

BUSINESS REVIEW

Financial Review

For the six months ended 31 December 2006, Chaoda has achieved remarkable growth and financial results. Sales of crops has increased in volume from 510,907 tonnes to 688,213 tonnes, an increase of 35% as compared with the same period last year. Turnover and gross profit of the Group for the period amounted to approximately RMB1,696,583,000 and RMB1,130,765,000 respectively, representing an increase of 32% and 31% as compared with the same period last year.

For the current period ended 31 December 2006, profit attributable to shareholders amounted to RMB581,445,000 as a result of the loss arising from changes in fair value of biological assets and convertible bonds of RMB77,869,000 and RMB101,504,000 respectively. The Group's profit attributable to shareholders increased to RMB760,818,000 if these two non-cashflow items are excluded, represented an increase of 35% as compared with the same period of last year.

Operating expenses, consisting of selling and distribution expenses and general and administration expenses, have been controlled and maintained at a stable percentage of turnover. Selling and distribution expenses and general and administrative expenses for the six months ended 31 December 2006 were approximately 10% and 7% of turnover respectively, as compared with the same period last year of 10% and 6% respectively.

Production Bases

Production land areas (excluding citrus farms owned by associates and mountain area) held by the Group in the PRC increased from 219,656 mu (14,644 hectares) as at 31 December 2005 to 314,556 mu (20,970 hectares) as at 31 December 2006, representing an increase of 43%. It also represented an increase of 13% as compared with 278,056 mu (18,537 hectares) as at 30 June 2006.

The weighted average production area for vegetables increased from 181,611 mu (12,107 hectares) as at 31 December 2005 to 257,011 mu (17,134 hectares) as at the same period in 2006, representing an increase of 42%. It also represented an increase of 27% as compared with 202,269 mu (13,485 hectares) as at 30 June 2006. The Group had, in total, operated 29 production bases in 14 different provinces and cities in the PRC.

Sales Performance

Sales of crops for the six months ended 31 December 2006 accounted for 99% of total turnover, while sales of livestock accounted for 1%. Except that the supermarket chain operation has been reorganized and carried out by an associated company, there had not been any material change to the sales mix by product.

Domestic sales of crops represented 70% for the six months ended 31 December 2006 of which about 6% of the sales was made to institutional buyers. Export sales of crops took up the remaining 30%. 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 67%, a slight decrease as compared with the same period last year of 69%. The overall gross profit margin of the Group maintained at its high level of 67%, same as last year.

Other Operating Data

For the six months ended 31 December 2006, 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 1.77 tonnes as compared with the same period last year of 2.59 tonnes and 1.79 tonnes respectively. The average sales unit price per kg was RMB2.44 as compared with the same period last year of RMB2.41. There had not been any material change in other operating data during the period under review.

STAFF AND REMUNERATION POLICIES

As at 31 December 2006, the Group employed approximately 16,090 employees, out of which 14,635 were workers on the Group's farmlands. Employees' salaries are determined at a competitive level. The remuneration package of the employees is determined by reference to their respective positions, duties and responsibilities in the Group. Such package includes basic salaries, discretionary bonus and share options. Other employees' benefits including pensions, insurance, education subsidies and training programmes.

PROSPECTS

In 2006, China's total vegetable production area was 18.18 million hectares, up 0.46 million hectares or 2.6% from last year. The annual vegetable yield was 582.33 million tons, up 3.2% from last year. The general price level of vegetables was slightly higher than in 2005 with normal seasonality. Vegetable exports recorded steady growth both in quantity and sales value. Customs statistics show that exports of raw and processed vegetables in 2006 totaled 7.32 million tons, up 7.7% over the preceding year, and sales totaled US\$5.42 billion, up 21% over the preceding year. Japan remained a primary destination of vegetable exports with the volume decreased by 2.2% year-on-year, while exports to other countries such as ASEAN countries, the United States, South Korea and Russia increased rapidly.

Chinese government stepped up support for agriculture and increased government spendings significantly. In January 2007, the government issued 'Opinions of the State Council on the Development of Modern Agriculture and New Socialist Countryside'. This is the fourth consecutive year in which the government issued the annual 'No. 1 document' on agriculture related issues since year 2004. It is the first time the government stated that building a modern agriculture is the primary task in the development of a new socialist countryside. Modern agriculture differs from traditional and state-planned agriculture, as it is based on a market economy and a modern industrialized system that integrates technology, production, management and distribution.

The legal, market and social environments of the agricultural industry are improving continuously. The "Law on Quality and Safety of Agricultural Products" was introduced and became effective in November 2006. It provides a legal framework for the quality and safety issues of agriculture products and protects consumers' rights and interests. The Law will change the emphasis from quantity to quality and help make Chinese products more competitive globally.

We believe China's agriculture industry is at a stage of development and consolidation. The government will support agricultural enterprises to lead the development of the industry, and help increase the income of farmers. The fragmented industry operated by small individual farmers will gradually develop into a modernized industry represented by corporations. As a national leading agricultural enterprise, Chaoda will seize the opportunity and further develop its business model of "Corporate + Bases + Farmers". Chaoda will continue to expand its production bases mainly in Northeast China, North China, Yangtze River area and South China, and develop complementary production bases in other areas with regard to product varieties, seasonality, and markets. The Group will continue to grow its core vegetable and fruit business and prudently develop other businesses such as livestock, forestry, food processing and trading together with the leasing of grassland and forestry land in order to achieve sustained growth.

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

Quality of agriculture products and food safety are arising issues worldwide. Quality control is essential to the protection of consumers' interests. Since its establishment, Chaoda has defined its business philosophy around ecological farming and product quality. The group has built a quality control system from production to distribution. Chaoda is widely acclaimed for its product quality and has won numerous honors from the government and the industry. The Group endeavors to maintain a strong public image and reputation.

POLICIES AND PERFORMANCE ON COMMUNITY, SOCIAL, ETHICAL AND REPUTATIONAL ISSUES *(Continued)*

Chaoda's business model can effectively enhance the farmers' planting skills so they become professionals with high productivity. As a result, their income and living standards have improved considerably. Chaoda has named January as The Month of Farmers and makes significant efforts to help farmers. As an industry leader, Chaoda takes its social responsibility highly seriously and maintains good relations with farmers.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2006, the Group had cash and bank balances amounting to RMB1,875,678,000. Ample cash balances were maintained for future development. The Group's debt to equity was 0.41:1. Its current ratio was 22 times, reflecting sufficient financial resources.

As at 31 December 2006, outstanding capital commitments, contracted but not provided for, in respect of the purchase of property, plant and equipment, research and development expenditures as well as premium payment for land leases, amounted to RMB116,471,000. As at 31 December 2006, the Group did not have any material contingent liabilities.

During the period under review, no convertible bonds were converted into shares of the Company.

REMUNERATION POLICIES

Remuneration Policy for Employees

As at 31 December 2006, the Group employed approximately 16,090 employees, out of which 14,635 were workers on the Group's farmlands. Employees' salaries are determined at a competitive level. The remuneration package of the employees is determined by reference to their respective positions, duties and responsibilities in the Group. Such package includes basic salaries, discretionary bonus and share options. Other employees' benefits include pension, 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 options. The Remuneration Committee is authorized by the Board to make their proposals relating to the remuneration of executive directors. The Group does not have 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 the non-executive directors. Reimbursement is allowed for out-of-pocket expenses incurred by the non-executive directors in course of performing their duties.

CHARGE ON ASSET

As at 31 December 2006, a corporate guarantee of one of the subsidiaries of the Group was executed as the security for a total of banking facilities amounted to RMB46,000,000.

CHARGE ON ASSET *(Continued)*

Shares of certain subsidiaries of the Group were pledged for the issuance of the following debt securities:

1. US\$225,000,000 7.75% guaranteed senior notes due on 8 February 2010; and
2. HK\$1,344,000,000 zero coupon convertible bonds due on 8 May 2011.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 31 December 2006, 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 otherwise as 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 Issuers (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	Personal interests	Number of shares held			Total	Approximate percentage of issued share capital recorded in the register
		Family interests	Corporate interests			
Mr. Kwok Ho	—	—	729,748,000 <i>(Note)</i>	729,748,000	30.83%	
Mr. Chan Chi Po, Andy	401,500	—	—	401,500	0.02%	

Note: Held through Kailey Investment Ltd. which is wholly-owned by Mr. Kwok Ho.

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 outstanding share options as at 31 December 2006
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	17/08/2007 — 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
			04/11/2009 — 03/11/2015	400,000

MANAGEMENT DISCUSSION AND ANALYSIS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES (Continued) Long Positions in Underlying Shares of the Company (Continued)

Share Options in the Company (Continued)

Name of director	Date of grant	Exercise price HK\$	Exercisable period	Number of outstanding share options as at 31 December 2006
Ms. Wong Hip Ying	28/01/2003	1.58	01/07/2003 — 27/01/2013	575,000
	19/06/2003	1.08	01/07/2003 — 18/06/2013	1,100,000
	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			
Mr. Fong Jao	28/01/2003	1.58	01/07/2003 — 27/01/2013	1,600,000
	19/06/2003	1.08	01/07/2003 — 18/06/2013	1,600,000
	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			
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	17/08/2005	3.09	17/08/2005 — 16/08/2015	300,000
			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 2006, according to the register maintained by the Company in accordance with Section 336 of the SFO, the following parties (other than the directors and chief executives of the Company) were, directly or indirectly, beneficially interested in 5% or more of the issued share capital and underlying shares of the Company:

Name	Capacity	Number of shares held (Note 1)	Approximate percentage of issued share capital recorded in the register
Kailey Investment Ltd. (Note 2)	Beneficial owner	729,748,000 (L)	30.83%
Janus Capital Management LLC	Investment manager	190,604,000 (L)	8.05%
UBS AG (Notes 3 to 6)	Investment manager	166,589,604 (L) 126,751,422 (S)	7.04% 5.35%
State Street Corporation (Note 7)	Controlled corporation	242,998,289 (P)	10.27%

Notes:

- The letter "L" denotes a party's long position in such securities while the letter "S" denotes a party's short position in such securities and the letter "P" denotes a party's lending pool interest.
- Kailey Investment Ltd. is a company incorporated in the British Virgin Islands with limited liability which is legally, beneficially and wholly owned by Mr. Kwok Ho.
- UBS AG was the beneficial owner of 151,992,504 (L) and 110,049,422 (S) shares.
- UBS AG was deemed to have the following interests held through its wholly-owned subsidiaries set out below:

Name	Number of shares held
UBS Securities LLC	9,674,000 (L) 9,674,000 (S)
UBS Fund Management (Switzerland) AG	2,120,000 (L)
UBS Fund Services (Luxembourg) SA	2,536,000 (L)
UBS Global Asset Management Life Limited	267,100 (L)

- UBS AG had a security interest in 7,028,000 (S) shares.
- UBS AG derived part of its interest in shares from equity derivatives: 34,600,730 (L) (listed derivatives), 47,846,892 (L) (unlisted derivatives) and 47,846,890 (S) (unlisted derivatives).
- 242,998,289 shares were under a lending pool held by State Street Bank & Trust Company, a wholly-owned subsidiary of State Street Corporation.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than those as disclosed under the headings of "Directors' and Chief Executives' Interests in Securities" above and "Share Option Scheme" below, at no time during the period, the Company or any of its subsidiaries, its holding company, or any of its fellow subsidiaries, was 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 by the Company on 19 June 2002 and the maximum number of share options to be granted under the Scheme represented 10% of the issued share capital of the Company at the date of adoption ("the Scheme Mandate"). The Scheme Mandate was refreshed pursuant to a resolution passed at the extraordinary general meeting of the Company held on 14 February 2006. Principal terms of the Scheme have been set out in the 2005/2006 Annual Report.

During the six months period ended 31 December 2006, 120 million share options were granted to the relevant participants in accordance with the Scheme. As at 31 December 2006, 229,270,850 share options granted under the Scheme remained unexercised and outstanding.

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

Name or category of participant	Balance as at 1 July 2006	Number of share options			Date of grant	Exercisable period	Exercise price per share	Weighted average closing price
		Granted during the period	Exercised during the period	Outstanding as at 31 December 2006				
		(Notes 1 & 2)	(Note 3)	(Note 4)			HK\$	HK\$
Directors:								
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	17/08/2006 — 16/08/2015	3.09	4.78
	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

SHARE OPTION SCHEME (Continued)

Name or category of participant	Balance as at 1 July 2006	Number of share options			Date of grant	Exercisable period	Exercise price per share	Weighted average closing price
		Granted during the period (Notes 1 & 2)	Exercised during the period (Note 3)	Outstanding as at 31 December 2006 (Note 4)				
<i>Directors: (Continued)</i>								
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	—
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	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	—
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	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

SHARE OPTION SCHEME (Continued)

Name or category of participant	Balance as at 1 July 2006	Number of share options		Outstanding as at 31 December 2006 (Note 4)	Date of grant	Exercisable period	Exercise price per share HK\$	Weighted average closing price (Note 5) HK\$
		Granted during the period (Notes 1 & 2)	Exercised during the period (Note 3)					
<i>Directors: (Continued)</i>								
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	—
Chan Chi Po, Andy	500,000	—	500,000	—	28/05/2004	01/07/2005 — 27/05/2014	2.40	4.56
	500,000	—	500,000	—	28/05/2004	01/07/2006 — 27/05/2014	2.40	4.82
	600,000	—	300,000	300,000	17/08/2005	17/08/2005 — 16/08/2015	3.09	5.00
	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

SHARE OPTION SCHEME (Continued)

Name or category of participant	Balance as at 1 July 2006	Number of share options			Date of grant	Exercisable period	Exercise price per share	Weighted average closing price
		Granted during the period (Notes 1 & 2)	Exercised during the period (Note 3)	Outstanding as at 31 December 2006 (Note 4)				
Employees:								
<i>In aggregate</i>	4,324,950	—	—	4,324,950	19/06/2003	01/07/2003 — 18/06/2013	1.08	—
	2,100,000	—	2,100,000	—	19/06/2003	01/07/2004 — 18/06/2013	1.08	4.76
	2,830,000	—	160,000	2,670,000	28/05/2004	01/01/2005 — 27/05/2014	2.40	4.67
	550,000	—	—	550,000	28/05/2004	01/01/2006 — 27/05/2014	2.40	—
	800,000	—	—	800,000	28/05/2004	01/01/2007 — 27/05/2014	2.40	—
	290,000	—	90,000	200,000	17/08/2005	17/08/2005 — 16/08/2015	3.09	4.70
	400,000	—	200,000	200,000	17/08/2005	17/08/2006 — 16/08/2015	3.09	4.71
	1,400,000	—	1,400,000	—	17/08/2005	01/09/2006 — 16/08/2015	3.09	4.67
	400,000	—	—	400,000	17/08/2005	17/08/2007 — 16/08/2015	3.09	—
	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	—
	1,440,000	—	200,000	1,240,000	01/11/2005	01/11/2005 — 31/10/2015	2.95	5.01
	1,552,000	—	312,000	1,240,000	01/11/2005	01/11/2006 — 31/10/2015	2.95	4.89
	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	—

SHARE OPTION SCHEME (Continued)

Name or category of participant	Number of share options			Outstanding as at 31 December 2006 (Note 4)	Date of grant	Exercisable period	Exercise price per share HK\$	Weighted average closing price (Note 5) HK\$
	Balance as at 1 July 2006	Granted during the period (Notes 1 & 2)	Exercised during the period (Note 3)					
<i>Employees: (Continued)</i>								
<i>In aggregate (Continued)</i>								
	—	24,000,000	—	24,000,000	31/08/2006	01/04/2007 — 30/08/2016	4.04	—
	—	24,000,000	—	24,000,000	31/08/2006	01/04/2008 — 30/08/2016	4.04	—
	—	24,000,000	—	24,000,000	31/08/2006	01/04/2009 — 30/08/2016	4.04	—
	—	24,000,000	—	24,000,000	31/08/2006	01/04/2010 — 30/08/2016	4.04	—
	—	24,000,000	—	24,000,000	31/08/2006	01/04/2011 — 30/08/2016	4.04	—
Total	115,632,850	120,000,000	6,362,000	229,270,850				

Notes:

1. The closing price immediately before the date of share options granted on 31 August 2006 was HK\$3.99.
2. The above share options granted are recognised as expenses in the accounts in accordance with the Company's accounting policy. The fair values of the options granted are estimated using the Binomial Option Pricing Model. 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.
3. A total of 700,000 share options were exercised by the option holders in December 2006, but the same number of shares were allotted to them in January 2007.
4. No share options have been cancelled or lapsed during the six months ended 31 December 2006.
5. This represents weighted average closing price of the shares of the Company immediately before the dates on which the share options were exercised. A total of 6,362,000 share options were exercised during the six months ended 31 December 2006, the weighted average closing price of the shares immediately before the dates on which the share options were exercised was approximately HK\$4.7527.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 31 December 2006 (2005: Nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's listed securities during the six months ended 31 December 2006.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors, namely, Mr. Tam Ching Ho (as Chairman), Mr. Fung Chi Kin and Ms. Luan Yue Wen. The unaudited interim financial statements of the Group for the six months ended 31 December 2006 has been reviewed by the Audit Committee together with the independent certified public accountants. The Audit Committee has also reviewed with the Company's management, the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters.

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 throughout the six months ended 31 December 2006, except for the deviations described below:

Under code provision A.2.1, the roles of chairman and chief executive officer should be separate. Taking into account of the necessity to continue the implementation of business plans, the Board considers that the present arrangement for the chairman to hold the office of the chief executive officer is beneficial to the Company and the shareholders as a whole. The chairman has definite responsibility to provide the whole Board with all information related to the discharge of the Board's duties. The Company continuously enhances the communication with the directors in terms of quality and timeliness.

Under code provision B.1.4, the Company should include the terms of reference of the Remuneration Committee on its website. The terms of reference of the Remuneration Committee are made available upon request and will be posted on the website of the Company.

Under code provision C.3.4, the Audit Committee should make available its terms of reference. The terms of reference of the Audit Committee are under review in accordance with code provisions. Once the review is completed, the terms of reference will be posted on the website of the Company.

Under code provision E.1.2, the chairman should attend the annual general meeting. Due to other business engagement, Mr. Kwok Ho, the Chairman, was not able to attend the annual general meeting of the Company held on 28 November 2006.

The Company endeavours to maintain a high corporate governance level and to enhance its transparency. The Company decides to strengthen communications with its shareholders and investors so as to ensure every major decision 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 2006.

On behalf of the Board

Kwok Ho
Chairman

Hong Kong, 22 March 2007