

## Management Discussion and Analysis

### Business Review

#### Financial Review

For the six months ended 31 December 2005, Chaoda achieved impressive growth and financial results. Sales of crops has increased in volume from 407,821 tonnes to 510,907 tonnes. Turnover and gross profit for the period of the Group amounted to approximately RMB1,286,230,000 and RMB863,705,000 respectively, representing an increase of 22% and 24% as compared to the same period last year.

Operating expenses remained stable as a percentage of total sales. Selling and distribution expenses and general and administrative expenses, collectively the operating expenses, for the six months ended 31 December 2005 represented approximately 10.0% and 6.0% respectively, as compared to the same period last year of 10.6% and 6.1%.

This year was the second year of adoption of HKAS 41 "Agriculture" (formerly Statement of Standard Accounting Practice 36 "Agriculture"). The Group recorded a gain of RMB18,831,000 arising from changes in fair value less estimated point-of-sale costs of biological assets for the current period, compared to a gain of RMB150,740,000 from the same period last year as a result of first-time adoption of this new accounting standard.

In addition to the effect related to the adoption of HKAS 41 "Agriculture", the Group also recorded a deemed loss on diluting the interest in an associate and incurred higher finance costs due to the guaranteed senior notes issued in February 2005. The profit attributable to shareholders of the Company declined to RMB581,326,000, compared to RMB647,068,000 from the same period last year.

#### Production Bases

Agricultural land areas (excluding citrus farms owned by associates and mountain area) held by the Group in the PRC increased from 171,889 mu (11,459 hectares) on 31 December 2004 to 219,656 mu (14,644 hectares) on 31 December 2005, representing an increase of 28%. It also represented an increase of 17% as compared to 188,509 mu (12,567 hectares) as at 30 June 2005.

The weighted average production area for vegetables increased from 137,738 mu (9,183 hectares) as at 31 December 2004 to 181,611 mu (12,107 hectares) as at the same period this year, representing an increase of 32%. It also represented an increase of 21% as compared to 150,341 mu (10,023 hectares) as at 30 June 2005. The Group in total operated more than 30 production bases covering different provinces and cities in the PRC.

#### Sales Performance

Sales of crops for the six months ended 31 December 2005 accounted for 96% of total turnover, while sales of livestock and supermarket chain operation accounted for 1% and 3% respectively. Except for the supermarket chain operation, there had not been any material change to the sales mix by product.

Domestic sales of crops represented 69% for the six months ended 31 December 2005 while export sales of crops took up the remaining 31%. There had not been any material change to the sales mix by market.

The gross profit margin in the sales of crops, being the principal business of the Group, was 68.6%. There had not been any material change as compared to the same period last year of 68.8%. The overall gross profit margin of the Group was 67.2% as compared to the same period last year of 65.9%. The slight increase in the overall gross profit margin of the Group was attributable to the increase of share for the sales of crops (being the principal business of the Group) in the total sales and the further reduction in supermarket chain operation that is of lower gross profit margin.

### Other Operating Data

For the six months ended 31 December 2005, the other operating data relating to the Group's principal business of growing and sales of crops include the vegetable yield per mu of 2.59 tonnes and the vegetable yield per mu per harvest of 1.79 tonnes as compared to the same period last year of 2.72 tonnes and 1.77 tonnes respectively. The average sales unit price per kg was RMB2.41 as compared to the same period last year of RMB2.41. There had not been any material change in other operating data during the period under review.

### QUOTATION OF AN ASSOCIATED COMPANY ON AIM OF THE LONDON STOCK EXCHANGE

The issued share capital of Asian Citrus Holdings Limited ("Asian Citrus"), an associated company of the Group, was quoted on The Alternative Investment Market of the London Stock Exchange plc (the "Quotation") on 3 August 2005.

The net proceeds raised by Asian Citrus were approximately RMB108 million. Asian Citrus intended to use the net proceeds from the Quotation to finance its current plans for capital expenditure and business development and to strengthen its capital base and so improve its financial position.

### PROSPECTS

With the consecutive releases of No. 1 documents from 2004 to 2006 by the PRC Government regarding issues related to "agricultural industry, rural area and farmers", the three issues have become the prime task of the PRC Government. At the Fourth Session of the Tenth National People's Congress held in March 2006, "the draft 11th five-year plan for national economic and social development" (《國民經濟和社會發展第十一個五年規劃綱要(草案)》) has been reviewed and passed, with the proposal of the important strategic ideology of "building the new socialist rural area" which mainly encompasses the following areas: to facilitate the modernized agricultural development and agricultural technological progress; to promote agricultural construction and integrated agricultural productivity; to fully intensify rural reform and to stabilize and perfect the operation system based on the household responsibility system, under which rights to land undertaking operation can be transferred on a voluntary and non-gratuitous basis in mature areas in order to develop appropriate operation models in different forms; to increase the income of farmers by all means, including direct subsidy to farmers.

While delivering his report on government work report in the Fourth Session of the Tenth National People's Congress, the PRC's Premier Wen Jiabao stated that the Central Government would budget RMB339.7 billion for the expenses related to "agricultural industry, rural area and farmers", representing an increase of RMB42.2 billion or 14.2% as compared to last year. This would mainly be used to construct infrastructure and provide social services, to develop modern agriculture, stimulate food production and to favor the sustained income increase of farmers. Concrete supportive measures for the "agricultural industry, rural area and farmers" adopted by Central Government also include the abolition of agricultural tax that has existed for thousands of years, as well as abolition of other charges.

We believe that with the support from the Government and the effort of the industry itself, the agricultural industry in the PRC will enter a phase of high growth rate. The agricultural industry in the PRC is undergoing a profound and total reform, with significant improvement in operation model, technological innovation and sales channels. Under the guidance of the government, the industrialization of the agricultural industry is progressing steadily and swiftly, meanwhile modernized agricultural enterprises are gradually taking the leadership role. With the successive launching of different favorable policies such as tax exemption and reduction, it assists the growth of stronger agricultural enterprises and helps these enterprises to develop a trusted brand. Being a leader in the PRC agricultural industry, Chaoda can benefit from the growth opportunities in the industry.

## Management Discussion and Analysis

In the future, Chaoda will continue to uphold to its development strategy that takes vegetables and fruits as its core business, and land expansion as its growth impetus. After years of development, Chaoda has successfully built up strong eminence and reputation among governments and farmers. The Company has been awarded different honors by both the government and industry associations, including "State-Level Leading Enterprise" and "Top 500 Brands", forming a solid foundation for leasing more lands. Chaoda will continue to consolidate its land resources and improve its geographic locations, with the setting up of large scale production bases in the focal economic regions such as Southern China, Beijing-Tianjin-Hebei area, Northeast China and Changjiang river area.

Chaoda will continue its efforts in brand building, efficient management and other respects. Brand building is one of the basic strategies of Chaoda and we will strive to promote our company image and develop branded products. Efficient management is founded on human resources management and implementation of objective-driven responsibility system. Chaoda has always held a "People-Oriented" principle and regards its employees as the most important asset of the enterprise. In the meantime, Chaoda continues to develop a performance-driven incentive system in order to motivate its employees.

### **POLICIES AND PERFORMANCE ON COMMUNITY, SOCIAL, ETHICAL AND REPUTATIONAL ISSUES**

The Group endeavors to continually follow closely with the agriculture policy of the PRC, and will always be considerate for the rights and benefits of the peasants. With the unique business philosophy and model of Chaoda, the peasants can be benefited. Industrialization of production processes in modern agriculture helps to improve the planting technique of the peasants, increase rural income and improve the social stability in rural areas. To show our ongoing concern for the peasants, Chaoda has set January of every year as "The Month for the Peasants".

Furthermore, many producers in the PRC are facing quality and safety problems such as pesticide residue on vegetables. Concerns for agricultural product safety and health issues have been increasing all over the world. This clearly shows us the demand for quality agricultural products in the market. Chaoda successfully set a right direction from the beginning: "Take Green Road, Create Ecological Civilisation". In these few years, we have established a comprehensive quality control system for agricultural produce, building an unpolluted supplying process from cultivation to consumption and creating a "Green and Organic Ecological Industrial Chain".

As Chaoda strives to become one of the world-class enterprises, we consider ourselves responsible for raising rural incomes. We strive to become the role model of being the most competitive supplier of agricultural produce in the PRC, so as to promote the international reputation and image of the PRC's agricultural products.

In addition to adhere to the environmental principles for our business, Chaoda makes every endeavor to promote environmental protection in the office environment, so as to maintain the harmony between nature, human beings and society, and realize the goal of harmonic development. The specific examples include taking the initiative to deliver company notice by electronic mail, using recycled toner cartridge and publishing the annual report of the Company by authorised recycled paper.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2005, the Group had cash and bank balances amounting to RMB1,450,499,000. The Group generated strong cash flows from operations for the six months ended 31 December 2005. Net cash flow from operating activities for the period was RMB465,929,000 as compared to RMB388,555,000 for the same period last year. Since the exchange rate fluctuations between Hong Kong dollars or United States dollars and Renminbi are immaterial, the foreign exchange risk is immaterial and no hedging has been carried out by the Group.

As at 31 December 2005, the Group's gearing ratio (debt to equity) was 29%, which is calculated on the basis of bank loans and guaranteed senior notes over total equity. And the Group's current ratio was 18 times, reflecting sufficient financial resources.

As at 31 December 2005, the Group had outstanding capital commitments amounting to RMB430,595,000 in respect of the purchase of fixed assets, research and development expenditures, premium payment for land leases, of which commitments of RMB238,011,000 were contracted but not provided for, while the remaining commitments of RMB192,584,000 had been authorised but not contracted. As at 31 December 2005, the Group did not have any material contingent liabilities.

## REMUNERATION POLICIES

### Remuneration Policy for Employees

As at 31 December 2005, the Group employed about 13,133 employees, of which 11,333 were workers on the Group's farmlands. Employees' salaries are determined at a competitive level. They are eligible for various components of total remuneration by reference to their duties and responsibilities with the Group and the market rate. These components include basic salaries, discretionary bonus and share option. Other employee benefits include pension arrangements, insurance, education subsidies and training programmes.

### Remuneration Policy for Executive Directors

The executive directors' remuneration package is determined by the Board from time to time by reference to their duties and responsibilities with the Group and the market rate. The remuneration package includes various components of basic salaries, discretionary bonus and share option. The Remuneration Committee is authorised by the Board to make their proposals relating to the remuneration of executive directors.

The Group does not have, has never had, any long-term incentive schemes.

### Remuneration Policy for Non-Executive Directors

The remuneration, comprising directors' fee, of non-executive directors is determined by the Board from time to time by reference to their duties and responsibilities with the Company and the market rate. The Remuneration Committee is authorised by the Board to make their proposals relating to the remuneration of non-executive directors. Reimbursement is allowed for out-of-pocket expenses incurred in connection with the performance of their duties.

## Management Discussion and Analysis

### CHARGE ON ASSET

As at 31 December 2005, corporate guarantees of one of the PRC subsidiaries of the Group were executed as the security for short-term loans.

A fixed deposit of US\$60,500,000 (equivalent to RMB490,776,000) of the Company was pledged to secure a loan facility of up to RMB450,000,000 (30 June 2005: RMB450,000,000) and has been released on 13 March 2006.

Shares of certain subsidiaries of the Group were pledged for the issuance of US\$225,000,000 7.75% guaranteed senior notes due on 8 February 2010.

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 31 December 2005, the interests and short positions of the directors and chief executives in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows :

#### Long positions in shares of the Company

Name of director	Number of ordinary shares			Total	Percentage of issued share capital recorded in the register
	Personal interests	Family interests	Corporate interests		
Mr. Kwok Ho	—	—	828,240,000 (Note 1)	828,240,000	35.16% (Note 3)
Mr. Ip Chi Ming	—	—	34,600,000 (Note 2)	34,600,000	1.46% (Note 3)
Ms. Wong Hip Ying	1,000,000	—	—	1,000,000	0.04% (Note 3)
Mr. Chan Chi Po, Andy	401,500	—	—	401,500	0.02% (Note 3)

#### Notes:

- Held through Kailey Investment Ltd. which is wholly-owned by Mr. Kwok Ho.
- Held through Young West Investments Ltd. which is wholly-owned by Mr. Ip Chi Ming.
- The percentage of issued share capital (based on the issued share capital of the Company as at 31 December 2005 of 2,363,880,250 shares) held by Mr. Kwok Ho, Mr. Ip Chi Ming, Ms. Wong Hip Ying and Mr. Chan Chi Po, Andy are 35.04% , 1.46%, 0.04% and 0.02% respectively.

## Management Discussion and Analysis

## Long positions in underlying shares of the Company

## Share Options in the Company

Name of director	Date of grant	Exercise price HK\$	Exercisable period	Number of shares in respect of options outstanding as at 31 December 2005
Mr. Kwok Ho	28/01/2003	1.58	01/07/2003 — 27/01/2013	21,000,000
			01/01/2004 — 27/01/2013	21,000,000
			01/01/2005 — 27/01/2013	21,000,000
Mr. Ip Chi Ming	17/08/2005	3.09	17/08/2005 — 16/08/2015	600,000
			17/08/2006 — 16/08/2015	600,000
			17/08/2007 — 16/08/2015	600,000
			17/08/2008 — 16/08/2015	600,000
			17/08/2009 — 16/08/2015	600,000
Dr. Lee Yan	28/01/2003	1.58	01/07/2003 — 27/01/2013	2,100,000
			24/06/2003	1.09
	04/11/2005	2.965	04/11/2005 — 03/11/2015	400,000
			04/11/2006 — 03/11/2015	400,000
			04/11/2007 — 03/11/2015	400,000
			04/11/2008 — 03/11/2015	400,000
Ms. Wong Hip Ying	28/01/2003	1.58	01/07/2003 — 27/01/2013	575,000
			19/06/2003	1.08
	04/11/2005	2.965	04/11/2005 — 03/11/2015	400,000
			04/11/2006 — 03/11/2015	400,000
			04/11/2007 — 03/11/2015	400,000
			04/11/2008 — 03/11/2015	400,000
Mr. Fong Jao	28/01/2003	1.58	01/07/2003 — 27/01/2013	1,600,000
			19/06/2003	1.08
	04/11/2005	2.965	04/11/2005 — 03/11/2015	400,000
			04/11/2006 — 03/11/2015	400,000
			04/11/2007 — 03/11/2015	400,000
			04/11/2008 — 03/11/2015	400,000
			04/11/2009 — 03/11/2015	400,000

## Management Discussion and Analysis

Name of director	Date of grant	Exercise price HK\$	Exercisable period	Number of shares in respect of options outstanding as at 31 December 2005
Mr. Chen Jun Hua	19/06/2003	1.08	01/07/2003 — 18/06/2013	39,900
	28/05/2004	2.40	01/01/2005 — 27/05/2014	2,000,000
	17/08/2005	3.09	17/08/2005 — 16/08/2015	600,000
			17/08/2006 — 16/08/2015	600,000
			17/08/2007 — 16/08/2015	600,000
			17/08/2008 — 16/08/2015	600,000
			17/08/2009 — 16/08/2015	600,000
Mr. Chan Chi Po, Andy	19/06/2003	1.08	01/07/2004 — 18/06/2013	650,000
	28/05/2004	2.40	01/07/2005 — 27/05/2014	500,000
			01/07/2006 — 27/05/2014	500,000
	17/08/2005	3.09	17/08/2005 — 16/08/2015	600,000
			17/08/2006 — 16/08/2015	600,000
			17/08/2007 — 16/08/2015	600,000
			17/08/2008 — 16/08/2015	600,000
17/08/2009 — 16/08/2015			600,000	

Save as disclosed above, none of the directors, chief executives or their associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are recorded in the register required to be kept by the Company under Section 352 of the SFO or which are notified to the Company and the Stock Exchange pursuant to the Model Code.

### SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31 December 2005, so far as is known to the Directors, the following parties (other than the Directors and Chief Executives of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

#### Long positions in shares of the Company

Name	Capacity	Number of ordinary shares	Percentage of issued share capital recorded in the register
Kailey Investment Ltd. (Note 1)	Beneficial owner	828,240,000	35.33% (Note 4)
Value Partners Limited (Notes 2 and 5)	Investment manager	236,486,400	10.01% (Note 4)
Mr. Cheah Cheng Hye	(Notes 2 and 3)	237,840,400	10.06% (Note 4)

*Notes :*

1. Kailey Investment Ltd. is a company incorporated in the British Virgin Islands with limited liability which is legally and beneficially wholly-owned by Mr. Kwok Ho.
2. Value Partners Limited is a company incorporated in the British Virgin Islands with limited liability which is owned as to 32.77% by Mr. Cheah Cheng Hye.
3. 1,249,000 shares were personally owned by Mr. Cheah Cheng Hye and 105,000 shares were owned by his family member.
4. The percentage of issued share capital (based on the issued share capital of the Company as at 31 December 2005 of 2,363,880,250 shares) held by Kailey Investment Ltd. (being 828,240,000 shares), Value Partners Limited (being 253,862,400 shares) and Mr. Cheah Cheng Hye (being 255,216,400 shares) are approximately 35.04%, 10.74% and 10.80% respectively.
5. As at 31 December 2005, Value Partners Limited is owned as to approximately 32.77% by Mr. Cheah Cheng Hye.

**DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES**

Other than as disclosed under the headings "Share Option Scheme" below and "Directors' and Chief Executives' Interests in Securities" above, at no time during the period was the Company or any of its subsidiaries, its holding company, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or Chief Executives of the Company (including their spouses or children under 18 years of age) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

**SHARE OPTION SCHEME**

A share option scheme (the "Scheme") was adopted pursuant to a resolution passed at the extraordinary general meeting of the Company held on 19 June 2002. The principal terms of which were set out in the Company's 2004/2005 Annual Report.

During the six months period ended 31 December 2005, options in respect of 32,760,000 shares (after adjustment) were granted to the relevant participants under the Scheme. As at 31 December 2005, options in respect of 192,477,500 shares (after adjustment) were granted to the relevant participants under the Scheme, of which options in respect of 500,000 shares had lapsed.

The Board has also proposed a resolution to approve the refreshment of the scheme mandate under the Scheme. Such resolution was passed at the extraordinary general meeting of the Company held on 14 February 2006.



## Management Discussion and Analysis

Details of the movements of the outstanding share options granted under the Share Option Scheme of the Company during the period under review were as follows:

Name or Category of participant	Number of Shares in respect of Options				Outstanding as at 31 December 2005 (Note 1)	Date of grant	Exercisable period	Exercise price per share HK\$	Weighted average closing price (Note 2) HK\$
	Balance as at 1 July 2005	Granted during the period	Exercised during the period	Lapsed during the period					
<b>Directors:</b>									
Kwok Ho	21,000,000	—	—	—	21,000,000	28/01/2003	01/07/2003 — 27/01/2013	1.58	—
	21,000,000	—	—	—	21,000,000	28/01/2003	01/01/2004 — 27/01/2013	1.58	—
	21,000,000	—	—	—	21,000,000	28/01/2003	01/01/2005 — 27/01/2013	1.58	—
Ip Chi Ming	—	600,000	—	—	600,000	17/08/2005	17/08/2005 — 16/08/2015	3.09	—
	—	600,000	—	—	600,000	17/08/2005	17/08/2006 — 16/08/2015	3.09	—
	—	600,000	—	—	600,000	17/08/2005	17/08/2007 — 16/08/2015	3.09	—
	—	600,000	—	—	600,000	17/08/2005	17/08/2008 — 16/08/2015	3.09	—
	—	600,000	—	—	600,000	17/08/2005	17/08/2009 — 16/08/2015	3.09	—
Lee Yan	2,100,000	—	—	—	2,100,000	28/01/2003	01/07/2003 — 27/01/2013	1.58	—
	1,075,000	—	—	—	1,075,000	24/06/2003	01/07/2003 — 23/06/2013	1.09	—
	—	400,000	—	—	400,000	04/11/2005	04/11/2005 — 03/11/2015	2.965	—
	—	400,000	—	—	400,000	04/11/2005	04/11/2006 — 03/11/2015	2.965	—
	—	400,000	—	—	400,000	04/11/2005	04/11/2007 — 03/11/2015	2.965	—
	—	400,000	—	—	400,000	04/11/2005	04/11/2008 — 03/11/2015	2.965	—
	—	400,000	—	—	400,000	04/11/2005	04/11/2009 — 03/11/2015	2.965	—

## Management Discussion and Analysis

Name or Category of participant	Number of Shares in respect of Options					Outstanding as at 31 December 2005 (Note 1)	Date of grant	Exercisable period	Exercise price per share HK\$	Weighted average closing price (Note 2) HK\$
	Balance as at 1 July 2005	Granted during the period	Exercised during the period	Lapsed during the period						
<b>Directors:</b>										
Wong Hip Ying	575,000	—	—	—	575,000	28/01/2003	01/07/2003 — 27/01/2013	1.58	—	
	1,100,000	—	—	—	1,100,000	19/06/2003	01/07/2003 — 18/06/2013	1.08	—	
	—	400,000	—	—	400,000	4/11/2005	04/11/2005 — 03/11/2015	2.965	—	
	—	400,000	—	—	400,000	4/11/2005	04/11/2006 — 03/11/2015	2.965	—	
	—	400,000	—	—	400,000	4/11/2005	04/11/2007 — 03/11/2015	2.965	—	
	—	400,000	—	—	400,000	4/11/2005	04/11/2008 — 03/11/2015	2.965	—	
	—	400,000	—	—	400,000	4/11/2005	04/11/2009 — 03/11/2015	2.965	—	
Fong Jao	1,600,000	—	—	—	1,600,000	28/01/2003	01/07/2003 — 27/01/2013	1.58	—	
	1,600,000	—	—	—	1,600,000	19/06/2003	01/07/2003 — 18/06/2013	1.08	—	
	—	400,000	—	—	400,000	4/11/2005	04/11/2005 — 03/11/2015	2.965	—	
	—	400,000	—	—	400,000	4/11/2005	04/11/2006 — 03/11/2015	2.965	—	
	—	400,000	—	—	400,000	4/11/2005	04/11/2007 — 03/11/2015	2.965	—	
	—	400,000	—	—	400,000	4/11/2005	04/11/2008 — 03/11/2015	2.965	—	
	—	400,000	—	—	400,000	4/11/2005	04/11/2009 — 03/11/2015	2.965	—	
Chen Jun Hua	39,900	—	—	—	39,900	19/06/2003	01/07/2003 — 18/06/2013	1.08	—	
	2,000,000	—	—	—	2,000,000	28/05/2004	01/01/2005 — 27/05/2014	2.40	—	
	—	600,000	—	—	600,000	17/08/2005	17/08/2005 — 16/08/2015	3.09	—	
	—	600,000	—	—	600,000	17/08/2005	17/08/2006 — 16/08/2015	3.09	—	
	—	600,000	—	—	600,000	17/08/2005	17/08/2007 — 16/08/2015	3.09	—	
	—	600,000	—	—	600,000	17/08/2005	17/08/2008 — 16/08/2015	3.09	—	
—	600,000	—	—	600,000	17/08/2005	17/08/2009 — 16/08/2015	3.09	—		

## Management Discussion and Analysis

Name or Category of participant	Number of Shares in respect of Options					Outstanding as at 31 December 2005 (Note 1)	Date of grant	Exercisable period	Exercise price per share HK\$	Weighted average closing price (Note 2) HK\$
	Balance as at 1 July 2005	Granted during the period	Exercised during the period	Lapsed during the period						
<b>Directors:</b>										
Chan Chi Po, Andy	850,000	—	200,000	—	650,000	19/06/2003	01/07/2004 — 18/06/2013	1.08	3.13	
	500,000	—	—	—	500,000	28/05/2004	01/07/2005 — 27/05/2014	2.40	—	
	500,000	—	—	—	500,000	28/05/2004	01/07/2006 — 27/05/2014	2.40	—	
	—	600,000	—	—	600,000	17/08/2005	17/08/2005 — 16/08/2015	3.09	—	
	—	600,000	—	—	600,000	17/08/2005	17/08/2006 — 16/08/2015	3.09	—	
	—	600,000	—	—	600,000	17/08/2005	17/08/2007 — 16/08/2015	3.09	—	
	—	600,000	—	—	600,000	17/08/2005	17/08/2008 — 16/08/2015	3.09	—	
	—	600,000	—	—	600,000	17/08/2005	17/08/2009 — 16/08/2015	3.09	—	
<b>Employees:</b>										
<i>In aggregate</i>	4,324,950	—	—	—	4,324,950	19/06/2003	01/07/2003 — 18/06/2013	1.08	—	
	2,850,000	—	750,000	—	2,100,000	19/06/2003	01/07/2004 — 18/06/2013	1.08	2.85	
	3,090,000	—	160,000	—	2,930,000	28/05/2004	01/01/2005 — 27/05/2014	2.40	2.87	
	850,000	—	—	50,000	800,000	28/05/2004	01/01/2006 — 27/05/2014	2.40	—	
	850,000	—	—	50,000	800,000	28/05/2004	01/01/2007 — 27/05/2014	2.40	—	
	—	400,000	—	—	400,000	17/08/2005	17/08/2005 — 16/08/2015	3.09	—	
	—	1,000,000	—	—	1,000,000	17/08/2005	01/09/2005 — 16/08/2015	3.09	—	
	—	400,000	—	—	400,000	17/08/2005	17/08/2006 — 16/08/2015	3.09	—	
	—	1,400,000	—	—	1,400,000	17/08/2005	01/09/2006 — 16/08/2015	3.09	—	
	—	400,000	—	—	400,000	17/08/2005	17/08/2007 — 16/08/2015	3.09	—	

## Management Discussion and Analysis

Name or Category of participant	Number of Shares in respect of Options				Outstanding as at 31 December 2005 (Note 1)	Date of grant	Exercisable period	Exercise price per share HK\$	Weighted average closing price (Note 2) HK\$
	Balance as at 1 July 2005	Granted during the period	Exercised during the period	Lapsed during the period					
<b>Employees:</b>									
<i>In aggregate</i>	—	1,400,000	—	—	1,400,000	17/08/2005	01/09/2007 — 16/08/2015	3.09	—
	—	400,000	—	—	400,000	17/08/2005	17/08/2008 — 16/08/2015	3.09	—
	—	1,400,000	—	—	1,400,000	17/08/2005	01/09/2008 — 16/08/2015	3.09	—
	—	400,000	—	—	400,000	17/08/2005	17/08/2009 — 16/08/2015	3.09	—
	—	1,400,000	—	—	1,400,000	17/08/2005	01/09/2009 — 16/08/2015	3.09	—
	—	1,400,000	—	—	1,400,000	17/08/2005	01/09/2010 — 16/08/2015	3.09	—
	—	1,552,000	40,000	—	1,512,000	01/11/2005	01/11/2005 — 31/10/2015	2.95	3.03
	—	1,552,000	—	—	1,552,000	01/11/2005	01/11/2006 — 31/10/2015	2.95	—
	—	1,552,000	—	—	1,552,000	01/11/2005	01/11/2007 — 31/10/2015	2.95	—
	—	1,552,000	—	—	1,552,000	01/11/2005	01/11/2008 — 31/10/2015	2.95	—
	—	1,552,000	—	—	1,552,000	01/11/2005	01/11/2009 — 31/10/2015	2.95	—
Total	<u>86,904,850</u>	<u>32,760,000</u>	<u>1,150,000</u>	<u>100,000</u>	<u>118,414,850</u>				

## Notes:

1. No option has been cancelled during the six months ended 31 December 2005.
2. This represents weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised. A total of 1,150,000 options were exercised during the six months ended 31 December 2005, the weighted average closing price of the share immediately before the dates on which the options were exercised was approximately HK\$2.91.
3. The closing prices immediately before the date of options granted 17 August 2005, 1 November 2005 and 4 November 2005 were HK\$3.125, HK\$2.925 and HK\$3.000 respectively.
4. The above options granted are recognised as expenses in the accounts in accordance with the Company's accounting policy as set out in note 1(c) to the condensed financial report.

The fair values of the options granted are estimated using the Binomial Option Pricing Model. Other details, including the significant assumptions used and the measurement date, for the computation of the fair values of options are set out in note 18 to the condensed financial report.

The Binomial Option Pricing Model required input of subjective assumptions such as the expected stock price volatility. Change in the subjective input may materially affect the fair value estimates.

## Management Discussion and Analysis

### INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 31 December 2005 (2004: Nil).

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 31 December 2005.

### AUDIT COMMITTEE

The Audit Committee presently comprises three Independent Non-executive Directors, namely, Mr. Tam Ching Ho (as Chairman), Mr. Fung Chi Kin and Ms. Luan Yue Wen. The Audit Committee has reviewed with the Company's management, the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim financial statements of the Group for the six months ended 31 December 2005.

The Audit Committee meets at least twice each year to review the completeness, accuracy and fairness of the Group's financial statements and to consider the nature and scope of external audit reviews. It also assesses the effectiveness of the systems of internal control. Internal control systems have been designed to allow the Board of Directors to monitor the Company's overall financial position and to protect its assets. The purpose is to guard against material financial misstatement or loss. For the meetings of the Audit Committee during the six months ended 31 December 2005, the external auditors, the chief financial officer and the executive directors in charge of finance matters and operations of the Group attended the meetings to answer questions on the reports or their work.

### REMUNERATION COMMITTEE

The Board of the Company has established a remuneration committee. The remuneration committee, currently comprising independent non-executive directors, namely, Mr. Fung Chi Kin (as Chairman), Ms. Luan Yue Wen, and Mr. Tam Ching Ho and an executive director Mr. Chen Jun Hua, is responsible for advising the Board on the remuneration policy and framework of the Company's directors and senior management, as well as review and determine the remuneration packages of directors and senior management with reference to the Company's objectives from time to time.

### CODE OF CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has complied with the applicable code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules ("CG Code") throughout the six months ended 31 December 2005, except for the following deviations:

Under code provision A.2.1 of the CG Code, the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. Taking into account the continuation in the implementation of business plans, the Board considers that the present arrangement for the Chairman to hold the office of Chief Executive Officer is beneficial to the Company and the shareholders as a whole.

## Management Discussion and Analysis

Under code provision A.4.2 of the CG Code, every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. However, according to the Articles of Association of the Company under certain circumstances, every Director may not retire after a duration of three years. As such, the existing Articles of Association of the Company are not in full compliance with the CG Code. The Directors will review in current year the relevant Articles and propose any amendment, if necessary, to ensure compliance of the CG Code.

Under code provision B.1.4 of the CG Code, the terms of reference of Remuneration Committee are required to be made available on request and included on the issuer's website. The terms of references of Remuneration Committee of the Company are available on request and will be posted to the Company's website.

Under code provision C.3.4 of the CG Code, the terms of reference of Audit Committee are required to be made available on request and included on the issuer's website. The present terms of reference of the Audit Committee are currently under review and have yet to be posted to the Company's website.

The Group endeavours to maintain a high corporate governance level and to enhance its transparency. The Group decides to strengthen communications with its shareholders and investors so as to ensure every major decision making will be accountable to the shareholders and will be in the interest of all shareholders.

### MODEL CODE

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules. Upon enquiry by the Company, all of the Directors have confirmed that they have complied with the standards set out in the Model Code during the six months ended 31 December 2005.

On behalf of the Board

**Kwok Ho**  
*Chairman*

Hong Kong, 24 March 2006