



CHAODA MODERN AGRICULTURE (HOLDINGS) LIMITED

(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 682)



2006/2007
INTERIM REPORT

HIGHLIGHTS

Turnover increased by 32% to RMB 1,696,583,000.

Gross Profit increased by 31% to RMB1,130,765,000.

Profit attributable to shareholders (excluding changes in fair value of biological assets and convertible bonds) increased by 35% to RMB760,818,000.

Profit attributable to shareholders amounted to RMB581,445,000.

The board of directors (the "Board") of Chaoda Modern Agriculture (Holdings) Limited (the "Company" or "Chaoda") is pleased to present the interim report for the six months ended 31 December 2006 of the Company and its subsidiaries (collectively the "Group"). The consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity of the Group for the six months ended 31 December 2006 and the consolidated balance sheet of the Group as at 31 December 2006, along with selected explanatory notes, are unaudited and condensed and have been reviewed by the Company's Audit Committee and the independent certified public accountants.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31 December 2006 — Unaudited

	Notes	Six months ended 31 December	
		2006 RMB'000	2005 RMB'000
Turnover	3	1,696,583	1,286,230
Cost of sales		(565,818)	(422,525)
Gross profit		1,130,765	863,705
Other revenues		49,050	71,822
(Loss)/Gain arising from changes in fair value less estimated point-of-sale costs of biological assets	11	(77,869)	18,831
Selling and distribution expenses		(177,989)	(128,283)
General and administrative expenses		(119,601)	(77,176)
Research expenses		(28,638)	(23,902)
Other operating expenses		(63,936)	(46,426)
Profit from operations		711,782	678,571
Finance costs	5(a)	(72,631)	(83,717)
Share of net profit of associates		43,501	20,401
Change in fair value of convertible bonds	19	(101,504)	—
Loss on deemed disposal of interest in associates		—	(33,881)
Profit before income tax	5	581,148	581,374
Income tax	6	(160)	(25)
Profit for the period		580,988	581,349
Profit attributable to:			
Equity shareholders of the Company		581,445	581,326
Minority interests		(457)	23
Profit for the period		580,988	581,349
Dividends	7	268,834	262,364
Earnings per share for profit attributable to equity shareholders of the Company during the period			
— Basic	8(a)	RMB0.25	RMB0.25
— Diluted	8(b)	RMB0.24	RMB0.24

CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 December 2006 — Unaudited

	Notes	31 December 2006 RMB'000	30 June 2006 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	9	2,641,144	2,243,719
Construction-in-progress		694,112	770,971
Prepaid premium for land leases	10	3,000,024	2,653,230
Biological assets	11	723,965	431,706
Deferred development costs		72,696	70,288
Deferred expenditure		147,020	138,817
Other long-term deposits		3,500	3,500
Interest in associates	12	626,349	593,797
Available-for-sale investments	13	423,870	—
		8,332,680	6,906,028
Current assets			
Prepaid premium for land leases	10	68,978	90,603
Biological assets	11	325,741	452,587
Inventories		19,811	26,637
Accounts receivable	14	126,617	96,613
Other receivables, deposits and prepayments		378,416	241,783
Cash and cash equivalents		1,875,678	2,613,723
		2,795,241	3,521,946
Current liabilities			
Amounts due to a related company	15	18,073	37,389
Accounts and bills payable	16	8,047	10,845
Other payables and accrued charges		88,146	117,080
Bank loans — secured	17	10,000	10,000
		124,266	175,314
Net current assets		2,670,975	3,346,632
Total assets less current liabilities		11,003,655	10,252,660
Non-current liabilities			
Guaranteed senior notes	18	1,735,295	1,794,501
Convertible bonds	19	1,443,745	1,389,455
		3,179,040	3,183,956
Net assets		7,824,615	7,068,704
CAPITAL AND RESERVES			
Capital and reserves attributable to the equity shareholders of the Company			
Share capital	20	251,635	251,071
Reserves		7,568,934	6,813,130
		7,820,569	7,064,201
Minority interests		4,046	4,503
Total equity		7,824,615	7,068,704

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 December 2006 — Unaudited

	Six months ended 31 December	
	2006	2005
	RMB'000	RMB'000
Net cash inflow from operating activities	459,116	465,929
Net cash used in investing activities	(1,172,908)	(937,368)
Net cash generated from/(used in) financing activities	19,143	(38,340)
Net decrease in cash and cash equivalents	(694,649)	(509,779)
Cash and cash equivalents at the beginning of the period	2,613,723	1,948,971
Changes in exchange rates	(43,396)	11,307
Cash and cash equivalents at the end of the period	1,875,678	1,450,499

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2006 — Unaudited

	Attributable to the equity shareholders of the Company												
	Share capital	Share premium	Capital reserve	Employee share based compensation reserve	Capital redemption reserve	Investment revaluation reserve	Exchange reserve	Statutory common reserve	Statutory welfare reserve	Retained profits	Total	Minority interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the six months ended													
31 December 2005													
At 1 July 2005	250,665	1,945,730	94,894	74,661	723	—	—	286,732	1,617	3,123,814	5,778,836	4,798	5,783,634
Net income recognized directly in equity													
— Currency translation differences	—	—	—	—	—	—	11,307	—	—	—	11,307	—	11,307
Profit for the period	—	—	—	—	—	—	—	—	—	581,326	581,326	23	581,349
Total recognized income and expenses for the period	—	—	—	—	—	—	11,307	—	—	581,326	592,633	23	592,656
Effect of adoption of HKFRS 3	—	—	—	—	—	—	—	—	—	130,173	130,173	—	130,173
New shares exercised and issued under share option scheme	120	2,323	—	(839)	—	—	—	—	—	—	1,604	—	1,604
Employee share option benefits	—	—	—	17,017	—	—	—	—	—	—	17,017	—	17,017
2004/2005 final dividends paid	—	—	—	—	—	—	—	—	—	(262,364)	(262,364)	—	(262,364)
Appropriations	—	—	—	—	—	—	—	69,058	591	(69,649)	—	—	—
At 31 December 2005	250,785	1,948,053	94,894	90,839	723	—	11,307	355,790	2,208	3,503,300	6,257,899	4,821	6,262,720

For the six months ended													
31 December 2006													
At 1 July 2006	251,071	1,958,794	94,894	98,756	723	—	21,756	432,495	2,403	4,203,309	7,064,201	4,503	7,068,704
Currency translation differences	—	—	—	—	—	—	65,580	—	—	—	65,580	—	65,580
Gain arising from change in fair value of available-for-sale investments	—	—	—	—	—	304,470	—	—	—	—	304,470	—	304,470
Net income recognized directly in equity	—	—	—	—	—	304,470	65,580	—	—	—	370,050	—	370,050
Profit for the period	—	—	—	—	—	—	—	—	—	581,445	581,445	(457)	580,988
Total recognized income and expenses for the period	—	—	—	—	—	304,470	65,580	—	—	581,445	951,495	(457)	951,038
New shares exercised and issued under share option scheme	564	18,579	—	(6,760)	—	—	—	—	—	—	12,383	—	12,383
Employee share option benefits	—	—	—	61,324	—	—	—	—	—	—	61,324	—	61,324
2005/2006 final dividends paid	—	—	—	—	—	—	—	—	—	(268,834)	(268,834)	—	(268,834)
Appropriations	—	—	—	—	—	—	—	90,698	491	(91,189)	—	—	—
At 31 December 2006	251,635	1,977,373	94,894	153,320	723	304,470	87,336	523,193	2,894	4,424,731	7,820,569	4,046	7,824,615

1. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements (the “Interim Financial Statements”) have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure provisions in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The Interim Financial Statements should be read in conjunction with the annual financial statements of the Company for the year ended 30 June 2006 (the “2006 Annual Financial Statements”).

2. PRINCIPAL ACCOUNTING POLICIES

The accounting policies and methods of computation used in the preparation of the Interim Financial Statements are consistent with those used in the 2006 Annual Financial Statements.

The following new standards, amendments to standards and interpretations are relevant to the Group’s operations and are applicable for the year ending 30 June 2007:

HKAS 19 (Amendment)	Employee Benefits — Actuarial Gains and Losses, Group Plans and Disclosures ¹
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates — Net Investment in a Foreign Operation ¹
HKAS 27 & HKFRS 3 (Amendment)	Consolidation and Separate Financial Statements and Business Combinations — Definition of Subsidiary (and appendix to HKAS 1, Presentation of Financial Statements) ¹
HK(IFRIC) — Int 8	Scope of HKFRS 2 ²
HK(IFRIC) — Int 9	Reassessment of Embedded Derivatives ³

¹ Effective for annual periods beginning on or after 1 January 2006

² Effective for annual periods beginning on or after 1 May 2006

³ Effective for annual periods beginning on or after 1 June 2006

The above mentioned new standards, amendments to standards and interpretations have no material impact on the Group’s financial statements.

The Group has not early adopted the following standards or interpretations relevant to its operations that have been issued but are not yet effective. The directors of the Company anticipate that the adoption of such standards and interpretations will not result in substantial changes to the Group’s accounting policies.

HKAS 1 (Amendment)	Presentation of Financial Statements — Capital Disclosures ¹
HKFRS 7	Financial Instruments — Disclosures ¹
HKFRS 8	Operating Segments ⁴
HK(IFRIC) — Int 10	Interim Financial Reporting and Impairment ²
HK(IFRIC) — Int 11	HKFRS 2 — Group and Treasury Share Transactions ³
HK(IFRIC) — Int 12	Service Concession Arrangements ⁵

¹ Effective for annual periods beginning on or after 1 January 2007

² Effective for annual periods beginning on or after 1 November 2006

³ Effective for annual periods beginning on or after 1 March 2007

⁴ Effective for annual periods beginning on or after 1 January 2009

⁵ Effective for annual periods beginning on or after 1 January 2008

NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

3. TURNOVER

The principal activities of the Group are the growing and sales of crops, and breeding and sales of livestock. The supermarket business operated by a subsidiary has been ceased during the year ended 30 June 2006.

Turnover represents the sales value of goods supplied to customers. The amount of each significant category of revenue recognized in turnover during the period is as follows:

	Six months ended 31 December	
	2006 RMB'000	2005 RMB'000
Sales of crops	1,676,170	1,233,194
Sales of livestock	20,413	19,340
Supermarket chain operation	—	33,696
	1,696,583	1,286,230

4. SEGMENT INFORMATION

Analysis of business segment result for the six months ended 31 December 2006.

	Six months ended 31 December 2006		
	Growing and sales of crops RMB'000	Breeding and sales of livestock RMB'000	Total RMB'000
Sales to external customers	1,676,170	20,413	1,696,583
Cost of sales	(554,462)	(11,356)	(565,818)
Segment results	1,121,708	9,057	1,130,765
Unallocated items:			
Other revenues			49,050
Loss arising from changes in fair value less estimated point-of-sale costs of biological assets			(77,869)
Selling and distribution expenses			(177,989)
General and administrative expenses			(119,601)
Research expenses			(28,638)
Other operating expenses			(63,936)
Profit from operations			711,782
Finance costs			(72,631)
Share of net profit of associates			43,501
Change in fair value of convertible bonds			(101,504)
Profit before income tax			581,148
Income tax			(160)
Profit for the period			580,988

NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

4. SEGMENT INFORMATION (Continued)

Analysis of business segment result for the six months ended 31 December 2005.

	Six months ended 31 December 2005				Total RMB'000
	Growing and sales of crops RMB'000	Breeding and sales of livestock RMB'000	Supermarket chain operation RMB'000	Inter- segment elimination RMB'000	
Sales to external customers	1,233,194	19,340	33,696	—	1,286,230
Inter-segment sales	2,555	—	—	(2,555)	—
Cost of sales	(387,967)	(6,764)	(30,349)	2,555	(422,525)
Segment results	847,782	12,576	3,347	—	863,705
Unallocated items:					
Other revenues					71,822
Gain arising from changes in fair value less estimated point-of-sale costs of biological assets					18,831
Selling and distribution expenses					(128,283)
General and administrative expenses					(77,176)
Research expenses					(23,902)
Other operating expenses					(46,426)
Profit from operations					678,571
Finance costs					(83,717)
Share of net profit of associates					20,401
Loss on deemed disposal of interest in associates					(33,881)
Profit before income tax					581,374
Income tax					(25)
Profit for the period					<u>581,349</u>

Inter-segment revenue represented the sales of fruits and vegetables from the crops segment to the supermarket segment. Sales between business segments are accounted for at competitive market prices charged to unaffiliated customers for similar goods.

Growing and sales of crops is the Group's primary business segment. The turnover, operating profit and total assets attributable to this business segment accounted for over 90% of the Group's consolidated totals for the six months ended 31 December 2006 and 2005.

The Group's operations are primarily in the People's Republic of China (the "PRC") and the Group's sales, gross profit and total assets attributable to other geographical areas are less than 5% of the Group's corresponding consolidated totals for the six months ended 31 December 2006 and 2005. Consequently, no segment information by geographical area is presented.

NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

5. PROFIT BEFORE INCOME TAX

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

(a) Finance costs

	Six months ended 31 December	
	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on the guaranteed senior notes issued	66,914	72,298
Bank and finance charges	5,515	11,020
Interest on bank loans wholly repayable within five years	202	399
	<u>72,631</u>	<u>83,717</u>

(b) Staff costs

	Six months ended 31 December	
	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, wages and other benefits	161,816	110,058
Employee share option benefits	61,324	17,017
Retirement benefits costs	1,334	802
	<u>224,474</u>	<u>127,877</u>

(c) Other items

	Six months ended 31 December	
	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Interest income	(30,380)	(22,287)
Investment income	(3,213)	(37,628)
Amortization of deferred development costs	5,363	6,050
Amortization of prepaid premium for land leases, net of amount capitalized	28,597	17,311
Amortization of deferred expenditure, net of amount capitalized	17,904	9,035
Bad debts written (back)/off	(186)	3,743
Cost of inventories sold	565,818	422,525
Depreciation of property, plant and equipment, net of amount capitalized	68,255	60,932
Exchange loss, net	2,851	5,111
Operating lease expenses		
— land and buildings	57,809	37,779
— motor vehicles	51	51
Loss/(Gain) on disposals of property, plant and equipment	4,613	(31)
Share of associates' income tax	6,313	3,866
	<u>6,313</u>	<u>3,866</u>

NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

6. INCOME TAX

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

	Notes	Six months ended 31 December	
		2006 RMB'000	2005 RMB'000
Current tax			
— PRC income tax	(a)	160	25
— Hong Kong profits tax	(b)	—	—
		160	25

- (a) Fuzhou Chaoda Modern Agriculture Development Company Limited, the Group's principal subsidiary, was awarded as "State-Level Agricultural Leading Enterprise" of the nation by the central government of the PRC in December 2002. According to the circular Nong Jing Fa [2000] No. 8 and No. 10 jointly issued by Agricultural Ministry, State Development Planning Commission, State Economic & Trade Commission, Ministry of Finance, Ministry of Foreign Trade & Economic Cooperation, People's Bank of China, State Administration of Taxation, Securities Regulatory Commission and Chinese Supply and Marketing Cooperatives, domestic PRC State-Level Agricultural Leading Enterprises are entitled to certain tax benefits including full exemption of income tax. These tax benefits are also applied to other PRC subsidiaries engaged in agricultural business.

Other PRC subsidiaries not engaged in agricultural business are subject to the PRC income tax at the rates of 15% to 33%.

- (b) No provision for Hong Kong profits tax has been made as there is no estimated assessable profits (Six months ended 31 December 2005: Nil) for the Company and its subsidiaries operating in Hong Kong during the period.

7. DIVIDENDS

	Six months ended 31 December	
	2006 RMB'000	2005 RMB'000
Final dividend paid, of HK\$0.114 (2005: HK\$0.107) per ordinary share	268,834	262,364

At the annual general meeting held on 28 November 2006, final dividend for the year ended 30 June 2006 of HK\$0.114 (equivalent to RMB0.115) per ordinary share was declared. The dividend was paid during the period and the amount was reflected as appropriation of retained earnings for the six months ended 31 December 2006.

The directors do not recommend the payment of an interim dividend for the six months ended 31 December 2006 (Six months ended 31 December 2005: Nil).

NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

8. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of RMB581,445,000 (Six months ended 31 December 2005: RMB581,326,000) and the weighted average number of 2,368,027,478 (31 December 2005: 2,363,549,598) 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 equity shareholders of RMB581,445,000 (Six months ended 31 December 2005: RMB581,326,000) and the weighted average number of 2,428,994,175 (31 December 2005: 2,404,985,247) ordinary shares after adjusting for the effects of all dilutive potential ordinary shares under the Company's share option scheme. The convertible bonds outstanding during the period had an anti-dilutive effect on the basic earnings per share amount for the current period.

Weighted average number of ordinary shares (diluted)

	Six months ended 31 December	
	2006	2005
	Number of shares	Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	2,368,027,478	2,363,549,598
Deemed issue of ordinary shares — share options	60,966,697	41,435,649
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>2,428,994,175</u>	<u>2,404,985,247</u>

9. PROPERTY, PLANT AND EQUIPMENT

	2006	2005
	RMB'000	RMB'000
Net book value as at 1 July 2006/1 July 2005	2,243,719	1,866,804
Additions	14,784	130,951
Transfer from construction-in-progress	492,469	523,253
Disposals	(7,445)	(96,724)
Depreciation charges	(102,356)	(180,527)
Currency translation difference	(27)	(38)
Net book value as at 31 December 2006/30 June 2006	<u>2,641,144</u>	<u>2,243,719</u>

NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

10. PREPAID PREMIUM FOR LAND LEASES

	Long-term prepaid rentals <i>RMB'000</i>	Land use rights <i>RMB'000</i>	Total <i>RMB'000</i>
Cost			
Balance as at 1 July 2005	1,936,803	57,150	1,993,953
Additions	888,370	43,814	932,184
Early termination of leases	(61,300)	—	(61,300)
	<u>2,763,873</u>	<u>100,964</u>	<u>2,864,837</u>
Balance as at 30 June 2006	2,763,873	100,964	2,864,837
Additions	391,600	31,092	422,692
Early termination of leases	(64,500)	—	(64,500)
	<u>3,090,973</u>	<u>132,056</u>	<u>3,223,029</u>
Balance as at 31 December 2006	3,090,973	132,056	3,223,029
Accumulated amortization			
Balance as at 1 July 2005	67,303	2,633	69,936
Amortization for the year	51,536	2,403	53,939
Early termination of leases	(2,871)	—	(2,871)
	<u>115,968</u>	<u>5,036</u>	<u>121,004</u>
Balance as at 30 June 2006	115,968	5,036	121,004
Amortization for the period	32,185	2,132	34,317
Early termination of leases	(1,294)	—	(1,294)
	<u>146,859</u>	<u>7,168</u>	<u>154,027</u>
Balance as at 31 December 2006	146,859	7,168	154,027
Net carrying value as at 31 December 2006	<u>2,944,114</u>	<u>124,888</u>	<u>3,069,002</u>
Net carrying value as at 30 June 2006	<u>2,647,905</u>	<u>95,928</u>	<u>2,743,833</u>
		31 December 2006 <i>RMB'000</i>	30 June 2006 <i>RMB'000</i>
Non-current portion		3,000,024	2,653,230
Current portion		68,978	90,603
		<u>3,069,002</u>	<u>2,743,833</u>

NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

10. PREPAID PREMIUM FOR LAND LEASES (Continued)

Notes:

- (a) The Group's interest in long-term prepaid rentals and land use rights represent prepaid operating lease payments and their net book value are analyzed as follows:

	31 December 2006 <i>RMB'000</i>	30 June 2006 <i>RMB'000</i>
In PRC held on:		
Leases of over 50 years	431,617	351,253
Leases of between 10 to 50 years	2,637,385	2,392,580
	3,069,002	2,743,833

- (b) As at 31 December 2006, long-term prepaid rentals for the farmland which has not yet been occupied by the Group amounted to RMB768,000,000 (30 June 2006: RMB780,500,000).

11. BIOLOGICAL ASSETS

	Fruit trees and tea trees <i>RMB'000</i>	Livestock <i>RMB'000</i>	Vegetables <i>RMB'000</i>	Trees in plantation forest <i>RMB'000</i>	Total <i>RMB'000</i>
Balance as at 1 July 2005	261,092	15,974	261,606	5,179	543,851
Additions	138,247	37,546	821,982	19,550	1,017,325
Decrease due to sales	(47,374)	(14,239)	(768,329)	—	(829,942)
Gain/(loss) arising from changes in fair value less estimated point-of-sale costs	21,816	(6,085)	137,328	—	153,059
Balance as at 30 June 2006	373,781	33,196	452,587	24,729	884,293
Additions	364,851	25,668	389,007	3,639	783,165
Decrease due to sales	(84,751)	(11,318)	(443,814)	—	(539,883)
Gain/(loss) arising from changes in fair value less estimated point-of-sale costs	11,019	(16,849)	(72,039)	—	(77,869)
Balance as at 31 December 2006	664,900	30,697	325,741	28,368	1,049,706

Biological assets as at 30 June 2006 and 31 December 2006 are stated at fair values less estimated point-of-sale costs and are analyzed as follows:

	Fruit trees and tea trees <i>RMB'000</i>	Livestock <i>RMB'000</i>	Vegetables <i>RMB'000</i>	Trees in plantation forest <i>RMB'000</i>	31 December 2006 <i>RMB'000</i>	30 June 2006 <i>RMB'000</i>
Non-current portion	664,900	30,697	—	28,368	723,965	431,706
Current portion	—	—	325,741	—	325,741	452,587
	664,900	30,697	325,741	28,368	1,049,706	884,293

NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

11. BIOLOGICAL ASSETS (Continued)

- (a) The fair value of fruit trees and tea trees and livestock are determined by the directors with reference to the methodology and assumption adopted in the valuation for the year ended 30 June 2006.
- (b) The fair value of vegetables are determined by the directors with reference to market-determined prices, cultivation area, species, growing conditions, cost incurred and expected yield of the crops.
- (c) The trees in plantation forest represented the growing of eucalyptus and were cultivated at initial stage. The directors considered that the fair value of eucalyptus was largely approximate to the cost incurred after taking into consideration of the growing conditions and the period of plantation.

12. INTEREST IN ASSOCIATES

	Notes	31 December 2006 RMB'000	30 June 2006 RMB'000
Share of net assets			
Balance as at 1 July		593,394	527,581
Share of associates' result for the period/year			
— profit before income tax		49,814	123,477
— income tax	(a)	(6,313)	(20,164)
Investment in an associate		4,000	—
Increase in equity interest in an associate company		—	30
Loss on deemed disposal of interest in associates		—	(37,530)
Dividend received		(14,964)	—
		625,931	593,394
Balance as at 31 December and 30 June			
Amount due from an associate	(b)	418	403
		626,349	593,797

- (a) The amounts represent the share of PRC income tax charged on the assessable profits of Lucky Team Biotech Development (Hepu) Limited, a wholly owned subsidiary of Asian Citrus Holdings Limited ("Asian Citrus") which is 39% (30 June 2006: 39%) directly owned by a wholly owned subsidiary of the Group.
- (b) Amount due from an associate is unsecured, interest-free and has no fixed terms of repayment.
- (c) Particulars of the principal associate of the Group at 31 December 2006 are as follows:

Company	Place of incorporation	Principal activity and place of operation	Particulars of issued and paid up capital	Interest held directly
Asian Citrus*	Bermuda	Investment holding in Hong Kong	62,317,449 ordinary shares of HK\$0.1 each	39%

* Listed on the Alternative Investment Market of London Stock Exchange

NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

13. AVAILABLE-FOR-SALE INVESTMENTS

Included in available-for-sale investments are equity securities of a company listed in Hong Kong stated at market value of HK\$426,000,000 (equivalent to RMB423,870,000) and the gain arising from the change in the fair value of RMB304,470,000 for the six months ended 31 December 2006 has been directly recorded in investment revaluation reserve account.

14. ACCOUNTS RECEIVABLE

The Group's trading terms for its local wholesale and retail sales are mainly cash on delivery whereas local sales to institutional customers and export trading companies are mainly on credit. The credit period is generally for a period from one month to three months depending on customers' credit worthiness.

The ageing of the Group's accounts receivable is analyzed as follows:

	31 December 2006 <i>RMB'000</i>	30 June 2006 <i>RMB'000</i>
0 — 1 month	113,232	87,825
1 — 3 months	5,303	3,167
Over 3 months	8,082	5,621
	126,617	96,613

15. AMOUNTS DUE TO A RELATED COMPANY

The balance arose from purchases of agricultural materials, as detailed in note 22 below, from a company of which Mr. Kwok Ho, the Chairman and a controlling shareholder of the Company, is a major shareholder. The balance was aged within 30 days as of the interim balance sheet date.

16. ACCOUNTS AND BILLS PAYABLE

The ageing of the Group's accounts and bills payable is analyzed as follows:

	31 December 2006 <i>RMB'000</i>	30 June 2006 <i>RMB'000</i>
0 — 1 month	2,544	7,265
1 — 3 months	3,059	1,378
Over 3 months	2,444	2,202
	8,047	10,845

At the balance sheet date, bills payable amounting to RMB2,556,000 (30 June 2006: RMB4,139,000) were secured by a corporate guarantee provided by one of the subsidiaries (note 17).

17. BANK LOANS — SECURED

At 31 December 2006, all bank loans of RMB10,000,000 (30 June 2006: RMB10,000,000) are secured and repayable within one year.

At 31 December 2006, the Group had total banking facilities amounting to RMB46,000,000 (30 June 2006: RMB65,000,000) in which RMB10,000,000 of bank loans and RMB2,556,000 of bills payable have been utilized (30 June 2006: RMB10,000,000 and RMB4,139,000). These banking facilities were secured by a corporate guarantee provided by one of the subsidiaries.

18. GUARANTEED SENIOR NOTES

The Company issued US\$225,000,000, 7.75% guaranteed senior notes due on 8 February 2010 (the "Guaranteed Senior Notes") in February 2005 at an issue price of 98.985% (equivalent to RMB1,735,295,000 at 31 December 2006, net of discount capitalized) (30 June 2006: equivalent to RMB1,794,501,000, net of discount capitalized). The Guaranteed Senior Notes are listed on the Singapore Exchange Securities Trading Limited and are guaranteed by certain subsidiaries bearing interest at 7.75% per annum, payable semi-annually in arrears. At any time prior to 7 February 2008, the Company may redeem up to 35% of the principal amount of the Guaranteed Senior Notes with the cash proceeds of one or more sales of the Company's shares in an offering at a redemption price of 107.75% of the principal amount of the Guaranteed Senior Notes, plus accrued and unpaid interest, if any, to the redemption date.

19. CONVERTIBLE BONDS

In May 2006, the Company issued HK\$1,344,000,000 (equivalent to RMB1,384,320,000 at the date of issue) zero coupon convertible bonds to the bond holders with a maturity date due on 8 May 2011. The convertible bonds are listed on the Stock Exchange and are guaranteed by certain subsidiaries of the Group.

Each convertible bond would, at the option of the bond holder, be convertible on and after 15 May 2006 up to and including 28 April 2011 into ordinary share (the "Shares") of the Company at an initial conversion price of HK\$6.72 per share subject to adjustment. The conversion price will be reset to the average market price of the Shares on the respective dates as stipulated in the Company's issuing circular dated 3 May 2006. The convertible bonds that are not converted into ordinary shares will be redeemed at 128.01% of its principal amount on the maturity date. Please refer to the Company's issuing circular dated 3 May 2006 for the details of the terms of the convertible bonds.

The presentation currency of the Group is Renminbi and the convertible bonds are denominated in Hong Kong dollars. Since the conversion price for the convertible bonds is subject to change, the conversion will not result in settlement by the exchange of a fixed number of equity instrument. Therefore, upon application of HKAS 32 and HKAS 39, the Group determined that the convertible bonds do not contain any equity component and the entire convertible bonds were designated as "financial liabilities at fair value through profit or loss" which requires the convertible bonds to be carried at fair value at the balance sheet date and the changes in fair values are recognized in the income statement.

The movement of the fair value of the convertible bonds for the six months ended 31 December 2006 is set out as below:

	<i>RMB'000</i>
Proceeds of issue	1,384,320
Changes in fair value and charged to income statement	5,135
	<hr/>
Balance at 30 June 2006	1,389,455
Changes in fair value and charged to income statement	101,504
Currency translation difference charged to exchange reserve	(47,214)
	<hr/>
Balance at 31 December 2006	<u><u>1,443,745</u></u>

NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

19. CONVERTIBLE BONDS (Continued)

The fair value of the convertible bonds was calculated using the market value basis. The inputs into the model were as follows:

Stock price	HK\$5.01
Expected volatility	45%
Stock borrow cost	9%
Issuer's credit spread	2%
Expected dividend yield	2%

20. SHARE CAPITAL

	Authorized ordinary shares of HK\$0.1 each		
	No. of shares	HK\$'000	RMB'000
At 31 December 2006 and 30 June 2006	5,000,000,000	500,000	527,515
	Issued and fully paid ordinary shares of HK\$0.1 each		
	No. of shares	HK\$'000	RMB'000
At 1 July 2005	2,362,730,250	236,274	250,665
New shares issued upon options exercised under share option scheme	3,932,000	393	406
At 30 June 2006	2,366,662,250	236,667	251,071
New shares issued upon options exercised under share option scheme	5,662,000	566	564
At 31 December 2006	2,372,324,250	237,233	251,635

21. COMMITMENTS

(a) Capital commitments

At 31 December 2006, the Group had the following capital commitments:

	31 December 2006	30 June 2006
	RMB'000	RMB'000
Contracted but not provided for		
— Research and development expenditures	25,630	27,400
— Purchase of property, plant and equipment	80,241	68,754
— Premium payment for land leases	10,600	10,600
Total	116,471	106,754

NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

21. COMMITMENTS (Continued)

(b) Operating lease commitments

As lessee

At 31 December 2006, the Group had future minimum lease payments of land and buildings under non-cancellable operating leases that are payable as follows:

	31 December 2006 RMB'000	30 June 2006 RMB'000
Within 1 year	110,402	100,488
After 1 year but within 5 years	424,190	386,082
After 5 years	1,956,443	1,795,239
Total	<u>2,491,035</u>	<u>2,281,809</u>

As lessor

At 31 December 2006, the Group had future minimum lease receipts of land and buildings under non-cancellable operating leases that are receivables as follows:

	31 December 2006 RMB'000	30 June 2006 RMB'000
Within 1 year	886	886
After 1 year but within 5 years	3,643	3,620
After 5 years	3,416	3,855
Total	<u>7,945</u>	<u>8,361</u>

22. RELATED PARTY TRANSACTIONS

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

	Six months ended 31 December	
	2006 RMB'000	2005 RMB'000
Fujian Chaoda Agricultural Produce Trading Company Limited		
— Purchase of organic fertilizers	130,691	117,473
— Rental and management fee received	(23)	—
福建超大集團有限公司		
— Rental and management fee received	(227)	(341)
福建超大現代種業有限公司		
— Rental and management fee received	(86)	(81)
超大生物技術有限公司		
— Rental and management fee received	(3)	—
	<u>(3)</u>	<u>—</u>

Notes:

- (a) The above related parties are companies in which Mr. Kwok Ho, the Chairman and a controlling shareholder of the Company, is a major shareholder.
- (b) The directors are of the opinion that these transactions were conducted in the normal course of business at prices and terms no less than those charged to or contracted with other third parties.

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
			01/07/2003 — 23/06/2013	1,075,000
	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	

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)				
						HK\$	HK\$	
Directors: (Continued)								
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