14,300,000 (31st December, 2003: HK\$14,300,000) to a bank in respect of credit facilities granted to prospective purchasers of properties developed by a jointly controlled entity of the Group.

STAFF

As at 30th June, 2004, the Group employed about 1,300 staff with remuneration for the period amounted to approximately HK\$22,000,000. The Group provides its staff with various benefits including year-ended double-pay, discretionary bonus, contributory provident fund, share options and medical insurance. Staff training is also provided as and when required.

PROSPECTS

The management of the Group is confident in the economic development of the PRC and the prospects of the Group's PRC projects. The Group will continually adopt an active but prudent operating strategy, strengthen its corporate governance, reduce the operating costs in order to further develop its principal business of property operations, optimize the business structure, enhance effectiveness and maximize the return to shareholders.

SHARE OPTION SCHEME

The Company had adopted a share option scheme (the “Former Scheme”) pursuant to an ordinary resolution passed on 16th June, 1993. Under the Former Scheme, the Directors may, at their discretion, invite all eligible employees (i.e. employee including directors of the Company or any subsidiary as defined in the Former Scheme) to subscribe for shares of HK\$0.50 each (the “Share(s)”) in the Company (“CMIC Options”) subject to the terms and conditions stipulated therein.

At the annual general meeting of the Company held on 28th May, 2003, ordinary resolutions were passed by the shareholders to adopt a new share option scheme (the “New Scheme”) and terminate the Former Scheme. Although no further options will be granted under the Former Scheme upon adoption of the New Scheme, the provisions of the Former Scheme shall remain in force and all options granted pursuant to the Former Scheme shall continue to be valid and exercisable in accordance with the provisions therein.

The Company considered that it is essential to its continued success that it is able to attract and motivate eligible employees of the right calibre and with the necessary experience to work for the Company. The adoption of the Former Scheme and the New Scheme will enable the Group to provide incentive to the eligible employees of the Group by offering them an opportunity to participate in the growth of the Group.

Pursuant to the Former Scheme, the Company has granted options to subscribe for the Shares and the particulars and the movements of which for the six months ended 30th June, 2004 are described below:

Date of grant	Exercise period	Exercise price per Share	Number of Shares subject to CMIC Options				
			Outstanding at 1.1.2004	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at 30.06.2004
3.9.1997	3.9.1998 to 2.9.2007	HK\$5.175	31,200,000	-	-	(10,200,000)	21,000,000
5.6.1998	5.6.1999 to 4.6.2008	HK\$1.37	17,000,000	-	-	(4,000,000)	13,000,000
30.11.2000	30.11.2001 to 29.11.2010	HK\$0.74	25,695,000	-	(2,360,000)	(4,500,000)	18,835,000
			<u>73,895,000</u>	<u>-</u>	<u>(2,360,000)</u>	<u>(18,700,000)</u>	<u>52,835,000</u>

The weighted average closing prices of the Company's shares immediately before the dates on which the options were exercised was HK\$1.60.

No options were granted or exercised under the New Scheme during the period from the adoption of the New Scheme to 30th June, 2004.

DIRECTORS' INTERESTS IN SECURITIES

At 30th June, 2004, according to the register maintained by the Company under Section 352 of the Securities and Futures Ordinance (the "SFO"), the following Directors held options to subscribe for the number of Shares in the Company as follows:

Name of Director	Number of Shares subject to the CMIC Options (Note 1)			Total
	Granted on 3.9.1997 (Note 2)	Granted on 5.6.1998 (Note 3)	Granted on 30.11.2000 (Note 4)	
Wang Jun	6,000,000	4,500,000	5,000,000	15,500,000
He Ping	6,000,000	4,500,000	5,000,000	15,500,000
Li Shi Liang	–	–	5,000,000	5,000,000

Notes:

1. All CMIC Options were granted to the Directors under the Former Scheme of the Company at a nominal consideration of HK\$1.00 each.
2. These CMIC Options granted on 3rd September, 1997 are exercisable from 3rd September, 1998 to 2nd September, 2007 (both days inclusive) at an exercise price of HK\$5.175 per Share.
3. These CMIC Options granted on 5th June, 1998 are exercisable from 5th June, 1999 to 4th June, 2008 (both days inclusive) at an exercise price of HK\$1.37 per Share.
4. These CMIC Options granted on 30th November, 2000 are exercisable from 30th November, 2001 to 29th November, 2010 (both days inclusive) at an exercise price of HK\$0.74 per Share.

Save as disclosed above, at 30th June, 2004, none of the Directors, chief executives or their associates had any personal, family, corporate or other interests and short positions in the securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which is required to be recorded in the register maintained under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules and none of the Directors, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the period.

SUBSTANTIAL SHAREHOLDERS

At 30th June, 2004, according to the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO, the following shareholders were interested in 5% or more of the issued share capital of the Company:

Name of Shareholder	Number of Shares held
Chee Ying Cheung	48,500,000
Wincall Holding Limited	55,428,000
Congratulations Company Ltd.	169,845,000
Source Holdings Limited (<i>Note 1</i>)	328,485,560
Ting Shing Holdings Limited (<i>Note 2</i>)	498,330,560
Ringo Trading Limited (<i>Note 3</i>)	539,875,036
China Poly Group Corporation (<i>Note 4</i>)	539,875,036

Notes:

1. Source Holdings Limited is deemed by the SFO to be interested in 328,485,560 Shares as a result of its direct holding of 228,398,760 Shares and indirect holdings of 100,086,800 Shares through its wholly-owned subsidiaries, Wincall Holding Limited (55,428,000 Shares) and Musical Insight Holdings Ltd. (44,658,800 Shares).
2. Ting Shing Holdings Limited is deemed by the SFO to be interested in 498,330,560 Shares as a result of its indirect holding of the Shares through its subsidiaries, Source Holdings Limited and Congratulations Company Ltd.
3. Ringo Trading Limited is deemed by the SFO to be interested in 539,875,036 Shares as a result of its direct holding of 41,544,476 Shares and indirect holding of the Shares through its wholly-owned subsidiary, Ting Shing Holdings Limited.
4. China Poly Group Corporation owns 100% of Ringo Trading Limited and is accordingly deemed by the SFO to be interested in the Shares directly and indirectly owned by Ringo Trading Limited.

Save as disclosed above, the Company has not been notified of any other interests representing 5% or more of the issued share capital of the Company at 30th June, 2004.

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

During the six months period ended 30th June, 2004, the Company made the following repurchases of its own shares on the Stock Exchange for the purpose of enhancing the net assets per share:

Month	Number of shares repurchased	Highest price paid <i>HK\$</i>	Lowest price paid <i>HK\$</i>	Total consideration <i>HK\$</i>
March 2004	588,000	1.50	1.50	882,000
April 2004	8,773,000	1.52	1.45	12,863,350
May 2004	5,503,000	1.49	1.25	7,959,560
	14,864,000			21,704,910

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

AUDIT COMMITTEE

The members of the Audit Committee have reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited financial statements.

CODE OF BEST PRACTICE

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30th June, 2004, in compliance with the "Code of Best Practice" as set out in Appendix 14 of the Listing Rules except that the independent non-executive directors are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Articles of Association.

By Order of the Board

LI Shi Liang

Managing Director

Hong Kong, 16th September, 2004

As at the date hereof, the executive Directors of the Company are Mr. Wang Jun, Mr. He Ping, Mr. Chen Hong Sheng, Mr. Li Shi Liang and Mr. Chan Tak Chi, William, the non-executive Director is Mr. Ip Chun Chung, Robert, and the independent non-executive Directors are Mr. Yao Kang, Mr. Lam Tak Shing and Mr. Choy Shu Kwan.