



China Everbright Limited
中國光大控股有限公司

INTERIM REPORT

for the six months ended 30th June, 2004

Board of Directors

Wang Mingquan

Xu Bin

Guo You

Zhou Liqun

He Ling

Chen Shuang

Xie Zhichun

Lau Chung Man, Louis

* Ng Ming Wah, Charles

* Tung Wai, David

* Seto Gin Chung, John

Chairman

Vice-chairman

Chief Executive Officer

Deputy General Manager

Deputy General Manager

Chief Financial Officer

** Independent Non-executive Directors*

Company Secretary

Ip Kun Wan, Kiril

Legal Advisors

Messrs. Richards Butler

Messrs. Anthony Chiang & Partners

Registered Office

Room 4001, 40th Floor

Far East Finance Centre

16 Harcourt Road

Hong Kong

Share Registrars

Secretaries Limited

Ground Floor, Bank of East Asia

Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

Principal Bankers

Standard Chartered Bank

International Bank of Asia Limited

The Bank of East Asia, Limited

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 2004 are as follows:-

Condensed Consolidated Profit and Loss Account

	<i>Note</i>	1st January to 30th June 2004 HK\$'000	1st January to 30th June 2003 HK\$'000
Turnover	2	86,821	100,582
Other revenues	2	109,206	(406)
		196,027	100,176
Staff costs		(33,466)	(21,025)
Depreciation and amortisation expenses		(9,208)	(9,089)
Other operating expenses		(41,039)	(25,547)
Operating profit		112,314	44,515
Finance costs		(3,147)	(2,970)
Share of profits less losses of associates		111,562	145,486
Profit before taxation		220,729	187,031
Taxation	3	(45,200)	(52,080)
Profit after taxation for the period		175,529	134,951
Minority interests		(121)	62
Profit attributable to shareholders		175,408	135,013
Dividends	4	23,453	15,634
Earnings per share	5		
– basic		11.22 cents	8.64 cents
– diluted		11.19 cents	8.64 cents

Condensed Consolidated Balance Sheet

		30th June	31st December
		2004	2003
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
ASSETS			
Non-current assets			
Fixed assets		95,128	100,983
Investments in associates	6	1,541,310	2,265,920
Investment in jointly controlled entity		–	2,239
Non-trading securities	7	1,100,612	1,502,391
Intangible assets		96,783	103,050
Deferred tax assets	8	9,103	10,788
		2,842,936	3,985,371
Current assets			
Advances to customers		186,717	264,630
Debtors, deposits and prepayments	9	222,478	581,036
Trading securities	10	613,019	507,397
Bank balances and cash – general accounts		1,859,207	520,414
		2,881,421	1,873,477
Current liabilities			
Creditors, deposits received and accrued charges	11	(170,803)	(446,503)
Amounts due to associates		(438)	(438)
Loans from ultimate holding company		(436,490)	(436,490)
Interest payable on loans from ultimate holding company		(472)	(311)
Provision for taxation		(244,956)	(232,531)
		(853,159)	(1,116,273)
Net current assets		2,028,262	757,204
Minority interests		(339)	(218)
NET ASSETS		4,870,859	4,742,357

Condensed Consolidated Balance Sheet (Continued)

		30th June	31st December
		2004	2003
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
Trust accounts not reflected on balance sheet			
Bank balances – trust accounts		268,400	793,205
Receivable from clearing house	9	7,163	4,823
Amounts held on behalf of clients	11	(275,563)	(798,028)
		<u> </u>	<u> </u>
		<u> </u>	<u> </u>
		-	-
CAPITAL AND RESERVES			
Share capital	12	1,563,501	1,563,351
Reserves		3,307,358	3,179,006
		<u> </u>	<u> </u>
		<u> </u>	<u> </u>
		4,870,859	4,742,357
		<u> </u>	<u> </u>

Condensed Consolidated Statement of Changes in Equity

	Share capital HK\$'000	Share premium HK\$'000	Asset revaluation reserve HK\$'000	Investment revaluation reserve HK\$'000	Capital redemption reserve HK\$'000	Goodwill reserve HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
As at 1st January 2004	1,563,351	5,625,445	207	621,634	2,984	(3,838,546)	26,143	(2,774)	743,913	4,742,357
Deficit on revaluation	-	-	-	(53,826)	-	-	-	-	-	(53,826)
Share of associate's reserves	-	-	-	-	-	-	(451)	-	-	(451)
Net loss not recognised in the profit and loss account	-	-	-	(53,826)	-	-	(451)	-	-	(54,277)
Issue of shares	150	504	-	-	-	-	-	-	-	654
Release upon disposal of non-trading securities	-	-	-	(107,653)	-	-	-	-	-	(107,653)
Release upon disposal of an associate	-	-	-	(548)	-	166,514	-	-	-	165,966
Profit for the period	-	-	-	-	-	-	-	-	175,408	175,408
Dividend paid - 2003 final	-	-	-	-	-	-	-	-	(51,596)	(51,596)
As at 30th June 2004	1,563,501	5,625,949	207	459,607	2,984	(3,672,032)	25,692	(2,774)	867,725 *	4,870,859
Representing:										
Company and subsidiaries	1,563,501	5,625,949	207	459,607	2,984	(3,672,032)	10,000	(2,774)	1,160,271	5,147,713
Associates	-	-	-	-	-	-	15,692	-	(292,546)	(276,854)
As at 30th June 2004	1,563,501	5,625,949	207	459,607	2,984	(3,672,032)	25,692	(2,774)	867,725	4,870,859
As at 1st January 2003	1,563,351	5,625,445	207	184,317	2,984	(3,957,664)	26,746	(2,774)	535,968	3,977,580
Surplus on revaluation	-	-	-	400,782	-	-	-	-	-	400,782
Share of associates' reserves	-	-	-	3,995	-	-	397	-	(134)	4,258
Net gain/(loss) not recognised in the profit and loss account	-	-	-	404,777	-	-	397	-	(134)	405,040
Release upon disposal of non-trading securities	-	-	-	32,540	-	-	-	-	-	32,540
Impairment loss on investment in an associate	-	-	-	-	-	119,118	-	-	-	119,118
Profit for the year	-	-	-	-	-	-	-	-	223,713	223,713
Dividend paid - 2003 interim	-	-	-	-	-	-	-	-	(15,634)	(15,634)
As at 31st December 2003	1,563,351	5,625,445	207	621,634	2,984	(3,838,546)	26,143	(2,774)	743,913 *	4,742,357
Representing:										
Company and subsidiaries	1,563,351	5,625,445	207	621,086	2,984	(3,838,546)	10,000	(2,774)	929,845	4,911,598
Associates	-	-	-	548	-	-	16,143	-	(187,714)	(171,023)
Jointly controlled entity	-	-	-	-	-	-	-	-	1,782	1,782
As at 31st December 2003	1,563,351	5,625,445	207	621,634	2,984	(3,838,546)	26,143	(2,774)	743,913	4,742,357

* The retained earnings at 30th June 2004 included proposed interim dividends of approximately HK\$23,453,000 (2003: HK\$51,596,000).

Condensed Consolidated Cash Flow Statement

	1st January to 30th June 2004 HK\$'000	1st January to 30th June 2003 HK\$'000
Net cash inflow from operating activities	62,029	179,783
Net cash inflow from investing activities	1,327,706	35,383
Net cash (outflow)/inflow from financing activities	(50,942)	130,397
Increase in cash and cash equivalents	1,338,793	345,563
Cash and cash equivalents		
Beginning of period	520,414	84,193
End of period	1,859,207	429,756

Notes to the Financial Statements

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 2003.

2. TURNOVER AND OTHER REVENUES

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

	1st January to 30th June 2004 HK\$'000	1st January to 30th June 2003 HK\$'000
Turnover		
Net realised (loss)/gain on disposal of trading investments		
– trading securities	(8,090)	18,124
– equity derivatives	(15,500)	3,678
Net unrealised (loss)/gain on trading investments		
– trading securities	(5,264)	3,236
– equity derivatives	13,000	288
Interest income		
– bank deposits	1,368	1,278
– advances to customers	11,994	4,924
– others	2,166	4,841
Dividend income		
– listed investments	24,945	31,647
– unlisted investments	1,198	785
Gross rental income from investment properties	702	971
Brokerage commission and service income	60,302	30,180
Other income	–	630
	86,821	100,582
Other revenues		
Net gain/(loss) on disposal of non-trading securities	103,763	(3,708)
Gain on disposal of fixed asset	344	–
Gain on disposal of a jointly controlled entity	1,805	–
Recovery of doubtful debts previously written off	40	291
Exchange gain, net	2,696	695
Others	558	2,316
	109,206	(406)
Total revenues	196,027	100,176

3. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated profit and loss account represents:

	1st January to 30th June 2004 HK\$'000	1st January to 30th June 2003 HK\$'000
Company and subsidiaries		
Current taxation		
– Hong Kong profits tax	12,397	1,462
– Overseas taxation	1,276	210
– Under provision in respect of prior years	558	–
Deferred taxation		
– Deferred taxation relating to the origination and reversal of temporary differences	1,685	3,585
	15,916	5,257
Share of taxation attributable to associates	29,284	46,823
Taxation	45,200	52,080

4. DIVIDENDS

	1st January to 30th June 2004 HK\$'000	1st January to 30th June 2003 HK\$'000
Dividends declared before the balance sheet date		
2003 Final dividend of HK\$0.033 (2002: HK\$nil) per share	51,596	–
Dividends proposed after the balance sheet date		
2004 Interim dividend of HK\$0.015 (2003: HK\$0.01) per share	23,453	15,634

5. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months period ended 30th June 2004 is based on the net profit attributable to shareholders of approximately HK\$175,408,000 (2003: net profit of approximately HK\$135,013,000) divided by the weighted average number of shares outstanding during the period of 1,563,494,119 shares (2003: 1,563,350,712 shares).

The calculation of diluted earnings per share is based on the net profit attributable to shareholders divided by the weighted average number of shares outstanding during the period adjusted for the effects of exercise of share options.

Diluted earnings per share for the six months period ended 30th June 2004 is based on the adjusted weighted average number of shares outstanding during the period of 1,568,106,803 shares (2003: 1,563,382,507 shares.)

Reconciliation of the number of ordinary shares for calculation of basic and diluted earnings/(loss) per share:

	30th June 2004	30th June 2003
Computation of adjusted weighted average number of shares		
Weighted average number of shares in issue during the year	1,563,494,119	1,563,350,712
Number of shares that would have been issued if the outstanding share options were exercised during the year	4,612,684	31,795
Adjusted weighted average number of shares	<u>1,568,106,803</u>	<u>1,563,382,507</u>

6. INVESTMENTS IN ASSOCIATES AND AMOUNT DUE TO AN ASSOCIATE

(a) Investments in associates:

	30th June 2004 HK\$'000	31st December 2003 HK\$'000
Investments, 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
Share of post-acquisition reserves	(289,926)	(184,095)
	5,251,287	6,261,529
Provision for impairment charged against investment costs	(165,548)	(165,548)
Provision for impairment charged against goodwill reserve	–	(119,118)
	(165,548)	(284,666)
Premium on acquisition	(3,544,429)	(3,710,943)
	1,541,310	2,265,920
Quoted market value of listed shares	–	860,365

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 2004.

6. INVESTMENTS IN ASSOCIATES AND AMOUNT DUE TO AN ASSOCIATE (Continued)

(b) As at 30th June 2004, 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 ("Everbright Bank")	The PRC	Banking operations	21.39%	–
Everbright Securities Company Limited ("Everbright Securities") (i)	The PRC	Securities operations	–	49%

- (i) The Company as shareholder of Everbright Securities Company Limited ("Everbright Securities") on 27th February 2004 entered into a promoters agreement consenting to convert Everbright Securities from a limited liability company to a joint stock limited company and introduced 4 new shareholders, which may result in a dilution of the Group's shareholding in Everbright Securities from 49% to 45.46% and an accounting deemed disposal loss around HK\$37 million according to the net assets of Everbright Securities valued at 30th June 2004. The ultimate effective date of the Proposed Capital Restructuring would have an impact on the actual amount of the above deemed disposal loss. As at the reporting date, the proposed capital restructuring has not been approved by China Securities Regulatory Commission and Ministry of Commerce of China. As there is however no guarantee that such approval will be obtained or the Proposed Capital Restructuring will eventually be completed, the directors consider it appropriate not to record the deemed disposal loss in the account as at 30th June 2004.
- (ii) On 8th March 2004, the Company accepted the general offer issued by Fubon Financial Holdings Co., Ltd at a price of HK\$3.68 per share to sold its entire 20% interest in International Bank of Asia Limited ("IBA"), receiving in each of approximately HK\$860 million. Based on this valuation, the Company provided a full impairment loss in the 2003 accounts and consequently caused no net financial impact in the 2004 accounts as shares of profit of IBA would equal to the loss on disposal of this associate. In addition, our directors consider it appropriate not to share profit from IBA during the period from 1st January 2004 to 7th March 2004 as IBA had no published accounts for the period ended on 8th March 2004.

7. NON-TRADING SECURITIES

	30th June 2004 HK\$'000	31st December 2003 HK\$'000
Listed equity securities at fair value:		
Listed in Hong Kong	1,092,382	1,472,319
Listed overseas	4,795	26,640
	1,097,177	1,498,959
Unlisted equity securities	3,435	3,432
	1,100,612	1,502,391

The following is a list of the principal non-trading securities as at 30th June 2004:

Company name	Place of incorporation/ operation	Principal activities	Effective equity interest held
China Mobile (Hong Kong) Limited (i)	Hong Kong	Provision of telecommunication services	0.16%
China Life Insurance Company Limited	Hong Kong	Provision of life insurance and annuity products	0.13%
BOC Hong Kong (Holdings) Limited	Hong Kong	Banking operations	0.20%

(i) At 30th June 2004, the carrying amount of interests in China Mobile (Hong Kong) Limited exceeds 10% of total assets of the Group.

Non-trading securities of aggregate carrying amount of approximately HK\$120 million (2003: HK\$120 million) have been pledged to secure bank loans and overdraft facilities of the Company.

Non-trading securities of aggregate carrying amount of approximately HK\$133 million (2003: HK\$348 million) have been pledged as collateral to counterparties for derivatives transactions entered by the Group.

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% (2003:17.5%).

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.

8. DEFERRED TAX ASSETS (Continued)

Analysis of the deferred tax assets are as follows:

	General provisions		Tax losses		Accelerated tax depreciation		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1st January	613	320	10,070	6,904	105	75	10,788	7,299
Deferred tax (charged)/credited to profit and loss account	-	293	(1,693)	3,166	8	30	(1,685)	3,489
As at 30th June/ 31st December	<u>613</u>	<u>613</u>	<u>8,377</u>	<u>10,070</u>	<u>113</u>	<u>105</u>	<u>9,103</u>	<u>10,788</u>

9. DEBTORS, DEPOSITS AND PREPAYMENTS

	30th June 2004 HK\$'000	31st December 2003 HK\$'000
Trade receivables, net	159,287	383,768
Deposits, prepayments and other receivables	63,191	197,268
	<u>222,478</u>	<u>581,036</u>

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

	30th June 2004 HK\$'000	31st December 2003 HK\$'000
Within 1 month	155,481	382,976
Within 1 to 2 months	354	1,058
Within 2 to 3 months	-	615
Within 3 to 6 months	4,438	99
Over 6 months	14	20
	<u>160,287</u>	<u>384,768</u>
Less: provision for doubtful receivables	(1,000)	(1,000)
	<u>159,287</u>	<u>383,768</u>

9. DEBTORS, DEPOSITS AND PREPAYMENTS (Continued)

Trade receivables mainly comprised amounts due from brokerage clients, brokers and clearing houses. These receivables are normally due two days after the trade day, 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 of approximately HK\$7 million as at 30th June 2004 (2003: approximately HK\$5 million).

10. Trading securities

	30th June 2004 HK\$'000	31 December 2003 HK\$'000
At fair value:		
Debt securities:		
– listed overseas	25,600	46,915
– unlisted	105,514	68,891
	131,114	115,806
Equity securities:		
– listed in Hong Kong	418,878	253,540
– listed overseas	53,636	135,312
– unlisted	9,391	2,739
	481,905	391,591
	613,019	507,397

11. CREDITORS, DEPOSITS RECEIVED AND ACCRUED CHARGES

	30th June 2004 HK\$'000	31st December 2003 HK\$'000
Trade payables	125,404	382,192
Other creditors, deposits received and accrued charges	45,399	64,311
	<u>170,803</u>	<u>446,503</u>

Trade payables represent amounts due to brokerage clients, brokers and clearing houses, and are due within one month. Trade payables to clients exclude those payables placed in trust accounts amounted to approximately HK\$276 million as at 30th June 2004 (2003: approximately HK\$798 million).

12. SHARE CAPITAL

	30th June 2004 HK\$'000	31st December 2003 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	1,563,351
Exercise of share options	150	–
End of period/year	<u>1,563,501</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 investments, financial services and long-term investments plus other operations. An analysis by business segment is as follows:

	Short-term investments		Financial services		Long-term investments plus others		Total	
	1st January to 30th June 2004	1st January to 30th June 2003	1st January to 30th June 2004	1st January to 30th June 2003	1st January to 30th June 2004	1st January to 30th June 2003	1st January to 30th June 2004	1st January to 30th June 2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
REVENUE								
Investment income	(1,021)	31,213	-	-	117,924	22,837	116,903	54,050
Interest income	1,078	1,040	12,256	5,335	2,194	4,668	15,528	11,043
Brokerage commission and service income	603	-	59,687	30,180	12	-	60,302	30,180
Other income	-	-	40	291	3,254	4,612	3,294	4,903
Total revenues	660	32,253	71,983	35,806	123,384	32,117	196,027	100,176
RESULTS								
Segment results	(7,165)	29,668	22,718	5,771	115,186	21,783	130,739	57,422
Unallocated corporate expenses							(18,425)	(12,907)
Operating profit							112,314	44,515
Finance costs							(3,147)	(2,970)
Share of profits less losses of associates							111,562	145,486
Taxation							(45,200)	(52,080)
Profit after taxation							175,529	134,951
Minority interests							(121)	62
Profit attributable to shareholders							175,408	135,013

13. SEGMENT INFORMATION (Continued)

A. Business segments (Continued)

OTHER INFORMATION

	Short-term investments		Financial services		Long-term investments plus others		Total	
	30th June	31st December	30th June	31st December	30th June	31st December	30th June	31st December
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	912,312	714,151	576,190	818,554	2,544,076	1,605,129	4,032,578	3,137,834
Investment in associates							1,541,310	2,285,920
Goodwill							95,700	102,300
Investment in jointly controlled entity							-	2,239
Unallocated corporate assets							54,769	350,555
Total assets							<u>5,724,357</u>	<u>5,858,848</u>
Segment liabilities	2,332	6,626	156,061	436,297	-	-	158,393	442,923
Unallocated corporate liabilities							694,766	673,350
Total liabilities							<u>853,159</u>	<u>1,116,273</u>
	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
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Capital expenditures	-	-	500	-	1,695	6,389	2,195	6,389
Depreciation and amortisation of trading rights	194	59	313	278	2,101	2,152	2,608	2,489
Unallocated goodwill amortisation							6,600	6,600

B. Geographical segments

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

Interim Dividend

The Directors have recommended an interim dividend of HK\$0.015 (2003: HK\$0.01) per share to shareholders whose names appear on the Register of Members of the Company on Friday, 17th September 2004. Dividend warrants will be dispatched on or about Thursday, 23rd September 2004.

Closure of Register of Members

The Register of Members of the Company will be closed from Monday, 13th September 2004 to Friday, 17th September 2004 (both days inclusive), during which period no transfers of shares will 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, 10th September 2004.

Result of the Group

In the first half of the year, the Company and its subsidiaries (the "Group") have managed to increase profits through developing the Group's business and stringent risk control measures. China Everbright Bank Company Limited ("Everbright Bank") has maintained a steady growth in its business and its assets continue to improve in quality. Everbright Securities Company Limited ("Everbright Securities") has made their best efforts in increasing its market share in a depressed market. As at 30th June 2004, the Group's profits after tax amounted to HK\$175 million representing an increase of 30% from that of the same period last year with the Group's Hong Kong operation and Everbright Bank contributing approximately HK\$93.3 million and HK\$98.3 million respectively (an increase of 157% and 13% respectively compared with the same period last year). The after tax loss attributable to Everbright Securities amounted to HK\$16 million.

Review of Operations

Commercial Banking

As at 30th June 2004, the Group's 21.39% owned Everbright Bank's total assets amounted to approximately HK\$407.9 billion and the total values of its deposits and loans reached approximately HK\$353.8 billion and HK\$259.5 billion, representing an increase of 9.3% and 8.9% respectively. In the first half of the year, Everbright Bank recorded an operating income of HK\$4.4 billion, representing an increase of 34.6% compared with that of last year. Everbright Bank's operating cost to operating income ratio was improved to 40% compared with 42% 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 2004, according to the "5-category" loan classification system, Everbright Bank's non-performing

loan (the last 3 categories) dropped to HK\$21.7 billion with non-performing loan rate dropped to 8.4%. For the period under review, the provisions made amounted to HK\$2 billion and the provisioning rate for non-performing loan has been raised to 47% from 42% at the beginning of the year.

The combined effect of the abovementioned factors has raised the profitability of Everbright Bank. For the six months ended 30th June 2004, the profit after tax of Everbright Bank was HK\$460 million according to the Hong Kong accounting standards, representing an increase of 13% compared with that for the same period last year.

As at 30th June 2004, Everbright Bank was operating 36 direct branches and 372 banking offices in 23 provinces/cities and autonomous regions in Mainland China with a representative office in Hong Kong and South Africa.

The Group accepted a general offer from Fubon Financial Holdings Co., Ltd on 8th March 2004 and disposed of its entire 20% shareholding in International Bank of Asia Limited at HK\$3.68 per share, receiving in cash of approximately HK\$860 million. As the Group has already provided full impairment loss in this long term investment in the accounts for the last financial year, the transaction has not caused any net change to the profit and loss accounts of the Group.

Investment Banking Business

Mainland Securities Business

In the first half of the year, the performance of the securities market in Mainland China was disappointing. Although the indices of the Shanghai and Shenzhen securities markets tracked their upward trends at the beginning of the year, the market indices have gradually dropped since April and there was followed by continuous decrease in transaction volume. In such a difficult market environment, the Group's 49% owned Everbright Securities endeavored to develop its business and managed to improve its market share. As at 30th June 2004, the market share of Everbright Securities in terms of turnover in securities and investment funds reached 2.1% as compared to 1.9% of last year and Everbright Securities was ranked the 10th place amongst the securities companies in China. Everbright Securities's internet trading business developed rapidly in the period under review and has made up 35% of its total turnover. The total income of Everbright Securities in the period under review amounted to HK\$280 million with brokerage commission, underwriting fees, investment income, interest income and other income contributing 63%, 8%, 11%, 15% and 3% respectively of the total income. It recorded a net loss of HK\$32.7 million according to Hong Kong accounting standards.

Everbright – Prudential Asset Management Limited, a joint venture between Prudential Financial Group of the United States and Everbright Securities in which Everbright Securities has a 67% stake, commenced business in the first half of the year.

As at 30th June 2004, Everbright Securities was operating 45 branches offices in 19 provinces/cities and autonomous regions.

Hong Kong Business

Through active development of business and prudent measures in cost control, the profits of the Group's Hong Kong operations had increased in the first half of the year. Taking advantage of the market opportunities, the securities investments business achieved a respectable return; the brokerage business made a remarkable increase in profits through its steady growth in market share. The investment banking team was actively expanding its business in the Mainland market and had undertaken more projects compared with last year. The asset management and venture capital businesses were developing satisfactorily. In the first half of the year, the Hong Kong business achieved a profit after tax of approximately HK\$93.3 million.

Financial Position

As at 30th June 2004, the net assets of the Group amounted to approximately HK\$4.87 billion, with cash on hand of approximately HK\$1.86 billion. Apart from trade liabilities in the ordinary course of business, the Group's principal liability is a total HK\$0.44 billion of renewable term loans obtained from its ultimate holding company, China Everbright Holdings Company Limited.

The level of borrowing depends mainly on the Group's business and investment needs. As at 30th June 2004, the Group committed borrowing facilities totaled approximately HK\$130 million. The Group's gearing ratio, which is computed from the Group's total interest bearing liabilities divided by shareholders' fund, was 9% as at 30th June 2004 as compared to 9.2% as at 31st December 2003.

As at 30th June 2004, the Group had no material exposure to foreign exchange fluctuations other than assets denominated in Renminbi.

As at 30th June 2004, the Group had pledged listed securities to the value of approximately HK\$120 million in relation to certain banking facilities.

The Group did not have any material contingent liabilities as at 30th June 2004. The Company had given guarantees in respect of banking and trading facilities available to subsidiaries totaling approximately HK\$100 million. As at 30th June 2004, the subsidiaries of the Company had not borrowed any loans. The Company had also provided guarantees to financial institutions against the due performance of obligations by its subsidiaries which are engaged in the businesses of leverage forex trading and derivatives trading. Such guaranteed liabilities will vary according to the values of transitions.

Prospects

As the Mainland China austerity measures gradually show positive effects and Hong Kong economy continues to recover, the market environment for the banking and securities business will be further improved. The Company will actively support Everbright Bank's plan of increasing capital by way of rights issue so as to raise its capital adequacy ratio. This will enable Everbright Bank to develop its business on a solid foundation and to improve its assets quality further. The Company intends to maintain or increase its equity stake in the proposed rights issue (if the Company participates in the proposed rights issue according to its existing shareholding in Everbright Bank, it may constitute a major transaction to the Company. Upon receipt of the detailed information regarding the proposed rights issue, the Company will make further announcements as appropriate, pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited). The Company will also support the conversion of Everbright Securities into a joint stock company to speed up the preparation for its listing in China. The Group will capitalize on the synergies between the Hong Kong and Mainland economies as well as the new development opportunities arising from the continuing opening up of the markets. The Group will make use of its network and resources in the Mainland with a view to developing its investment banking business as well as other businesses. The Group will devote further efforts to increasing its business scale and enhancing its competitiveness with the aim of generating higher return for shareholders.

Directors' and Chief Executive's Interests in Shares of the Company and Associated Corporations

As at 30th June, 2004, 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	Date of Grant	Number of equity derivatives held (share options)	Number of underlying shares (ordinary shares)	Total percentage
Wang Mingquan	Personal	26.06.02	6,000,000	6,000,000	0.58
	Personal	07.07.03	3,000,000	3,000,000	
Xu Bin	Personal	26.06.02	1,500,000	1,500,000	0.14
	Personal	07.07.03	750,000	750,000	
Guo You	Personal	26.06.02	2,000,000	2,000,000	0.18
	Personal	07.07.03	750,000	750,000	
Zhou Liqun	Personal	26.06.02	1,500,000	1,500,000	0.14
	Personal	07.07.03	750,000	750,000	
He Ling	Personal	26.06.02	1,500,000	1,500,000	0.14
	Personal	07.07.03	750,000	750,000	
Wang Chuan	Personal	26.06.02	1,500,000	1,500,000	0.14
	Personal	07.07.03	750,000	750,000	
Xie Zhichun	Personal	26.06.02	1,500,000	1,500,000	0.14
	Personal	07.07.03	750,000	750,000	
Lau Chung Man, Louis	Personal	26.06.02	500,000	500,000	0.05
	Personal	07.07.03	250,000	250,000	
Ng Ming Wah, Charles	Personal	07.07.03	150,000	150,000	0.01
Tung Wai, David	Personal	26.06.02	300,000	300,000	0.03
	Personal	07.07.03	150,000	150,000	
Seto Gin Chung, John	Personal	07.07.03	150,000	150,000	0.01

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 2004.

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 2004, 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.

3. Long position in underlying shares of equity derivatives of associated corporations

As at 30th June 2004, the following Director had personal interests in options to subscribe for shares in China Everbright International Limited ("CEIL"), an associated corporation of the Company. The shares of CEIL are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Name of Director	Nature of interest	Exercise price (HK\$)	Date of Grant	Exercise period	Number of underlying shares of CEIL (ordinary shares)	Total percentage
Wang Mingquan	Personal	0.296	29.09.03	29.03.04 – 25.05.13	25,400,000	0.997

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 are as follows:

1. Outstanding share options as at 1st January 2004:

	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	4.360
	3,000,000	07.07.03	08.07.04 – 08.01.06	08.07.04 – 07.01.07	2.375
Xu Bin	1,500,000	26.06.02	27.06.03 – 27.12.04	27.06.03 – 26.12.05	4.360
	750,000	07.07.03	08.07.04 – 08.01.06	08.07.04 – 07.01.07	2.375
Guo You	2,000,000	26.06.02	27.06.03 – 27.12.04	27.06.03 – 26.12.05	4.360
	750,000	07.07.03	08.07.04 – 08.01.06	08.07.04 – 07.01.07	2.375
Zhou Liqun	1,500,000	26.06.02	27.06.03 – 27.12.04	27.06.03 – 26.12.05	4.360
	750,000	07.07.03	08.07.04 – 08.01.06	08.07.04 – 07.01.07	2.375
He Ling	1,500,000	26.06.02	27.06.03 – 27.12.04	27.06.03 – 26.12.05	4.360
	750,000	07.07.03	08.07.04 – 08.01.06	08.07.04 – 07.01.07	2.375
Wang Chuan	1,500,000	26.06.02	27.06.03 – 27.12.04	27.06.03 – 26.12.05	4.360
	750,000	07.07.03	08.07.04 – 08.01.06	08.07.04 – 07.01.07	2.375
Xie Zhichun	1,500,000	26.06.02	27.06.03 – 27.12.04	27.06.03 – 26.12.05	4.360
	750,000	07.07.03	08.07.04 – 08.01.06	08.07.04 – 07.01.07	2.375
Lau Chung Man, Louis	500,000	26.06.02	27.06.03 – 27.12.04	27.06.03 – 26.12.05	4.360
	250,000	07.07.03	08.07.04 – 08.01.06	08.07.04 – 07.01.07	2.375
Ng Ming Wah, Charles	150,000	07.07.03	08.07.04 – 08.01.06	08.07.04 – 07.01.07	2.375
Tung Wai, David	300,000	26.06.02	27.06.03 – 27.12.04	27.06.03 – 26.12.05	4.360
	150,000	07.07.03	08.07.04 – 08.01.06	08.07.04 – 07.01.07	2.375
Seto Gin Chung, John	150,000	07.07.03	08.07.04 – 08.01.06	08.07.04 – 07.01.07	2.375
Aggregate total of employees (Note)	3,700,000	26.06.02	27.06.03 – 27.12.04	27.06.03 – 26.12.05	4.360
	500,000	02.05.03	03.05.04 – 03.11.05	03.05.04 – 02.11.06	1.780
	1,950,000	07.07.03	08.07.04 – 08.01.06	08.07.04 – 07.01.07	2.375

2. Outstanding share options as at 30th June 2004:

	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	4.360
	3,000,000	07.07.03	08.07.04 – 08.01.06	08.07.04 – 07.01.07	2.375
Xu Bin	1,500,000	26.06.02	27.06.03 – 27.12.04	27.06.03 – 26.12.05	4.360
	750,000	07.07.03	08.07.04 – 08.01.06	08.07.04 – 07.01.07	2.375
Guo You	2,000,000	26.06.02	27.06.03 – 27.12.04	27.06.03 – 26.12.05	4.360
	750,000	07.07.03	08.07.04 – 08.01.06	08.07.04 – 07.01.07	2.375
Zhou Liqun	1,500,000	26.06.02	27.06.03 – 27.12.04	27.06.03 – 26.12.05	4.360
	750,000	07.07.03	08.07.04 – 08.01.06	08.07.04 – 07.01.07	2.375
He Ling	1,500,000	26.06.02	27.06.03 – 27.12.04	27.06.03 – 26.12.05	4.360
	750,000	07.07.03	08.07.04 – 08.01.06	08.07.04 – 07.01.07	2.375
Wang Chuan	1,500,000	26.06.02	27.06.03 – 27.12.04	27.06.03 – 26.12.05	4.360
	750,000	07.07.03	08.07.04 – 08.01.06	08.07.04 – 07.01.07	2.375
Xie Zhichun	1,500,000	26.06.02	27.06.03 – 27.12.04	27.06.03 – 26.12.05	4.360
	750,000	07.07.03	08.07.04 – 08.01.06	08.07.04 – 07.01.07	2.375
Lau Chung Man, Louis	500,000	26.06.02	27.06.03 – 27.12.04	27.06.03 – 26.12.05	4.360
	250,000	07.07.03	08.07.04 – 08.01.06	08.07.04 – 07.01.07	2.375
Ng Ming Wah, Charles	150,000	07.07.03	08.07.04 – 08.01.06	08.07.04 – 07.01.07	2.375
Tung Wai, David	300,000	26.06.02	27.06.03 – 27.12.04	27.06.03 – 26.12.05	4.360
	150,000	07.07.03	08.07.04 – 08.01.06	08.07.04 – 07.01.07	2.375
Seto Gin Chung, John	150,000	07.07.03	08.07.04 – 08.01.06	08.07.04 – 07.01.07	2.375
Aggregate total of employees (Note)	3,400,000	26.06.02	27.06.03 – 27.12.04	27.06.03 – 26.12.05	4.360
	500,000	02.05.03	03.05.04 – 03.11.05	03.05.04 – 02.11.06	1.780
	1,800,000	07.07.03	08.07.04 – 08.01.06	08.07.04 – 07.01.07	2.375
	650,000	14.04.04	15.04.05 – 15.10.06	15.04.05 – 14.10.07	4.390

3. Share options granted during the period ended 30th June 2004:

Date of Grant	14.04.2004
Vesting Period	15.04.05 – 15.10.06
Exercise Period	15.04.05 – 14.10.07
Exercise Price	HK\$4.390

Grantee **Number of Options granted**

Aggregate total of employees (<i>Note</i>)	650,000
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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 2004 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. Number of share options exercised during the period ended 30th June 2004:

	Date of offer	No. of Shares	Exercise price (HK\$)	Closing price** (HK\$)
Aggregate total of employees (<i>Note</i>)	26.06.02	150,000	4.360	5.550

** *The weighted average ("WA") closing price of the shares of the Company immediately before the dates on which the options were exercised.*

5. No share option was cancelled during the period ended 30th June 2004.

6. Number of share options lapsed during the period ended 30th June 2004:

	Date of offer	No. of options
Aggregate total of employees (<i>Note</i>)	26.06.02	150,000
	07.07.03	150,000

Note: These are employees working under employment contracts that were regarded as "Continuous Contracts" for the purpose of the Hong Kong Employment Ordinance.

Save as disclosed herein, at no time during the six months ended 30th June 2004 was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to 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 2004 the following persons, had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the group:

Name of shareholder	No. of shares beneficially held	% of total issued shares
China Everbright Holdings Company Limited (<i>Note</i>)	867,119,207 (L)	55.46 (L)
Datten Investments Limited (<i>Note</i>)	867,119,207 (L)	55.46 (L)
Honorich Holdings Limited	867,119,207 (L)	55.46 (L)
J.P. Morgan Chase & Co.	77,069,600 (L) 36,154,000 (P)	4.93 (L) 2.31 (P)

(L) – Long Position, (P) – Lending Pool

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 2004, the Directors are not aware of any other persons who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the group.

Purchase, Sale or Redemption of the Company's Securities

During the six months ended 30th June 2004, the Company had not redeemed, and neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed securities.

Employees

As at 30th June 2004, the Group had 143 employees. Total staff cost for the period under review amounted to approximately HK\$33 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 internal control and financial reporting matters including the review of the unaudited interim financial statements for the six months ended 30th June 2004 of the Company.

Corporate Governance

The Directors confirm that 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 at annual general meetings in accordance with Articles 120 and 121 of the Company's Articles of Association, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange for the six months ended 30th June 2004.

The Directors confirm that the Company has prepared its own code of conduct regarding Directors securities transactions on terms no less exacting than the requirements stipulated in "the Model Code for Securities Transactions by Directors of Listed Companies" as set out in Appendix 10 to the Listing Rules. The Directors have made enquiry to all Directors who confirm that their respective dealings in securities have complied with the Company's code regarding Directors' dealings in securities.

By order of the Board
Zhou Liqun
Chief Executive Officer

Hong Kong, 26th August 2004