



China Everbright Limited
中國光大控股有限公司

Interim Report
for the six months ended 30th June, 2003



Board of Directors

* Wang Mingquan
* Xu Bin
* Guo You
* He Ling
* Wang Chuan
* Xie Zhichun
* Zhou Liqun
* Lau Chung Man, Louis
Ng Ming Wah, Charles
Tung Wai, David
Seto Gin Chung, John

* *Executive Directors*

Chairman
Vice-chairman
Chief Executive Officer
Deputy General Manager

Company Secretary

Ip Kun Wan, Kiril

Registered Office

Room 4001, 40th Floor
Far East Finance Centre
16 Harcourt Road
Hong Kong

Principal Bankers

Standard Chartered Bank
International Bank of Asia Limited
The Bank of East Asia, Limited

Legal Advisors

Messrs. Richards Butler
Messrs. Woo, Kwan, Lee & Lo
Messrs. Anthony Chiang & Partners

Share Registrars

Secretaries Limited
Ground Floor, Bank of East Asia
Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

Auditors

PricewaterhouseCoopers

Website Address

<http://www.everbright165.com.hk>

Unaudited Interim Results

The Directors of China Everbright Limited (the "Company") are pleased to announce that the unaudited consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months period ended 30th June 2003 are as follows:-

Condensed Consolidated Profit and Loss Account

	<i>Notes</i>	1st January to 30th June 2003 HK\$'000	1st January to 30th June 2002 HK\$'000 (Restated)
Turnover	2	100,582	39,202
Other revenues	2	(406)	5,686
		100,176	44,888
Staff costs		(21,025)	(23,328)
Depreciation and amortisation expenses		(9,089)	(10,026)
Other operating expenses		(25,547)	(30,312)
Operating profit/(loss)		44,515	(18,778)
Finance costs		(2,970)	(6,736)
Share of profits less losses of associates		145,486	(150,777)
Profit/(loss) before taxation		187,031	(176,291)
Taxation	1, 3	(52,080)	(28,996)
Profit/(loss) after taxation		134,951	(205,287)
Minority interests		62	-
Profit/(loss) attributable to shareholders		135,013	(205,287)
Dividends	4	15,634	-
Earnings/(loss) per share	5		
– basic		8.64 cents	(13.13 cents)
– diluted		8.64 cents	(13.13 cents)

Condensed Consolidated Balance Sheet

		30th June 2003	31st December 2002
	<i>Note</i>	HK\$'000	<i>HK\$'000</i> (Restated)
ASSETS			
Non-current assets			
Fixed assets		104,803	100,778
Investments in associates	6	2,210,258	2,198,269
Investment in jointly controlled entity		2,239	2,239
Non-trading securities	7	1,202,447	1,302,769
Held-to-maturity securities		51,020	–
Intangible assets		109,775	116,500
Deferred tax assets	8	3,714	7,299
		3,684,256	3,727,854
Current assets			
Advances to customers		123,162	112,547
Debtors, deposits and prepayments	9	352,916	288,028
Trading securities	10	161,806	303,930
Held-to-maturity securities		47,277	–
Bank balances and cash – general accounts		429,756	124,193
		1,114,917	828,698
Current liabilities			
Creditors, deposits received and accrued charges	11	(105,241)	(76,749)
Amounts due to associates		(438)	(438)
Loan from ultimate holding company		(380,000)	(250,000)
Interest payable on loan from ultimate holding company		(20)	(1,577)
Bank loans		–	(40,000)
Provision for taxation		(211,226)	(210,208)
		(696,925)	(578,972)
Net current assets		417,992	249,726
Minority interests		(335)	–
NET ASSETS		4,101,913	3,977,580

Condensed Consolidated Balance Sheet (Continued)

		30th June 2003	31st December 2002
	<i>Note</i>	HK\$'000	<i>HK\$'000</i> (Restated)
Trust accounts not reflected on balance sheet			
	1		
Bank balances – trust accounts		149,661	98,368
Receivable from clearing house		3,594	1,691
Amounts held on behalf of clients		(153,255)	(100,059)
		<u> </u>	<u> </u>
		<u> </u>	<u> </u>
CAPITAL AND RESERVES			
Share capital	12	1,563,351	1,563,351
Reserves		2,538,562	2,414,229
		<u> </u>	<u> </u>
		4,101,913	3,977,580
		<u> </u>	<u> </u>

Condensed Consolidated Statement of Changes in Equity

	Share capital HK\$'000	Share premium HK\$'000	Asset revaluation reserve HK\$'000 (Restated)	Investment revaluation reserve HK\$'000 (Restated)	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Goodwill reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000 (Restated)	Total HK\$'000 (Restated)
As at 1st January 2003										
as previously reported	1,563,351	5,625,445	207	183,660	2,984	25,746	(3,957,664)	(2,774)	529,036	3,969,991
Prior year adjustment (note 1, 3)	-	-	-	-	-	-	-	-	7,299	7,299
Share of associates' prior year adjustment (note 1, 3)	-	-	-	657	-	-	-	-	(367)	290
As at 1st January 2003 as restated	1,563,351	5,625,445	207	184,317	2,984	25,746	(3,957,664)	(2,774)	535,968	3,977,580
Deficit on revaluation	-	-	-	(12,223)	-	-	-	-	-	(12,223)
Share of associates' reserves	-	-	-	(1,557)	-	20	-	-	(134)	(1,671)
Net gain/(loss) not recognised in the profit and loss account	-	-	-	(13,780)	-	20	-	-	(134)	(13,894)
Release upon disposal of non-trading securities	-	-	-	3,214	-	-	-	-	-	3,214
Profit for the period	-	-	-	-	-	-	-	-	135,013	135,013
As at 30th June 2003	1,563,351	5,625,445	207	173,751	2,984	25,766	(3,957,664)	(2,774)	670,847*	4,101,913
Representing:										
Company and subsidiaries	1,563,351	5,625,445	207	178,755	2,984	10,000	(3,957,664)	(2,774)	915,787	4,336,091
Associates	-	-	-	(5,004)	-	15,766	-	-	(246,722)	(235,960)
Jointly controlled entity	-	-	-	-	-	-	-	-	1,782	1,782
As at 30th June 2003	1,563,351	5,625,445	207	173,751	2,984	25,766	(3,957,664)	(2,774)	670,847	4,101,913

* The proposed interim dividends at 30th June 2003 and balance of retained earnings after proposed interim dividends were approximately HK\$15,634,000 and approximately HK\$655,213,000 respectively.

Condensed Consolidated Statement of Changes in Equity (Continued)

	Share capital HK\$'000	Share premium HK\$'000	Asset revaluation reserve HK\$'000	Investment revaluation reserve HK\$'000 (Restated)	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Goodwill reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000 (Restated)	Total HK\$'000 (Restated)
As at 1st January 2002 as previously reported	1,562,991	5,624,255	414	760,413	2,984	10,000	(3,957,664)	(2,774)	1,541,217	5,541,836
Prior year adjustment (note 1, 3)	-	-	-	-	-	-	-	-	6,446	6,446
Share of associates' prior year adjustment (note 1, 3)	-	-	-	583	-	-	-	-	612	1,195
As at 1st January 2002 as restated	1,562,991	5,624,255	414	760,996	2,984	10,000	(3,957,664)	(2,774)	1,548,275	5,549,477
Deficit on revaluation	-	-	(207)	(467,461)	-	-	-	-	-	(467,668)
Share of associates' reserves	-	-	-	(4,030)	-	15,746	-	-	-	11,716
Net gain/(loss) not recognised in the profit and loss account	-	-	(207)	(471,491)	-	15,746	-	-	-	(455,952)
Issue of shares	360	1,190	-	-	-	-	-	-	-	1,550
Release upon disposal of non-trading securities	-	-	-	(105,188)	-	-	-	-	-	(105,188)
Loss for the year (note 1, 3)	-	-	-	-	-	-	-	-	(993,548)	(993,548)
Dividend paid - 2001 final	-	-	-	-	-	-	-	-	(18,759)	(18,759)
As at 31st December 2002	1,563,351	5,625,445	207	184,317	2,984	25,746	(3,957,664)	(2,774)	535,968	3,977,580
Representing:										
Company and subsidiaries	1,563,351	5,625,445	207	187,764	2,984	10,000	(3,957,664)	(2,774)	879,437	4,308,750
Associates	-	-	-	(3,447)	-	15,746	-	-	(345,251)	(332,952)
Jointly controlled entity	-	-	-	-	-	-	-	-	1,782	1,782
As at 31st December 2002	1,563,351	5,625,445	207	184,317	2,984	25,746	(3,957,664)	(2,774)	535,968	3,977,580

Condensed Consolidated Cash Flow Statement

	1st January to 30th June 2003	1st January to 30th June 2002
<i>Note</i>	HK\$'000	<i>HK\$'000</i> (Restated)
Net cash inflow/(outflow) from operating activities	179,783	(337,267)
Net cash inflow/(outflow) from investing activities	35,383	(134,622)
Net cash inflow/(outflow) from financing activities	130,397	(17,209)
Increase/(decrease) in cash and cash equivalents	345,563	(489,098)
Cash and cash equivalents		
Beginning of period	84,193	911,363
End of period	<i>(a)</i> 429,756	422,265
(a) Analysis of the balances of cash and cash equivalents		
	30th June 2003	30th June 2002
	HK\$'000	<i>HK\$'000</i>
Bank balances and cash – general accounts	429,756	504,538
Short-term bank loans	–	(82,273)
	429,756	422,265

Notes to the accounts

1. BASIS OF PRESENTATION

The unaudited condensed consolidated interim accounts have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" and on a basis consistent with the principal accounting policies adopted in the annual accounts for the year ended 31st December 2002 except that the Group has adopted the revised SSAP 12 "Income Tax" which is effective for accounting periods commencing on or after 1st January 2003. The new accounting policy has been applied retrospectively, resulting in prior period adjustments on retained earnings as at 1st January 2002 and 1st January 2003 restated by addition of approximately HK\$7,058,000 and HK\$6,932,000 respectively. The comparative figure in respect of taxation for the prior period has also been restated by an increase of approximately HK\$406,000.

Certain comparative figures have been reclassified to reflect the change in the accounting treatment for trust accounts. Trust accounts maintained by the Group to hold clients' monies in the ordinary course of business of dealing in securities, futures and leveraged foreign exchange are no longer recognised in the accounts but are treated as off balance sheet items and disclosed in the accounts. The effect of change is that amounts previously recognised as "bank balances and cash-trust accounts" and "receivable from clearing house" on the balance sheet are de-recognised and netted off against the corresponding amounts classified under "trade payables".

2. TURNOVER AND OTHER REVENUES

Turnover and other revenues recognised during the period are as follows:

	1st January to 30th June 2003 HK\$'000	1st January to 30th June 2002 HK\$'000
Turnover		
Net gain on disposal of trading securities	21,802	23,801
Net unrealised gain/(loss) on trading securities	3,524	(37,151)
Interest income		
– bank deposits	1,278	7,603
– advances to customers	4,924	5,194
– others	4,841	2,043
Dividend income		
– listed investments	31,647	4,867
– unlisted investments	785	369
Gross rental income from investment properties	971	945
Brokerage commission and service income	30,180	31,017
Other income	630	514
	100,582	39,202
Other revenues		
Net loss on disposal of non-trading securities	(3,708)	–
Recovery of doubtful debts previously written off	291	68
Exchange gain, net	695	5,220
Others	2,316	398
	(406)	5,686
Total revenues	100,176	44,888

3. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the period. In March 2003, the Hong Kong Government announced an increase in the Profits Tax rate from 16% to 17.5% which is taken into account in the preparation of the Group's 2003 interim results. Overseas taxation has been calculated on the estimated assessable profit for the period at rates prevailing in the respective jurisdictions.

Taxation in the consolidated profit and loss account is represented by:

	1st January to 30th June 2003 HK\$'000	1st January to 30th June 2002 HK\$'000 (Restated)
Hong Kong profits tax		
– Provision for current period	1,462	–
– Deferred tax expense/(credit)	3,585	(507)
Overseas tax		
– Provision for current period	210	1,103
Share of taxation attributable to associates	46,823	28,400
	<u>52,080</u>	<u>28,996</u>

The adoption of the newly revised SSAP 12 "Income Tax" resulted in comparative figures in respect of taxation being restated by a net increase of approximately HK\$406,000 (deferred tax credit of the Group of approximately HK\$507,000 and share of an associate's increase of tax expense of approximately HK\$913,000).

4. DIVIDENDS

	1st January to 30th June 2003 HK\$'000	1st January to 30th June 2002 HK\$'000
Dividends declared during the period		
2002 final dividend of HK\$nil per share (2002: 2001 final dividend of HK\$0.012 per share)	–	18,759
Dividends proposed after period end		
Interim dividend of HK\$0.01 per share (2002: HK\$nil per share)	15,634	–

5. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings per share for the six months period ended 30th June 2003 is based on the net profit attributable to shareholders of approximately HK\$135,013,000 (2002: net loss of approximately HK\$205,287,000) divided by the weighted average number of ordinary shares outstanding during the period of 1,563,350,712 shares (2002: 1,563,167,729 shares).

The basic earnings per shares for the period ended 30th June 2003 is the same as the diluted earnings per shares as the effect of outstanding share option on diluted earnings per share is insignificant.

6. INVESTMENTS IN ASSOCIATES

	30th June 2003 HK\$'000	31st December 2002 HK\$'000 (Restated)
Investment, at cost		
Unlisted shares in		
Hong Kong	40,458	40,458
Overseas	5,500,755	5,500,755
Listed shares in		
Hong Kong	904,411	904,411
Share of post-acquisition reserves	(239,757)	(251,746)
	6,205,867	6,193,878
Less: accumulated provision for impairment in value premium on acquisition	(165,548) (3,830,061)	(165,548) (3,830,061)
	2,210,258	2,198,269
Quoted market value of listed shares	644,688	591,941

The Directors are of the opinion that the underlying value of the associates is not less than the carrying amount of the associates at 30th June 2003.

As at 30th June 2003, particulars of the principal associates of the Group are as follows:

Name of associate	Place of incorporation/ operation	Principal activities	Percentage of equity interest held	
			Directly	Indirectly
China Everbright Bank Company Limited	The People's Republic of China (the "PRC")	Banking operations	21.39%	-
Everbright Securities Company Limited	The PRC	Securities operations	-	49%
International Bank of Asia Limited	Hong Kong	Banking operations	-	20%

7. NON-TRADING SECURITIES

	30th June 2003 HK\$'000	31st December 2002 HK\$'000
Equity securities listed in Hong Kong, at fair value	1,202,447	1,302,769

7. NON-TRADING SECURITIES (Continued)

The following is a list of the principal non-trading securities as of 30th June 2003:

Company name	Place of incorporation	Principal activities	Effective equity interest held
China Mobile (Hong Kong) Limited	Hong Kong	Provision of telecommunication services	0.23%
China Unicom Limited	Hong Kong	Provision of telecommunication services	0.06%
Frankie Dominion International Limited	Bermuda	Manufacturing and trading operation	7.29%
Theme International Holdings Limited	Bermuda	Manufacturing and retail operation	4.98%
Stockmarket Holdings Limited	Hong Kong	Securities brokerage	0.31%
Bank of China (Hong Kong) Limited	Hong Kong	Banking operation	0.39%

As at 30th June 2003, the carrying amount of interest in China Mobile (Hong Kong) Limited exceeds 10% of the total assets of the Group.

As at 30th June 2003, non-trading securities of aggregate carrying amount of HK\$530 million (31st December 2002: HK\$592 million) have been pledged to secure bank loan and overdraft facilities for the Company and China Everbright Securities (HK) Limited, a subsidiary.

8. DEFERRED TAX ASSETS

Deferred taxation is provided on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts under the liability method using a principal taxation rate of 17.5% (2002:16%)

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Analysis of the deferred tax assets are as follows:

	General provisions		Tax losses		Accelerated tax depreciation		Total	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
As at 1st January	320	320	6,904	6,089	75	37	7,299	6,446
Deferred tax (charged)/credit to profit and loss account	293	-	(3,878)	815	-	38	(3,585)	853
As at 30th June/ 31st December	613	320	3,026	6,904	75	75	3,714	7,299

9. DEBTORS, DEPOSITS AND PREPAYMENTS

	30th June 2003 HK\$'000	31st December 2002 HK\$'000
Trade receivables, net	144,422	172,861
Debtors, prepayments and other receivables	208,494	115,167
	<u>352,916</u>	<u>288,028</u>

Details of the aging analysis on trade receivables are as follows:

	30th June 2003 HK\$'000	31st December 2002 HK\$'000
Within 1 month	143,631	172,163
Within 1 to 2 months	–	263
Within 2 to 3 months	122	1,264
Within 3 to 6 months	129	168
Over 6 months	1,540	3
	145,422	173,861
Less: provision for doubtful receivables	(1,000)	(1,000)
	<u>144,422</u>	<u>172,861</u>

Trade receivables mainly comprised amounts due from the brokerage clients, brokers and clearing houses. These receivables are normally due two days after trade date, and the extension of credit requires management's approval on a case-by-case basis. These receivables have excluded the brokerage client monies maintained in the trust accounts with Hong Kong Futures Exchange Clearing Corporation Limited.

10. TRADING SECURITIES

	30th June 2003 HK\$'000	31st December 2002 HK\$'000
At fair value:		
Debt securities – unlisted	<u>3,882</u>	<u>45,956</u>
Equity securities:		
– listed in Hong Kong	157,612	257,777
– listed overseas	312	197
	<u>157,924</u>	<u>257,974</u>
	<u>161,806</u>	<u>303,930</u>

11. CREDITORS, DEPOSITS RECEIVED AND ACCRUED CHARGES

	30th June 2003 HK\$'000	31st December 2002 HK\$'000
Trade payables	86,892	57,905
Other creditors, deposits received and accrued charges	18,349	18,844
	<u>105,241</u>	<u>76,749</u>

Trade payables represent amounts due to brokerage clients, brokers and clearing houses, and are due in one month. Trade payables to clients exclude those payables placed in trust accounts.

12. SHARE CAPITAL

	30th June 2003 HK\$'000	31st December 2002 HK\$'000
<i>Authorised:</i>		
Ordinary shares of HK\$1.00 each	<u>2,000,000</u>	<u>2,000,000</u>
<i>Issued and fully paid:</i>		
Beginning of period/year	1,563,351	1,562,991
Exercise of share options	–	360
	<u>1,563,351</u>	<u>1,563,351</u>

13. SEGMENT INFORMATION

A. Business segments

The Group conducts the majority of its business activities in three areas – short-term investment, financial services and long-term investment plus other operations. An analysis by business segment is as follows:

	Short-term investment		Financial services		Long-term investment plus others		Total	
	1st January to 30th June	1st January to 30th June	1st January to 30th June	1st January to 30th June	1st January to 30th June	1st January to 30th June	1st January to 30th June	1st January to 30th June
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
								(Restated)
REVENUES								
Investment income/(loss)	31,213	(9,214)	-	-	22,837	1,100	54,050	(8,114)
Interest income	1,040	1,783	5,335	5,975	4,668	7,082	11,043	14,840
Brokerage commission and service income	-	-	30,180	31,017	-	-	30,180	31,017
Other income	-	-	291	68	4,612	7,077	4,903	7,145
Total revenues	32,253	(7,431)	35,806	37,060	32,117	15,259	100,176	44,888
RESULTS								
Segment results	29,868	(9,864)	5,771	2,930	21,783	6,755	57,422	(179)
Unallocated corporate expenses							(12,907)	(18,599)
Operating profit/(loss)							44,515	(18,778)
Interest expenses							(2,970)	(6,736)
Share of profits less losses of associates							145,486	(150,777)
Taxation (note 1, 3)							(52,080)	(28,996)
Minority interests							62	-
Profit/(loss) attributable to shareholders							135,013	(205,287)

13. SEGMENT INFORMATION (Continued)**A. Business segments (Continued)****OTHER INFORMATION**

	Short-term investment		Financial services		Long-term investment plus others		Total	
	30th June 2003	31st December 2002	30th June 2003	31st December 2002	30th June 2003	31st December 2002	30th June 2003	31st December 2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	250,239	398,351	296,150	284,516	1,742,796	1,403,547	2,289,185	2,086,414
Investments in associates							2,210,258	2,198,269
Goodwill							108,900	115,500
Investments in jointly controlled entity							2,239	2,239
Unallocated corporate assets							188,591	154,130
Total assets							<u>4,799,173</u>	<u>4,556,552</u>
Segment liabilities	1,050	785	90,536	80,567	-	-	91,586	81,352
Unallocated corporate liabilities							605,339	497,620
Total liabilities							<u>696,925</u>	<u>578,972</u>
	1st January to 30th June 2003	1st January to 30th June 2002	1st January to 30th June 2003	1st January to 30th June 2002	1st January to 30th June 2003	1st January to 30th June 2002	1st January to 30th June 2003	1st January to 30th June 2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Capital expenditures	-	159	-	241	6,389	39	6,389	439
Depreciation and amortisation	59	139	278	189	8,752	9,698	9,089	10,026

B. Geographical segments

Most of the activities of the Group are based in Hong Kong from where (i) it derives more than 90% of its revenues and operating results; and (ii) most of its segment assets and capital expenditures are located.

14. CAPITAL COMMITMENT

As at 30th June 2003, the Group has an authorised and contracted for commitment of not more than HK\$500 million in respect of fund investment which is due to payable on or before 19th October 2003. This sum will be used as seed investments in investment funds which shall be managed by one of the Group's jointly controlled entity.

Interim Dividend

The Directors have recommended an interim dividend of HK\$0.01 (2002: HK\$Nil) per share to shareholders whose names appear on the Register of Members of the Company on Friday, 5th September 2003. Dividend warrants will be despatched on or about Thursday, 11th September 2003.

Closure of Register of Members

The Register of Members of the Company will be closed from Monday, 1st September 2003 to Friday, 5th September 2003 (both days inclusive), during which period no transfers of shares can be registered. In order to rank for the interim dividend, shareholders must ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's Share Registrars, Secretaries Limited, at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:00 p.m. on Friday, 29th August 2003.

Results of the Group

In the first half of the year, the outburst of SARS in Hong Kong and Mainland China affected their respective economies to different extents. Against this backdrop, the Company together with its subsidiaries (collectively the "Group"), made their best efforts in developing business in Hong Kong and the Mainland China. China Everbright Bank Company Limited ("Everbright Bank") continued its rapid growth pace and Everbright Securities Company Limited ("Everbright Securities") maintained a steady growth in its business. According to the unaudited management accounts as at 30th June 2003, the Group's profits after tax amounted to HK\$135 million with Everbright Bank, Everbright Securities, International Bank of Asia Limited and the Group's Hong Kong operations each contributing HK\$87.2 million, HK\$0.9 million, HK\$10.5 million and HK\$36.4 million respectively in profits to the Group.

Review of Operations

(A) Commercial Banking

As at 30th June 2003, the Group's 21.39% owned Everbright Bank's total assets amounted to approximately HK\$347.6 billion and its total deposit and customer loan values reached approximately HK\$298.4 billion and HK\$232 billion, representing an increase of 18% and 26% respectively. In the first half of the year, Everbright Bank recorded an operating income of HK\$3.25 billion, representing an increase of 34.2% compared with that of last year. Everbright Bank's operating cost to operating income ratio was improved to 42% compared with 55% for the same period last year. Whilst Everbright Bank continues to develop its business, it has paid extra efforts in clearing up its non-performing assets. As at 30th June 2003, according to the "5-grade" standard

in loan categorisation, Everbright Bank's non-performing loan rate dropped to 10.2%. For the period under review the provisions amounted to HK\$1.27 billion in which general provisions for new loans and special provisions for other loans amounted to approximately HK\$1 billion such that the provisioning rate for non-performing loan reached 46%.

The combined effect of strong growth in loans and continuous drop in cost to income ratio has raised the profitability of Everbright Bank. For the first half year ended 30th June 2003, the profit after tax of Everbright Bank was HK\$407 million according to the Hong Kong accounting standards.

As at 30th June 2003, Everbright Bank was operating through 359 branches/banking offices in 30 provinces/cities and autonomous regions in the PRC with representative offices in Hong Kong and South Africa.

Affected by Hong Kong's continuous difficult economic situation, the Group's 20% owned International Bank of Asia Limited has recorded an after tax profit of HK\$52.4 million and contributed a profit after tax of HK\$10.5 million to the Group, representing a decrease of 45.6% compared to the same period last year.

(B) Investment Banking Business

In the period under review, the turnovers of the Mainland China primary and secondary securities markets were in general similar to those of last year. In this difficult market environment, the Group's 49% owned Everbright Securities continued to develop its business and managed to improve its market share. Up to 30th June 2003, the market share of Everbright Securities in terms of turnover in securities and investment funds reached 1.78%. Everbright Securities has achieved remarkable results in corporate finance transactions. Everbright Securities was ranked 2nd place by the China Securities Journal on its list of top ten securities companies in China in terms of total underwritten transaction sum. The total income of Everbright Securities in the period under review amounted to HK\$311 million. It achieved an after tax profit of HK\$1.92 million with brokerage commission, underwriting fees, investment income and other income representing 40%, 15%, 25% and 20% of total income respectively.

The Hong Kong securities market turnover continued to shrink in the period under review. Despite such difficult market, the Group's Hong Kong brokerage business achieved steady growth in securities, forex and corporate finance operations. The futures brokerage business has grown rapidly and the proprietary trading business has made profits. The Group has also adopted prudent costs control measures, thereby enhancing the profits of the Hong Kong operations. The Group's venture capital business in Shenzhen has also been operating satisfactorily.

Financial Position

As at 30th June 2003, the net assets of the Group was approximately HK\$4.10 billion, with cash on hand of approximately HK\$430 million, and held approximately 45 million shares in China Mobile (Hong Kong) Limited. Apart from trade liabilities in the ordinary course of business, the Group's major liability is the renewable term loans in the sums of HK\$250 million and HK\$130 million respectively borrowed from China Everbright Holdings Company Limited, its ultimate holding company.

The Group did not have any loans from any financial institutions as at 30th June 2003. The bank loans and overdrafts utilised during the period under review were for normal working capital requirements. The level of borrowing depended mainly on the Group's business and investment needs. As at 30th June 2003, the Group committed borrowing facilities in the sum of approximately HK\$630 million. The Group's gearing ratio, which is computed from the Group's total interest bearing liabilities divided by the shareholders' funds, was 9.3% as at 30th June 2003 (7.3% as at 31st December 2002).

As at 30th June 2003, the Group had no material exposure to foreign exchange fluctuations other than assets denominated in Renminbi.

As at 30th June 2003, the Group pledged listed securities to the value of approximately HK\$530 million (HK\$592 million as at 31st December 2002) in relation to certain banking facilities.

The Group did not have any contingent liabilities as at 30th June 2003. The Company had given guarantees in respect of banking facilities available to subsidiaries totaling approximately HK\$380 million but those facilities were not utilised as at 30th June 2003.

Prospects

The signing of the Closer Economic Partnership Arrangement (CEPA) between Hong Kong and the Mainland China has placed Hong Kong in an excellent position to continue its economic restructuring and recovery. Economic activities between the two markets will certainly increase and the merging of the two markets will quicken. The Group will take advantage of its position and capitalise on this opportunity to further develop its business. The continuous rapid growth of the economy of China will provide a good operating environment for its financial industry. The business of Everbright Bank will continue to develop in a steady and healthy manner. Its profitability will increase gradually and it will contribute more to the Group's profits. Furthermore, the potential of the capital market of China is enormous and the Group is very optimistic about the future development of the securities market of the Mainland China. The Group is committed to improving its corporate governance, transparency and competitiveness with the aim of generating higher return for its shareholders.

Directors' and Chief Executive's interests in Securities

As at 30th June 2003, the interests and short positions of the Directors and Chief Executive of the Company in the shares, underlying shares of equity derivatives and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register of directors' and chief executives' interests and short positions required to be maintained under section 352 of the SFO are as follows:

1. Long position in shares of the Company

Name of Director	Total	Personal interests	Family interests	Corporate interests	% of total issued shares (if 0.01% or more)
Guo You	1,000,000	1,000,000	–	–	0.06
He Ling	320,000	320,000	–	–	0.02
Lau Chung Man, Louis	4,000	4,000	–	–	–

2. Long position in underlying shares of equity derivatives of the Company

Name of Director	Nature of interest	Number of equity derivatives held (share options)	Number of underlying shares (ordinary shares)	Percentage
Wang Mingquan	Personal	6,000,000	6,000,000	0.38
Xu Bin	Personal	1,500,000	1,500,000	0.10
Guo You	Personal	2,000,000	2,000,000	0.13
He Ling	Personal	1,500,000	1,500,000	0.10
Wang Chuan	Personal	1,500,000	1,500,000	0.10
Xie Zhichun	Personal	1,500,000	1,500,000	0.10
Zhou Liqun	Personal	1,500,000	1,500,000	0.10
Lau Chung Man, Louis	Personal	500,000	500,000	0.03
Tung Wai, David	Personal	300,000	300,000	0.02

All the above shares and underlying shares of equity derivatives were beneficially owned by the Directors concerned. The percentage shown was calculated based on the number of issued shares as at 30th June 2003.

Details of the share options held by the Directors and Chief Executive of the Company are shown in the following section under the heading "information on Share Options".

As at 30th June 2003, none of the Directors and Chief Executive of the Company were interested in short positions in the shares, underlying shares of equity derivatives or debentures of the Company or any associated corporation as defined under SFO as recorded in the register of directors' and chief executives' interests and short positions.

Information on Share Options

Information in relation to share options of the Company disclosed in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") are as follows:

1. Outstanding share options as at 1st January 2003:

	Number of options	Date of offer	Vesting period	Exercise period	Exercise price (HK\$)
Wang Mingquan	6,000,000	26.06.02	27.06.03 – 27.12.04	27.06.03 – 26.12.05	4.36
Xu Bin	1,500,000	26.06.02	27.06.03 – 27.12.04	27.06.03 – 26.12.05	4.36
Guo You	2,000,000	26.06.02	27.06.03 – 27.12.04	27.06.03 – 26.12.05	4.36
He Ling	1,500,000	26.06.02	27.06.03 – 27.12.04	27.06.03 – 26.12.05	4.36
Wang Chuan	1,500,000	26.06.02	27.06.03 – 27.12.04	27.06.03 – 26.12.05	4.36
Xie Zhichun	1,500,000	26.06.02	27.06.03 – 27.12.04	27.06.03 – 26.12.05	4.36
Zhou Liquan	1,500,000	26.06.02	27.06.03 – 27.12.04	27.06.03 – 26.12.05	4.36
Lau Chung Man, Louis	500,000	26.06.02	27.06.03 – 27.12.04	27.06.03 – 26.12.05	4.36
Ng Ming Wah, Charles	102,000	21.03.97	22.03.99 – 22.03.01	22.03.99 – 21.03.03	5.152
Tung Wai, David	300,000	26.06.02	27.06.03 – 27.12.04	27.06.03 – 26.12.05	4.36
Aggregate total of employees (Note 1)	4,500,000	26.06.02	27.06.03 – 27.12.04	27.06.03 – 26.12.05	4.36
Aggregate total of other persons (Note 2)	3,060,000	21.03.97	22.03.99 – 22.03.01	22.03.99 – 21.03.03	5.152

2. Outstanding share options as at 30th June 2003:

	Number of options	Date of offer	Vesting period	Exercise period	Exercise price (HK\$)
Wang Mingquan	6,000,000	26.06.02	27.06.03 – 27.12.04	27.06.03 – 26.12.05	4.36
Xu Bin	1,500,000	26.06.02	27.06.03 – 27.12.04	27.06.03 – 26.12.05	4.36
Guo You	2,000,000	26.06.02	27.06.03 – 27.12.04	27.06.03 – 26.12.05	4.36
He Ling	1,500,000	26.06.02	27.06.03 – 27.12.04	27.06.03 – 26.12.05	4.36
Wang Chuan	1,500,000	26.06.02	27.06.03 – 27.12.04	27.06.03 – 26.12.05	4.36
Xie Zhichun	1,500,000	26.06.02	27.06.03 – 27.12.04	27.06.03 – 26.12.05	4.36
Zhou Liqun	1,500,000	26.06.02	27.06.03 – 27.12.04	27.06.03 – 26.12.05	4.36
Lau Chung Man, Louis	500,000	26.06.02	27.06.03 – 27.12.04	27.06.03 – 26.12.05	4.36
Tung Wai, David	300,000	26.06.02	27.06.03 – 27.12.04	27.06.03 – 26.12.05	4.36
Aggregate total of employees	4,000,000	26.06.02	27.06.03 – 27.12.04	27.06.03 – 26.12.05	4.36
(Note 1)	300,000	11.02.03	12.02.04 – 12.08.05	12.02.04 – 11.08.06	2.265
	500,000	02.05.03	03.05.04 – 03.11.05	03.05.04 – 02.11.06	1.78

3. Share options granted during the period ended 30th June 2003:

Date of Grant	11.02.2003	02.05.2003
Vesting Period	12.02.2004 – 12.08.2005	03.05.2004 – 03.11.2005
Exercise Period	12.02.2004 – 11.08.2006	03.05.2004 – 02.11.2006
Exercise Price	HK\$2.265	HK\$1.78

Grantee	Number of options granted on 11.02.2003	Number of options granted on 02.05.2003
Aggregate total of employees (Note 1)	300,000	500,000

The value of the options depends on a number of factors such as the exercise price, the exercise period, interest rate, expected volatility and other relevant variables. The Directors believe that any calculation of the value of the options as at 30th June 2003 based on a great number of speculative assumptions would not be meaningful and would be misleading to the shareholders. Therefore the Directors believe it is not appropriate to state herein the value of options granted.

- 4. No share options were exercised during the period ended 30th June 2003.**
- 5. No share option was cancelled during the period ended 30th June 2003.**
- 6. Number of share options lapsed during the period ended 30th June 2003:**

	Date of offer	No. of options
Ng Ming Wah, Charles	21.03.97	102,000
Aggregate total of employees (<i>Note 1</i>)	26.06.02	500,000
Aggregate total of other persons (<i>Note 2</i>)	21.03.97	3,060,000

Notes:

1. *These are employees working under employment contracts that were regarded as "Continuous Contracts" for the purpose of the Hong Kong Employment Ordinance.*
2. *These are former Directors and employees who ceased to be eligible persons after the grant of options. The exercise periods of such options have been extended by the board of Directors at their discretion in accordance with the terms of the scheme.*

Save as disclosed above, at no time during the six months ended 30th June 2003 was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors or any of their spouses or children under eighteen years of age to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

Substantial Shareholders

As at 30th June 2003, the following interests in 5% or more in the shares and underlying shares of the Company have been notified to the Company and recorded in the register of substantial shareholders' interests in shares and short positions required to be kept under Section 336 of Part XV of the SFO:

Long Position

Name of shareholder	No. of shares beneficially held	% of total issued shares
China Everbright Holdings Company Limited (Note)	867,119,207	55.465
Datten Investments Limited (Note)	867,119,207	55.465
Honorich Holdings Limited	867,119,207	55.465

Note: Honorich Holdings Limited ("Honorich") is wholly-owned by Datten Investments Limited ("Datten") which in turn is a wholly-owned subsidiary of China Everbright Holdings Company Limited ("Holdings"). Accordingly, Datten and Holdings are deemed to have the same interests in the shares of the Company as Honorich.

Save as disclosed above, as at 30th June 2003, the Directors are not aware of any other persons who have interests or short positions in the shares, underlying shares of equity derivatives or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which would be required to be disclosed to the Company pursuant to Part XV of the SFO.

Purchase, Sale or Redemption of the Company's Securities

During the period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities.

Employees

As at 30th June 2003, the number of employees of the Group was 107. Total staff cost for the period under review amounted to approximately HK\$21.03 million as noted in the consolidated profit and loss account. The Group ensures that the remuneration packages for employees are fair and competitive and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus scale. Discretionary year end bonus may also be paid to employees based on individual performance. Other benefits to employees include medical insurance, retirement scheme and training programmes. Directors of the Company and full time employees of the Group may be granted share options to subscribe for shares in the Company in accordance with the terms and conditions of the share option scheme approved by the Company at an extraordinary general meeting held on 24th May 2002.

Audit Committee

The audit committee of the Company comprises Mr. Ng Ming Wah, Charles, Mr. Tung Wai, David, and Mr. Seto Gin Chung, John who are Independent Non-executive Directors. The audit committee has 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 interim financial statements for the six months ended 30th June 2003 of the Company.

Compliance with the Code of Best Practice

Save and except that Independent Non-executive Directors are not appointed for a specific term but are subject to retirement by rotation and re-election in accordance with Articles 120 and 121 of the Company's Articles of Association, none of the Directors 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 to the Listing Rules.

By order of the Board

GUO YOU

Chief Executive Officer

Hong Kong, 14th August 2003