CHINA EVERBRIGHT INTERNATIONAL LIMITED
中國光大國際有限公司

(Incorporated in Hong Kong with limited liability)
(Stock Code: 0257)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

INTERIM RESULTS

The board of directors ("the Directors") of China Everbright International Limited ("the Company") hereby announces the unaudited consolidated interim results of the Company and its subsidiaries (collectively, "the Group") for the six months ended 30 June 2006.

Consolidated income statement – Unaudited

		Six months ended 30 June	
		2006	**2005**
			(restated)
	Note	*HK$'000*	*HK$'000*
Turnover	2	94,344	61,137
Direct costs and operating expenses		(27,341)	(19,015)
		67,003	42,122
Other revenue		36,922	7,008
Administrative expenses		(31,718)	(20,576)
Valuation gains on investment properties		6,971	21,000
Profit from operations		79,178	49,554
Finance costs	4	(19,415)	(13,956)
		59,763	35,598
Share of profits of associates	3	24,542	30,441
Profit before taxation	4	84,305	66,039
Income tax	5	(3,603)	5,745
Profit for the period		80,702	71,784
Attributable to:			
Equity shareholders of the Company		71,620	62,480
Minority interests		9,082	9,304
Profit for the period		80,702	71,784
Earnings per share	7		
Basic		HK2.64 cents	HK2.45 cents
Diluted		HK2.59 cents	HK2.41 cents

Consolidated balance sheet – Unaudited

	Note	At 30 June 2006 HK$'000	At 30 June 2006 HK$'000	At 31 December 2005 (restated) HK$'000	At 31 December 2005 (restated) HK$'000
Non-current assets					
Fixed assets					
– Investment properties			162,965		262,194
– Other property, plant and equipment			1,281,765		1,031,827
– Interest in leasehold land held for own use under operating leases			72,555		76,045
			1,517,285		1,370,066
Intangible assets			34,013		34,433
Goodwill			48,253		48,236
Interest in associates			441,299		413,304
Other financial assets			45,663		51,931
Finance lease receivables			131,500		131,701
Deferred tax assets			19,557		16,433
			2,237,570		2,066,104
Current assets					
Debtors, other receivables, deposits and prepayments	*8*	138,277		109,023	
Finance lease receivables		2,480		2,384	
Pledged bank deposits		62,038		89,197	
Deposits with bank		907		907	
Cash and cash equivalents		724,325		408,566	
		928,027		610,077	
Current liabilities					
Secured bank loans		18,247		40,227	
Amount due to minority shareholder		290		575	
Creditors, other payables and accrued expenses	*9*	141,642		233,219	
Current taxation		2,435		2,138	
		162,614		276,159	
Net current assets			765,413		333,918
Total assets less current liabilities			3,002,983		2,400,022
Non-current liabilities					
Secured bank loans		766,449		572,016	
Loans from ultimate holding company		536,795		535,628	
Deferred tax liabilities		24,395		21,163	
			1,327,639		1,128,807
NET ASSETS			1,675,344		1,271,215
CAPITAL AND RESERVES					
Share capital			306,181		255,181
Reserves			1,266,332		923,154
Total equity attributable to equity shareholders of the Company			1,572,513		1,178,335
Minority interests			102,831		92,880
TOTAL EQUITY			1,675,344		1,271,215

Notes:

(1) Basis of preparation

The 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").

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2005 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2006 annual financial statements. Details of these changes in accounting policies are set out in the notes below.

The financial information relating to the financial year ended 31 December 2005 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2005 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 28 March 2006.

The HKICPA issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which term collectively includes HKASs and Interpretations) that are effective or available for early adoption for accounting periods beginning on or after 1 January 2006. The Directors have determined the accounting policies to be adopted in the preparation of the Group's annual financial statements for the year ending 31 December 2006, on the basis of HKFRSs currently in issue.

The HKFRSs that will be effective or are available for voluntary early adoption in the annual financial statements for the year ending 31 December 2006 may be affected by the issue of additional interpretation(s) or other changes announced by the HKICPA subsequent to the date of issuance of the interim financial report. Therefore the policies that will be applied in the Group's financial statements for that period cannot be determined with certainty at the date of issuance of the interim financial report.

The following sets out further information on the change in accounting policy for the annual accounting period beginning on 1 January 2006 which has been reflected in the interim financial report.

Lease arrangement (HK(IFRIC) 4: Determining whether an arrangement contains a lease)

In prior years, the Group recognised its waste-water treatment plants under the build-operate-transfer ("BOT") and transfer-operate-transfer ("TOT") arrangements as property, plant and equipment and recognised the waste-water treatment revenue and depreciation of waste-water treatment plants on a straight-line basis over their estimated useful lives.

With effect from 1 January 2006, in order to comply with HK(IFRIC) 4, the Group determined that the BOT and TOT arrangements contain lease elements and the Group classified the leases as finance leases. As a result, the waste-water treatment plants under the BOT and TOT arrangements are derecognised as property, plant and equipment and the fair value of the waste-water treatment plants are recognised as finance lease receivables. The lease receivables are reduced when lease payments, being a portion of the waste-water treatment revenue, are received and an imputed finance lease income on the lease receivables is recognised using an estimate of the lessee's incremental borrowing rate of interest.

The new accounting policy has been applied retrospectively with comparatives restated. The following is a summary of the effect of the change in accounting policy for the annual accounting period beginning on 1 January 2006 which has been reflected in the interim financial report.

(a) *Restatement of prior periods and opening balances*

The following tables disclose the adjustments that have been made to each of the line items in the consolidated income statement for the six months ended 30 June 2005 and consolidated balance sheet at 31 December 2005 as previously reported.

(i) Consolidated income statement for the six months ended 30 June 2005

	2005 (as previously reported) *HK$'000*	HK(IFRIC) 4 *HK$'000*	2005 (as restated) *HK$'000*
Turnover	61,546	(409)	61,137
Direct costs and operating expenses	(20,509)	1,494	(19,015)
	41,037	1,085	42,122
Other revenue	7,008	–	7,008
Administrative expenses	(20,576)	–	(20,576)
Valuation gains on investment properties	21,000	–	21,000
Profit from operations	48,469	1,085	49,554
Finance costs	(13,956)	–	(13,956)
	34,513	1,085	35,598
Share of profits of associates	30,441	–	30,441
Profit before taxation	64,954	1,085	66,039
Income tax	6,038	(293)	5,745
Profit for the period	70,992	792	71,784
Attributable to:			
Equity shareholders of the Company	62,005	475	62,480
Minority interests	8,987	317	9,304
Profit for the period	70,992	792	71,784
Earnings per share			
Basic	HK2.43 cents	HK0.02 cent	HK2.45 cents
Diluted	HK2.39 cents	HK0.02 cent	HK2.41 cents

(ii) Consolidated balance sheet at 31 December 2005

	At 31 December 2005 (as previously reported) *HK$'000*	HK(IFRIC) 4 *HK$'000*	At 31 December 2005 (as restated) *HK$'000*
Non-current assets			
Fixed assets			
– Investment properties	262,194	–	262,194
– Other property, plant and equipment	1,163,052	(131,225)	1,031,827
– Interest in leasehold land held for own use under operating leases	76,045	–	76,045
	1,501,291	(131,225)	1,370,066
Intangible assets	34,433	–	34,433
Goodwill	48,236	–	48,236
Interest in associates	413,304	–	413,304
Other financial assets	51,931	–	51,931
Finance lease receivables	–	131,701	131,701
Deferred tax assets	16,832	(399)	16,433
	2,066,027	77	2,066,104
Current assets			
Debtors, other receivables, deposits and prepayments	109,023	–	109,023
Finance lease receivables	–	2,384	2,384
Pledged bank deposits	89,197	–	89,197
Deposits with bank	907	–	907
Cash and cash equivalents	408,566	–	408,566
	607,693	2,384	610,077

	At 31 December 2005 (as previously reported)	HK(IFRIC) 4	At 31 December 2005 (as restated)
	HK$'000	*HK$'000*	*HK$'000*
Current liabilities			
Secured bank loans	40,227	–	40,227
Amount due to minority shareholder	575	–	575
Creditors, other payables and accrued expenses	233,219	–	233,219
Current taxation	2,138	–	2,138
	276,159	–	276,159
Net current assets	331,534	2,384	333,918
Total assets less current liabilities	2,397,561	2,461	2,400,022
Non-current liabilities			
Secured bank loans	572,016	–	572,016
Loans from ultimate holding company	535,628	–	535,628
Deferred tax liabilities	20,732	431	21,163
	1,128,376	431	1,128,807
NET ASSETS	1,269,185	2,030	1,271,215
CAPITAL AND RESERVES			
Share capital	255,181	–	255,181
Reserves	921,676	1,478	923,154
Total equity attributable to equity shareholders of the Company	1,176,857	1,478	1,178,335
Minority interests	92,328	552	92,880
TOTAL EQUITY	1,269,185	2,030	1,271,215

(b) *Estimated effects of changes in accounting policies on the current period*

The following tables provide estimates of the extent to which each of the line items in the consolidated income statement and balance sheet of the Group for the six months ended 30 June 2006 is higher or lower than it would have been had the previous policies still been applied in the year.

(i) Effect on the consolidated income statement for the six months ended 30 June 2006

	Estimated effect of HK(IFRIC) 4 (increase/(decrease) in profit for the period)
	HK$'000
Turnover	(1,183)
Direct costs and operating expenses	5,846
	4,663
Other revenue	–
Administrative expenses	–
Valuation gains on investment properties	–
Profit from operations	4,663
Finance costs	–
	4,663
Share of profits of associates	–
Profit before taxation	4,663
Income tax	(1,470)
Profit for the period	3,193
Attributable to:	
Equity shareholders of the Company	2,857
Minority interests	336
Profit for the period	3,193
Earnings per share	
Basic	HK0.11 cent
Diluted	HK0.10 cent

(ii) Effect on the consolidated balance sheet at 30 June 2006

	Estimated effect of HK(IFRIC) 4 (increase/(decrease) in net assets) *HK$'000*
Non-current assets	
Fixed assets	
– Investment properties	–
– Other property, plant and equipment	(126,433)
– Interest in leasehold land held for own use under operating leases	–
	(126,433)
Intangible assets	–
Goodwill	–
Interest in associates	–
Other financial assets	–
Finance lease receivables	131,500
Deferred tax assets	–
	5,067
Current assets	
Debtors, other receivables, deposits and prepayments	–
Finance lease receivables	2,480
Pledged bank deposits	–
Deposits with bank	–
Cash and cash equivalents	–
	2,480
Current liabilities	
Secured bank loans	–
Amount due to minority shareholder	–
Creditors, other payables and accrued expenses	–
Current taxation	–
	–
Net current assets	2,480
Total assets less current liabilities	7,547
Non-current liabilities	
Secured bank loans	–
Loans from ultimate holding company	–
Deferred tax liabilities	(2,307)
	(2,307)
NET ASSETS	5,240
CAPITAL AND RESERVES	
Share capital	–
Reserves	4,348
Total equity attributable to equity shareholders of the Company	4,348
Minority interests	892
TOTAL EQUITY	5,240

(2) Segmental information

The analysis of the principal activities of the operations of the Company and its subsidiaries during the financial period are as follows:

	Infrastructure investment and operation Six months ended 30 June		Property investment and management Six months ended 30 June		Environmental protection investment and operation Six months ended 30 June		Environmental protection project management and consultancy Six months ended 30 June		Inter-segment elimination Six months ended 30 June		Consolidated Six months ended 30 June	
	2006	**2005**	**2006**	**2005**	**2006**	**2005** (restated)	**2006**	**2005**	**2006**	**2005**	**2006**	**2005** (restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue from external customers	35,044	27,786	9,635	8,148	49,665	25,203	–	–	–	–	94,344	61,137
Inter-segment revenue	–	–	–	–	–	–	32,588	8,918	(32,588)	(8,918)	–	–
Other revenue from external customers	372	126	16,651	939	871	213	308	80	–	–	18,202	1,358
Unallocated other revenue	–	–	–	–	–	–	–	–	–	–	18,720	5,650
Total	35,416	27,912	26,286	9,087	50,536	25,416	32,896	8,998	(32,588)	(8,918)	131,266	68,145
Segment results	24,805	18,888	29,148	26,597	23,134	13,318	29,041	1,493	(32,588)	(8,918)	73,540	51,378
Unallocated operating income and expenses											5,638	(1,824)
Finance costs											(19,415)	(13,956)
Share of profits of associates	24,634	30,442	–	–	(92)	(1)	–	–	–	–	24,542	30,441
Income tax											(3,603)	5,745
Profit after taxation											80,702	71,784
Depreciation and amortisation for the period	8,035	6,766	1,103	1,115	3,701	124	858	481	–	–		
Valuation gains on investment properties	–	–	(6,971)	(21,000)	–	–	–	–	–	–		

In view of the fact that the Group operates mainly in the People's Republic of China ("PRC"), no geographical segmental information is presented.

(3) Share of profits of associates

	Six months ended 30 June **2006**	**2005**
	HK$'000	*HK$'000*
Share of profits of associates before taxation	28,736	37,231
Share of associates' taxation	(4,194)	(6,790)
	24,542	30,441

(4) Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

	Six months ended 30 June **2006**	**2005** (restated)
	HK$'000	*HK$'000*
Interest on bank advances wholly repayable within five years	409	371
Interest on other bank advances	19,779	8,417
Interest on loans from ultimate holding company	11,971	6,829
	32,159	15,617
Less: Borrowing costs capitalised into construction in progress	(12,744)	(1,661)
	19,415	13,956
Amortisation of land lease premium	1,658	–
Amortisation of intangible assets	697	–
Depreciation	11,647	8,654
Dividends and interest income	(9,115)	(4,580)
Gain on sale of available-for-sale equity securities	(11,542)	–
Gain on sale of investment properties	(16,203)	(925)

(5) Income tax

	Six months ended 30 June	
	2006	**2005**
		(restated)
	HK$'000	*HK$'000*
Current tax – PRC income tax		
Provision for the period	3,451	1,471
Deferred tax		
Origination and reversal of temporary differences	152	(7,216)
	3,603	(5,745)

No provision for Hong Kong Profits Tax has been made in the interim financial report as the Group's operations in Hong Kong sustained a loss for Hong Kong Profits Tax purposes during the period. Taxation for the PRC operations is charged at the appropriate current rates of taxation ruling in the PRC. During the period, certain PRC subsidiaries are subject to tax at 50% of the standard tax rates or fully exempt from income tax under the relevant tax rules and regulations.

(6) Dividends

(a) *Dividends payable to equity shareholders of the Company attributable to the interim period*

	Six months ended 30 June	
	2006	**2005**
	HK$'000	*HK$'000*
Interim dividend declared after the interim period of HK0.6 cent per share (2005: HK0.6 cent per share)	18,371	15,311

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

(b) *Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the interim period*

	Six months ended 30 June	
	2006	**2005**
	HK$'000	*HK$'000*
Final dividend in respect of the financial year ended 31 December 2005, approved and paid during the following interim period, of HK0.6 cent per share (year ended 31 December 2004: HK0.6 cent per share)	15,311	15,293

(7) Earnings per share

(a) *Basic earnings per share*

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$71,620,000 (six months ended 30 June 2005 (restated): HK$62,480,000) and the weighted average number of 2,715,237,114 ordinary shares (2005: 2,549,507,833 ordinary shares) in issue during the period.

(b) *Diluted earnings per share*

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$71,620,000 (six months ended 30 June 2005 (restated): HK$62,480,000) and the weighted average number of ordinary shares of 2,766,275,030 shares (2005: 2,592,832,975 shares) after adjusting for the effects of all dilutive potential ordinary shares under the Company's share option scheme.

(8) Debtors, other receivables, deposits and prepayments

Included in debtors, other receivables, deposits and prepayments are trade debtors with the following ageing analysis:

	At 30 June 2006	**At 31 December 2005**
	HK$'000	*HK$'000*
Current	15,110	14,343
1 to 3 months overdue	5,756	–
Total trade debtors	20,866	14,343
Other receivables, deposits and prepayments	117,411	94,680
	138,277	109,023

The trade debtors represent toll bridge revenue and waste-water treatment revenue which are settled on a monthly basis, among which HK$9,222,000 (31 December 2005: HK$4,595,000) is due from a minority shareholder. The amount included under 1 to 3 months overdue has been fully settled after the balance sheet date.

(9) Creditors, other payables and accrued expenses

Included in creditors, other payables and accrued expenses of the Group is an amount of HK$3,733,000 (31 December 2005: HK$1,393,000) which is payable to an associate. The balance is due within one month and represents service fee for operation of waste-water treatment plants.

Apart from the above, there are other payables to related companies and a minority shareholder of HK$60,806,000 (31 December 2005: HK$32,012,000) and HK$17,817,000 (31 December 2005: HK$18,756,000) respectively as at 30 June 2006. The amounts are unsecured, interest free and expected to be settled within one year.

BUSINESS REVIEW AND PROSPECT

Operating results

The PRC economy continued to grow rapidly in the first half of 2006. Being the first year in the State's 11th Five-year Plan, 2006 has seen the speeding up of development of the entire country. Given the increasing ecological concern in the PRC and the increasing support given to the environmental protection industry by the Central Government, the China market is simmering with business opportunities. During the reporting period, the Group had consolidated its three main businesses, namely infrastructure investment, property investment and environmental protection. The Group continued to actively seek opportunities to grow its environmental protection business and has secured a number of new projects and achieved satisfactory results.

For the six months ended 30 June 2006, the Group recorded steady growth in turnover and profits. During the reporting period, infrastructure investment business and property investment business continued to be the Group's major profit contributors. Environmental protection has begun to take off as a number of projects became operational and started generating revenue. The environmental protection business will gradually become a growth driver of the Group. During the period under review, the Group's consolidated turnover amounted to HK$94,344,000, representing an increase of 54% as compared with the restated turnover of HK$61,137,000 for the same period last year. Profit attributable to shareholders amounted to HK$71,620,000, representing an increase of 15% as compared with the restated profit of HK$62,480,000 for the same period last year. In particular, i) Shenzhen Mawan Power Company Limited ("Mawan Power") recorded an attributable profit of HK$24,634,000; ii) Qingzhou Bridge registered an attributable profit of HK$13,592,000; iii) the waste water treatment project in Qingdao ("Qingdao Project") generated an attributable profit of HK$7,997,000; iv) the waste water treatment project in Zibo ("Zibo Project") recorded a profit of HK$8,775,000; v) property investments contributed a net profit of HK$5,397,000; vi) the pick up of the property prices in the PRC brought about valuation gains on investment properties of HK$6,971,000; and vii) gains of HK$27,745,000 arouse from the disposal of an investment property and certain other financial assets. In the first half of this year, basic earnings per share were HK2.64 cents, representing an increase of 8% from HK2.45 cents for the corresponding period last year.

On 25 April 2006, the Company placed 510,000,000 shares at HK$0.66 per share with independent institutional investors through Deutsche Bank AG. Excluding related expenses, the Group received net proceeds of approximately HK$321,723,000, which greatly enhanced its cashflow and reserve for developing the environmental protection business. The placement with institutional investors not only enlarged the Company's shareholders' base, but has opened up financing possibilities for the Group and boosted its image.

Given the satisfactory operating results and healthy financial condition, the board of directors of the Company ("the Board") resolved that an interim dividend of HK0.6 cent per share will be paid for the six months ended 30 June 2006 (2005: HK0.6 cent per share).

Infrastructure investment

Energy supply

Since 1998, the Group has been holding 15% interest in Mawan Power. Mawan Power has been one of the major profit sources for the Group. During the period under review, Mawan Power overhauled its plants and facilities to enhance operational efficiency. However, the operation was still under the pressure of rising prices for coal and oil in the PRC. Operating costs were affected to a certain extent. Furthermore, the major overhaul in April lowered the amount of electricity sold by the company. During the period, the attributable profit after taxation from Mawan Power amounted to HK$24,634,000, or 19% lower than that of the same period last year. During the period, Mawan Power's board of directors resolved that a cash dividend of approximately HK$87,012,000 will be paid to the Group for the financial years up to 31 December 2005.

Mawan Power has been operating for 17 years since its establishment, and its power generators have become worn. The maintenance cost of the power plant is expected to increase in the future. Moreover, Mawan Power is expected to be under great pressure as the balance is tipped in favour of the demand side – power shortage has gradually abated in China; the grand programme of West-to-East power transmission has been gaining momentum. In addition, the implementation of competitive in-grid electricity fee and the ongoing surge in the prices of coal and oil add pressure on the power plant's profitability. The proportion of profit contribution from Mawan Power in the Group's profit is expected to be diminishing as profit contribution from the environmental protection business is growing on the back of launching new projects.

On 28 August 2006, the Group entered into an agreement with the subsidiary of Shenzhen Energy Group Company Limited ("Energy Group") for the disposal of its 15% interest in Mawan Power at a cash consideration of HK$641,595,000. The disposal constituted a major transaction for the Group as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). Following the disposal of the equity interest in Mawan Power, the Group can concentrate on developing its environmental protection business. It will also seek opportunities in municipal public works business. The Group is expected to realize an estimated gain on disposal of approximately HK$325,105,000 (before taxation and expenses) from the transaction. However, the actual profit from the transaction will be adjusted to reflect for the Group's share of results and reserve of Mawan Power from 1 January 2006 up to the date of completion of the transaction. It is expected that the gain on disposal will be accounted for in the financial year ending 31 December 2006. Approximately HK$441,000,000 of the net proceeds from the transaction will be used to reduce liabilities of the Group and the remaining HK$200,000,000 will be used as working capital of the Group for its investment in the environmental protection business and municipal public works business.

Toll bridge

During the period under review, the traffic flow on Qingzhou Bridge continued to grow, bringing steady cash inflow to the Group. For the six months ended 30 June 2006, the average daily traffic flow on Qingzhou Bridge increased to 25,797 standard vehicles, or a 21% rise over that in the same period last year. Operating profit before taxation for the period amounted to HK$18,867,000, representing an increase of 48% as compared with the same period last year. Taking into account the deferred tax and the profit attributable to minority shareholders, attributable net profit for the first half year amounted to HK$13,592,000.

By the end of 2006 when the highway to the Fuzhou airport is opened and with the Fuzhou Municipal Government pushing forward its city development plan, peripheral areas around the city are expected to flourish. In addition, the local government has also invested amply to improve the east-to-west traffic network. Moreover, the government adopted measures to tighten control on overloading of vehicles and to charge toll fees according to the weight of a vehicle and its load. The Group expects traffic flow on Qingzhou Bridge to continue to grow on the back of these developments. That will in turn contribute to the healthy development of road and bridge infrastructure in the long run and the steady growth in the Group's income, and thus will ensure reliable cash inflow to the Group. Looking ahead, the Group will continue to enhance the management of Qingzhou Bridge, strive to "increase income and reduce expenses" and try to boost the traffic flow on the bridge through publicity campaigns with an aim to enhance the bridge's profit contribution to the Group.

Property investment

The PRC

Regarding property investment in the PRC, the Group holds a four-storey commercial podium in Shenzhen Zhongshan Garden. This property has been generating steady rental income and cash flow for the Group. Its major tenants include Walmart, Park'n Shop and McDonald, etc, and the occupancy rate during the period was 99%. During the period under review, the Group recorded profit after taxation of HK$4,134,000 from this property, representing a growth of 13% from HK$3,661,0000 in the same period last year. In addition, benefiting from the increase in property prices in the PRC, the Group recorded valuation gains on investment properties of HK$6,971,000 during the period.

During the period under review, Shenzhen Zhongshan Property Management Limited, in which the Group holds a 95% interest, recorded an attributable profit after taxation of HK$39,000. And Shanghai Trade Square and International Apartments, in which the Group holds approximately 14% interest, continued to operate smoothly. In July 2006, it was resolved that an annual dividend will be paid to its shareholders, and the Group will collect a dividend income of HK$1,165,000 in the second half of this year.

Hong Kong
Stimulated by stable economic growth during the reporting period, the demand for Grade A offices in Hong Kong increased drastically, resulting an increase in rental income for the Group. Rental of Grade A offices rose substantially during the period, and as a result, the Group made gross rental income of HK$2,076,000. On 13 April 2006, the Group entered into an agreement for the sale of the investment property at the 8th floor of Tower I, Lippo Centre, Hong Kong at a consideration of HK$122,098,000. The transaction was completed on 18 May 2006 and the Group recorded a gain of HK$16,203,000 on the disposal. Approximately HK$54,154,000 of the proceeds from the disposal was used to settle relevant bank borrowings and selling expenses, while the remaining HK$67,944,000 was used as general working capital for the Group's environmental protection business.

Environmental protection business
During the period under review, the Group continued to steadily develop its environmental protection business. Turnover from the business for the period was HK$49,665,000, accounting for 53% of the Group's turnover, a marked increase as compared with the turnover contribution of 41% for the same period last year. The Group will continue to pursue high quality projects, closely monitor and strictly control their progress, to build an optimised management structure and a strong foundation for the business. In the first half of the year, it secured the Jinan waste water treatment project in Shandong province and a waste-to-energy project at Changzhou, Jiangsu province. Recently, the Group also secured the waste water treatment project at the Zibo High-tech Industrial Development Zone, Shandong province and the upgrade project for the Northern plant and the Southern plant of Zibo Project. At present, the Group had more than 10 environmental protection projects undertaking in Jiangsu and Shandong provinces, involving a total investment of approximately HK$2,800,000,000. Furthermore, the Group achieved two years' ahead of schedule its goal of increasing waste water treatment volume to over 1 million tonnes per day and gross processing capacity of industrial and household solid waste to over 1 million tonnes per year. The environmental protection business has had rapid and healthy development and is expected to present the Group with vast room for further growth.

Environmental protection engineering
Everbright Environmental Protection Engineering (Shenzhen) Company Limited ("Everbright Environmental Engineering"), a wholly-owned subsidiary of the Company, has a professional, efficient and dedicated technical management team, which is fully involved in all of the Group's environmental protection projects. In the first half of this year, it recorded a net profit of HK$20,259,000, representing an increase of 466% as compared with HK$3,579,000 for the same period last year. Since Everbright Environmental Engineering is the main contractor for the Group's projects, its project management and consultancy fee income is considered as inter-company transaction. Therefore, its profit is treated as a reduction of construction costs of the projects instead of being credited to the consolidated income statement as profit.

In January 2006, Everbright Environmental Engineering received the licence of "Main Contractor for Municipal Public Works" and obtained three certificates, namely the ISO9001:2000 International Quality Management System Certificate, the ISO-14001 Environmental Management System Certificate and the OHSMS28001 Occupational Health and Safety Management System Certificate. These licences and certificates serve to provide the Group with a solid and extensive platform for securing municipal public works and environmental construction projects.

Waste-to-energy
During the reporting period, construction of the Suzhou waste-to-energy project ("Suzhou Project"), the first wholly-owned environmental protection project of the Group, made satisfactory progress. On 20 June 2006, the project completed the full-load trail run and started supplying electricity to power grid. On 18 July 2006, the project received official permission to start commercial operation, such that the project was permitted to increase its up-loading electricity tariff from RMB0.50 per kilowatt-hour to RMB0.575 per kilowatt-hour. The project is expected to start contributing a steady income to the Group in the second half of this year and become another new profit driver of the Group.

During the reporting period, construction of the Yixing waste-to-energy plant project ("Yixing Project") in Jiangsu province progressed satisfactorily. The site was ready for boiler installation in March 2006, marking the advance of the project from the construction stage into the installation stage. At the end of June 2006, the project completed the boiler no.1 water pressure test milestone and passed the inspection of Quality Supervision Centre of Jiangsu province. The project is expected to commence commercial operation in the beginning of 2007.

In January 2006, the Group won the tender for the Jiangyin waste-to-energy plant project ("Jiangyin Project") in Jiangsu province. The total investment cost of the project is RMB388,740,000. Construction will be divided into two phases and phase I will have a daily processing capacity of 800 tonnes. Jiangyin Project will be implemented on BOT basis (Build-Operate-Transfer) with the Group entitled to 30 years' exclusive right of operation. Construction work had begun on 28 June 2006 and commercial operation is scheduled for commencement in the first quarter of 2008.

On 5 June 2006, the Group signed with Changzhou Municipal Administration Bureau in Jiangsu province a framework agreement to design, build, exclusively operate and manage for 25.5 years the Changzhou waste-to-energy plant ("Changzhou Project") on BOT basis. The total investment cost of the project is RMB412,560,000. The daily processing capacity of the plant will be 800 tonnes. Changzhou Project is the fourth waste-to-energy project of the Group in Jiangsu province. Together with the Suzhou Project, Yixing Project and Jiangyin Project, it is expected to create strong management synergies and regional advantages for the Group. The Changzhou Project will not only help to consolidate competitiveness of the Group in the sector of waste-to-energy in Jiangsu province, but will also reinforce the Group's leadership in the country's waste-to-energy industry.

Suzhou Everbright Environmental Protection Industrial Zone Project in progress

Suzhou Everbright Environmental Protection Industrial Zone ("the Zone") is the country's first environmental protection integrated zone dedicated to centralized disposal of municipal solid waste and is developed jointly by the Group and Suzhou Municipal Government. The project is expected to occupy an area of 2.5 square kilometres and will cost total investment of approximately HK$1,500,000,000. Together with the Suzhou Project, the methane-to-energy project ("Methane-to-energy Project") and a disposal centre for industrial solid waste ("Solid Waste Disposal Project"), the project is expected to bring to the Group great advantages, including better utilization of land, extension of the industry chain and centralization of management. The Zone is planned comprehensively and will be implemented in phases. The Group's aim is to establish the area as an industrial zone with a beautiful environment, making it a base for environmental education promotion in Suzhou.

Apart from the Suzhou Project, the Methane-to-energy Project in the Zone has commenced construction work in December 2005. The Project has been progressing satisfactorily, and started supplying electricity to power grid on 20 August 2006, adding a new income source for the Group. The Solid Waste Disposal Project will be constructed in phases, and the initial phase has been progressing satisfactorily. Its construction work started in August 2006, and commercial operation is expected to start at the beginning of 2007. With the above-mentioned three projects in progress, the Zone has begun to take shape. Currently, the Group is negotiating with the Suzhou Municipal Government in relation to other projects in the Zone, such as a leachate treatment plant and a sludge treatment centre. The Group will commence these projects when conditions are ripe. The Group will strive to establish the Zone as the first comprehensive waste management zone for urban, industrial and household solid wastes in the PRC, and build up the Group's banding in this industry.

Waste water treatment

Our first environmental protection project in Shandong province, the Qingdao Project, progressed satisfactorily during the reporting period. In the first half of the year, it processed 24,900,000 tonnes of waste water and contributed an attributable profit of HK$7,997,000 to the Group. Construction of the Maidao Extension Facilities ("Extension Facilities") also completed in June 2006, and it will start trial run in the second half of this year. The waste water treatment capacity of this project will be expanded by 50% to 220,000 tonnes upon commencement of commercial operation of the Extension Facilities. During the reporting period, the project company conducted 33 overhaul and equipment upgrading and innovation projects for the Haibohe waste water treatment plant. The moves have substantially improved the equipment and facilities of the Haibohe waste water treatment plant, ensuring its long term smooth operation.

Zibo City is the third largest industrial city in Shandong province and its environmental protection industry has huge development potential. Since our Zibo Project (including the Northern plant and Southern plant) commenced operation in December last year, it has been running smoothly. In the first half of 2006, it processed 34,870,000 tonnes of waste water, contributing an attributable profit of HK$8,775,000 to the Group. The refurbishment work on equipment for the two plants completed on 28 April 2006. Then, the Group signed an agreement with the Zibo Municipal Government on 28 August 2006 to invest RMB130,221,000 to upgrade the Northern plant and the Southern plant, with the aim of improving water quality to Grade 1A (reusable water grade). The refurbished Northern and Southern plants will increase waste water treatment fee from RMB0.75 per tonne to RMB0.98 per tonne. The refurbishment effort will see the existing plant function better and bring in higher income to the Group. In addition, on 13 July 2006, the Group entered into the "Concession Right Agreement for the new waste water treatment plant at Zibo High-tech Industrial Development Zone" and the "Waste Water Treatment Service Agreement" with the Zibo Municipal Government. The Group will invest and build the new waste water treatment project on BOT basis. This new project will have a gross processing capacity of 300,000 tonnes per day. The daily processing capacity of Phase I will be 100,000 tonnes, with a total investment cost of approximately RMB150,000,000. The operation is expected to commence by the end of June 2007. By then, the Group will enjoy an exclusive right of waste water treatment in the urban area and High-tech Industrial Development Zone in Zibo. The addition of this new project will enhance the overall operational efficiency of the Group's Zibo Project, help to boost income and reduce costs, and consolidate its strategic development in the region.

On 23 June 2006, the Group signed a "Cooperative Agreement" with the Jinan Municipal Government to acquire the existing assets of Jinan No. 1 and No. 2 Waste Water Treatment Plants by way of TOT (transfer-operate-transfer) at RMB400,000,000. The concession right period of the project will last for 30 years. The daily waste water processing capacity of the two plants is 420,000 tonnes. The Group is currently undertaking corporate registration and handover work and the concession right agreement will be signed and handover is scheduled by the end of October. The project will start to make profit contribution to the Group from the fourth quarter. The acquisition has laid a solid foundation for the Group to pursue further investments in environmental protection projects and municipal public works projects in Jinan city. The investment in Qingdao Project, Zibo Project and Jinan Project will create synergies and strong geographical advantages for the Group. The Group has achieved its strategic positioning for its water business in Shandong province.

Strategic partners
The Group places much emphasis on technological research and development, and is always ready to join forces with world-renowned companies to form complementary partnership. After establishing strategic partnership with Seghers Keppel and Veolia Water, the Group has recently secured a partner with another leading international company. On 2 August 2006, the Group signed a "cooperation memorandum of understanding" with Remondis, a famous environmental protection company in Germany. Both parties agreed to enhance cooperation in relation to the environmental protection projects in Hong Kong and the PRC. The Group will provide management and financial support, undertake construction and liaison with local governments. Remondis will provide guidance and professional advice in relation to technology and equipment, staff training and management system.

Award winning enterprise
The Group is committed to promoting environmental protection business and has achieved outstanding results in just three years' time. Its efforts have won its high acclaims from the industry and community. In May 2006, the Group received "The Outstanding Environmental Protection Corporation Award" in "The First Capital Outstanding China Enterprise Awards Presentation Ceremony" organized by CAPITAL Magazine. The award acknowledges Chinese enterprises with great potential and had delivered excellent performance and outstanding results in their respective industries in the past year. The Group was also named the "Most socially responsible and honest enterprise 2006" on 28 June 2006. The contest was jointly held by the Chinese Association of Productivity Science, Association of China Economic Press and Forum for International Competitiveness of Chinese Enterprises and the winner was selected based on its "creativity, influence and contribution". And, on 6 August 2006, the Group was ranked 15th among the "Top 100 most vital enterprises in China in 2006". The listing was decided after multiple rounds of meticulous, fair and open assessment of enterprises based on the authoritative "vitality index" and assessment system of the Chinese Association of Productivity Science. The Group will strive to compete effectively in the market by adhering to its operation principles entailing integrity, high efficiency and pragmatism. The above honours represent the wide recognition the Group enjoys for its environmental protection business efforts. They conveyed endorsement of local governments and the industry for the Group's remarkable achievement in market expansion, project investment, construction, operation and management.

Prospects
The Chinese government has stepped up its economic austerity measures to suppress overheated industries in the country. For environmental protection projects, however, its investment will increase. The State's 11th Five-year Plan places special emphasis on "natural environment protection and establishment of an energy saving and environmental friendly society". As environmental protection is a key area encouraged and supported by the Central government, the Group is optimistic about the industry's prospects.

The current investment in global environmental protection industry amounted to US$600 billion, and of that, China accounted only for about 4% (US$24 billion). This indicated that environmental protection industry in China is still rather green and has substantial untapped potential. The Central government plans to invest RMB1.4 trillion in improving water quality, the atmospheric environment and household solid waste treatment in the coming five years. It provides support to the energy saving power generation projects and offers higher up-loading electricity tariffs for waste-to-energy plants. All these reflect the Government's support of the environmental protection industries in the country. Riding on this strong backup and its well-established brand of "Everbright Environment", the Group will be well positioned to secure quality environmental protection projects.

According to the 11th Five-year Plan, the target by 2010 for average waste water treatment rate of the country will be not lower than 60%. This plus the gradual opening of the water market by the government have created immense opportunities for water and environmental protection related industries. The Group will focus on environmental protection projects in China to cater to the macro trend and continue to increase its investment in environmental protection projects to groom the business into a major revenue stream.

The Group will seize upcoming business opportunities in the PRC to consolidate the foundation of its infrastructure investment and property investment businesses, and ultimately create significant and stable income sources from its operation. The Group will continue to build its "Everbright Environment" brand by operating with advanced technology, high quality and at fair prices and to enhance its sustainable core competitiveness. Regarding the development strategy of the environmental protection business, the Group will first focus on the Yangtze River Delta, the Pearl River Delta Regions and Bohai Bay Area. It will continue to foster continual development operating with honesty, high efficiency and pragmatism while strengthening internal management and risk control, so as to realize the target of becoming an influential and leading infrastructure investment and environmental protection conglomerate and to maximize returns to shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

In the first half of 2006, the Group's consolidated turnover amounted to HK$94,344,000, representing an increase of 54% as compared with HK$61,137,000 for the same period last year. The increase was mainly attributable to the turnover contribution from Zibo Project which commenced operation in December 2005, as well as the continual increase in toll bridge revenue from the Qingzhou Bridge. Profit attributable to the equity shareholders of the Company for the first half of the year amounted to HK$71,620,000, representing an increase of 15% as compared with HK$62,480,000 for the same period last year. During the period, basic earnings per share amounted to HK2.64 cents, representing an increase of HK0.19 cent as compared with HK2.45 cents for the same period last year.

Financial Position

As at 30 June 2006, the Group had total assets of approximately HK$3,165,597,000. Net assets attributable to equity shareholders of the Company amounted to HK$1,572,513,000 and the net assets per share attributable to the equity shareholders of the Company were HK$0.514, representing an increase of 11% as compared with HK$0.462 as at the end of last year. As at 30 June 2006, the gearing ratio (calculated by dividing total liabilities by total assets) was 47%, representing a decrease of 5% as compared with 52% as at the end of last year.

The Group generally finances its operations with internally generated cash flow and loan facilities from banks and its ultimate holding company. As at 30 June 2006, the Group had an aggregate cash balance of approximately HK$787,270,000, representing an increase of HK$288,600,000 as compared with HK$498,670,000 as at the end of last year. At present, the Group has ample cash on hand to fulfill its contracted capital commitments of approximately HK$678,563,000. With the receipt of cash consideration of HK$641,595,000 on disposal of its 15% interest in Mawan Power, the Group will be able to maintain capital deployment for its expansion in environmental protection business and municipal public works business. As at 30 June 2006, the Group had outstanding borrowings of approximately HK$1,321,491,000, representing an increase of HK$173,620,000 as compared with HK$1,147,871,000 as at the end of last year. The borrowings comprised secured bank loans of HK$784,696,000 and loans from ultimate holding company of HK$536,795,000.

Foreign Exchange Risk Management

The foreign exchange risk of the Group is minimal as all of the Group's foreign currency assets and borrowings are denominated in Renminbi and US dollars, and the exchange rate of which are relatively stable against the Hong Kong dollar. The exchange rate fluctuations of these currencies have insignificant impact on the Group.

Pledge of Assets
As at 30 June 2006, the Group pledged cash and fixed assets with an aggregate net book value of approximately HK$794,768,000 to secure general banking facilities granted to the Group. In addition, the shares of a subsidiary of the Group, the revenue of two waste water treatment plants, the Group's toll bridge revenue and the Group's revenue and franchise right of two waste-to-energy plants have been pledged.

Capital Commitments
As at 30 June 2006, the Group had capital commitments contracted for amounted to HK$678,563,000.

Contingent Liabilities
As at 30 June 2006, the Group had no contingent liabilities.

Shares Placement
On 25 April 2006, Guildford Limited ("Guildford"), a shareholder of the Company entered into a placing agreement with Deutsche Bank AG to place 510,000,000 shares of the Company at HK$0.66 per share. According to the subscription agreement made on the same day, Guildford subscribed 510,000,000 new ordinary shares of the Company at HK$0.66 per share. The net proceeds of the share placement were approximately HK$321,723,000 (after deducting relevant expenses). Approximately HK$200,000,000 of the net proceeds were planned to apply to expand the Group's existing environmental protection projects and as general working capital, while the balance of HK$121,723,000 was planned to invest in new environmental protection projects. As at 30 June 2006, HK$83,000,000 of the net proceeds were applied for the expansion of the Group's environmental protection business, while the balance of HK$238,723,000 was held as bank deposits.

Internal Management
"People-oriented, honesty, practicality, creativity and management standardization" are the management principles of the Group. The Group strives to establish a solid risk management culture. During the period, the Group adopted a series of measures to strengthen risk management strategies, raise risk consciousness and set up risk prevention blocks. Accordingly, the Group adjusted members of the Risk Management Advisory Committee and the Engineering Technical Management Committee. This move not only strengthened the functions of the two committees but also their authority. In addition, the Group set up a Budget Approval Management Committee to strengthen budget management, control expenses of the project companies and project construction costs. At the same time, the Group also introduced a budget management department in the headquarter of its environmental protection division respectively. This has enabled two-way supervision and restriction as well as strengthened project budget management, which will be helpful to the Group in ensuring long-term, stable and sustainable development.

Human Resources
The Group devotes much attention to human resources management and developing the potential of each employee with the goal of establishing a high quality team to support its business development in the long run. To strengthen its financial management work and raise the business knowledge of finance staff, the Group organized a comprehensive finance staff training programme during the period under review. The training programme included such topics as the impact of the new enterprise accounting standards in the PRC, internal auditing, financial budget organization and management, tax planning, differences in the accounting standards between Hong Kong and the PRC, etc. The Group has invited accounting and tax specialists from Hong Kong and Shenzhen to give lectures on the different topics.

As at 30 June 2006, the Group had a total of approximately 472 employees in Hong Kong and the PRC. Employees are remunerated according to their qualifications, experience, job nature, performance, as well as market conditions. Apart from discretionary performance bonus, the Group also provides other benefits such as medical insurance and provident fund scheme to employees in Hong Kong. According to the share option scheme approved at the Company's extraordinary general meeting held on 26 May 2003, the Board has the authority to grant share options to any employees, including Directors, as performance incentives. On 3 August 2006, Directors of the Company, key management and technical personnel and staff of the Group had been granted options for 66,000,000 shares at HK$0.85 per share to reward and encourage their dedication in achieving the Group's stable and sustainable development in the long run.

INTERIM DIVIDEND
The Board has declared an interim dividend of HK0.6 cent per share for the six months ended 30 June 2006 (2005: HK0.6 cent per share) to shareholders whose names appear on the register of members of the Company on Thursday, 19 October 2006. Dividend warrants will be despatched to shareholders on or about Tuesday, 31 October 2006.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 16 October 2006 to Thursday, 19 October 2006 (both days inclusive), during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all completed transfer forms accompanied with the relevant share certificates must be lodged with the Company's share registrars, 26/F, Tesbury Centre, 28 Queen's Road East Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 13 October 2006.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

There was no purchase, sale or redemption of the listed securities of the Company by the Company or any of its subsidiaries during the period.

CORPORATE GOVERNANCE

The Group strives to strengthen corporate governance and to increase corporate transparency. To achieve this, the Board has established four committees, namely the Executive Committee, the Audit Committee, the Remuneration Committee and the Management Committee. The management of the Company believes that good corporate governance will be beneficial to the business development of the Company and to the protection of shareholders' interest.

Throughout the six months ended 30 June 2006, the Company had complied with the provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules except that Mr. Wang Mingquan, the Chairman of the Company, was unable to attend the 2006 Annual General Meeting of the Company. However, appropriate arrangements have been made accordingly before the holding of the Annual General Meeting.

AUDIT COMMITTEE

The Audit Committee, comprising all three independent non-executive directors of the Company, namely Sir David Akers-Jones, Mr. Aubrey Li Kwok Sing and Mr. Selwyn Mar, is primarily responsible for reviewing the accounting principles and practices adopted by the Group, as well as discussing and reviewing the internal control and financial reporting matters of the Company. The terms of reference of the Audit Committee are disclosed on the website of the Company. The Audit Committee has reviewed the unaudited interim financial report for the six months ended 30 June 2006 with the management. At the request of the Board, KPMG, the Company's auditors, has carried out a review of the unaudited interim financial report in accordance with SAS 700 "Engagements to review interim financial reports" issued by the HKICPA. The independent review report from the auditors will be set out in the interim report.

REMUNERATION COMMITTEE

The Remuneration Committee comprises Mr. Wang Mingquan, the Chairman of the Board, Mr. Zang Qiutao, the Vice-chairman of the Board, and three independent non-executive directors of the Company, namely Sir David Akers-Jones, Mr. Aubrey Li Kwok Sing and Mr. Selwyn Mar. Its main duties include offering advices to the Board on the matters pertaining the remuneration policy and remuneration structure of the directors and senior management of the Company. The terms of reference of the Remuneration Committee are disclosed on the website of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Group has adopted the model code for securities transactions by directors set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Having made specific enquiry of the directors, all directors have complied with the required standard of dealings as set out therein during the six months ended 30 June 2006.

BOARD OF DIRECTORS

As at the date hereof, the Board consists of nine executive directors, namely Mr. WANG Mingquan (Chairman), Mr. ZANG Qiutao (Vice-chairman), Mr. LI Xueming (Vice-chairman), Mr. CHEN Xiaoping (Chief Executive Officer), Mr. Philip FAN Yan Hok, Mr. HUANG Chaohua, Mr. Raymond WONG Kam Chung, Mr. CHEN Shuang and Ms. ZHANG Weiyun and three independent non-executive directors, namely Sir David AKERS-JONES, Mr. Aubrey LI Kwok Sing and Mr. Selwyn MAR.

By Order of the Board
Chen Xiaoping
Chief Executive Officer

Hong Kong, 14 September 2006

website: www.ebchinaintl.com

"Please also refer to the published version of this announcement in The Standard."