

Interim
Report

2003

Continental Mariner Investment Company Limited

CMIC



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, 2003 with comparative figures for the six months ended 30th June, 2002 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

| | Notes | Six months ended 30th June, | |
|--|-------|---------------------------------|---------------------------------|
| | | 2003 HK\$'000 (Unaudited) | 2002 HK\$'000 (Unaudited) |
| Turnover | 2 | 177,428 | 190,523 |
| Cost of sales | | (109,081) | (109,743) |
| Gross profit | | 68,347 | 80,780 |
| Other revenue | | 4,360 | 2,975 |
| Administrative expenses | | (62,340) | (64,424) |
| Amortisation of intangible assets | | (399) | (2,051) |
| Amortisation of deferred licencing income | | 7,477 | 7,477 |
| Unrealised holding loss on other investments | | (48) | (2,661) |
| Gain on disposal of a subsidiary | | - | 3,835 |
| Profit from operations | 3 | 17,397 | 25,931 |
| Finance costs | | (9,942) | (9,439) |
| Amortisation of goodwill arising on acquisition of associates | | (6,578) | - |
| Share of profits (losses) of associates | | 23,647 | (4,599) |
| Share of (loss) profit of jointly controlled entities | | (274) | 628 |
| Profit before taxation | | 24,250 | 12,521 |
| Taxation | 4 | (3,019) | (1,254) |
| Profit before minority interests | | 21,231 | 11,267 |
| Minority interests | | (4,841) | (7,196) |
| Profit for the period | | 16,390 | 4,071 |
| Earnings per share | | | |
| – Basic | 5 | 2.0 cents | 0.5 cents |

CONDENSED CONSOLIDATED BALANCE SHEET

| | | 30th June, 2003 | 31st December, 2002 |
|--|--------------|----------------------------|------------------------|
| | <i>Notes</i> | HK\$'000 | <i>HK\$'000</i> |
| | | (Unaudited) | (Audited) |
| Non-Current Assets | | | |
| Investment properties | | 709,444 | 728,974 |
| Hotel properties | | 608,400 | 608,400 |
| Property, plant and equipment | | 964,521 | 944,962 |
| Intangible assets | | – | 399 |
| Negative goodwill | | (14,274) | (14,714) |
| Interests in associates | | 568,605 | 283,908 |
| Interests in jointly controlled entities | | 6,665 | 20,669 |
| Investments in securities | | 87,636 | 87,636 |
| | | 2,930,997 | 2,660,234 |
| Current Assets | | | |
| Stores | | 745 | 435 |
| Inventories | | 17,202 | 21,354 |
| Trade and other receivables | 7 | 139,213 | 206,110 |
| Short-term loans receivable | | 63,495 | 23,364 |
| Amounts due from associates | | 20,966 | 45,253 |
| Investments in securities | | 78,994 | 79,042 |
| Pledged bank deposits | | 85,259 | 86,620 |
| Bank balances, deposits and cash | | 296,280 | 347,123 |
| | | 702,154 | 809,301 |
| Current Liabilities | | | |
| Trade and other payables | 8 | 218,786 | 195,873 |
| Property rental deposits | | 3,363 | 3,133 |
| Taxation | | 2,396 | 2,685 |
| Bank borrowings – due within one year | | 387,075 | 355,662 |
| | | 611,620 | 557,353 |
| Net Current Assets | | 90,534 | 251,948 |
| | | 3,021,531 | 2,912,182 |

| | | 30th June, 2003 | 31st December, 2002 |
|--------------------------------------|--------------|----------------------------|------------------------|
| | <i>Notes</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | | (Unaudited) | (Audited) |
| Capital and Reserves | | | |
| Share capital | 9 | 403,761 | 403,761 |
| Reserves | | 1,849,048 | 1,832,658 |
| | | 2,252,809 | 2,236,419 |
| Minority Interests | | 261,304 | 256,463 |
| Non-Current Liabilities | | | |
| Bank borrowings – due after one year | | 241,614 | 146,020 |
| Other borrowing | | 30,290 | 30,290 |
| Loan from a fellow subsidiary | | 168,224 | 168,224 |
| Deferred licencing income | | 67,290 | 74,766 |
| | | 507,418 | 419,300 |
| | | 3,021,531 | 2,912,182 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the six month ended 30th June, 2003*

| | Share capital | Share premium | Hotel properties revaluation reserve | Exchange translation reserve | Capital redemption reserve | Goodwill reserve | PRC statutory reserves | Other capital reserve | Accu- mulated profits | Total |
|---------------------------------------|------------------|------------------|---|------------------------------------|----------------------------------|---------------------|------------------------------|-----------------------------|-----------------------------|------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1st January, 2002 | 405,392 | 1,458,243 | 9,660 | 2,546 | 14,275 | (52,141) | 4,167 | 586 | 371,946 | 2,214,674 |
| Share repurchased and cancelled: | | | | | | | | | | |
| – Repurchase of ordinary shares | (72) | – | – | – | – | – | – | – | – | (72) |
| – Premium on shares repurchased | – | – | – | – | – | – | – | – | (42) | (42) |
| – Transfer | – | – | – | – | 72 | – | – | – | (72) | – |
| Profits for the period | – | – | – | – | – | – | – | – | 4,071 | 4,071 |
| At 30th June, 2002 | <u>405,320</u> | <u>1,458,243</u> | <u>9,660</u> | <u>2,546</u> | <u>14,347</u> | <u>(52,141)</u> | <u>4,167</u> | <u>586</u> | <u>375,903</u> | <u>2,218,631</u> |
| At 31st December, 2002 | 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 | <u>403,761</u> | <u>1,458,243</u> | <u>9,660</u> | <u>(557)</u> | <u>15,906</u> | <u>(58,892)</u> | <u>4,435</u> | <u>164,137</u> | <u>256,116</u> | <u>2,252,809</u> |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six month ended 30th June, 2003*

| | Six months ended 30th June, | |
|---|------------------------------------|-------------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Net cash from operating activities | 107,248 | 26,522 |
| Net cash (used in) from investing activities | (285,098) | 39,014 |
| Net cash from (used in) financing activities | 127,007 | (20,819) |
| Net (decrease) increase in cash and cash equivalents | (50,843) | 44,717 |
| Cash and cash equivalents at beginning of the period | 347,123 | 187,245 |
| Cash and cash equivalents at end of the period | 296,280 | 231,962 |
| Analysis of the balance of cash and cash equivalents | | |
| Bank balances and cash | 200,900 | 155,244 |
| Short term bank deposits | 95,380 | 76,718 |
| | 296,280 | 231,962 |

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 ("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").

In the current period, the Group has adopted, for the first time, the Statement of Standard Accounting Practice No. 12 (Revised) "Income taxes" (SSAP 12 (Revised)) issued by the HKSA. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax.

In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of SSAP 12 (Revised) has had no significant effect on the results for the current or prior accounting period.

Other than as described above, 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, 2002.

2. Turnover and segments information

For the six months period ended 30th June, 2003

| | Supply of electricity and gas HK\$'000 | Property investment and management HK\$'000 | Shipping HK\$'000 | Manufacturing and media HK\$'000 | Financial Services HK\$'000 | Hotel and restaurant operations HK\$'000 | Eliminations HK\$'000 | Total HK\$'000 |
|---|---|---|----------------------|---|-----------------------------------|--|--------------------------|-------------------|
| By principal activity | | | | | | | | |
| REVENUE | | | | | | | | |
| External revenue | 84,505 | 30,961 | 24,067 | 23,264 | 7,914 | 6,717 | - | 177,428 |
| Inter-segment revenue | 5,383 | 120 | - | - | - | - | (5,503) | - |
| Total revenue | <u>89,888</u> | <u>31,081</u> | <u>24,067</u> | <u>23,264</u> | <u>7,914</u> | <u>6,717</u> | <u>(5,503)</u> | <u>177,428</u> |
| CONTRIBUTION TO PROFIT FROM OPERATIONS | | | | | | | | |
| | <u>11,400</u> | <u>7,734</u> | <u>3,356</u> | <u>(3,310)</u> | <u>7,573</u> | <u>211</u> | | <u>26,964</u> |
| 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 of associates | 9,740 | 12,408 | - | (319) | 1,818 | - | | 23,647 |
| Share of loss of 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 and contribution to operating results by geographical location of its customers is presented below:

| | The PRC* other than Hong Kong HK\$'000 | Other parts of the world HK\$'000 | Hong Kong HK\$'000 | Total HK\$'000 |
|--|---|--|-----------------------|-------------------|
| Revenue | <u>143,357</u> | <u>24,067</u> | <u>10,004</u> | <u>177,428</u> |
| Contribution to profit from operations | <u>15,500</u> | <u>3,356</u> | <u>8,108</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 | (6,578) | - | - | (6,578) |
| Share of profits of associates | 23,647 | - | - | 23,647 |
| Share of loss of 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> |

* The People's Republic of China

For the six months period ended 30th June, 2002

| | Supply of electricity and gas HK\$'000 | Property investment and management HK\$'000 | Shipping HK\$'000 | Manufacturing and media HK\$'000 | Financial Services HK\$'000 | Hotel and restaurant operations HK\$'000 | Eliminations HK\$'000 | Total HK\$'000 |
|---|---|---|----------------------|---|-----------------------------------|--|--------------------------|-------------------|
| By principal activity | | | | | | | | |
| REVENUE | | | | | | | | |
| External revenue | 65,340 | 41,795 | 25,004 | 23,536 | 8,253 | 26,595 | - | 190,523 |
| Inter-segment revenue | - | - | - | 52 | 4,113 | - | (4,165) | - |
| Total revenue | <u>65,340</u> | <u>41,795</u> | <u>25,004</u> | <u>23,588</u> | <u>12,366</u> | <u>26,595</u> | <u>(4,165)</u> | <u>190,523</u> |
| CONTRIBUTION TO PROFIT FROM OPERATIONS | | | | | | | | |
| | <u>10,791</u> | <u>20,374</u> | <u>(296)</u> | <u>(3,304)</u> | <u>3,849</u> | <u>6,145</u> | | 37,559 |
| Central administrative expenses | | | | | | | | <u>(11,628)</u> |
| Profit from operations | | | | | | | | 25,931 |
| Finance costs | | | | | | | | (9,439) |
| Share of loss of associates | - | - | - | (4,619) | 20 | - | - | (4,599) |
| Share of profit of jointly controlled entities | - | 628 | - | - | - | - | - | <u>628</u> |
| Profit before taxation | | | | | | | | 12,521 |
| Taxation | | | | | | | | <u>(1,254)</u> |
| Profit before minority interests | | | | | | | | <u>11,267</u> |

For the six months period ended 30th June, 2002

An analysis of the Group's turnover and contribution to operating results by geographical location of its customers is presented below:

| | The PRC other than Hong Kong HK\$'000 | Other parts of the world HK\$'000 | Hong Kong HK\$'000 | Total HK\$'000 |
|--|--|--|-----------------------|-------------------|
| Revenue | 148,572 | 25,004 | 16,947 | 190,523 |
| Contribution to profit from operations | 25,562 | (296) | 12,293 | 37,559 |
| Central administrative expenses | | | | (11,628) |
| Profit from operations | | | | 25,931 |
| Finance costs | | | | (9,439) |
| Share of loss of associates | (4,599) | - | - | (4,599) |
| Share of profit of jointly controlled entities | 628 | - | - | 628 |
| Profit before taxation | | | | 12,521 |
| Taxation | | | | (1,254) |
| Profit before minority interests | | | | 11,267 |

3. Profit from operations

| | Six months ended | |
|---|--------------------------------|--------------------------------|
| | 30th June, 2003 HK\$'000 | 30th June, 2002 HK\$'000 |
| Profit from operations has been arrived at after charging: | | |
| Depreciation and amortisation of property, plant and equipment | 29,745 | 33,537 |
| Loss on disposal of investment properties | 1,915 | - |
| and after crediting: | | |
| Release of negative goodwill to other revenue | 440 | 440 |

4. Taxation

| | Six months ended | |
|---|----------------------------|---------------------|
| | 30th June, 2003 | 30th June, 2002 |
| | HK\$'000 | HK\$'000 |
| The charge comprises: | | |
| Hong Kong profits tax calculated at 17.5% (six months period ended 30th June, 2002: 16%) of the estimated assessable profits for the period | - | - |
| PRC income tax | <u>2,147</u> | <u>1,037</u> |
| | 2,147 | 1,037 |
| Share of taxation of associates | <u>872</u> | <u>217</u> |
| | <u>3,019</u> | <u>1,254</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 earnings per share is based on the profit for the period of HK\$16,390,000 (six months ended 30th June, 2002: HK\$4,071,000) and on the 807,522,200 shares (six months ended 30th June, 2002: the weighted average number of 810,671,819 shares) in issue during the period.

No diluted earnings per share amount has been presented as the exercise prices of share options were greater than the market price of the Company's shares in both periods.

6. Transfers to and from reserves

During the six months period ended 30th June, 2002, the nominal value of shares repurchased of HK\$72,000 was transferred from retained earnings to capital redemption reserve and the premium on shares repurchased of HK\$41,000 was charged to retained earnings. There was no share repurchase 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, 2003 | 31st December, 2002 |
|---|----------------------------|------------------------|
| | HK\$'000 | HK\$'000 |
| 0 to 30 days | 20,946 | 28,904 |
| 31 to 90 days | 18,316 | 16,542 |
| More than 90 days | 7,552 | 6,479 |
| Total trade receivables | 46,814 | 51,925 |
| Receivables on disposal of an associate | – | 100,000 |
| Other receivables | 92,399 | 54,185 |
| | 139,213 | 206,110 |

8. Trade and other payables

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

| | 30th June, 2003 | 31st December, 2002 |
|----------------------|----------------------------|------------------------|
| | HK\$'000 | HK\$'000 |
| 0 to 30 days | 4,180 | 7,004 |
| 31 to 90 days | 876 | 753 |
| More than 90 days | 3,486 | 6,099 |
| Total trade payables | 8,542 | 13,856 |
| Other payables | 210,244 | 182,017 |
| | 218,786 | 195,873 |

9. Share capital

| | Number of shares | Nominal value <i>HK\$'000</i> |
|---|----------------------|-------------------------------------|
| Ordinary shares of HK\$0.50 each | | |
| <i>Authorised:</i> | | |
| At 1st January, 2003 and at 30th June, 2003 | <u>1,200,000,000</u> | <u>600,000</u> |
| <i>Issued and fully paid:</i> | | |
| At 1st January, 2003 and at 30th June, 2003 | <u>807,522,200</u> | <u>403,761</u> |

10. Contingent liabilities

At 30th June, 2003, the Company had given guarantees of approximately HK\$187 million (31st December, 2002: HK\$194 million) to certain banks in respect of banking facilities granted to certain subsidiaries of the Company.

In addition, at 30th June, 2003, the Group had given a guarantee of approximately HK\$14.3 million (31st December, 2002: 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, 2003 | 31st December, 2002 |
| | HK\$'000 | HK\$'000 |
| Capital expenditure contracted for but not provided in the financial statements in respect of: | | |
| – acquisition of leasehold land | 7,883 | – |
| – acquisition of property, plant and equipment | 34,681 | 6,890 |
| – acquisition of interests in unlisted companies | 70,000 | 338,000 |
| – renovation works of hotel properties | 56,075 | – |
| | 168,639 | 344,890 |
| Capital expenditure authorised but not contracted for in respect of: | | |
| – acquisition of leasehold land | 5,047 | 7,883 |
| – acquisition of property, plant and equipment | 47,734 | 27,791 |
| – renovation works of hotel properties | – | 56,075 |
| | 52,781 | 91,749 |

INTERIM DIVIDEND

The Directors have resolved not to declare the payment of an interim dividend for the six months ended 30th June, 2003 (six months ended 30th June, 2002: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30th June, 2003, turnover of the Group decreased by 6.9% from the corresponding period last year to HK\$177,428,000. The decrease in turnover was resulting from the renovation project on Poly Plaza. Profit for the period was HK\$16,390,000, representing an increase of 302% over the same period last year. The increase in profit was primarily attributable to the business growth as a result of the new investment in Dongtai Suzhong Environment Protection Cogeneration Company Limited (“Dongtai Plant”), Peixian Mine-Site Environment Cogen-power Co., Ltd (“Peixian Plant”) and shareholdings in a joint venture holding approximately one third of the floor area of Shanghai Stock Exchange Building. The results of the Group for the first half of the year reflect a substantial improvement in the Group’s asset quality and a remarkable business growth.

REVIEW OF BUSINESS

1. Property Development and Investment

a. *Poly Plaza*

The renovation project on Poly Plaza, in which the Group holds 75%, began on 15th February, 2003. The renovation project has a budget of RMB60 million and will mainly involve renovation of exterior walls, hotel rooms and mechanical engineering facilities. Despite the outbreak of SARS during the beginning stage, which caused severe impact on the Beijing hospitality industry, the renovation project has not experienced any disruption. It has been in smooth progress, and as at the end of June 2003, renovation of the exterior walls was basically completed. The hotel rooms has recommenced service on 15th September. As the renovation project is completed during the peak season for tourism and exhibition in Beijing, Poly Plaza Ltd is likely to realise a gross profit for the year.

b. *Shanghai Stock Exchange Building*

The Group directly owns six floors with an aggregate floor area of 13,900 sq. metre of the Shanghai Stock Exchange Building, and holds 40% equity interests in a joint venture company which owns approximately 35,000 sq. metre floor area of the building. These in aggregate represented an effective interest of 27% in the building owned by the Group. As at the end of June, Shanghai Stock Exchange Building had an occupancy rate of above 80% and an average daily rental of US\$0.50 per sq. metre. The leases of 7,000 sq. metre floor area will expire in the second half of the year and it is expected that the renewed leases can bring a rental increase by 20%. In June, the above mentioned joint venture company sold 1,220 sq. metre floor area of the building at a consideration of US\$2,880 per sq. metre, realising approximately RMB29,000,000.

c. *China Securities Plaza*

On 23rd June, 2003, the Group completed the acquisition of 49% equity interests in Tong Sun Limited for a consideration of US\$49. The sole asset of Tong Sun Limited is 66% interests in Beijing Zhong Zheng Real Estate Development Co. Ltd., which is principally engaged in the development of China Securities Plaza, located at Jinrong Street, Xicheng District, Beijing. The development project is expected to be completed by mid 2004 as a Grade A office building with a total gross floor area of 128,800 sq. metres. Pursuant to the terms of the acquisition agreement, the Group is obliged to advance a loan of HK\$45,000,000 and a senior loan of not more than HK\$165,000,000 to New City (Beijing) Development Limited and Tong Sun Limited respectively. In

return, the Group is entitled to receive before other shareholders a dividend of HK\$94,600,000 from Tong Sun Limited. The Group will finance the acquisition with internally generated funds. It is believed that the project, given its strengths and the favourable terms of the transaction, will contribute considerable investment returns to the Group.

2. Investment in Cogeneration Power Plants and Other Projects

a. Cogeneration Power Plants

At the end of last year, the Group acquired equity interests in Dongtai Plant and Peixian Plant. Both cogeneration power plants have been recognised as efficient resources operators and are entitled to 50% concession on value-added taxes. Currently, the Group has equity interests ranging from 49% to 52% in four cogeneration power plants in the Yangtze River Delta. In the first half of the year, particularly in early summer, there was a surge in demand for electricity in the PRC. As a result, all the cogeneration power plants invested by the Group generated more power than planned. The total amount of power generated and sold by the Group increased by approximately 15% over the same period last year. Despite the across-the-board reduction of 1 cent in grid tariffs, the revenue of the Group still managed to record an increase due to the rise in its power supply to the grids. Accordingly, the Group had a substantial growth in its economic benefits compared with the previous year. For the six months ended 30th June, 2003, the Group's share of the unaudited profit of the four thermal power plants was RMB17,200,000, representing an increase of approximately 370% over the same period last year.

b. Cultural media and products

(i) New Satellite TV Cartoon Channel ("Cartoon Channel")

The Group invested a total of RMB6,600,000 in the Cartoon Channel in the first half of the year. The Cartoon Channel has completed renewal of the cartoon TV programmes in a cost effective manner. It is expected that the Group will obtain the approval to broadcast programmes in Mainland China within the year of 2003.

(ii) Polystar Digidisc Co. Ltd. ("Polystar")

Polystar intends to invest RMB61 million for modification and expansion of the disc duplication production lines in 2003. The expansion project, expected to be completed by the end of December, will increase the production capacity by 60% to 80,000,000 DVDs a year. The expected yield on this investment is approximately 11%. For the first half of 2003, Polystar recorded a total sales of RMB23,150,000 and achieved a net profit of RMB3,120,000.

c. *Shipping*

The Group currently owns two bulk carriers. Freight and rental rates of the shipping industry have been rising since the beginning of the year, and in May were even close to the record highs set in 1995. Demand for cargo shipments bucked the trend for years and has not slowed down as it used to be since the beginning of summer. It is evident that the shipping industry has turned bullish, and the promising prospects are likely to continue in the coming year. One of the lease was expired in August. Upon renewal for six months, the daily rate has increased by 75% from USD8,250 to USD14,500.

LIQUIDITY AND CAPITAL STRUCTURE

As at 30th June, 2003, the shareholders' funds of the Group amounted to HK\$2,253,000,000 (31st December, 2002: HK\$2,236,000,000). As at 30th June, 2003, the Group's gearing ratio (on the basis of the amount of total liabilities less total bank balances divided by shareholders' funds) was 36.5% (31st December 2002: 24.3%).

As at 30th June, 2003, the Group had outstanding bank loans of HK\$628,689,000. In terms of maturity, the outstanding bank loans can be divided into HK\$387,075,000 (61%) to be repaid within one year, HK\$137,324,000 (22%) to be repaid after one year but within two years, HK\$66,460,000 (11%) to be repaid after two years but within five years, HK\$37,830,000 (6%) to be repaid more than five years. In terms of currency denomination, the outstanding bank loans can be divided into HK\$365,913,000 (58%) in Renminbi, HK\$111,930,000 (18%) in US dollars and HK\$150,846,000 (24%) in Hong Kong dollars.

About 60 percent of the bank borrowings of the Group are subject to fixed interest rates and the remaining 40 percent is 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 the interest rate risks.

As at 30th June, 2003, the Group had working capital of HK\$90,000,000 and total bank balances of HK\$381,000,000 (31st December 2002: HK\$252,000,000 and HK\$433,000,000 respectively). In view of the Group's current cash balances, 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 minimised via balancing the monetary assets versus monetary liabilities, and foreign exchange revenue versus foreign exchange expenditures. Besides, as the Hong Kong dollar is linked 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

The pledge on group assets have not been changed materially compared to those disclosed in the annual report of the Company for the year ended 31st December, 2002.

CONTINGENT LIABILITIES

At 30th June, 2003, the Company had given guarantees of approximately HK\$187 million (31st December, 2002: HK\$194 million) to certain banks in respect of banking facilities granted to certain subsidiaries of the Company.

In addition, at 30th June, 2003, the Group had given a guarantee of approximately HK\$14.3 million (31st December, 2002: 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.

STAFF

As at 30th June, 2003, the Group employed about 1,200 staff with remuneration for the year amounting to HK\$23,000,000. The Group provides its staff with various benefits including year-end double-pay, discretionary bonus, contributory provident fund, share options and medical insurance. On-the-job training is also provided as and when required.

PROSPECTS

The Group has identified real property in major cities in the PRC as its development direction. Although local property market in some particular regions is overheated, the overall development is still healthy, especially property market in major cities is booming. While enhancing the management of projects with stable income, the Group will keep on identifying new opportunities for investments, such as studying the feasibility of construction of hotels in Guangzhou and Macau to capture the advantages from Mainland-Hong Kong Closer Economic Partnership Arrangement ("CEPA").

Under the rapid macroeconomic growth in the PRC, the asset profile and reorganization of the Group is optimistic. The management will continue to strengthen the management of the Company and increase its operating efficiency. It is believed that its annual results will be improved significantly.

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, 2003 are described below:

| Date of grant | Exercise period | Exercise price per Share | Number of Shares subject to CMIC Options | | | | |
|---------------|-----------------------------|--------------------------|--|---------------------------|-----------------------------|--------------------------|---------------------------|
| | | | Outstanding at 1.1.2003 | Granted during the period | Exercised during the period | Lapsed during the period | Outstanding at 30.06.2003 |
| 3.9.1997 | 3.9.1998 to 2.9.2007 | HK\$5.175 | 31,200,000 | - | - | - | 31,200,000 |
| 5.6.1998 | 5.6.1999 to 4.6.2008 | HK\$1.37 | 17,000,000 | - | - | - | 17,000,000 |
| 30.11.2000 | 30.11.2001 to 29.11.2010 | HK\$0.74 | 26,140,000 | - | - | (365,000) | 25,775,000 |
| | | | <u>74,340,000</u> | <u>-</u> | <u>-</u> | <u>(365,000)</u> | <u>73,975,000</u> |

No options were granted or exercised under the New Scheme during the period from the adoption of the New Scheme to 30th June, 2003.

DIRECTORS' INTERESTS IN SECURITIES

At 30th June, 2003, 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 |
| Xie Da Tong | 4,800,000 | 3,000,000 | 4,000,000 | 11,800,000 |
| Li Shiliang | – | – | 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, 2003, 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, 2003, 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 |
|--|-----------------------|
| 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>) | 537,778,036 |
| China Poly Group Corporation (<i>Note 4</i>) | 537,778,036 |

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 the Shares and indirect holdings of the Shares through its wholly-owned subsidiaries.
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 537,778,036 Shares as a result of its direct holding of the 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, 2003.

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

During the six months period ended 30th June, 2003, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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, 2003, 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 Shiliang
Managing Director

Hong Kong, 18th September, 2003