



CHINA EVERBRIGHT LIMITED
中國光大控股有限公司

INTERIM REPORT
for the six months ended 30th June, 2005

Board of Directors

Wang Mingquan
Xu Bin
Guo You
Zhou Liqun
He Ling
Chen Shuang
Xu Haoming
* Ng Ming Wah, Charles
* Tung Wai, David
* Seto Gin Chung, John
* Lin Zhijun

** Independent Non-executive Directors*

Chairman
Vice-chairman

Chief Executive Officer
Deputy General Manager
Deputy General Manager

Company Secretary

Ip Kun Wan, Kiril

Legal Advisors

Messrs. Richards Butler

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
Bank of Communications Company, Limited
Fubon Bank (Hong Kong) Limited
The Bank of East Asia, Limited

Auditors

KPMG

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 2005 are as follows:–

Consolidated Income Statement

		1st January to 30th June 2005 HK\$'000	1st January to 30th June 2004 HK\$'000 (Restated)
	<i>Notes</i>		
Turnover	3	147,873	86,821
Other revenues	3	90,146	109,206
		238,019	196,027
Staff costs	2(e)	(38,676)	(38,071)
Depreciation expenses		(2,706)	(2,783)
Other operating expenses		(39,434)	(41,039)
Profit from operations		157,203	114,134
Finance costs		(7,489)	(3,147)
Gain on (deemed) disposal of interest in associate	2(c), 7(ii)	2,230	166,514
Share of profits less losses of associates		(274)	111,562
Profit before taxation		151,670	389,063
Income tax	4	(9,420)	(45,200)
Profit after taxation		142,250	343,863
Attributable to:			
Shareholders of the Company		133,786	343,742
Minority interests		8,464	121
		142,250	343,863
Dividends	5	–	23,453
Earnings per share	6		
– Basic		8.56 cents	21.99 cents
– Diluted		8.54 cents	21.94 cents

Consolidated Balance Sheet

		30th June 2005 HK\$'000	31st December 2004 HK\$'000 (Restated)
ASSETS			
Non-current assets			
Fixed assets		140,724	144,123
Investments in associates	7	1,026,424	1,029,349
Available-for-sale securities	8	828,219	861,341
Finance lease receivable		9,894	–
Intangible assets		1,250	1,250
Deferred tax assets		7,752	8,342
		2,014,263	2,044,405
Current assets			
Advances to customers		448,479	328,696
Finance lease receivable		7,028	–
Amount due from ultimate holding company		2,613	2,613
Debtors, deposits and prepayments	9	325,610	313,697
Trading securities		553,636	234,300
Bank balances and cash – general accounts		2,263,484	2,456,606
		3,600,850	3,335,912
Current liabilities			
Creditors, deposits received and accrued charges	10	(228,522)	(240,327)
Amounts due to associates		(438)	(438)
Bank loan and overdraft		(424)	–
Loan from ultimate holding company		(436,358)	(436,490)
Interest payable on loan from ultimate holding company		(428)	(243)
Provision for taxation		(220,975)	(219,754)
		(887,145)	(897,252)
Net current assets		2,713,705	2,438,660
NET ASSETS			
		4,727,968	4,483,065
Trust accounts not reflected on balance sheet			
Bank balances – trust accounts		292,395	416,050
Receivable from clearing house		11,366	8,460
Amounts held on behalf of clients		(303,761)	(424,510)
		–	–
CAPITAL AND RESERVES			
Share capital	11	1,564,176	1,563,601
Reserves		3,038,594	2,902,636
Total equity attributable to shareholders		4,602,770	4,466,237
Minority Interests		125,198	16,828
TOTAL EQUITY		4,727,968	4,483,065

Consolidated Statement of Changes in Equity for the six months ended 30th June 2005

	Attributable to the shareholders of the Company												
	Share capital HK\$'000	Share premium HK\$'000	Option premium reserve 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	Minority interests HK\$'000	Total equity HK\$'000
As at 1st January 2005 as previously reported	1,563,601	5,626,086	-	121	470,205	2,984	(3,672,032)	27,044	(2,774)	453,673	4,468,908	16,828	4,485,736
Prior year adjustments:													
Changes in accounting policies (Note 2(a))	-	-	10,165	(121)	-	-	-	-	-	(12,715)	(2,671)	-	(2,671)
As at 1st January 2005 as restated, before opening balance adjustment	1,563,601	5,626,086	10,165	-	470,205	2,984	(3,672,032)	27,044	(2,774)	440,958	4,466,237	16,828	4,483,065
Opening balance adjustment:													
Financial instruments (Note 2(a))	-	-	-	-	(1,968)	-	-	-	-	(386)	(2,354)	-	(2,354)
As at 1st January 2005 as restated, after opening balance adjustment	1,563,601	5,626,086	10,165	-	468,237	2,984	(3,672,032)	27,044	(2,774)	440,572	4,463,883	16,828	4,480,711
Surplus on revaluation	-	-	-	-	72,805	-	-	-	-	-	72,805	-	72,805
Share option forfeited	-	-	(1,212)	-	-	-	-	-	-	1,212	-	-	-
Share of associate's reserve	-	-	-	-	-	-	-	471	-	-	471	-	471
Net gain/(loss) not recognised in the income statement	-	-	(1,212)	-	72,805	-	-	471	-	1,212	73,276	-	73,276
Issue of shares	575	568	-	-	-	-	-	-	-	-	1,143	-	1,143
Release upon disposal of available-for-sale securities	-	-	-	-	(73,717)	-	-	-	-	-	(73,717)	-	(73,717)
Investment of minority shareholders	-	-	-	-	-	-	-	-	-	-	-	99,906	99,906
Equity settled share-based transactions (Notes 2(c), (e))	-	-	4,399	-	-	-	-	-	-	-	4,399	-	4,399
Profit for the period	-	-	-	-	-	-	-	-	-	133,786	133,786	8,464	142,250
As at 30th June 2005	1,564,176	5,626,654	13,352	-	467,325	2,984	(3,672,032)	27,515	(2,774)	575,570	4,602,770	125,198	4,727,968
Representing:													
Company and subsidiaries	1,564,176	5,626,654	13,352	-	467,325	2,984	(3,672,032)	10,000	(2,774)	1,436,777	5,446,462	125,198	5,571,660
Associates	-	-	-	-	-	-	-	17,515	-	(861,207)	(843,692)	-	(843,692)
As at 30th June 2005	1,564,176	5,626,654	13,352	-	467,325	2,984	(3,672,032)	27,515	(2,774)	575,570	4,602,770	125,198	4,727,968

Consolidated Statement of Changes in Equity for the six months ended 30th June 2005 (Continued)

	Attributable to the shareholders of the Company												
	Share capital HK\$'000	Share premium HK\$'000	Option premium reserve 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	Minority interests HK\$'000	Total equity HK\$'000
As at 1st January 2004 as previously reported	1,563,351	5,625,445	-	207	621,634	2,984	(3,838,546)	26,143	(2,774)	743,913	4,742,357	218	4,742,575
Prior year adjustments:													
Changes in accounting policies (Note 2(b))	-	-	4,153	(207)	-	-	-	-	-	(2,732)	1,214	-	1,214
As at 1st January 2004 as restated	1,563,351	5,625,445	4,153	-	621,634	2,984	(3,838,546)	26,143	(2,774)	741,181	4,743,571	218	4,743,789
Deficit on revaluation	-	-	-	-	(53,826)	-	-	-	-	-	(53,826)	-	(53,826)
Share option forfeited	-	-	(184)	-	-	-	-	-	-	184	-	-	-
Share of associate's reserve	-	-	-	-	-	-	-	(451)	-	-	(451)	-	(451)
Net gain/(loss) not recognised in the income statement	-	-	(184)	-	(53,826)	-	-	(451)	-	184	(54,277)	-	(54,277)
Issue of shares	150	504	-	-	-	-	-	-	-	-	654	-	654
Release upon disposal of available-for-sale securities	-	-	-	-	(107,653)	-	-	-	-	-	(107,653)	-	(107,653)
Release upon disposal of an associate	-	-	-	-	(548)	-	166,514	-	-	(166,514)	(548)	-	(548)
Equity settled share-based transactions (Notes 2(c), (e))	-	-	4,605	-	-	-	-	-	-	-	4,605	-	4,605
Profit for the period, as restated	-	-	-	-	-	-	-	-	-	343,742	343,742	121	343,863
Dividend paid - 2003 final	-	-	-	-	-	-	-	-	-	(51,596)	(51,596)	-	(51,596)
As at 30th June 2004	1,563,501	5,625,949	8,574	-	459,607	2,984	(3,672,032)	25,692	(2,774)	866,997	4,878,498	339	4,878,837
Representing:													
Company and subsidiaries	1,563,501	5,625,949	8,574	-	459,607	2,984	(3,672,032)	10,000	(2,774)	1,159,543	5,155,352	339	5,155,691
Associates	-	-	-	-	-	-	-	15,692	-	(292,546)	(276,854)	-	(276,854)
As at 30th June 2004	1,563,501	5,625,949	8,574	-	459,607	2,984	(3,672,032)	25,692	(2,774)	866,997	4,878,498	339	4,878,837

Condensed Consolidated Cash Flow Statement

	1st January to 30th June 2005 HK\$'000	1st January to 30th June 2004 HK\$'000
Net cash (outflow)/inflow from operating activities	(436,517)	62,029
Net cash inflow from investing activities	918,798	1,327,706
Net cash inflow/(outflow) from financing activities	101,143	(50,942)
Net increase in cash and cash equivalents	583,424	1,338,793
Cash and cash equivalents		
At 1st January	1,602,074	520,414
Effect of changes in exchange rate	(205)	-
At 30th June	<u>2,185,293</u>	<u>1,859,207</u>

Notes to the financial statements

1. BASIS OF PRESENTATION

The unaudited interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, "Interim financial reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issuance on 15th September 2005.

The unaudited interim financial report has been prepared on a basis consistent with the accounting policies adopted in the 2004 annual financial statements except for the changes in accounting policies made thereafter in adopting certain new and revised Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are expected to be reflected in the 2005 annual financial statements. Details of these changes in accounting policies are set out in note 2.

2. EFFECT OF CHANGES IN ACCOUNTING POLICIES

The following sets out further information on the changes in accounting policies for the annual accounting period beginning on 1st January 2005 which have been reflected in this interim financial report.

(a) *Effect on opening balance of total equity at 1st January 2005 (as adjusted)*

The following table sets out the adjustments that have been made to the opening balances at 1st January 2005. These are the aggregate effect of retrospective adjustments to the net assets as at 31st December 2004 and the opening balance adjustments made as at 1st January 2005.

	Note	Retained earnings HK\$'000	Capital and other reserves HK\$'000	Total HK\$'000
Effect of new policy (increase/ (decrease))				
<i>Prior period adjustments:</i>				
HKFRS 2				
Equity settled share-based transactions	2(e)	(10,165)	10,165	-
HKAS 17				
Leasehold land and buildings held for own use	2(h)	(2,550)	(121)	(2,671)
Total increase/(decrease) in equity before opening balance adjustments		(12,715)	10,044	(2,671)
<i>Opening balance adjustment:</i>				
HKAS 39				
Available-for-sale securities	2(f)	-	(1,968)	(1,968)
Trading securities	2(f)	(386)	-	(386)
		(386)	(1,968)	(2,354)
Total effect as at 1st January 2005		(13,101)	8,076	(5,025)

2. EFFECT OF CHANGES IN ACCOUNTING POLICIES (Continued)

(b) *Effect on opening balance of total equity at 1st January 2004 (as adjusted)*

The following table sets out only those adjustments that have been made to the opening balances at 1st January 2004. As explained in note 2(f), the changes in certain policy do not result in retrospective adjustments being made to the opening balances as at 1st January 2004 as this was prohibited by the relevant transitional provisions.

	Note	Retained earnings HK\$'000	Capital and other reserves HK\$'000	Total HK\$'000
Effect of new policy (increase/ (decrease))				
HKFRS 2				
Equity settled share-based transactions	2(e)	(4,153)	4,153	–
HKAS 17				
Leasehold land and buildings held for own use	2(h)	1,214	–	1,214
HKAS 40				
Investment properties	2(g)	207	(207)	–
Total effect at 1st January 2004		<u>(2,732)</u>	<u>3,946</u>	<u>1,214</u>

(c) *Effect on profit after taxation for the six months ended 30th June 2005 (estimated) and 30th June 2004 (as adjusted)*

In respect of the six month period ended 30th June 2005, the following table provides estimates of the extent to which the profits for that period are higher or lower than they would have been had the previous policies still been applied in the interim period, where it is applicable to make such estimates.

2. EFFECT OF CHANGES IN ACCOUNTING POLICIES (Continued)

(c) *Effect on profit after taxation for the six months ended 30th June 2005 (estimated) and 30th June 2004 (as adjusted) (Continued)*

In respect of the six month period ended 30th June 2004, the table discloses the adjustments that have been made to the profits as previously reported for that period, in accordance with the transitional provisions of the respective HKFRSs and HKASs.

	<i>Note</i>	Six months ended 30th June 2005 Equity holders of the Company HK\$'000	Six months ended 30th June 2004 Equity holders of the Company HK\$'000
Effect of new policy (increase/(decrease))			
HKFRS 2			
Equity settled share-based transactions	2(e)	(4,399)	(4,605)
HKFRS 3 (Note)			
Gain on disposal of interest in associate			
Note (i)		-	166,514
Amortisation of goodwill and trading rights			
Note (ii)		-	6,767
HKAS 17			
Leasehold land and buildings held for own use	2(h)	243	(342)
HKAS 39			
Trading securities	2(f)	(1,432)	-
		<u>(5,588)</u>	<u>168,334</u>
Total effect for the period			
Effect on earnings per share:			
– Basic		(0.36 cents)	10.77 cents
– Diluted		(0.36 cents)	10.74 cents

Note:

- (i) In February 2004, Fubon Financial Holding Co., Limited made a general offer to acquire all the outstanding shares of International Bank of Asia Limited ("IBA") at HK\$3.68 per share. The Board resolved to accept the offer in March 2004 to dispose of its interest in IBA. The transaction was completed on 8th March 2004 and the Group received HK\$862 million in cash. In the consolidated accounts of the Group for the year ended 31 December 2003 (the "2003 accounts") which were finalised by end of March 2004, a corresponding impairment loss of HK\$119 million was made against goodwill reserve in respect of IBA was recorded (the remaining goodwill reserve amounted to HK\$166 million at the end of 2003).

2. EFFECT OF CHANGES IN ACCOUNTING POLICIES *(Continued)*

(c) *Effect on profit after taxation for the six months ended 30th June 2005 (estimated) and 30th June 2004 (as adjusted) (Continued)*

Note:

(i) *(Continued)*

The goodwill reserve was, upon disposal of the IBA investment, netted off through the profit and loss account in the 2004 accounts. Notwithstanding that such treatment for the impairment was consistent with that in the 2003 accounts (i.e. being accounted for in the profit and loss account), such accounting treatment did not fully comply with the newly adopted accounting standard "Hong Kong Financial Reporting Standard" No. 3 "Business Combinations" (hereinafter the "HKFRS 3").

Had the disposal of the IBA interests been accounted for in accordance with HKFRS 3, the balance of goodwill reserve would not have to be reflected in the income statement. As such, the disposal of IBA shares should give rise to profit of HK\$166 million in the 2004 consolidated income statement of the Group.

To comply with HKFRS 3 in full, the Board resolved on 15 September 2005 to adjust the consolidated profit and loss accounts of the Group and the earnings per share for the 6 months ended 30 June 2004. The adjusted accounts have been set out above (but the consolidated balance sheet at 30 June 2004 as reported would remain unchanged pursuant to such adjustments).

Subsequent to the above adjustments, although the release of goodwill reserve in 2004 accounts of the Group may not be consistent with the accounting treatment of the impairment of HK\$119 million in the 2003 accounts, it will nonetheless comply with the new requirements of HKFRS 3.

The subject adjustments to the consolidated profit and loss account of the Group and the earnings per share for the first half of 2004 have been made solely as variation in financial statements presentation as a result of the early adoption of HKFRS 3. There is no change in the actual economic benefits to the Group in its investment and disposal of IBA.

The adjustments in presentation also have no impact on the Group's net assets value and shareholders equity.

(ii) Goodwill and trading rights amortisation charged to the income statement in the 2004 reported interim results, these charges are reversed due to early adoption of HKFRS 3 in the financial year ended 31st December 2004.

2. EFFECT OF CHANGES IN ACCOUNTING POLICIES (Continued)

- (d) *Effect on net loss recognised directly in equity for the six months ended 30th June 2005 (estimated) and 30th June 2004 (as adjusted)*

In respect of the six month period ended 30th June 2005, the following table provides estimates of the extent to which the income recognised directly in equity are lower than they would have been had the previous policies still been applied in the interim period, where it is practicable to make such estimates.

	Note	Six months ended 30th June 2005 Equity holders of the Company HK\$'000	Six months ended 30th June 2004 Equity holders of the Company HK\$'000
Effect of new policy (decrease)			
HKAS 39			
Available-for-sale securities	2(f)	<u>(2,315)</u>	—
Total effect for the period		<u><u>(2,315)</u></u>	<u>—</u>

- (e) *Staff share option scheme*

In prior years, no amounts were recognised when employees (which term includes Directors) were granted share options over shares in the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1st January 2005, in order to comply with HKFRS 2 "Share-based Payment", the Group recognises the fair value of such share options as an expense in the income statement. A corresponding increase is recognised in an option premium reserve within equity.

Where the employees are required to meet vesting conditions before they become entitled to the options, the Group recognises the fair value of the options granted over the vesting period. Otherwise, the Group recognises the fair value in the period in which the options are granted.

If the employee chooses to exercise options, the related option premium reserve is transferred to share capital and share premium, together with the exercise price. If the options lapse unexercised the related option premium reserve is transferred directly to retained earnings.

The new accounting policy has been applied retrospectively with comparatives restated in accordance with HKFRS 2, except that the Group has taken advantage of the transitional provisions set out in paragraph 53 of HKFRS 2 under which the new recognition and measurement policies have not been applied to all options granted to employees on or before 7th November 2002.

The amount charged to the profit and loss account as a result of the change of policy increased staff costs for the six months ended 30th June 2005 by HK\$4,399,000 (six months ended 30th June 2004: HK\$4,605,000), with the corresponding amount credited to the option premium reserve.

2. EFFECT OF CHANGES IN ACCOUNTING POLICIES (*Continued*)

(e) *Staff share option scheme (Continued)*

The amount of prior period adjustments and the effect on the results for the six months ended 30th June 2005, and the reserves as of that date, are set out in notes 2 (a), (b) and (c).

Details of the staff share option scheme can be found in the Company's annual report for the year ended 31st December 2004 and, for share options granted during the six months ended 30th June 2005, in this interim financial report.

(f) *Financial instruments*

Changes in accounting policies relating to financial instruments are as follows:

(1) Changes in measurement of financial instruments

In prior years, the accounting policies for certain financial instruments were as follows:

- equity investments held on a continuing basis for an identifiable long-term purpose were classified as non-trading securities and stated at fair value with changes in fair value recognised in investment revaluation reserve until it is sold, or is determined to be impaired, at which time the cumulative gain or loss representing the differences between the net sales proceeds/net recoverable amount and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve is dealt with in the income statement; and
- trading securities were stated at fair value with changes in fair value recognised in the income statement.

With effect from 1st January 2005 and in accordance with HKAS 39 "Financial Instruments: Recognition and measurement", the following new accounting policies are adopted for financial instruments mentioned above:

- all non-trading securities are classified as available-for-sale securities and carried at fair value. Changes in fair value are recognised in the investment revaluation reserve, unless there is objective evidence that an individual investment has been impaired, any amount held in the investment revaluation reserve in respect of the investment is transferred to the income statement for period in which the impairment is identified. Any subsequent increase in fair value of available-for-sale securities is recognized directly in equity.

The change was adopted by way of an adjustment to the opening balance of investment revaluation reserve as at 1st January 2005. Comparative amounts have not been restated nor has the opening balance of the investment revaluation reserve been restated as this is prohibited by the transitional arrangements in HKAS 39. The adoption of HKAS 39 has no effect on the Group's profit before taxation and investment revaluation reserve in this regard for the six months ended 30th June 2005.

2. EFFECT OF CHANGES IN ACCOUNTING POLICIES (Continued)

(f) *Financial instruments (Continued)*

(2) Determination of fair value

In prior years, fair value of trading securities and non-trading securities that are quoted in active markets are determined by reference to the last trade price. With effective from 1st January 2005, in accordance with HKAS 39, fair value of trading securities and available-for-sale securities that are quoted in active markets are determined by reference to the current bid price.

The change was adopted by way of an adjustment to the opening balance of the retained earnings and investment revaluation reserve by a decrease of HK\$386,000 and HK\$1,968,000 respectively.

(g) *Investment properties*

Changes in accounting policies relating to investment properties are as follows:

(1) Timing of recognition of movements in fair value in the income statement

In prior years movements in the fair value of the Group's investment properties were recognised directly in the asset revaluation reserve except when, on a portfolio basis, the reserve was insufficient to cover a deficit on the portfolio, or when a deficit previously recognised in the income statement had reversed, or when an individual investment property was disposed of. In these limited circumstances movements in the fair value were recognised in the income statement.

Upon adoption of HKAS 40 as from 1st January 2005, all changes in the fair value of investment properties are recognised directly in the income statement in accordance with the fair value model in HKAS 40.

This change in accounting policy has been adopted retrospectively with no change in the opening balance of retained earnings as of 1st January 2005 (1st January 2004: increasing the opening balance of retained earnings by HK\$207,000 to include all of the Group's previous asset revaluation reserve in respect of investment property). There is no change in the Group's profit before taxation, for the six months ended 30th June 2005 (six months ended 30th June 2004: HK\$nil) as a result of adoption of this new policy.

(2) Measurement of deferred tax on movements in fair value

In prior years the Group was required to apply the tax rate that would be applicable to the sale of investment properties to determine whether any amounts of deferred tax should be recognised on the revaluation of investment properties. As there would have been no tax payable on the disposal of the Group's investment properties, no deferred tax was provided in prior years.

As from 1st January 2005, in accordance with HK(SIC) Interpretation 21 "Income Taxes - Recovery of Revalued Non-depreciable Assets", the Group recognises deferred tax on movements in the value of an investment property using tax rates that are applicable to the property's use, if the Group has no intention to sell it and the property would have been depreciable had the Group not adopted the fair value model.

2. EFFECT OF CHANGES IN ACCOUNTING POLICIES (Continued)*(g) Investment properties (Continued)**(2) Measurement of deferred tax on movements in fair value (Continued)*

The adoption of this interpretation has no effect on the opening balance of retained earnings as of 1st January 2005 (1st January 2004: HK\$nil) and the Group's taxation expenses for the six months ended 30th June 2005 (six months ended 30th June 2004: HK\$nil).

(h) Land and buildings held for own use

In prior years, leasehold land and buildings held for own use were stated at revalued amounts less accumulated depreciation and accumulated impairment losses. Increases in valuation are credited to the asset revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter debited to the income statement. Any subsequent increases are credited to the income statement account up to the amount previously debited.

With the adoption of HKAS 17 as from 1st January 2005, the leasehold interest in the land held for own use is accounted for as being held under an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be separately identified from the fair value of the leasehold interest in the land at the time the lease was first entered into by the Group, or took over from the previous lessee, or at the date of construction of those buildings, if later.

Such leasehold land will no longer be revalued. Instead, any pre-paid land premiums for acquiring the land leases, or other lease payments, are amortised on a straight line basis over the lease term. The amortization charge for the period is recognised in the income statement.

Any buildings held for own use which are situated on such land leases continue to be presented as part of property, plant and equipment. However, as from 1st January 2005 the buildings are also stated at cost less accumulated depreciation, rather than at fair value, to be consistent with the new policy required to be adopted for the land element.

The new accounting policies have been adopted retrospectively, with the opening balances of retained profits and the asset revaluation reserve and the comparative information adjusted for the amounts relating to prior periods as disclosed in notes 2(a) and 2(b) and the consolidated statement of changes in equity. In respect of the six months ended 30th June 2005 it is estimated that the profit is HK\$243,000 higher than they would have been had the previous policy still been applied in the interim period.

(i) Minority interests

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the income statement as a deduction before arriving at the profit attributable to shareholders.

With effect from 1st January 2005, in order to comply with HKAS 1 "Presentation of Financial Statements" and HKAS 27 "Consolidated and Separate Financial Statements", minority interest at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the parent, and minority interests in the results of the Group for the period are presented on the face of the consolidated income statement as an allocation of the total profit for the period between the minority interests and the shareholders of the Company.

The presentation of minority interests in the consolidated balance sheet, income statement and statement of changes in equity for the comparative period has been restated accordingly.

3. TURNOVER AND OTHER REVENUES

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

	1st January to 30th June 2005 HK\$'000	1st January to 30th June 2004 HK\$'000
Turnover		
Net realised gain/(loss) on disposal of trading investments		
– trading securities	7,794	(8,090)
– equity derivatives	3,342	(15,500)
Net unrealised gain/(loss) on trading investments		
– trading securities	29,044	(5,264)
– equity derivatives	107	13,000
Interest income		
– bank deposits	25,540	1,368
– advances to customers	12,615	11,994
– others	4,945	2,166
Dividend income		
– listed investments	17,863	24,945
– unlisted investments	–	1,198
Gross rental income from investment properties	781	702
Brokerage commission and service income	45,842	60,302
	147,873	86,821
Other revenues		
Net gain on disposal of available for sale securities	75,700	103,763
Compensation from legal claims	12,314	–
Gain on disposal of fixed asset	27	344
Gain on disposal of a jointly controlled entity	–	1,805
Recovery of doubtful debts previously written off	1,154	40
Exchange gain, net	–	2,696
Others	951	558
	90,146	109,206
Total revenues	238,019	196,027

4. INCOME TAX

The provision for Hong Kong profits tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profits for the six months ended 30th June 2005. Taxation for overseas subsidiaries is calculated at the appropriate current rates of taxation in the relevant countries.

The amount of taxation to the consolidated income statement represents:

	1st January to 30th June 2005 HK\$'000	1st January to 30th June 2004 HK\$'000
Company and subsidiaries		
Current taxation		
– Hong Kong profits tax	(3,581)	(12,397)
– Overseas taxation	103	(1,276)
– Under provision in respect of prior years	-	(558)
Deferred taxation		
– Deferred taxation relating to the origination and reversal of temporary differences	(590)	(1,685)
	(4,068)	(15,916)
Share of taxation attributable to associates	(5,352)	(29,284)
	(9,420)	(45,200)

5. DIVIDENDS

	1st January to 30th June 2005 HK\$'000	1st January to 30th June 2004 HK\$'000
(a) <i>Dividends attributable to the interim period</i>		
Interim dividends declared and paid after the interim period of HK\$nil (2004: HK\$0.015) per ordinary share	-	23,453

The interim dividend has not been recognised as a liability at the balance sheet in the interim report.

5. DIVIDENDS (Continued)

	1st January to 30th June 2005 HK\$'000	1st January to 30th June 2004 HK\$'000
(b) <i>Dividends attributable to the previous financial year, approved and paid during the interim period</i>		
Final dividend in respect of the financial year ended 31 December 2004, approved and paid during the following interim period, of HK\$nil (year ended 31 December 2003: HK\$0.033) per ordinary share	<u> -</u>	<u> 51,596</u>

6. EARNINGS PER SHARE*(a) Basic earnings per share*

The calculation of basic per share for the six months period ended 30th June 2005 is based on the profit attributable to shareholders of the Company of HK\$133,786,000 (six months ended 30th June 2004 (restated): HK\$343,742,000) and the weighted average number of ordinary shares outstanding of 1,563,725,160 (six months ended 30th June 2004: 1,563,494,119 shares).

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to shareholders of the Company of HK\$133,786,000 (six months ended 30th June 2004 (restated): HK\$343,742,000) and the weighted average number of ordinary shares outstanding of 1,566,116,635 (six months ended 30th June 2004 (restated): 1,567,041,213 shares), adjusted for the effects of exercise of share options.

7. INVESTMENTS IN ASSOCIATES

	30th June 2005 HK\$'000	31st December 2004 HK\$'000
Investment, at cost		
Unlisted shares in		
Hong Kong	40,458	40,458
Overseas	5,500,755	5,500,755
Share of post-acquisition reserves	(804,812)	(801,887)
	4,736,401	4,739,326
Less:		
Provision for impairment charged against investment costs	(165,548)	(165,548)
Premium on acquisition	(3,544,429)	(3,544,429)
Carrying value, net	1,026,424	1,029,349

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 2005.

7. INVESTMENTS IN ASSOCIATES (Continued)

As at 30th June 2005, 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") (i)	PRC	Banking operations	21.39%	–
Everbright Securities Company Limited ("Everbright Securities") (ii)	PRC	Securities operations	–	46.60%

- (i) The directors of the Group understand that the major shareholders of China Everbright Bank Company Limited ("Everbright Bank") and the relevant regulatory authorities are still in the process of devising a financial restructuring plan for Everbright Bank to enhance its capital position and competitiveness.

At the date of this report, the Group does not have any plan nor obligation, constructive or otherwise, to inject further capital to Everbright Bank or make payments or extend guarantees on behalf of Everbright Bank beyond the Group's original investment. The Company's Board of Directors will assess the terms and merit of any restructuring plan of Everbright Bank for the making of investment decision and, if the amount involved is considered as substantial, it may require the Company's shareholders ultimate approval to invest.

Based on the unaudited financial results of Everbright Bank for the year ended 31st December 2004, the Group's carrying value of its investment in Everbright Bank was reduced to zero after sharing of loss of HK\$331 million from Everbright Bank while leaving HK\$592 million attributable loss not yet recorded by the Group.

While extensive care and effort have been made in the preparation of Everbright Bank's unaudited financial results for the six months ended 30th June 2005 in accordance with the requirements of the Hong Kong Accounting Standards and the Hong Kong Financial Reporting Standards ("Standards"), there are still certain areas in Everbright Bank's financial reports not yet fully assessed as to whether full compliance with these Standards is achieved. According to the unaudited financial result of Everbright Bank, which is prepared under PRC accounting standards, for the six months ended 30th June 2005, the Group's share of profit after tax for the period amounted to approximately HK\$18 million. Taken into account (1) the unrecorded share of loss of HK\$592 million in 2004, and (2) the fact that the HKFRS & HKAS adjustment exercise is still in progress. Consequently, the directors of the Group consider as prudent and fair not to account for its share of Everbright Bank's above mention profit for the six months ended 30th June 2005.

7. INVESTMENTS IN ASSOCIATES (Continued)

- (ii) Pursuant to a capital restructuring plan of Everbright Securities completed on 9th June 2005 with the injection of RMB120 million of capital by third party external investors, the Group's shareholding in Everbright Securities has been diluted from 49% to 46.6%. The effect of such shareholding dilution has resulted in, from a financial reporting perspective, a gain on deemed disposal of interest in associate of HK\$2.2 million to the Group.

According to the unaudited financial result of Everbright Securities for the six months ended 30th June 2005, which has been adjusted to comply with the Hong Kong Accounting Standards and the Hong Kong Financial Reporting Standards, the Group's share of loss after tax for the period amounted to HK\$5.6 million which has been equity accounted for by the Group.

8. AVAILABLE-FOR-SALE SECURITIES

	30th June 2005 HK\$'000	31st December 2004 HK\$'000
Listed equity securities, at fair value		
Listed in Hong Kong	824,794	854,073
Listed overseas	-	3,840
	824,794	857,913
Unlisted equity securities at overseas	3,425	3,428
	828,219	861,341

The following is a list of the principal non-trading securities as of 30th June 2005:

Company name	Place of incorporation	Principal activities	Effective equity interest held
China Mobile (Hong Kong) Limited	Hong Kong	Provision of telecommunication services	0.14%
Bank of Communications Company, Limited	Hong Kong	Banking operation	0.05%

As at 30th June 2005, the carrying amount of interest in China Mobile (Hong Kong) Limited exceeds 10% of the total assets of the Group.

Available-for-sale securities of aggregated carrying amount of approximately HK\$145 million (31st December 2004: approximately HK\$132 million) have been pledged to secure bank loans and overdraft facilities of the Company.

No available-for-sale securities was pledged as collateral to counterparties for derivatives transactions entered by the Group as at 30th June 2005 (31st December 2004: HK\$nil).

9. DEBTORS, DEPOSITS AND PREPAYMENTS

	30th June 2005 HK \$'000	31st December 2004 HK \$'000
Trade receivables, net	254,618	257,033
Deposits, prepayments and other receivables	70,992	56,664
	325,610	313,697

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

	30th June 2005 HK \$'000	31st December 2004 HK \$'000
Within 1 month	255,273	257,321
Within 1 to 2 months	88	376
Within 2 to 3 months	15	80
Within 3 to 6 months	16	8
Over 6 months	226	248
	255,618	258,033
Less: provision for doubtful receivables	(1,000)	(1,000)
	254,618	257,033

Trade receivables mainly comprised amounts due from the brokerage clients, brokers and clearing houses. These receivables are normally due two days after 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\$11 million as at 30th June 2005 (2004: approximately HK\$8 million).

10. CREDITORS, DEPOSITS RECEIVED AND ACCRUED CHARGES

	30th June 2005 HK \$'000	31st December 2004 HK \$'000
Trade payables	186,562	194,268
Other creditors, deposits received and accrued charges	41,960	46,059
	<u>228,522</u>	<u>240,327</u>

Trade payables are all due within one month and mainly comprised amounts due to brokerage clients, brokers and clearing houses. Trade payables to clients exclude those payables placed in trust accounts amounted to approximately HK\$304 million as at 30th June 2005 (31st December 2004: approximately HK\$425 million).

11. SHARE CAPITAL

	30th June 2005 HK \$'000	31st December 2004 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	1,563,601	1,563,351
Exercise of share options	575	250
End of period/year	<u>1,564,176</u>	<u>1,563,601</u>

12. 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 and others		Total	
	1st January to 30th June 2005 HK\$'000	1st January to 30th June 2004 HK\$'000	1st January to 30th June 2005 HK\$'000	1st January to 30th June 2004 HK\$'000 (Restated)	1st January to 30th June 2005 HK\$'000	1st January to 30th June 2004 HK\$'000 (Restated)	1st January to 30th June 2005 HK\$'000	1st January to 30th June 2004 HK\$'000 (Restated)
REVENUE								
Investment income	44,917	(1,021)	-	-	88,932	117,924	133,849	116,903
Interest income	1,215	1,078	15,622	12,256	26,263	2,194	43,100	15,528
Commission and service income	249	603	45,569	59,687	24	12	45,842	60,302
Other income	-	-	1,154	40	14,074	3,254	15,228	3,294
Total revenues	46,381	660	62,345	71,983	129,293	123,384	238,019	196,027
RESULTS								
Segment results	34,872	(7,165)	21,645	22,885	120,831	121,444	177,348	137,164
Unallocated corporate expenses							(20,145)	(23,030)
Operating profit							157,203	114,134
Finance costs							(7,489)	(3,147)
Gain on (deemed) disposal of interest in associate (Note 7(iii))							2,230	166,514
Share of profits less losses of associates							(274)	111,562
Taxation							(9,420)	(45,200)
Profit after taxation							142,250	343,863

12. SEGMENT INFORMATION (Continued)*A. Business segments (Continued)*

	Short-term investments		Financial services		Long-term investments and others		Total	
	30th June 2005	31st December 2004	30th June 2005	31st December 2004	30th June 2005	31st December 2004	30th June 2005	31st December 2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Restated)		(Restated)		(Restated)
OTHER INFORMATION								
Segment assets	857,579	562,855	919,941	792,664	2,762,035	2,936,507	4,539,555	4,292,026
Investment in associates							1,026,424	1,029,349
Unallocated corporate assets							49,134	58,942
Total assets							5,615,113	5,380,317
Segment liabilities	25,009	6,665	210,881	212,264	-	-	235,890	218,919
Unallocated corporate liabilities							651,255	678,333
Total liabilities							887,145	897,252
	1st January to 30th June 2005	1st January to 30th June 2004	1st January to 30th June 2005	1st January to 30th June 2004	1st January to 30th June 2005	1st January to 30th June 2004	1st January to 30th June 2005	1st January to 30th June 2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Restated)		(Restated)		(Restated)
Capital expenditures	-	-	-	500	239	1,695	239	2,195
Depreciation	187	194	47	146	2,472	2,443	2,706	2,783

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 do not recommend the payment of an interim dividend for the six months ended 30th June 2005 (2004: HK\$0.015 per share).

Result of the Group

In the first half of the year, the Company and its subsidiaries (the "Group") endeavored to make steady development in the Group's business in the Mainland and Hong Kong according to plan through consolidation of resources. As at 30th June 2005, the Group's profit after tax and minority interest amounted to HK\$134 million representing a decrease of HK\$210 million (on restate profit), a drop of 61%, from that of the same period last year. If the effect of increase in profit of HK\$168 million in last year's corresponding period due to accounting policy changes is excluded, the actual decrease in profit would have been 24%.

Review of Operations

Hong Kong Business

In the first half of the year, the Group has achieved growth in all its lines of business in Hong Kong. The Group has also recorded profits in various businesses including investment banking, securities brokerage, direct investment, asset management, strategic investment and proprietary trading. The Hong Kong operation has recorded an operating income of HK\$238 million, representing an increase of HK\$42 million (or 21%) compared with that of last year whereas the operating expenses of HK\$88.3 million represent an increase of HK\$3.3 million (or 3.8% increase) compared with the same period last year. The expense to income ratio has been reduced to 37.1% compared with 43.3% for the same period last year (a decrease of 6.2%). The profit before tax amounted to HK\$150 million representing an increase of HK\$38.7 million (or 34.9%) compared with the corresponding period last year.

The results of the Hong Kong operation have reflected the success of our strategy of focused efforts and business repositioning:

- our investment banking operation has increased its market participation and endeavored to provide diversified services;
- our brokerage business has launched its internet trading engine and has now established an integrated service platform for securities, commodities and futures trading;
- our direct investment business has maintained its prudent investment strategy in investing and has recorded a profit through divestments;
- the asset management business has gradually built up its reputation in the market and in the first half of the year it has launched its first hedge fund "China Everbright Dragon Fund" which has achieved satisfactory results;

- our strategic investment and proprietary trading businesses have achieved satisfactory results through timely trading activities;
- through recruitment of competent staff and continuous training, we have now built up a high calibre team to provide quality financial services in the current competitive environment.

Everbright Bank

Based on the unaudited accounts prepared under PRC accounting standards (the following financial figures of Everbright Bank are stated on the same basis), the Group's 21.39% owned Everbright Bank's total assets amounted to HK\$454.3 billion and the total values of its deposits and loans reached HK\$389.6 billion and HK\$262.8 billion, representing an increase of 7.1% and 4.1% respectively as at 30th June 2005. In the first half of the year, Everbright Bank recorded a total net operating income of approximately HK\$4.4 billion.

As at 30th June 2005, according to the "5-category" loan classification system, Everbright Bank's non-performing loan (the last 3 categories) amounted to HK\$28 billion representing a non-performing loan rate of 11%; this reflects an increase on both the non-performing loan amount and the provisioning rate. For the period under review, the provisions made amounted to approximately HK\$2.6 billion and the provisioning rate for non-performing loan has been raised to 43% from 38% at the beginning of the year.

For the six months ended 30th June 2005, the unaudited profit before tax of Everbright Bank amounted to approximately HK\$130 million according to the PRC accounting standards, representing a decrease of 81% compared with that for the same period last year.

As at 30th June 2005, Everbright Bank was operating 30 direct branches and 380 banking offices in 23 provinces/cities and autonomous regions in Mainland China with a representative office in Hong Kong and South Africa.

The capital increase proposal for Everbright Bank led by the relevant government authorities is expected to be finalised before the end of the year. If the above proposal could be completed, the capital adequacy ratio of Everbright Bank will meet the requirements of the relevant authority.

Everbright Securities

In the first half of the year, the Mainland securities market remained in a depressed state. The reform on domestic shares of listed companies in the A share market announced by the government will undoubtedly facilitate the long term development of the China capital market. However, it does not lend significant support to the market in the short term. Under this difficult market environment, the Group's 46.6% owned (originally 49%) Everbright Securities managed to overcome the difficulties and continued to develop business.

With the approval of the regulatory authority, Everbright Securities has been converted into a joint stock company and the Group's equity interest therein has been diluted from 49% to 46.6%.

In the first half of the year, Everbright Securities' internet trading business developed rapidly and has made up 44% of its total turnover. The total income of Everbright Securities in the period under review amounted to HK\$223 million and it has recorded a loss of HK\$12 million. Brokerage commission, investment income, interest income and other income contributed 39%, 34%, 17% and 10% respectively of its total income.

As at 30th June 2005, Everbright Securities was operating 45 branches offices in 19 provinces/cities and autonomous regions.

Financial Position

As at 30th June 2005, the net assets of the Group amounted to approximately HK\$4.73 billion, with cash on hand of approximately HK\$2.26 billion. Apart from trade liabilities in ordinary course of business, the Group's principal liability is a total HK\$436 million 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 2005, the Group committed borrowing facilities totaling approximately HK\$2.1 billion. The Group's gearing ratio, which is computed from the Group's total interest bearing liabilities divided by shareholders' fund, was 9.5% as at 30th June 2005 as compared to 9.8% as at 31st December 2004.

As at 30th June 2005, the Group had no material exposure to foreign exchange fluctuations other than assets denominated in Renminbi.

As at 30th June 2005, the Group had pledged listed securities to the value of approximately HK\$145 million in relation to certain banking facilities.

The Group did not have any material contingent liabilities as at 30th June 2005. The Company had given guarantees in respect of banking facilities available to subsidiaries totaling approximately HK\$100 million. As at 30th June 2005, the subsidiaries of the Company had outstanding borrowings from bank totaling HK\$0.4 million. 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

We firmly believe in our current business strategy of focusing on the Mainland and Hong Kong financial services business, with a view to exploring further development opportunities based on our existing platform. We believe that the current business model of our Hong Kong financial operation can provide a steady profit.

Faced with the great challenge of risk management in the financial services in the Mainland, we have put continuous efforts in improving the corporate governance of our Group and associated companies as well as improving our organisational structure and work procedures, strengthening the sense of responsibility and risk management and enhancing the quality and integrity of staff.

We believe the effectiveness of the overall corporate restructuring of Everbright Bank will be more visible after the elimination of risks disclosed, and it is expected that the capital restructuring led by the relevant government authorities will be finalised before the end of the year. The financial strength and the qualification of being able to provide innovative financial products of Everbright Securities will reinforce its leading position in the changing market in the Mainland.

With the prosperous economic environment in Hong Kong and the Mainland, we have great confidence in continuously improving the performance of our business through prudent risk management measures.

With a strong sense of responsibility and positive attitude, our team will devote the best effort to fulfilling our promise to shareholders with the aim of generating higher returns.

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

As at 30th June 2005, 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

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	Number of underlying shares	Total	Total percentage
Wang Mingquan	Personal	26.06.02	6,000,000	6,000,000	10,920,000	0.70
	Personal	07.07.03	3,000,000	3,000,000		
	Personal	03.05.05	1,920,000	1,920,000		
Xu Bin	Personal	26.06.02	1,500,000	1,500,000	2,890,000	0.18
	Personal	07.07.03	750,000	750,000		
	Personal	03.05.05	640,000	640,000		
Guo You	Personal	26.06.02	2,000,000	2,000,000	3,390,000	0.22
	Personal	07.07.03	750,000	750,000		
	Personal	03.05.05	640,000	640,000		
Zhou Liqun	Personal	26.06.02	1,500,000	1,500,000	4,170,000	0.27
	Personal	07.07.03	750,000	750,000		
	Personal	03.05.05	1,920,000	1,920,000		
He Ling	Personal	26.06.02	1,500,000	1,500,000	3,530,000	0.23
	Personal	07.07.03	750,000	750,000		
	Personal	03.05.05	1,280,000	1,280,000		
Chen Shuang	Personal	03.09.04	750,000	750,000	2,030,000	0.13
	Personal	03.05.05	1,280,000	1,280,000		
Ng Ming Wah, Charles	Personal	07.07.03	150,000	150,000	150,000	0.01
Tung Wai, David	Personal	26.06.02	300,000	300,000	1,090,000	0.07
	Personal	07.07.03	150,000	150,000		
	Personal	05.05.05	640,000	640,000		
Seto Gin Chung, John	Personal	07.07.03	150,000	150,000	790,000	0.05
	Personal	05.05.05	640,000	640,000		

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 2005.

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 2005, save as disclosed herein, 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 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 2005, the following Directors 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	0.995
Chen Shuang	Personal	0.296	29.09.03	29.03.04 – 25.05.13	4,000,000	0.157

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 2005:

	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
Chen Shuang	750,000	03.09.04	04.09.05 – 04.03.07	04.09.05 – 03.03.08	3.225
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
	1,625,000	07.07.03	08.07.04 – 08.01.06	08.07.04 – 07.01.07	2.375
	150,000	14.04.04	15.04.05 – 15.10.06	15.04.05 – 14.10.07	4.390
	500,000	03.09.04	04.09.05 – 04.03.07	04.09.05 – 03.03.08	3.225

2. Outstanding share options as at 30th June 2005:

	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
	1,920,000	03.05.05	04.05.06 – 04.11.07	04.05.06 – 03.05.10	2.850
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
	640,000	03.05.05	04.05.06 – 04.11.07	04.05.06 – 03.05.10	2.850
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
	640,000	03.05.05	04.05.06 – 04.11.07	04.05.06 – 03.05.10	2.850
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
	1,920,000	03.05.05	04.05.06 – 04.11.07	04.05.06 – 03.05.10	2.850
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
	1,280,000	03.05.05	04.05.06 – 04.11.07	04.05.06 – 03.05.10	2.850
Chen Shuang	750,000	03.09.04	04.09.05 – 04.03.07	04.09.05 – 03.03.08	3.225
	1,280,000	03.05.05	04.05.06 – 04.11.07	04.05.06 – 03.05.10	2.850
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
	640,000	05.05.05	06.05.06 – 06.11.07	06.05.06 – 05.05.10	3.000
Seto Gin Chung, John	150,000	07.07.03	08.07.04 – 08.01.06	08.07.04 – 07.01.07	2.375
	640,000	05.05.05	06.05.06 – 06.11.07	06.05.06 – 05.05.10	3.000
Aggregate total of employees (Note)	3,100,000	26.06.02	27.06.03 – 27.12.04	27.06.03 – 26.12.05	4.360
	125,000	02.05.03	03.05.04 – 03.11.05	03.05.04 – 02.11.06	1.780
	1,437,500	07.07.03	08.07.04 – 08.01.06	08.07.04 – 07.01.07	2.375
	150,000	14.04.04	15.04.05 – 15.10.06	15.04.05 – 14.10.07	4.390
	500,000	03.09.04	04.09.05 – 04.03.07	04.09.05 – 03.03.08	3.225
	8,220,000	03.05.05	04.05.06 – 04.11.07	04.05.06 – 03.05.10	2.850
	240,000	05.05.05	06.05.06 – 06.11.07	06.05.06 – 05.05.10	3.000

3. Share options granted during the period ended 30th June 2005:

Date of Grant	03.05.2005	05.05.2005
Vesting Period	04.05.06 – 04.11.07	06.05.06 – 06.11.07
Exercise Period	04.05.06 – 03.05.10	06.05.06 – 05.05.10
Exercise Price	HK\$2.850	HK\$3.000

Grantee	Number of Options granted on 03.05.2005	Number of Options granted on 05.05.2005
Wang Mingquan	1,920,000	–
Xu Bin	640,000	–
Guo You	640,000	–
Zhou Liqun	1,920,000	–
He Ling	1,280,000	–
Chen Shuang	1,280,000	–
Tung Wai, David	–	640,000
Seto Gin Chung, John	–	640,000
Aggregate total of employees (<i>Note</i>)	8,220,000	240,000

4. Number of share options exercised during the period ended 30th June 2005:

	Date of offer	No. of Shares	Exercise price (HK\$)	WA Closing price ** (HK\$)
Lau Chung Man, Louis	07.07.03	125,000	2.375	2.900
Aggregate total of employees (<i>Note</i>)	02.05.03 07.07.03	375,000 75,000	1.780 2.375	2.900 3.150

** 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 2005.

6. Number of share options lapsed during the period ended 30th June 2005:

	Date of offer	No. of options
Xie Zhichun	26.06.02	1,500,000
	07.07.03	750,000
Lau Chung Man, Louis	26.06.02	500,000
	07.07.03	125,000
Aggregate total of employees (<i>Note</i>)	26.06.02	300,000
	07.07.03	112,500

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

7. Valuation of share options

The fair value of share options granted is measured using Binomial Option Pricing Model based on volatility of the Company's share price six months immediately preceding the date of grant, take into account the terms and conditions upon which the share options were granted.

With effect from 1st January 2005, the Group amortises the fair value of share options granted to employees as an expenses in the income statement according to HKFRS 2 "Share-based Payments". Details of the underlying accounting policy are set out in Note 2(e) to the financial statements.

Save as disclosed herein, at no time during the six months ended 30th June 2005 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 2005 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 5% 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:

Long Position

Name of shareholder	No. of shares beneficially held	% of total issued shares
China Everbright Holdings Company Limited <i>(Note)</i>	867,119,207	55.436
Datten Investments Limited <i>(Note)</i>	867,119,207	55.436
Honorich Holdings Limited	867,119,207	55.436

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 2005, 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 5% 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 2005, 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 2005, the Group had 142 employees. Total staff cost for the period under review amounted to approximately HK\$38.7 million as noted in the consolidated income statement. 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.

Corporate Governance

The Company has complied with the Code of Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the six months ended 30th June 2005, with deviations from code provisions A.4.1 and A.4.2 of the Code in respect of the service term and rotation of Directors; and code provision E.1.2 that the chairman had not present at the 2005 Annual General Meeting of the Company.

Under the code provisions A.4.1 and A.4.2 of the Code, (a) non-executive directors should be appointed for a specific term and subject to re-election, and (b) (last sentence) every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Independent Non-executive Directors of the Company 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.

Under the Articles of Association, the Managing Director of the Company is not subject to retirement by rotation. This constitutes a deviation from the code provision A.4.2 of the Code. In order to ensure full compliance with the Code, a special resolution will be proposed to amend the relevant Articles of Association of the Company at the Annual General Meeting to be held in 2006, so that every Director shall be subject to retirement by rotation at least once every three years.

Under the code provision E.1.2, the chairman of the board should attend the annual general meeting. The chairman had not present at the 2005 Annual General Meeting of the Company due to another engagement, this constitutes a deviation from the code provision E.1.2 of the Code.

Compliance with Model Code

The Company has adopted a "Code for Securities Transactions by Directors" which is no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules. Having made specific enquiry of all Directors, the Directors confirmed that they have complied with the required standard set out in both the said Code and the Model Code for the six months ended 30th June 2005.

Audit Committee

The Audit Committee currently comprises four members who are Independent Non-executive Directors. The Committee is chaired by Mr. Ng Ming Wah, Charles, an Independent Non-executive Director. The other committee members are Mr. Tung Wai, David, Mr. Seto Gin Chung, John and Dr. Lin Zhijun.

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 2005 of the Company.

Remuneration Committee

The Remuneration Committee currently comprises five members comprising two Executive Directors and three Independent Non-executive Directors. It is chaired by Mr. Wang Mingquan. The other committee members are Dr. Zhou Liqun, Mr. Ng Ming Wah, Charles, Mr. Tung Wai, David and Mr. Seto Gin Chung, John.

By order of the Board
Zhou Liqun
Chief Executive Officer

Hong Kong, 15th September 2005