

Save as disclosed above, at no time during the period was the Company, its holding companies or any of its subsidiaries or associated corporation a party to any arrangements to enable the directors of the Company or their spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Note: Miss Liang Jianqin resigned as a non-executive director of the Company on 8 August 2006.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2006, so far as is known to any director and chief executive of the Company, the following persons (other than a director and chief executive of the Company) 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 which were recorded in the register kept by the Company under Section 336 of the SFO:

| <u>Name of Shareholder</u> | <u>Number of ordinary shares beneficially held</u> | <u>Long/short position</u> | <u>Approximate percentage of issued share capital</u> |
|--|--|----------------------------|---|
| 廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) ("Yue Gang") (Note) | 536,380,868 | Long position | 59.49% |
| GDH Limited ("GDH") | 536,380,868 | Long position | 59.49% |

Note: The attributable interest which Yue Gang has in the Company is held through its 100 per cent direct interest in GDH.

Save as disclosed above, no other person (other than a director and chief executive of the Company) known to any director and chief executive of the Company as at 30 June 2006 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 as recorded in the register kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEMES

On 11 June 2004, the Company adopted a new share option scheme ("2004 Share Option Scheme") enabling the Company to attract, retain and motivate high caliber and talented participants to make contributions to the Group. On the same day, the Company also terminated its share option scheme that was adopted on 24 August 2001 ("2001 Share Option Scheme"). Options granted under the 2001 Share Option Scheme prior to 11 June 2004 remain valid until lapsed.

During the period, options were not exercised nor lapsed. On 9 March 2006 options were granted under the 2004 Share Option Scheme enabling the holders to subscribe for a total of 11,770,000 shares of the Company.

As at 30 June 2006, save as disclosed in the section of "Directors' Interests and Short Positions in Securities", the following share options were outstanding under the 2001 and 2004 Share Option Schemes. Each option gives the holder the right to subscribe for one share of par value HK\$0.5 each of the Company.

| Category | Date of share options granted# (dd.mm.yy) | Number of options held as at 1 January 2006 (‘000) | Options granted Jan-Jun 2006 | | Period during which share options is exercisable* (dd.mm.yy) | Total consideration paid for share options granted (HK\$) | Price per ordinary share payable on exercise of options (HK\$) | Number of options exercised Jan-Jun 2006 (‘000) | Number of options held as at 30 June 2006 (‘000) | Share Price | |
|----------------------------------|--|---|------------------------------|--------|---|--|---|--|---|--|---|
| | | | Date # | Number | | | | | | At share option grant date** (HK\$) | At share option exercise date (HK\$) |
| | | | (dd.mm.yy) | (‘000) | | | | | | (‘000) | (‘000) |
| Employees and other participants | 24.08.01 | 3,350 | — | — | 26.11.01–25.11.06 | 10 | 1,495 | — | 3,350 | — | — |
| | 06.02.04 | 4,940 | — | — | 06.05.04–05.05.09 | 10 | 1,582 | — | 4,940 | — | — |
| | — | — | 09.03.06 | 6,270 | 09.06.06–08.03.16 | 1 | 1,660 | — | 6,270 | 1,610 | — |

The vesting period of the share options is from the date of grant until the commencement of the exercisable period or the grantee's completion of half year's full time service with the Company or its subsidiaries, whichever is the later.

* If the last day of any of the option periods is not a business day in Hong Kong, the option period shall end at the close of business on the last business day preceding that day.

** The share price disclosed as "At share option grant date" is the closing price of the shares of the Company quoted on the Hong Kong Stock Exchange on the trading day immediately prior to the date of grant of the share options.

Details of share options granted during the period:

| | |
|---------------------------------|-------------------------------|
| Date of grant | : 9 March 2006 |
| Vesting period | : 9 March 2006 to 8 June 2006 |
| Exercise period | : 9 June 2006 to 8 March 2016 |
| Exercise price | : HK\$1.66 per share |
| Number of share options granted | : 11,770,000 [#] |

The fair value of share options granted on 9 March 2006 was HK\$4,867,070 which was determined using binomial lattice option pricing model^{###}, and was recognised in the consolidated profit and loss account for the period. The weighted average fair value of share options granted during the period and the respective inputs and assumptions to the model were as follows:

| | |
|---|---|
| Weighted average fair value of share option | : HK\$0.4135 per share |
| Risk-free interest rate | : 4.444%*, being the approximate yield of 10-year Exchange Fund Note traded on 9 March 2006 |
| Expected volatility | : 39.4908%, being the annualised volatility of the closing price of the ordinary shares of the Company from 9 March 2005 to 9 March 2006 |
| Expected dividend yield | : 2.564%, being historical dividend yield |
| Expected life of share options | : 10 years |
| Assumptions | : There is no material difference between the expected volatility over the whole life of the options and the historical volatility of the ordinary shares of the Company over the period from 9 March 2005 to 9 March 2006. |

Effects of early exercise factors were also considered in calculating the fair value of share options.

No forfeiture clause was contained in the relevant share option scheme.

In prior years, in order to comply with Rule 17.08 of the Listing Rules, Black-Scholes option pricing model was adopted by the Company to calculate the theoretical value of share options granted for disclosure purpose only. With effect from 1 January 2005, in order to comply with Hong Kong Financial Reporting Standards No. 2, "Share-based payment", the Group has adopted a new policy for employee share options. Under the new policy, the Group recognizes the fair value of share options as an expense with a corresponding increase recognized in a capital reserve within equity. As binomial lattice option pricing model could capture assumption about early exercise of share option and is more appropriate for share options with relatively long contractual lives, the Group used binomial lattice model, instead of Black-Scholes model, to measure the fair value of share options granted.

The binomial lattice model (the "Model") is one of the option pricing models to estimate the fair value of an option. It should be noted that the Model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the fair value of the share options derived from the Model should not be interpreted as the market or actual value of the option.

* According to Rule 17.08 of the Listing Rules, the risk-free rate should be the rate prevailing on debt securities issued by the state, such as the Exchange Fund Notes in case of Hong Kong based entities.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Code on Corporate Governance Practices

The Company has applied the principles and complied with the code provisions of the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2006, with the exception that certain non-executive directors are not appointed for specific terms as non-executive directors are subject to retirement by rotation and re-election at annual general meetings in accordance with the Company's Articles of Association.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct regarding directors' securities transactions. All directors have confirmed, upon specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2006.

Audit Committee

The Company established an audit committee in 1999 and its terms of reference are in line with the CG Code. The Audit Committee comprises the three independent non-executive directors, Mr. Gerard Joseph McMahon (chairman of the Audit Committee), Miss Tam Wai Chu, Maria and Mr. Li Kar Keung, Caspar. The principal duties of the Audit Committee include, *inter alia*, the review of the completeness, accuracy and fairness of the Company's financial reports and the Group's internal controls and risk management systems.

The Audit Committee holds regular meetings and it met three times during the six months ended 30 June 2006.

Compensation Committee

The Company established a compensation committee in 1999 and its terms of reference are in line with the CG Code. The Compensation Committee comprises the chairman of the Board, Mr. Liang Jiang, executive director and general manager, Mr. Tan Yunbiao, and the three independent non-executive directors, Mr. Gerard Joseph McMahon, Miss Tam Wai Chu, Maria and Mr. Li Kar Keung, Caspar (chairman of the Compensation Committee). The principal duties of the Compensation Committee include, *inter alia*, making recommendations to the Board relating to the Company's policy for directors' and senior management's