

Corporate Governance Report

The Board recognises that good corporate governance will not only safeguard the interests and assets of the Company and deliver long-term return to our shareholders, but will also lay a good foundation for sustainable growth of the Company. The key corporate governance principles and practices of Chaoda during the financial year ended 30 June 2016 are set out in this report.

CORPORATE GOVERNANCE PRACTICES

During the financial year ended 30 June 2016, the Company has applied the principles and complied with the applicable code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), except for the deviation set out below under the paragraph headed "Chairman and Chief Executive Officer" of this report. The current corporate governance practices will be reviewed and assessed from time to time for the compliance with the latest statutory requirements.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules. All directors, after specific enquiries made by the Company, confirmed that they had complied with the Model Code throughout the financial year ended 30 June 2016. The directors' interests as at 30 June 2016 in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) are set out in the Directors' Report under the section headed "Directors' Interests in Securities".

BOARD OF DIRECTORS

Composition

The Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Group's business and includes a balanced composition of executive and non-executive directors (including independent non-executive directors), which can effectively exercise independent judgment.

As at the date of this report, the members of the Board are listed below:

Executive directors

Mr. Kwok Ho (*Chairman*)

Ms. Huang Xie Ying

Mr. Kuang Qiao

Mr. Yang Gang (appointed on 8 June 2016)

Mr. Zhang Chang Man (appointed on 8 June 2016)

Non-executive director

Mr. Ip Chi Ming

Independent non-executive directors

Mr. Fung Chi Kin

Mr. Tam Ching Ho

Professor Lin Shun Quan

Mr. Chan Yik Pun

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During the financial year under review, Mr. Chen Jun Hua retired as the executive director of the Company and Dr. Li Yan resigned as the executive director of the Company.

Biographical details of the directors are disclosed in the section headed “Profiles of Directors and Senior Executives” of this annual report. There is no financial, business, family or other material/relevant relationship among members of the Board.

The Company has complied with Rules 3.10(1) and (2) of the Listing Rules, i.e. the Board includes at least three independent non-executive directors and at least one of them possesses appropriate professional qualifications or accounting or related financial management expertise.

The Company has received annual confirmation of independence from each of the independent non-executive directors pursuant to Rule 3.13 of the Listing Rules and accordingly, the Company is of the view that all independent non-executive directors are independent under the Listing Rules. To the best knowledge and belief of the Company, they have the character, integrity, independence and experience to fulfill their role effectively.

The non-executive director and each of the independent non-executive directors are appointed for a specific term of two years. Appointment may be terminated by either party serving on the other party a written notice of not less than three months. In accordance with the CG Code and the Company’s articles of association, they should be subject to retirement by rotation at least once every three years at the annual general meeting.

Responsibilities

The Board is committed to providing effective and responsible leadership for the Company. Its primary role is to protect and enhance the interests of our shareholders as a whole. The members of the Board are accountable to, and are committed to acting in the best interests of the Company and our shareholders. Matters reserved for the Board’s consideration include but not limited to:

- the Group’s long-term objectives and corporate strategy;
- the overall corporate governance of the Group;
- the internal control system of the Group;
- the financial reporting and control;
- the recommendations to our shareholders like dividend payments, appointment or re-appointment of directors.

Under the leadership of the Chairman of the Board, the day-to-day management, administration and operations of the Group are delegated to the executive directors and the management. Each of the delegated parties has accumulated sufficient and valuable experience to hold his/her position in order to ensure that his/her fiduciary duties and other responsibilities can be carried out in an effective and efficient manner.

The Board has established three committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee. Three committees operate within specified terms of reference to oversee respective areas of the Company’s affairs. Each committee composition and its respective responsibilities are stated in the relevant paragraphs of this report.

Board Meetings

During the financial year ended 30 June 2016, the Board convened a total of four Board meetings. The agenda and accompanying Board papers are served to all members of the Board in advance of each meeting to facilitate informed discussion and decision-making. Senior management and professional advisers are invited to attend the meeting(s) to give a presentation on issues considered and/or answer the Board's enquiries when necessary. All proceedings of the Board meetings are duly recorded, approved and signed by the chairman of the meeting. Upon request, minutes of Board meetings are open for inspection by any director.

Attendance of each director, by name, at the board meetings held during the financial year ended 30 June 2016 is set out below:

Name of directors	Attendance
Executive directors:	
Mr. Kwok Ho (<i>Chairman</i>)	04/04
Ms. Huang Xie Ying	04/04
Mr. Kuang Qiao	04/04
Mr. Chen Jun Hua (retired on 17 December 2015)	01/01
Dr. Li Yan (resigned on 8 June 2016)	02/04
Mr. Yang Gang (appointed on 8 June 2016)	N/A
Mr. Zhang Chang Man (appointed on 8 June 2016)	N/A
Non-executive director:	
Mr. Ip Chi Ming	04/04
Independent non-executive directors:	
Mr. Fung Chi Kin	04/04
Mr. Tam Ching Ho	04/04
Professor Lin Shun Quan	03/04
Mr. Chan Yik Pun	04/04

DIRECTORS' CONTINUING PROFESSIONAL DEVELOPMENT

According to the records maintained by the Company, the directors' participation in various continuous professional programs relevant to regulatory updates; industry-specific; business management; accounting or finance for the financial year ended 30 June 2016 were as follows:

Name of directors	Attending Training Course/ Seminar/ Conference/ Forum/Workshop	Reading Materials
Executive directors:		
Mr. Kwok Ho (<i>Chairman</i>)	✓	✓
Ms. Huang Xie Ying	✓	
Mr. Kuang Qiao	✓	✓
Mr. Yang Gang	✓	✓
Mr. Zhang Chang Man	✓	✓
Non-executive director:		
Mr. Ip Chi Ming	✓	✓
Independent non-executive directors:		
Mr. Fung Chi Kin	✓	✓
Mr. Tam Ching Ho	✓	✓
Professor Lin Shun Quan	✓	
Mr. Chan Yik Pun		✓

INSURANCE COVER IN RESPECT OF LEGAL ACTION AGAINST DIRECTORS

The Company has arranged appropriate insurance cover in respect of legal action arising from the business of the Group against the Directors.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. Mr. Kwok Ho held and is currently performing both the roles of Chairman and Chief Executive Officer of the Company. The Board considers that Mr. Kwok, as the founder of the Group, has profound knowledge and expertise in agricultural business. Under the present structure, the Group can enjoy the benefit of strong and consistent leadership in the development and execution of the Group's business strategies in the most efficient and effective manner. The Board will review and assess such arrangement from time to time to keep a balance of power and authority.

REMUNERATION COMMITTEE

During the financial year under review, Mr. Chen Jun Hua retired as a member of the Remuneration Committee on 17 December 2015. On 8 June 2016, Mr. Zhang Chang Man was appointed as a member of the Remuneration Committee to fill the vacancy. As at the date of this report, the Remuneration Committee comprises four members, three of whom are independent non-executive directors and one is executive director. Members of the Remuneration Committee are:

- Mr. Fung Chi Kin (*Chairman*)
- Mr. Tam Ching Ho
- Mr. Chan Yik Pun
- Mr. Zhang Chang Man

Pursuant to its terms of reference, the Remuneration Committee is delegated, among others, (i) to make recommendations to the Board on the framework or broad policy and structure for the remuneration of individual executive directors and senior management; (ii) to make recommendations to the Board on the establishment of a formal and transparent procedure for developing such policy; (iii) to make recommendations to the Board on the remuneration of non-executive directors; (iv) to review the ongoing appropriateness and relevance of the remuneration policy; and (v) to review the design of all share incentive plans for approval by the Board and the shareholders. The specific terms of reference of the Remuneration Committee are available on the Company's websites (www.irasia.com/listco/hk/chaoda and www.chaoda.com.hk).

No director or manager shall be involved in any decisions as to his/her own remuneration. The remuneration of an independent non-executive director who is a member of the Remuneration Committee shall be a matter for other members of the Remuneration Committee.

Meeting of the Remuneration Committee shall be held at least once a year and at such other times as the Chairman of the Remuneration Committee shall require. During the financial year ended 30 June 2016, the Remuneration Committee met once. The individual members' attendance records are set out below:

Members of the Remuneration Committee	Attendance
Independent non-executive directors :	
Mr. Fung Chi Kin (<i>Chairman</i>)	1/1
Mr. Tam Ching Ho	1/1
Mr. Chan Yik Pun	1/1
Executive directors:	
Mr. Chen Jun Hua (retired on 17 December 2015)	1/1
Mr. Zhang Chang Man (appointed on 8 June 2016)	N/A

During the financial year ended 30 June 2016, the Remuneration Committee (i) discussed and reviewed the remuneration policy adopted by the Group; and (ii) reviewed and recommended to the Board the overall level of increment applicable to the employees of the Group for the following calendar year.

NOMINATION COMMITTEE

As at the date of this report, the Nomination Committee comprises five members, three of whom are independent non-executive directors and two are executive directors. Members of the Nomination Committee are:

- Mr. Fung Chi Kin (*Chairman*)
- Mr. Kwok Ho
- Mr. Kuang Qiao
- Mr. Tam Ching Ho
- Mr. Chan Yik Pun

Pursuant to its terms of reference, the Nomination Committee is delegated, among others, (i) to review the structure, size and composition (including the skills, knowledge and experience) of the Board; (ii) to identify, nominate and recommend suitable candidate(s) to the Board for its consideration; (iii) to assess the independence of independent non-executive directors; (iv) to make recommendations to the Board on the appointment or re-appointment of directors; and (v) to make recommendations to the Board on the removal of a director. The specific terms of reference of the Nomination Committee are available on the Company's websites (www.irasia.com/listco/hk/chaoda and www.chaoda.com.hk).

During the financial year ended 30 June 2016, the Nomination Committee had convened one meeting with full attendance to review the structure, size and composition of the Board as well as to make recommendations to the Board on the selection of suitably qualified candidates nominated for directorship.

AUDIT COMMITTEE

As at the date of this report, the Audit Committee comprises three members, all of whom are independent non-executive directors. Members of the Audit Committee are:

- Mr. Tam Ching Ho (*Chairman*)
- Mr. Fung Chi Kin
- Mr. Chan Yik Pun

Pursuant to its terms of reference, the Audit Committee is delegated, among others, (i) to monitor the integrity of the financial statements of the Group (including its annual and interim reports and accounts, preliminary results announcements and any other formal announcements relating to its financial performance); (ii) to review significant financial reporting issues and judgments thereof before the financial statements are submitted to the Board; (iii) to review the effectiveness of the Group's financial controls, internal controls and risk management systems; and (iv) to assess the independence and objectivity of the external auditors. The specific terms of reference of the Audit Committee are available on the Company's websites (www.irasia.com/listco/hk/chaoda and www.chaoda.com.hk).

During the financial year ended 30 June 2016, the Audit Committee held eight meetings to perform the following works, including but not limited to:

- (i) reviewed and discussed with the external auditors the general scope of their audit and review works for auditing the annual results for the financial year ended 30 June 2015 as well as for reviewing the interim results for the six-month period ended 31 December 2015;
- (ii) reviewed the audited financial statements for the financial year ended 30 June 2015 as well as the financial statements for the six-month period ended 31 December 2015;
- (iii) reviewed and discussed with internal control consultant the internal control review report on the Group's operations; and
- (iv) reviewed and made recommendation to the internal audit plan for the financial year ended 30 June 2016.

The audited financial statements of the Group for the financial year ended 30 June 2016 have been reviewed by the Audit Committee.

The individual members' attendance records are set out below:

Members of the Audit Committee	Attendance
Independent non-executive directors:	
Mr. Tam Ching Ho (<i>Chairman</i>)	08/08
Mr. Fung Chi Kin	08/08
Mr. Chan Yik Pun	08/08

CORPORATE GOVERNANCE FUNCTIONS

The Board as a whole is responsible for determining the policy for corporate governance of the Company as well as performing the corporate governance functions set out in code provision D.3.1 of the CG Code.

During the financial year ended 30 June 2016, the Board performed the corporate governance duties which include:

- (i) reviewed and discussed the policies and practices on corporate governance; (ii) reviewed the training and continuous professional development of directors and senior management; and (iii) reviewed the disclosure in the Corporate Governance Report.

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AUDITORS' REMUNERATION

The fees paid or payable to external auditors of the Group for the financial year ended 30 June 2016 in respect of audit and non-audit services were as follows:

Services rendered	Fee paid/payable HK\$'000
Audit services	2,100
Non-audit services (interim review)	500

DIRECTORS' RESPONSIBILITY FOR PREPARING THE CONSOLIDATED FINANCIAL STATEMENTS

The directors acknowledged their responsibility for preparing the consolidated financial statements for each financial period which give a true and fair view of the state of affairs of the Group and its results and cash flows for the relevant financial period.

In preparing the consolidated financial statements for the financial year ended 30 June 2016 of the Group, the Board adopted appropriate accounting policies consistently, made prudent, fair and reasonable judgments and estimates, as well as based on a going concern basis.

The statement of the external auditors of the Group in respect of their reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditors' Report of this annual report.

INTERNAL CONTROLS

The Board has overall responsibility for maintaining sound and effective internal control system to safeguard the assets of the Group and interests of the shareholders. By the delegation to our internal audit team, the internal control system has been implemented and monitored so as to ensure that it can provide reasonable and independent assurance against material misstatement or loss and to manage risks of failure in the Group's operational systems.

The internal audit department is established to provide independent assurance to the Board and management on the adequacy and effectiveness of internal controls for the Group on a continual basis. The department adopts a risk and control based audit approach. Internal audit reports are communicated to and discussed with the Audit Committee and the Board.

The Company engaged RSM Consulting (Hong Kong) Limited ("RSM") as the internal control consultant, to perform an independent internal control review to assess the effectiveness of the financial, operational and compliance controls, and risk management functions of the Company and the Group's major subsidiaries on a rotation basis. The Audit Committee and the Board, having discussed with RSM and reviewed the internal control review report compiled by RSM, were reasonably satisfied that no material deficiencies or inadequacies existed or identified for the financial year ended 30 June 2016.

COMPANY SECRETARY

The Board is supported by the Company Secretary who has day-to-day knowledge of the Company's affairs and is responsible for, among other matters, assisting in the effective operation of the Board and the Board committees, ensuring the Board policy and procedures are followed, and also facilitating the overall compliance with the Listing Rules and other laws and regulations applicable to the Company. During the financial year ended 30 June 2016, the Company Secretary had complied with the professional training requirements under Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

According to Article 72 of the Company's articles of association, any two or more members of the Company or any one member of the Company which is a recognised clearing house (or its nominee(s)) may request for an extraordinary general meeting to be convened upon depositing at the principal office of the Company in Hong Kong a written requisition specifying the objects of the meeting and signed by the requisitionist(s), provided that as at the date of deposit of the requisition, such requisitionist(s) hold not less than one-tenth of the paid-up capital of the Company which carries the right of voting at a general meeting of the Company.

If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene an extraordinary general meeting, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene an extraordinary general meeting in the same manner, as nearly as possible, as that in which meeting may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition.

The same procedure also applies to any proposal to be tabled at general meetings for adoption.

CONSTITUTIONAL DOCUMENTS

There was no change in the Company's constitutional documents during the financial year under review.

ANNUAL GENERAL MEETING

The attendance of individual directors at the annual general meeting held on 17 December 2015 is set out as follows:

Name of directors	Attendance
Executive directors:	
Mr. Kwok Ho (<i>Chairman</i>)	✓
Ms. Huang Xie Ying	✓
Mr. Kuang Qiao	✓
Mr. Chen Jun Hua (retired on 17 December 2015)	✓
Dr. Li Yan (resigned on 8 June 2016)	X
Mr. Yang Gang (appointed on 8 June 2016)	N/A
Mr. Zhang Chang Man (appointed on 8 June 2016)	N/A
Non-executive director:	
Mr. Ip Chi Ming	✓
Independent non-executive directors:	
Mr. Fung Chi Kin	✓
Mr. Tam Ching Ho	✓
Professor Lin Shun Quan	X
Mr. Chan Yik Pun	✓

COMMUNICATION

The Company values the views of our shareholders and acknowledges their interests in the Group's strategy and performance. Hence, the Board endeavors to maintain an on-going dialogue with our shareholders. The Company's website serves as a communication platform with our shareholders and investors. Updated information about the Company including its financial performance, corporate governance practices and the principal business developments of the Group, are available for public browse in a timely manner.

Besides, general meetings of the Company are considered as valuable opportunities for the Board to have dialogue directly with our shareholders. The directors of the Company are encouraged to attend the general meetings. In particular, the Chairman of the Board and the Chairman of each board committee are required to attend and answer questions raised by our shareholders in respect of the issues that they are responsible.

The shareholders and investors are also welcome to share their views and suggestions by contacting us or our investor relations consultant, Christensen China Limited, through the following methods:

The Company

By telephone: (852) 2845 0168
By fax: (852) 2827 0278
By email: investor@chaoda.com.hk

Christensen China Limited

By telephone: (852) 2117 0861
By fax: (852) 2117 0869
By email: khui@ChristensenIR.com