



CHINA EVERBRIGHT LIMITED

中國光大控股有限公司

(Stock Code: 165)



INTERIM REPORT

for the six months ended 30th June, 2006



## **Board of Directors**

Wang Mingquan

Guo You

Zhou Liqun

He Ling

Chen Shuang

Xu Haoming

\* Ng Ming Wah, Charles

\* Seto Gin Chung, John

\* Lin Zhijun

\* Tung Iring

*\* Independent Non-executive Directors*

Chairman

Chief Executive Officer

Deputy General Manager

Deputy General Manager

## **Company Secretary**

Tang Chi Chun, Richard

## **Legal Advisors**

Messrs. Richards Butler

## **Registered Office**

Room 4001, 40th Floor

Far East Finance Centre

16 Harcourt Road

Hong Kong

## **Share Registrars**

Secretaries Limited

26th Floor, Tesbury Centre

28 Queen's Road East

Wanchai

Hong Kong

## **Principal Bankers**

Standard Chartered Bank (Hong Kong) Limited

Bank of Communications Company, Limited

Fubon Bank (Hong Kong) Limited

Hang Seng Bank Limited

The Bank of East Asia, Limited

## **Auditors**

KPMG

## **Website Address**

<http://www.everbright165.com>

## Interim Results

The Directors of China Everbright Limited (the "Company") are pleased to announce that the unaudited interim results of the Company and its subsidiaries (collectively the "Group") for the six months period ended 30th June 2006. The interim financial report is unaudited, but has been reviewed by KPMG (auditors of the Company) in accordance with Statement of Auditing Standards 700, Engagements to review interim financial reports, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). KPMG's independent review report to the Board of Directors of the Company is included on page 23. The interim financial report has also been reviewed by the Company's Audit Committee.

## Consolidated Income Statement

	Note	1st January to 30th June 2006 HK\$'000	1st January to 30th June 2005 HK\$'000 (Restated)
Turnover	2	<b>1,533,232</b>	660,101
Cost of sales		<b>(1,294,957)</b>	(512,228)
		<b>238,275</b>	147,873
Other income	2	<b>147,443</b>	90,146
Staff costs		<b>(49,297)</b>	(38,676)
Depreciation and amortisation expenses		<b>(2,179)</b>	(2,706)
Other operating expenses		<b>(36,498)</b>	(39,434)
Profit from operations		<b>297,744</b>	157,203
Finance costs		<b>(38,804)</b>	(7,489)
Gain on deemed disposal of interest in an associate		–	2,230
Share of profits less losses of associates		<b>203,451</b>	(5,626)
Profit before taxation		<b>462,391</b>	146,318
Income tax	3	<b>(51,633)</b>	(4,068)
Profit after taxation		<b>410,758</b>	142,250
Attributable to:			
Shareholders of the Company		<b>403,971</b>	133,786
Minority interests		<b>6,787</b>	8,464
		<b>410,758</b>	142,250
Dividends attributable to the period		–	–
Earnings per share	4		
– Basic		<b>25.81 cents</b>	8.56 cents
– Diluted		<b>25.69 cents</b>	8.54 cents

## Consolidated Balance Sheet

		<b>30th June 2006 HK\$'000</b>	31st December 2005 HK\$'000
	Note		
<b>Non-current assets</b>			
Fixed assets		<b>140,296</b>	141,629
Investments in associates	5(a)	<b>1,307,867</b>	1,112,279
Available-for-sale securities	6	<b>1,151,223</b>	1,004,501
Other non-trading securities	7	<b>95,346</b>	–
Finance lease receivable		–	2,899
Intangible assets		<b>1,250</b>	1,250
		<b>2,695,982</b>	2,262,558
<b>Current assets</b>			
Advances to customers	8	<b>589,123</b>	591,764
Finance lease receivable		<b>5,770</b>	8,817
Amount due from ultimate holding company		<b>2,613</b>	2,613
Debtors, deposits and prepayments	9	<b>481,423</b>	243,757
Trading securities	10	<b>709,932</b>	496,543
Bank balances and cash – general accounts		<b>2,116,734</b>	2,334,389
		<b>3,905,595</b>	3,677,883
<b>Current liabilities</b>			
Creditors, deposits received and accrued charges	11	<b>(239,132)</b>	(209,012)
Trading securities	10	<b>(104,451)</b>	(19,307)
Amounts due to associates		<b>(8,151)</b>	(34,644)
Loan from ultimate holding company		<b>(438,821)</b>	(437,645)
Amount due to ultimate holding company		–	(47)
Provision for taxation		<b>(291,295)</b>	(243,686)
		<b>(1,081,850)</b>	(944,341)
<b>Net current assets</b>		<b>2,823,745</b>	2,733,542
<b>Total assets less current liabilities</b>		<b>5,519,727</b>	4,996,100
Deferred tax liabilities		<b>(114,150)</b>	(104,162)
<b>NET ASSETS</b>		<b>5,405,577</b>	4,891,938
<b>CAPITAL AND RESERVES</b>			
Share capital	14	<b>1,565,812</b>	1,564,876
Reserves		<b>3,754,932</b>	3,262,205
<b>Total equity attributable to shareholders of the Company</b>		<b>5,320,744</b>	4,827,081
<b>Minority interests</b>		<b>84,833</b>	64,857
<b>TOTAL EQUITY</b>		<b>5,405,577</b>	4,891,938

## Consolidated Statement of Changes in Equity for the six months ended 30th June 2006

	Attributable to the shareholders of the Company											
	Share capital	Share premium	Option premium reserve	Investment revaluation reserve	Capital redemption reserve	Goodwill reserve	Capital reserve	Exchange reserve	Retained earnings	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1st January 2006	1,564,876	5,629,208	19,141	500,250	2,984	(3,672,032)	28,066	16,557	738,031	4,827,081	64,857	4,891,938
Surplus on revaluation	-	-	-	176,899	-	-	-	-	-	176,899	-	176,899
Share option forfeited	-	-	(273)	-	-	-	-	-	273	-	-	-
Net gain/(loss) not recognised in the income statement	-	-	(273)	176,899	-	-	-	-	273	176,899	-	176,899
Issue of shares – under share option scheme	936	2,627	(1,157)	-	-	-	-	-	-	2,406	-	2,406
Release upon disposal of available-for-sale securities	-	-	-	(116,165)	-	-	-	-	-	(116,165)	-	(116,165)
Increase in exchange reserve on interest in associates	-	-	-	-	-	-	-	12,127	-	12,127	-	12,127
Share of investment revaluation reserve of associates	-	-	-	6,503	-	-	-	-	-	6,503	-	6,503
Investment by minority shareholders	-	-	-	-	-	-	-	-	-	-	13,189	13,189
Equity settled share-based transactions	-	-	7,922	-	-	-	-	-	-	7,922	-	7,922
Profit for the period	-	-	-	-	-	-	-	-	403,971	403,971	6,787	410,758
As at 30th June 2006	<u>1,565,812</u>	<u>5,631,835</u>	<u>25,633</u>	<u>567,487</u>	<u>2,984</u>	<u>(3,672,032)</u>	<u>28,066</u>	<u>28,684</u>	<u>1,142,275</u>	<u>5,320,744</u>	<u>84,833</u>	<u>5,405,577</u>
Representing:												
Company and subsidiaries	1,565,812	5,631,835	25,633	560,984	2,984	(3,672,032)	10,000	(2,774)	1,766,708	5,889,150	84,833	5,973,983
Associates	-	-	-	6,503	-	-	18,066	31,458	(624,433)	(568,406)	-	(568,406)
As at 30th June 2006	<u>1,565,812</u>	<u>5,631,835</u>	<u>25,633</u>	<u>567,487</u>	<u>2,984</u>	<u>(3,672,032)</u>	<u>28,066</u>	<u>28,684</u>	<u>1,142,275</u>	<u>5,320,744</u>	<u>84,833</u>	<u>5,405,577</u>

## Consolidated Statement of Changes in Equity for the six months ended 30th June 2006 (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 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	-	-	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	-	-	-	-	(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 - under share option scheme	575	568	-	-	-	-	-	-	-	-	1,143	-	1,143
Release upon disposal of available-for-sale securities	-	-	-	-	(73,717)	-	-	-	-	-	(73,717)	-	(73,717)
Investment by minority shareholders	-	-	-	-	-	-	-	-	-	-	-	99,906	99,906
Equity settled share-based transactions	-	-	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



## Condensed Consolidated Cash Flow Statement

	<b>1st January to 30th June 2006 HK\$'000</b>	1st January to 30th June 2005 HK\$'000
<b>Net cash outflow from operating activities</b>	<b>(386,377)</b>	(436,517)
<b>Net cash inflow from investing activities</b>	<b>149,277</b>	918,798
<b>Net cash inflow from financing activities</b>	<b>17,909</b>	101,143
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(219,191)</b>	583,424
<b>Cash and cash equivalents</b>		
At 1st January	<b>2,334,389</b>	1,602,074
Effect of changes in exchange rate	<b>1,536</b>	(205)
At 30th June	<b><u>2,116,734</u></b>	<b><u>2,185,293</u></b>

## 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 by the Board for issuance on 24th August 2006.

The unaudited interim financial report has been prepared on a basis consistent with the accounting policies adopted in the 2005 annual financial statements.

### 2. TURNOVER AND OTHER INCOME

In prior periods, the Group's net gain or loss on disposal of trading securities was reported as a component of the Group's turnover. In preparing the financial statements for the year ended 31st December 2005, the Board of Directors resolved to change the accounting policy on the measurement of revenue from trading securities in order to better reflect the Group's operating activities. The proceeds, net of transaction cost, received on disposal of trading securities investments are included in turnover with the corresponding cost of investment disposed of being reported as cost of sales. Comparative figures of turnover from sales of trading securities for the six months ended 30th June 2005 has been restated to conform to the accounting policy applied in the 2005 annual financial statements.

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

	<b>1st January to 30th June 2006 HK\$'000</b>	1st January to 30th June 2005 HK\$'000 (Restated)
<b>Turnover</b>		
Sale of trading securities		
– equity securities	<b>1,331,115</b>	440,713
– debt securities	<b>34,651</b>	51,840
– derivatives and others	<b>54,435</b>	30,811
Net unrealised gain/(loss) on trading investments		
– trading securities	<b>11,875</b>	29,044
– derivatives	<b>(83,319)</b>	107
Interest income		
– bank deposits	<b>50,087</b>	25,540
– advances to customers	<b>38,218</b>	12,615
– finance lease	<b>2,884</b>	–
– others	<b>8,053</b>	4,945
Dividend income		
– listed investments	<b>24,244</b>	17,863
Gross rental income from investment properties	<b>455</b>	781
Brokerage commission and service income	<b>60,534</b>	45,842
	<b><u>1,533,232</u></b>	<b><u>660,101</u></b>
<b>Other income</b>		
Net gain on disposal of available-for-sale securities	<b>146,368</b>	75,700
Compensation from legal claims	<b>–</b>	12,314
Gain on disposal of fixed assets	<b>148</b>	27
Recovery of doubtful debts previously written off	<b>–</b>	1,154
Others	<b>927</b>	951
	<b><u>147,443</u></b>	<b><u>90,146</u></b>



### 3. INCOME TAX

The provision for Hong Kong profits tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profits for the six months ended 30th June 2006. Taxation for overseas activities is calculated at the appropriate current rates of taxation in the relevant countries.

The amount of taxation charged to the consolidated income statement represents:

	<b>1st January to 30th June 2006 HK\$'000</b>	1st January to 30th June 2005 HK\$'000
<b>Company and subsidiaries</b>		
Current taxation		
– Hong Kong profits tax	<b>(39,628)</b>	(3,581)
– Overseas taxation	<b>(9,513)</b>	103
Deferred taxation		
– Deferred taxation relating to the origination and reversal of temporary differences	<b>(2,492)</b>	(590)
	<b><u>(51,633)</u></b>	<b><u>(4,068)</u></b>

### 4. EARNINGS PER SHARE

#### (a) Basic earnings per share

The calculation of basic earnings per share for the six months period ended 30th June 2006 is based on the profit attributable to shareholders of the Company of HK\$403,971,000 (six months ended 30th June 2005: net profit of HK\$133,786,000) and the weighted average number of 1,565,282,792 ordinary shares (six months ended 30th June 2005: 1,563,725,160) in issue during the period.

#### (b) Diluted earnings per share

The calculation of diluted earnings per share for the six months period ended 30th June 2006 is based on the profit attributable to shareholders of the Company of HK\$403,971,000 (six months ended 30th June 2005: net profit of HK\$133,786,000) and the weighted average number of 1,572,461,562 ordinary shares (six months ended 30th June 2005: 1,566,116,635), adjusted for the effects of exercise of share options.

## 5. INVESTMENTS IN ASSOCIATES

### (a) Investments in associates

	<b>30th June 2006 HK\$'000</b>	31st December 2005 HK\$'000
Investments, at cost:		
Unlisted shares in		
– Hong Kong	<b>40,458</b>	40,458
– Overseas	<b>5,534,961</b>	5,534,961
Share of post-acquisition reserves	<b>(557,575)</b>	(753,163)
	<b>5,017,844</b>	4,822,256
<i>Less:</i>		
Provision for impairment charged against investment costs	<b>(165,548)</b>	(165,548)
Goodwill on acquisition	<b>(3,544,429)</b>	(3,544,429)
Carrying value, net	<b>1,307,867</b>	1,112,279

The directors are of the opinion that the underlying value of the associates is not less than the carrying value of the associates at 30th June 2006.

### (b) As at 30th June 2006, particulars of the principal associates of the Group are as follows:

<b>Name of associate</b>	<b>Place of incorporation / operation</b>	<b>Principal activities</b>	<b>Percentage of equity interest held directly</b>
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 Everbright Bank and the relevant regulatory authorities, under the direction of the State Government, are still trying to come up with a financial restructuring plan for Everbright Bank to enhance its capital adequacy ratio and competitiveness.

At the date of this report, the Group does not have any obligation or commitment, constructive or otherwise, to inject further capital into 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. If the restructuring plan involves material additional investment by the Group, it may require the Company's shareholders ultimate approval to invest.

## 5. INVESTMENTS IN ASSOCIATES (Continued)

### (b) (Continued)

#### (i) (Continued)

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

Preparation of Everbright Bank's audited financial results for the years ended 31st December 2004 and 2005 in accordance with the requirements of the Hong Kong Financial Reporting Standards ("HKFRSs") is still underway. Management is thus, at this point of time, unable to obtain comprehensive and accurate financial information for Everbright Bank. In view of the status set out above and taken together with the fact that, up to 31st December 2004, the Group still has an unrecorded accumulated net loss of approximately HK\$592 million attributable from Everbright Bank; the Company's Board of Directors consider it to be prudent and reasonable not to account for the Group's share of Everbright Bank's unaudited results for the period ended 30th June 2006.

- (ii) Pursuant to a capital restructuring plan of Everbright Securities completed on 8th 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%. According to the China Securities Regulatory Commission's directive, the shareholders before the implementation of the capital restructuring plan are entitled to receive dividend or required to make contribution for the net loss, calculated under PRC Accounting Standards, of Everbright Securities for the period from 30th June 2004 to the date of completion of the capital restructuring. Accordingly, the Group is required to make a cash contribution of RMB35.6 million in 2006 towards its share of net loss for the relevant period noted above.

The Group's share of Everbright Securities' profit after tax for the period, in accordance with HKFRSs, amounted to HK\$203.5 million which has been accounted for by the Group according to the equity accounting method.

## 6. AVAILABLE-FOR-SALE SECURITIES

	<b>30th June 2006 HK\$'000</b>	31st December 2005 HK\$'000
Listed equity securities at fair value:		
Listed in Hong Kong	<b>1,076,017</b>	928,597
Unlisted equity securities	<b>75,206</b>	75,904
	<b><u>1,151,223</u></b>	<u>1,004,501</u>

6. **AVAILABLE-FOR-SALE SECURITIES (Continued)**

The Group held the following principal available-for-sale securities as at 30th June 2006:

<b>Company name</b>	<b>Place of incorporation</b>	<b>Principal activities</b>	<b>Effective equity interest held</b>
China Mobile (Hong Kong) Limited <i>(i)</i>	Hong Kong	Provision of telecommunication services	0.10%

(i) At 30th June 2006, the carrying amount of interests in China Mobile (Hong Kong) Limited exceeds 10% of total assets of the Group.

Available-for-sale securities with an aggregate carrying amount of approximately HK\$89 million (31st December 2005: HK\$183 million) have been pledged to secure bank loans and overdraft facilities of the Company.

On 20th December 2005, the Group entered into a securities lending agreement with an independent third party to lend 18,000,000 shares in China Mobile which entitles the Group to a stock lending fee of 0.5% per annum. The stock lending agreement may be terminated by either party giving the other not less than 5 days written notice. As at 30th June 2006, the number of shares in China Mobile on loan was 15,000,000 and the shares had a fair value of approximately HK\$665 million.

7. **OTHER NON-TRADING SECURITIES**

	<b>30th June 2006 HK\$'000</b>	31st December 2005 HK\$'000
At fair value:		
Unlisted convertible bonds	<b>95,346</b>	–

8. **ADVANCES TO CUSTOMERS**

	<b>30th June 2006 HK\$'000</b>	31st December 2005 HK\$'000
Amounts due from margin clients	<b>597,350</b>	599,991
Less: impairment loss	<b>(8,227)</b>	(8,227)
	<b>589,123</b>	591,764

## 8. ADVANCES TO CUSTOMERS (Continued)

Advances to customers are secured by listed securities of margin clients held as collateral. No additional provision is considered necessary in the six months to 30th June 2006 and the aging analysis is as follows:

	<b>30th June 2006 HK\$'000</b>	31st December 2005 HK\$'000
Repayable on demand	<b>237,770</b>	382,848
Less than 3 months	<b>359,580</b>	217,143
	<b>597,350</b>	599,991

## 9. DEBTORS, DEPOSITS AND PREPAYMENTS

	<b>30th June 2006 HK\$'000</b>	31st December 2005 HK\$'000
Accounts receivables	<b>415,723</b>	213,921
Deposits, prepayments and other receivables	<b>65,700</b>	29,836
	<b>481,423</b>	243,757

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

	<b>30th June 2006 HK\$'000</b>	31st December 2005 HK\$'000
Within 1 month	<b>414,691</b>	213,670
Within 1 to 2 months	<b>369</b>	149
Within 2 to 3 months	<b>562</b>	15
Within 3 to 6 months	<b>67</b>	44
Over 6 months	<b>34</b>	43
	<b>415,723</b>	213,921

Accounts receivables principally comprised amounts due from brokerage clients, counterparties and clearing houses in the ordinary course of brokerage and investment businesses. These receivables are normally repayable on demand. The extension of credit to client requires management's approval on a case-by-case basis.

## 10. TRADING SECURITIES

	<b>30th June 2006 HK\$'000</b>	31st December 2005 HK\$'000
<b>Current assets</b>		
At fair value:		
Equity securities:		
– listed in Hong Kong	<b>200,675</b>	325,120
– listed overseas	<b>132,483</b>	132,231
	<b>333,158</b>	457,351
Debt securities:		
– listed overseas	–	37,271
– unlisted	<b>318,992</b>	1,921
	<b>318,992</b>	39,192
Derivatives:		
– unlisted	<b>50,980</b>	–
– listed overseas	<b>6,802</b>	–
	<b>57,782</b>	–
	<b>709,932</b>	496,543
<b>Current liabilities</b>		
At fair value:		
Equity securities:		
– listed in Hong Kong	<b>(6,350)</b>	(9,221)
Derivatives:		
– equity-linked (Note (j))	<b>(79,965)</b>	(8,190)
– others	<b>(18,136)</b>	(1,896)
	<b>(104,451)</b>	(19,307)

## 10. TRADING SECURITIES (Continued)

Note:

- (i) On 21st December 2005, the Group purchased a principal guaranteed note ("PGN") from an independent third party for a total consideration of approximately HK\$693 million. The payment of consideration has been deferred and the Group is obliged to pay to the PGN issuer a finance charge of 3.65% per annum. According to the terms of the PGN, the purchase consideration is to be settled in six equal semi-annual payments. Each payment is either in cash or by 3,000,000 shares in China Mobile, the ultimate form of settlement depends upon the closing share price of China Mobile two business days prior to payment date and the closing value of the Hang Seng Index on the payment date. Under the PGN, the Group is entitled to receive six semi-annual payments from the issuer and each payment is equal to one-sixth of the PGN amount plus an additional bonus, if applicable, based on the average appreciation of the China Mobile mid-week closing share price from the date of inception to payment date.

As at 30th June 2006, the fair value of the PGN was calculated with reference to the terms of the PGN and the closing share price of China Mobile as at 30th June 2006, adjusted by the underlying option value and taking into account the discounted net present value of the Group's payment obligations, including finance charge, under the PGN. Key parameters used in the PGN valuation include the volatility of the China Mobile share price, the volatility of the Hang Seng Index and expected future interest rates.

## 11. CREDITORS, DEPOSITS RECEIVED AND ACCRUED CHARGES

	<b>30th June 2006 HK\$'000</b>	31st December 2005 HK\$'000
Accounts payables	<b>187,750</b>	162,163
Other creditors, deposits received and accrued charges	<b>51,382</b>	46,849
	<b><u>239,132</u></b>	<u>209,012</u>

Accounts payables are all due within one month and comprised principally amounts due to brokerage clients, counterparties and clearing houses.

## 12. MATURITY PROFILE

Maturity profile as at 30th June 2006

	Repayable on demand HK\$'000	3 months or less HK\$'000	1 year or less but over 3 months HK\$'000	5 years or less but over 1 year HK\$'000	After 5 years HK\$'000	Total HK\$'000
Assets						
- Advances to customers	237,770	359,580	-	-	-	597,350
- Debt securities	-	318,992	-	-	-	318,992
- Other non-trading securities	-	-	-	38,838	56,508	95,346
- Fixed deposits	-	2,011,240	-	-	-	2,011,240
	<u>237,770</u>	<u>2,689,812</u>	<u>-</u>	<u>38,838</u>	<u>56,508</u>	<u>3,022,928</u>

Maturity profile as at 31st December 2005

	Repayable on demand HK\$'000	3 months or less HK\$'000	1 year or less but over 3 months HK\$'000	5 years or less but over 1 year HK\$'000	After 5 years HK\$'000	Total HK\$'000
Assets						
- Advances to customers	382,848	217,143	-	-	-	599,991
- Debt securities	-	1,921	37,271	-	-	39,192
- Fixed deposits	-	2,240,875	-	-	-	2,240,875
	<u>382,848</u>	<u>2,459,939</u>	<u>37,271</u>	<u>-</u>	<u>-</u>	<u>2,880,058</u>

## 13. SEGREGATED ACCOUNTS NOT REFLECTED ON BALANCE SHEET

	30th June 2006 HK\$'000	31st December 2005 HK\$'000
Bank balances – segregated accounts	349,035	248,415
Receivable from clearing house and futures brokers	11,998	11,339
Amounts held on behalf of clients	(361,033)	(259,754)
	<u>-</u>	<u>-</u>



#### 14. SHARE CAPITAL

	<b>30th June 2006 HK\$'000</b>	31st December 2005 HK\$'000
Authorised:		
Ordinary shares of HK\$1.00 each	<u><b>2,000,000</b></u>	<u>2,000,000</u>
Issued and fully paid:		
Beginning of period/year	<u><b>1,564,876</b></u>	1,563,601
Exercise of share options	<u><b>936</b></u>	<u>1,275</u>
End of period/year	<u><b>1,565,812</b></u>	<u>1,564,876</u>

#### 15. RELATED PARTY TRANSACTIONS

The following transactions were entered into with related parties during the period:

	<b>1st January to 30th June 2006 HK\$'000</b>	1st January to 30th June 2005 HK\$'000
Interest expenses on loans paid to ultimate holding company	<b>10,502</b>	4,982
Rental expenses paid to a wholly-owned subsidiary of ultimate holding company	<u><b>1,393</b></u>	<u>1,393</u>
Investment performance fee received from ultimate holding company	<u><b>2,024</b></u>	<u>—</u>

#### 16. CONTINGENT LIABILITIES

	<b>30th June 2006 HK\$'000</b>	31st December 2005 HK\$'000
Guarantee given to financial institutions in respect of banking facilities granted to subsidiaries	<u><b>80,000</b></u>	<u>80,000</u>

As at 30th June 2006, the Company had issued corporate guarantees to certain financial institutions for trading facilities granted to a subsidiary which engages in leveraged foreign exchange trading and other subsidiaries which carry out derivatives transactions. The guarantee amounts vary and are dependent on the volume of transactions effected with the financial institutions. The Group's subsidiaries have not utilised any of its banking facilities as at 30th June 2006.

## 17. COMMITMENTS

### (a) Capital commitments

The Group has capital commitments of HK\$93 million contracted but not provided for as at 30th June 2006 (31st December 2005: Nil).

### (b) Operating lease commitments

Operating lease commitments as at 30th June 2006 amounted to approximately HK\$3,282,000 (31st December 2005: HK\$4,891,000) of which approximately HK\$2,752,000 (31st December 2005: approximately HK\$4,421,000) is payable in the next twelve months. The Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	30th June 2006		31st December 2005	
	Properties HK\$'000	Others HK\$'000	Properties HK\$'000	Others HK\$'000
Not later than one year	2,433	319	3,745	676
Later than one year and not later than five years	389	141	206	264
	<u>2,822</u>	<u>460</u>	<u>3,951</u>	<u>940</u>

### (c) Future operating lease arrangements

As at 30th June 2006, the Group had future aggregate minimum lease receipts under non-cancellable operating leases for investment properties as follows:

	30th June 2006 HK\$'000	31st December 2005 HK\$'000
Not later than one year	465	601
Later than one year and not later than five years	32	160
	<u>497</u>	<u>761</u>

17. COMMITMENTS (Continued)

(d) Off-balance sheet financial instruments

The fair values and the contractual or notional amounts of the Group's trading derivatives outstanding at 30th June 2006 are as follows:

	Fair value assets/ (liabilities)		Contractual/notional amounts	
	30th June 2006 HK\$'000	31st December 2005 HK\$'000	30th June 2006 HK\$'000	31st December 2005 HK\$'000
Overseas futures (Note (i))	<b>(10,922)</b>	(2,574)	<b>3,692,939</b>	1,984,383
Forward contracts	–	599	–	38,775
Equity linked derivatives	<b>(79,965)</b>	(8,190)	<b>577,578</b>	693,094
Hang Seng Index futures	<b>(412)</b>	79	<b>33,449</b>	25,967
	<b><u>(91,299)</u></b>	<u>(10,086)</u>	<b><u>4,303,966</u></b>	<u>2,742,219</u>

Note:

- (i) The contractual/notional amounts for the overseas futures are principally comprised exchange traded foreign exchange futures of approximately HK\$3.67 billion (31st December 2005: approximately HK\$1.84 billion) which represented a net actual exposure of HK\$ nil (31st December 2005: approximately HK\$1.84 billion).

The financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market prices of the underlying instruments relative to their terms.

Notional amounts of these financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amount of future cash flows involved or the current fair value of the instruments and, therefore, are not a representation of the Group's exposure to the credit or price risks.



## 18. FINANCIAL INSTRUMENTS

Risk management is of fundamental importance to the business operation of the Group. The major types of risk inherent in the Group's business are credit risk, market risk, liquidity risk, interest rate risk, foreign currency risk and operation risk. The Group's risk management objective is to maximise shareholder value and to reduce volatility in earnings while maintaining risk exposures within acceptable limits.

The Group's work in the area of risk management is facilitated by the Risk Management Committee and the Credit Committee while execution is carried out by the two Committees' supervising the Risk Management and Credit Control Department. This functional structure has the role to advise and to assist the management to identify and assess the main risks faced by the Group's business in a co-ordinated manner. It also assesses, identifies and documents the Group's risk profile and to ensure that the business units focus, control and systematically avoid potential risk in various areas of business. The following is a brief description of the Group's approach in managing these risks.

### (a) Credit Risk

The Group's credit risk is primarily attributable to advances to customers, trade and other receivables, debt investments and unlisted derivative financial instruments.

In respect of advances to customers, the Group requires collateral from customers before advances are granted. Collateral normally takes the form of listed securities, cash deposits or debt financial instruments issued by entity with high credit rating. The amount of advance permitted depends on the quality and value of collateral provided by the customer. Subsequent change in value, as well as quality, of collateral is closely monitored in order to determine whether any corrective action is required.

Trade and other receivables mainly arise from the Group's brokerage business and investment activities. Receivables from security brokerage customers, brokers and counterparties are normally due two days after trade date while deposits with brokers/counterparties are repayable on demand. The Group has established procedures in the selection of brokers/counterparties with sound credit rating.

Investments in debt instrument and unlisted derivative financial instrument are also governed by whether the issuer and the trade counterparty respectively have sound credit ratings.

The Group has well defined policies in place on the setting and approval of trading, credit and investment position limits in order to limit its credit risk exposure and concentration. As at balance sheet date, the Group does not have a significant concentration of credit risk other than (i) the provision of advances to customers, which are collateralised by unlisted debt securities issued by issuers with sound credit rating, of approximately HK\$238 million (31st December 2005: approximately HK\$248 million) and (ii) the PGN (note 10(i)) with a notional amount of HK\$577 million (31st December 2005: HK\$693 million) issued by a reputable third party with sound financial standing.



18. **FINANCIAL INSTRUMENTS (Continued)**

**(b) Market risk**

The Group's market risk exposure mainly comes from the impact of market price movements that may result in losses in on-and-off balance sheet positions. Market risk in trading investment portfolios is managed by using a combination of risk measurement techniques including, but not limited to, position limits, cut-loss limits and statistical modeling.

**(c) Liquidity risk**

The Group's policy is to regularly assess current and expected liquidity requirements and to ensure that it maintains reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long term.

**(d) Interest rate risk**

The Group monitors its interest rate exposure regularly to ensure that the underlying risk is monitored within an acceptable range. Most of the Group's interest bearing assets and liabilities are on a floating rate basis with maturity of one year or less.

The Group's principal interest rate exposures are advances to customers, bank balances and loans from ultimate holding company.

**(e) Foreign currency risk**

The Group's exposure to foreign exchange risk primarily stems from holdings of monetary assets and liabilities denominated in foreign currencies, leveraged foreign exchange trading and net investment in foreign subsidiaries and associates. As most of the Group's monetary assets and liabilities and net investment in foreign subsidiaries and associates are denominated in Hong Kong dollars, United States dollars or Renminbi, management does not consider there is any significant currency risk. The Group has a policy not to maintain a significant net position on leveraged foreign exchange trading and the underlying exposure is monitored on a continuing basis.

Overall, the management monitors the Group's foreign currency exposure closely and would consider hedging significant currency exposure should the need arise.

**(f) Fair values**

All financial instruments are carried at amounts not materially different from their fair values as at 30th June 2006 and 31st December 2005.

## 19. 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 segments is as follows:

	Short-term investments		Financial services		Long-term investments and others		Total	
	1st January to 30th June 2006 HK\$'000	1st January to 30th June 2005 HK\$'000 (Restated)	1st January to 30th June 2006 HK\$'000	1st January to 30th June 2005 HK\$'000 (Restated)	1st January to 30th June 2006 HK\$'000	1st January to 30th June 2005 HK\$'000 (Restated)	1st January to 30th June 2006 HK\$'000	1st January to 30th June 2005 HK\$'000 (Restated)
<b>REVENUE</b>								
Investment income	1,353,282	557,145	2,266	-	163,822	88,932	1,519,370	646,077
Interest income	10,982	1,215	50,270	15,622	37,990	26,263	99,242	43,100
Commission and service income	-	249	61,349	45,569	60	24	61,409	45,842
Other income	-	-	-	1,154	654	14,074	654	15,228
Total revenues	1,364,264	558,609	113,885	62,345	202,526	129,293	1,680,675	750,247
<b>RESULTS</b>								
Segment results	154,146	34,872	55,401	21,645	120,052	120,831	329,599	177,348
Unallocated corporate expenses							(31,855)	(20,145)
Profit from operations							297,744	157,203
Finance costs							(38,804)	(7,489)
Gain on deemed disposal of interest in an associate							-	2,230
Share of profits less losses of associates							203,451	(5,626)
Income tax							(51,633)	(4,068)
Profit after taxation							410,758	142,250

19. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

OTHER INFORMATION

	Short-term investments		Financial services		Long-term investments and others		Total	
	30th June 2006	31st December 2005	30th June 2006	31st December 2005	30th June 2006	31st December 2005	30th June 2006	31st December 2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	1,492,736	643,621	1,012,261	953,066	2,736,501	3,183,924	5,241,498	4,780,611
Investment in associates							1,307,867	1,112,279
Unallocated corporate assets							52,212	47,551
Total assets							6,601,577	5,940,441
Segment liabilities	40,066	26,886	204,958	179,707	-	-	245,024	206,593
Unallocated corporate liabilities							950,976	841,910
Total liabilities							1,196,000	1,048,503
Capital expenditures	4	-	-	-	11,875	239	11,879	239
Depreciation and amortisation expenses	204	187	57	47	1,918	2,472	2,179	2,706

(b) Geographical segments

	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000
<b>For the period ended 30th June 2006</b>			
Segment revenue			
Turnover	951,282	581,950	1,533,232
Other income	147,436	7	147,443
	<u>1,098,718</u>	<u>581,957</u>	<u>1,680,675</u>
	Hong Kong HK\$'000 (Restated)	Mainland China HK\$'000 (Restated)	Total HK\$'000 (Restated)
<b>For the period ended 30th June 2005</b>			
Segment revenue			
Turnover	517,591	142,510	660,101
Other income	89,913	233	90,146
	<u>607,504</u>	<u>142,743</u>	<u>750,247</u>



## *Independent review report* **To the Board of Directors of China Everbright Limited**

### *Introduction*

We have been instructed by the company to review the interim financial report set out on pages 2 to 22.

### *Respective responsibilities of directors and auditors*

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### *Review work performed*

We conducted our review in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports” issued by the Hong Kong Institute of Certified Public Accountants, except that the scope of our review was limited as explained below.

A review consists principally of making enquiries of management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

The scope of our review was limited because the company’s interim financial report for the period ended 30 June 2005 was neither reviewed in accordance with SAS 700 nor audited and consequently we were unable to perform a review of the comparatives in accordance with SAS 700.

### *Modified review conclusion arising from limitation of review scope*

On the basis of our review which does not constitute an audit, with the exception of the possible adjustments to the information for the comparative period ended 30th June 2005 that might have been determined to be necessary had the above limitation not existed, we are not aware of any material modifications that should be made to the interim financial report for the period ended 30th June 2006.

### **KPMG**

*Certified Public Accountants*

Hong Kong, 24th August 2006





## **Interim Dividend**

The Directors resolved not to pay an interim dividend for the six months ended 30th June 2006 (2005: HK\$nil).

## **Results 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. For the six months ended 30th June 2006, the Group’s profit attributable to shareholders amounted to HK\$404 million representing an increase of HK\$270 million, a rise of 201%, from that of the same period last year.


## **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 and strategic investment. As a result of a very buoyant Hong Kong market, the Group’s turnover for the six months ended 30th June 2006 amounted to HK\$1.5 billion which represents a significant increase of 132% (corresponding period last year: HK\$660 million, as restated). The Hong Kong operation’s net income for the six months ended 30th June 2006 amounted to HK\$386 million (increase over corresponding period last year by HK\$148 million, an increase of 62%). The operating expenses of HK\$127 million represent an increase of HK\$38 million (or 44% increase) compared with the same period last year, mainly a combined result of escalated finance cost from interest rate hike, interest expenses accrued on the PGN acquired at end of 2005 and interest expenses from buoyant IPO financing for clients in the six months to 30th June 2006. The expense to income ratio has been reduced to 32.9% compared with 37.1% for the same period last year (a decrease of 4.2%).

The six months’ results of the Hong Kong operations have reflected the success of our strategy to focus on consolidating existing businesses while developing new business drivers:

- our investment banking operation continued to increase its participation in the primary capital markets and to diversify our services to maintain a sustainable business growth;
- through our integrated platform for securities, commodities and futures trading, and promoting services such as bullion trading, our brokerage business has broadened its client base and increased our market share;
- our direct investment business is gradually establishing its reputation and brand name. By making swift yet prudent decisions, our professional investment managers have identified and secured investments in leading companies with significant growth rate in their respective business niches;

- 
- the asset management business continued to build up its franchise in the market. In addition to promoting the “China Everbright Dragon Fund”, which has achieved outstanding performance since its inception, to target overseas investors, it has established a second hedge fund, the “China Everbright Phoenix Fund”, to suit demand from investors;
  - our strategic investment businesses have timely capitalised on the market opportunities by the use of hedging instruments and active trading;
  - 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**

The Group’s 21.39% owned China Everbright Bank continued to enhance the quality of assets, liabilities, clientele and revenue mix; in parallel to its ongoing improvement of corporate governance and risk management. Currently, the audit of China Everbright Bank according to HKFRSs is still ongoing. As a reference, management can only provide information based on the unaudited accounts prepared under PRC accounting standards (the following financial figures of China Everbright Bank are stated on the same basis).

As at 30th June 2006, total assets amounted to HK\$553.7 billion and the total values of its deposits and loans reached HK\$486.7 billion and HK\$333.8 billion, representing an increase of 10.4% and 12.9% respectively as at 30th June 2006. In the first half of the year, China Everbright Bank recorded a total net operating income of approximately HK\$5.7 billion.

As at 30th June 2006, according to the “5-category” loan classification system, Everbright Bank’s non-performing loans (the last 3 categories) amounted to approximately HK\$27.3 billion representing a non-performing loan rate of 8.2%. For the period under review, the provisions made amounted to approximately HK\$1 billion and the provisioning rate for non-performing loans has been raised to 68% from 62% at the beginning of the year.

For the six months ended 30th June 2006, the unaudited profit after tax of Everbright Bank amounted to approximately HK\$1.4 billion according to the PRC accounting standards, representing a significant increase as compared with the same period last year.

As at 30th June 2006, Everbright Bank was operating 30 direct branches and 384 banking offices in 23 provinces/cities and autonomous regions in Mainland China, and a representative office in Hong Kong.

Led by the relevant government authorities, the task of capital restructuring for Everbright Bank is ongoing. If the above plan could be completed, the capital adequacy ratio of Everbright Bank will meet the requirements of the relevant authorities.



### **Everbright Securities**

In the first half of the year, the Mainland securities market is very bullish, reflected by hike in indexes level and market turnover. The reform on domestic shares of listed companies in the A-Share market undoubtedly facilitated the healthy development of the China capital market. The Group's 46.6% owned Everbright Securities managed to grasp this opportunity to develop its businesses and managed to record a four-fold rise in business revenue. It is now ranked the 9th in the National league table (in terms of transaction volume) of Securities Houses.

In the first half of the year, Everbright Securities' internet trading business developed rapidly and made up 44% of its total turnover. The total income of Everbright Securities in the period under review amounted to HK\$791 million and it has recorded an after tax profit of HK\$437 million according to HKFRSs. Brokerage commission, investment and product issuance income, asset management income and other income contributed 46%, 39%, 3% and 12% respectively of its total income.

As at 30th June 2006, Everbright Securities was operating 45 branch offices in 19 provinces/ cities and autonomous regions.

### **Financial Position**

As at 30th June 2006, the net assets of the Group amounted to approximately HK\$5.41 billion, with cash on hand of approximately HK\$2.12 billion. Apart from trade liabilities in ordinary course of business, the Group's principal liability is a total HK\$439 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 2006, the Group committed borrowing facilities totaling approximately HK\$270 million. The Group's gearing ratio, which is computed from the Group's total interest bearing liabilities divided by shareholders' fund, was 8.2% as at 30th June 2006 as compared to 9.1% as at 31st December 2005.

As at 30th June 2006, the Group had no material exposure to foreign exchange fluctuations other than assets denominated in Renminbi and United State Dollar.

As at 30th June 2006, the Group had pledged listed securities to the value of approximately HK\$89 million in relation to certain banking facilities.

The Group did not have any material contingent liabilities as at 30th June 2006. The Company had given guarantees in respect of banking facilities available to subsidiaries totaling approximately HK\$80 million. As at 30th June 2006, the Group did not have any outstanding borrowings from banks. 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 transactions.



## Prospects

We will keep focusing on the Mainland and Hong Kong financial services business, and exploring new development opportunities based on what we have established in the past. We believe that our Hong Kong financial services operation will provide a steadier profit than before.

Our greatest challenge ahead is the risk management in the Mainland financial services business. We will put our effort to improve the corporate governance of our Group and our associates, improving our organisational structure and work flow, strengthening the sense of responsibility and risk management, as well as enhancing the quality and integrity of staff.

The enhanced risk management measures implemented at Everbright Bank is reflected positively in the Bank's operation. Meanwhile, the task of capital restructuring of Everbright Bank led by the State government authorities is on-going.

Since the beginning of 2006, the Mainland securities market has been showing healthy development. With the financial strength and product innovation, Everbright Securities continued to consolidate its leading position in the market in the Mainland. During the period, Everbright Securities acquired a total of 4 branches under the troubled Dai Tung Securities and are currently managing 20 Tian Yi Securities branches on custody basis. It is also actively seeking to attain an A-Share listing status through acquiring a controlling stake of an issuer listed on the A-Share market or through IPO.

With the anticipation of Hong Kong and the Mainland maintaining their stable economic growth, we remain cautiously optimistic for the second half of 2006.

Our team will keep on devoting our best effort to fulfilling our promises to our customers, shareholders and employees, and bring in higher returns.

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

As at 30th June 2006, 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
Ng Ming Wah, Charles	150,000	150,000	-	-	-

## 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	Number of underlying shares	Total	Total Percentage
Wang Mingquan	Personal	07.07.03	3,000,000	3,000,000	4,920,000	0.31
	Personal	03.05.05	1,920,000	1,920,000		
Guo You	Personal	07.07.03	750,000	750,000	1,390,000	0.09
	Personal	03.05.05	640,000	640,000		
Zhou Liqun	Personal	07.07.03	750,000	750,000	2,670,000	0.17
	Personal	03.05.05	1,920,000	1,920,000		
He Ling	Personal	07.07.03	750,000	750,000	2,030,000	0.13
	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		
Seto Gin Chung, John	Personal	07.07.03	150,000	150,000	790,000	0.05
	Personal	05.05.05	640,000	640,000		
<i>Ex-director</i>						
Tung Wai, David (Note 1)	Personal	05.05.05	160,000	160,000	160,000	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 2006.

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 2006, 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 2006, 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	0.830
Chen Shuang	Personal	0.296	29.09.03	29.03.04 – 25.05.13	4,000,000	0.131

### 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 2006

	Number of options	Date of Grant	Vesting period	Exercise period	Exercise Price (HK\$)
Wang Mingquan	3,000,000	07.07.03	08.07.03 – 07.01.06	08.07.04 – 07.01.07	2.375
	1,920,000	03.05.05	04.05.05 – 03.11.07	04.05.06 – 03.05.10	2.850
Guo You	750,000	07.07.03	08.07.03 – 07.01.06	08.07.04 – 07.01.07	2.375
	640,000	03.05.05	04.05.05 – 03.11.07	04.05.06 – 03.05.10	2.850
Zhou Liqun	750,000	07.07.03	08.07.03 – 07.01.06	08.07.04 – 07.01.07	2.375
	1,920,000	03.05.05	04.05.05 – 03.11.07	04.05.06 – 03.05.10	2.850

## 1. Outstanding share options as at 1st January 2006 (Continued)

	Number of options	Date of Grant	Vesting period	Exercise period	Exercise Price (HK\$)
He Ling	750,000	07.07.03	08.07.03 – 07.01.06	08.07.04 – 07.01.07	2.375
	1,280,000	03.05.05	04.05.05 – 03.11.07	04.05.06 – 03.05.10	2.850
Chen Shuang	750,000	03.09.04	04.09.04 – 03.03.07	04.09.05 – 03.03.08	3.225
	1,280,000	03.05.05	04.05.05 – 03.11.07	04.05.06 – 03.05.10	2.850
Ng Ming Wah, Charles	50,000	07.07.03	08.07.03 – 07.01.06	08.07.04 – 07.01.07	2.375
Seto Gin Chung, John	150,000	07.07.03	08.07.03 – 07.01.06	08.07.04 – 07.01.07	2.375
	640,000	05.05.05	06.05.05 – 05.11.07	06.05.06 – 05.05.10	3.000
<i>Ex-director</i>					
Tung Wai, David (Note 1)	150,000	07.07.03	08.07.03 – 07.01.06	08.07.04 – 07.01.07	2.375
	640,000	05.05.05	06.05.05 – 05.11.07	06.05.06 – 05.05.10	3.000
Total employees (Note 2)	1,362,500	07.07.03	08.07.03 – 07.01.06	08.07.04 – 07.01.07	2.375
	500,000	03.09.04	04.09.04 – 03.03.07	04.09.05 – 03.03.08	3.225
	7,510,000	03.05.05	04.05.05 – 03.11.07	04.05.06 – 03.05.10	2.850
	240,000	05.05.05	06.05.05 – 05.11.07	06.05.06 – 05.05.10	3.000
	820,000	04.07.05	05.07.05 – 04.01.08	05.07.06 – 04.07.10	3.135
	800,000	27.09.05	28.09.05 – 27.03.08	28.09.06 – 27.09.10	3.100

## 2. Outstanding share options as at 30th June 2006

	Number of options	Date of Grant	Vesting period	Exercise period	Exercise Price (HK\$)
Wang Mingquan	3,000,000	07.07.03	08.07.03 – 07.01.06	08.07.04 – 07.01.07	2.375
	1,920,000	03.05.05	04.05.05 – 03.11.07	04.05.06 – 03.05.10	2.850
Guo You	750,000	07.07.03	08.07.03 – 07.01.06	08.07.04 – 07.01.07	2.375
	640,000	03.05.05	04.05.05 – 03.11.07	04.05.06 – 03.05.10	2.850
Zhou Liqun	750,000	07.07.03	08.07.03 – 07.01.06	08.07.04 – 07.01.07	2.375
	1,920,000	03.05.05	04.05.05 – 03.11.07	04.05.06 – 03.05.10	2.850
He Ling	750,000	07.07.03	08.07.03 – 07.01.06	08.07.04 – 07.01.07	2.375
	1,280,000	03.05.05	04.05.05 – 03.11.07	04.05.06 – 03.05.10	2.850
Chen Shuang	750,000	03.09.04	04.09.04 – 03.03.07	04.09.05 – 03.03.08	3.225
	1,280,000	03.05.05	04.05.05 – 03.11.07	04.05.06 – 03.05.10	2.850
Seto Gin Chung, John	150,000	07.07.03	08.07.03 – 07.01.06	08.07.04 – 07.01.07	2.375
	640,000	05.05.05	06.05.05 – 05.11.07	06.05.06 – 05.05.10	3.000
<i>Ex-director</i> Tung Wai, David (Note 1)	160,000	05.05.05	06.05.05 – 05.11.07	06.05.06 – 05.05.10	3.000



## 2. Outstanding share options as at 30th June 2006 (Continued)

	Number of options	Date of Grant	Vesting period	Exercise period	Exercise Price (HK\$)
Total employees (Note 2)	964,000	07.07.03	08.07.03 – 07.01.06	08.07.04 – 07.01.07	2.375
	500,000	03.09.04	04.09.04 – 03.03.07	04.09.05 – 03.03.08	3.225
	6,980,000	03.05.05	04.05.05 – 03.11.07	04.05.06 – 03.05.10	2.850
	240,000	05.05.05	06.05.05 – 05.11.07	06.05.06 – 05.05.10	3.000
	820,000	04.07.05	05.07.05 – 04.01.08	05.07.06 – 04.07.10	3.135
	800,000	27.09.05	28.09.05 – 27.03.08	28.09.06 – 27.09.10	3.100
	6,200,000	10.04.06	11.04.06 – 10.10.08	11.04.07 – 10.04.11	4.800

## 3. Share options granted during the period ended 30th June 2006

Date of Grant	10.04.2006
Vesting period	11.04.2006 – 10.10.2008
Exercise period	11.04.2007 – 10.04.2011
Exercise price	HK\$4.800

Grantee	Number of options granted on 10.04.2006
Total employees (Note 2)	6,200,000

## 4. Number of share options exercised during the period ended 30th June 2006

	Date of Grant	No. of Shares	Exercise price (HK\$)	WA Closing price** (HK\$)
Ng Ming Wah, Charles	07.07.2003	50,000	HK\$2.375	HK\$4.325
Tung Wai, David (Note 1)	07.07.2003	150,000	HK\$2.375	HK\$3.750
	05.05.2005	160,000	HK\$3.000	HK\$4.700
Total employees (Note 2)	07.07.2003	398,500	HK\$2.375	HK\$4.267
	03.05.2005	177,500	HK\$2.850	HK\$4.691

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

**5. No share options were cancelled during the period ended 30th June 2006.**

**6. Number of share options lapsed during the period ended 30th June 2006**

	<b>Date of Grant</b>	<b>No. of Options</b>
Tung Wai, David ( <i>Note 1</i> )	05.05.2005	320,000
Total employees ( <i>Note 2</i> )	03.05.2005	352,500

*Notes:*

1. Mr. Tung Wai, David has retired from the capacity of Director with effect from 26th May 2006, and 160,000 Share Option being extended to 31st December 2006 by the Board of Directors in its absolute discretion pursuant to clause 8.2 of the share option scheme.
2. 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 a Binomial Option Pricing Model, Contractual life of the option and expectations of early exercise are incorporated into the model. The expected volatility is based on the volatility of the Company's share price one year immediately preceding the date of grant. Expected dividends are based on historical dividends as well as expectation on future period performance. Changes in subject input assumptions could materially affect the fair value estimate.

The Group amortises the fair value of share options granted to employees as an expense in the income statement in accordance with HKFRS 2 "Share-based Payment".

Save as disclosed herein, at no time during the six months ended 30th June 2006 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 2006 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**

<b>Name of shareholder</b>	<b>No. of shares beneficially held</b>	<b>% of total issued shares</b>
China Everbright Holdings Company Limited ( <i>Note</i> )	867,119,207	55.38%
Datten Investments Limited ( <i>Note</i> )	867,119,207	55.38%
Honorich Holdings Limited	867,119,207	55.38%

*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 2006, 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 2006, 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 2006, the Group had 140 employees. Total staff cost for the period under review amounted to approximately HK\$49.3 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 2006, except with deviations, during part of the period under review, from provisions A.4.1 and A.4.2 of the Code in respect of the service term and rotation of Directors.

In order to comply with Code provision A.4.1, all independent non-executive directors have entered into letters of appointment with the Company for a specific term since June 2006.

In order to comply with Code provision A.4.2, amendments to the Articles of Association of the Company have been made to reflect the requirements under the code provision on the retirement of Directors by rotation at least once every three years. Such amendments were approved at the annual general meeting held on 26th May 2006.

Code provisions A.4.1 and A.4.2 have been fully complied with thereafter.

## **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 2006.



### ***Audit Committee***

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

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 report for the six months ended 30th June 2006 of the Company.

### ***Remuneration Committee***

The Remuneration Committee currently comprises one Executive Director and four Independent Non-executive Directors. It is chaired by Mr. Wang Mingquan. The other committee members are Mr. Ng Ming Wah, Charles, Mr. Seto Gin Chung, John, Dr. Lin Zhijun and Ms. Tung Iring.

By order of the Board  
**Zhou Liqun**  
*Chief Executive Officer*

Hong Kong, 24th August 2006