

REVIEW OF OPERATIONS

(A) Commercial Banking

China Everbright Bank Company Limited

As a result of its continued efforts, the Group's 20% owned China Everbright Bank Company Limited ("Everbright Bank") has improved its asset base, asset quality and economic efficiency. For the period under review, the Bank recorded a profit after tax of RMB463 million, representing an increase of 62% compared to the same period last year.

As at 30th June, 2001, Everbright Bank's total deposits and total loans growth were 27.6% and 19.8% respectively compared to the beginning of the period. As at 30th June, 2001, its total assets were approximately RMB243.9 billion, representing an increase of 22.8% compared to the end of last year.

For the period under review, Everbright Bank's net interest income was RMB2.07 billion, an increase of 51.7% compared to the same period last year. Coupled with the satisfactory control of general expenses, the cost to net interest income ratio has decreased to 59.3%, compared with 60.6% for the first half of year 2000. As a result of continuous efforts to recover bad debts and to reinforce risk control measures, the overall quality of Everbright Bank's loans has shown improvements.

During the first half of year 2001, Everbright Bank has been actively elevating its electronic infrastructure and has achieved encouraging results. Everbright Bank has been the first market mover to launch an unprecedented "one-counter-through" real time clearing system. This has led to a substantial increase in account opening and fund transfer within a short period of time. Everbright Bank has also fine-tuned its Sun-card system with the number of card holders increased to 3.11 million. Further, in order to strengthen its risk control, Everbright Bank has enhanced its credit risk management mechanism and has put more resources in the recovery of bad debts, with a resultant significant improvement in its assets quality. At the same time, through the implementation of appropriate incentive scheme and rationalisation of its human resources structure, Everbright Bank has well-positioned itself to develop each of its businesses in full swing.

International Bank of Asia Limited

The Group's 20% owned International Bank of Asia Limited ("IBA") has achieved encouraging results during the period under review. IBA has recorded an after tax profit of HK\$162 million and contributed a profit after tax of HK\$32.48 million to the Group, representing an increase of 49.2% compared to the same period last year.

(B) Investment Banking

Everbright Securities Company Limited

Following an impressive growth in year 2000 and in particular the first half of that year with its indices and turnover achieving record high levels time and again, the stock markets in China has entered into the stage of adjustment in year 2001. During the period under review, the overall turnover of the stock markets in China has declined significantly compared to last year. Turnovers in "A" shares on the Shanghai and Shenzhen stock exchanges have decreased 30.9% and 70.3% respectively.

Against such a background, the Group's 49% owned Everbright Securities Company Limited ("Everbright Securities") has recorded corresponding decrease of 21% and 84% respectively in its commission income and income from securities investment. On the other hand, Everbright Securities has recorded encouraging growth in its investment banking and other businesses, with growth of 44% and 20% respectively. For the six months period ended 30th June, 2001, Everbright Securities' total revenue and profit after tax were RMB566 million and RMB113 million respectively, representing decreases of 39.9% and 61.2% respectively compared to last year. The contribution of commission income, underwriting commission, income from securities investment and other income towards the total revenue were 56.7%, 12.2%, 11.2% and 19.9% respectively.

In view of the stock market adjustment during the first half of the year, Everbright Securities has made much efforts to reduce its investment risk exposure by strengthening the approval mechanism for new investments and conducting in-depth research into the investee companies. Further, in order to shift its profit composition to non-commission based income, Everbright Securities has launched a portfolio management service. As regards brokerage business, over 95% of its operating offices have commenced online securities trading. The underwriting business of Everbright Securities continued to rank among the top positions nationwide. Apart from the aforesaid, Everbright Securities is also actively preparing for its capital enlargement and for the commencement of its asset management and open-ended fund businesses.

In order to counter the effect of an expected commission rate reduction for secondary market activities, Everbright Securities will implement innovative and hi-tech business management model, strengthen cost control measures and rationalise its operating network with a view to increasing its competitiveness and enlarging its customer base.

Hong Kong Operations

Profits from the investment banking operation in Hong Kong has shown increase, with the principal source of profit coming from the Group's proprietary trading. Due to the significant decline in the turnover of the stock market in Hong Kong during the period under review, profits derived from the Group's securities and futures brokerage business has shown a corresponding decrease.

(C) Insurance Business

The Group is determined to develop insurance business as one of its core businesses in the future which is expected to be one of the sources for further business development. Riding on improved market conditions for the insurance sector in Hong Kong, the Group expects an improvement in the operation of the joint venture life insurance company established between the Company and The Standard Life Assurance Company.

(D) Other Income

China Mobile (Hong Kong) Limited

Profits from disposal of shares in China Mobile (Hong Kong) Limited has decreased significantly from HK\$ 1,030 million in last year to HK\$55.76 million. As at 30th June, 2001, the Company held approximately 50 million shares in China Mobile (Hong Kong) Limited.

Action Against Ch'ng Poh

The Company has been awarded judgment in its favour in the legal action against Ch'ng Poh, its former Chairman. This has led to an exceptional profit of HK\$271 million for the Group during the period under review. Mr. Ch'ng has lodged an appeal against the aforesaid judgment which will be heard in January 2002.