Management Discussion and Analysis

Our turnover increased by 12.5% to HK$575.5 million and profit attributable to equity holders of the Company dropped by 29.6% to HK$82.3 million

Results

The Board of Directors (the "Directors'') of Dynasty Fine Wines Group Limited (the "Company") is pleased to report the unaudited results of the Company and its subsidiaries (the "Group") for the first half year of 2006. The interim results have been reviewed by the Company's Audit Committee and the Company's auditors, PricewaterhouseCoopers. All of the Audit Committee members, including the chairman of the Audit Committee are independent non-executive directors.

During the period under review, our turnover was HK$575.5 million (2005 – HK$511.6 million), representing an increase of 12.5% compared with the corresponding period in 2005 and our profit attributable to equity holders of the Company was HK$82.3 million (2005 – HK$116.9 million), representing a decline of 29.6%.

Earnings per share of the Company ("Share'') for the six months ended 30 June 2006 was HK6.6 cents (2005 – HK9.8 cents) per Share based on the weighted average number of 1,245,000,000 (2005 – 1,195,856,354) Shares issued during the period. As there was no material dilutive potential ordinary Share outstanding as at 30 June 2006, diluted earnings per Share are not presented.

The financial results in the first half year of 2006 were mainly attributable to the growth in sales volume for the consecutive period but offset by the significant increase in distribution costs. As a reflection of the strong financial position and generally positive outlook, the Directors have resolved to pay an interim dividend of HK3.0 cents (2005 – HK3.7 cents) per Share.

Financial review

Turnover

For the six months ended 30 June 2006, we achieved satisfactory growth in turnover due to increase in sales volume. The Group's turnover for the six months ended 30 June 2006 increased by 12.5% to HK$575.5 million, comparing to HK$511.6 million in the first half year of 2005. This increase was primarily attributable to the ongoing sales and marketing effort and the organic growth of the overall grape wine market in the PRC. The Group's average ex-factory sales prices during the period under review for red and white wine products had increased from 2005 annual average price of HK$20.6 per bottle (750ml) to HK$22.0 per bottle (750ml) in 2006 due to refining of product mix. The average ex-factory sales prices of the Group's red wine products are in general higher than the Group's white wine products. Since consumers in the PRC have a prevalent preference for red wines, the Group is able to set higher prices for its red wine products.

Cost of sales

The following table sets forth the major components of our cost of sales for the period under review:

	For the six months ended 30 June	
	2006	2005
	%	%
Cost of raw materials		
– Grapes and grape juice	**39**	38
– Yeast and additives	**2**	2
– Packaging materials	**26**	27
– Others	**2**	2
Total cost of raw materials	**69**	69
Manufacturing overheads	**11**	10
Consumption tax	**20**	21
Total cost of sales	**100**	100

The principal raw materials required by the Group in producing wine products are grapes, grape juice, yeast and additives as well as packaging materials comprising bottles, bottle caps, labels, corks and packing boxes. Due to the increase in average cost of grapes and grape juice, the cost of grapes and grape juice accounted for approximately 39% of the Group's total cost of sales, representing an increase of 1% from approximately 38% in the corresponding period in 2005. The total cost of packaging materials to turnover was relatively stable during the period under review as compared with the corresponding period in 2005.

Manufacturing overheads consist primarily of depreciation or rental of fixed assets, supplies, utilities, repair and maintenance expenses, salaries and related personnel expenses for the production and related departments and other incidental expenses for production. During the period, manufacturing overheads as a percentage of turnover did not fluctuate significantly.

Gross profit margin

Calculated based on cost of sales inclusive of consumption tax over gross invoiced sales, our overall gross profit margin declined to 50.7% in the first half year of 2006 from 51.5% in the corresponding period in 2005, which was primarily due to higher purchase cost of grape juice as compared to the first half year of 2005. The gross profit margin of red wine products and white wine products in the first half year of 2006 were 51.0% and 44.2% respectively (2005 – 51.9% and 42.3% respectively). The higher gross profit margin of the red wine products was mainly due to higher sales prices.

Other gain

Other gain for the six months ended 30 June 2006 rose by 271.4% to HK$28.6 million (2005 – HK$7.7 million), mainly attributable to:

(1) a government subsidy of HK$14.5 million for a subsidiary to encourage its technology development and winemaking improvement in the PRC; and

(2) increase in interest income from higher bank deposit's interest rates.

Distribution costs

Distribution costs include principally advertising and market promotion expenses, transportation and delivery charges in connection with the sales of grape wine products, salaries and related personnel expenses for the sales and marketing department and other incidental expenses. During the period under review, distribution costs increased significantly and accounted for approximately 32.3% (2005 – 15.9%) of the Group's turnover. In particular, advertising and market promotion expenses accounted for approximately 20.5% (2005 – 8.6%) of the Group's turnover. The significant surge in distribution costs was primarily due to the increase in advertising and promotion fees incurred to boost market demand, to expand the market share outside Eastern region of the PRC and also to facilitate the launch of new products.

General and administrative expenses

General and administrative expenses consist primarily of salaries and related personnel expenses for administrative, finance and human resources departments, provision for doubtful debts and write off for obsolete inventories, depreciation and amortisation expense and other incidental administrative expenses.

During the period under review, general and administrative expenses remained relatively stable and accounted for approximately 4.7% (2005 – 5.7%) of the Group's turnover. The decrease in general and administrative expenses was mainly attributable to no share-based payment (2005: HK$6.6 million) regarding share option granted to the directors and employees made during the period under review under the requirements of Hong Kong Financial Reporting Standard 2 – Share-based Payment.

Taxation expense

Under the current laws of the Cayman Islands and the British Virgin Islands ("BVI"), neither the Company nor its subsidiaries incorporated in BVI is subject to tax on its income or capital gains. In addition, any payment of dividends is not subject to withholding tax in those jurisdictions.

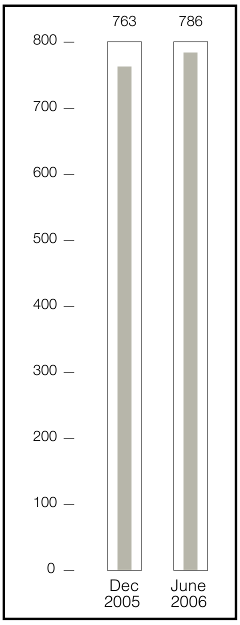
Pursuant to the relevant income tax rules and regulations of the PRC, the applicable tax rate for Sino-French Joint-Venture Dynasty Winery Limited, our major operating subsidiary and Tianjin Tianyang Grape Extracting Co. Ltd, another subsidiary of the Group, is 24%, being the preferential income tax rate for foreign investment production enterprises established in a coastal zone. The applicable rate for Shandong Yu Huang Grape Wine Co., Ltd., another subsidiary of the Group, is 30%. During the period under review, the effective tax rate of the Group was slightly lowered to approximately 23.8% (2005 – 26.6%).

Cash flow

In the first half year of 2006, the Group's source of cash flow was mainly from its operating activities. The Group's cash has principally been used to pay for the acquisition of fixed assets and 2005 final dividends to shareholders. The increase in cash inflow from operating activities from HK$52.4 million in the first half year of 2005 to HK$59.7 million in the first half year of 2006 was primarily attributable to the effects of the changes in working capital, mainly decrease in trade receivables.

Cash and Cash Equivalents

HK$ million



Net cash used in investing activities was primarily attributable to the acquisition of fixed assets pursuant to our expansion plan less of interest income and amounting to approximately HK$12.1 million (2005 – HK$47.0 million acquisition of subsidiaries).

Net cash outflow in financing activities was primarily attributable to the payment of dividends to shareholders of approximately HK$24.9 million (2005 – HK$78.7 million).

Financial management and treasury policy

As at 30 June 2006, except for the net proceeds from the placing and public offer, the Group's revenues, expenses, assets and liabilities were substantially denominated in Renminbi ("RMB").

Accordingly, the Group does not anticipate significant exposure to foreign currency fluctuation and no hedging or other alternatives have been implemented. The Group has maintained sufficient financial resources and is in a net cash position, thus we are exposed to minimal financial risk from interest rate fluctuation.

As at the date of this report, almost all of our cash and bank balances were denominated either in RMB, Hong Kong dollars or United States dollars. The net proceeds from the placing and public offer in 2005 that were not used for the intended purposes have been placed on short-term deposits with authorised financial institutions in Hong Kong. The Group has established an investment policy with the objective of monitoring the investments of the Group's uncommitted funds to ensure the achievement of the highest practicable returns with capital preservation and liquidity as priority focus.

Liquidity and financial resources

The Group's cash and bank balances as at 30 June 2006 amounted to HK$786 million and net cash inflow from operating activities are ample to satisfy the working capital requirement for the business operations and capital expenditures. New investment will be funded by the Group's internal resources.

Capital structure

As at 30 June 2006, the Group had no borrowing and the significant net cash position, reflects the Group's sound capital structure. The net proceeds raised from the placing and public offer in 2005 had further strengthened our capital structure and we expect our cash to be sufficient to support our operating and capital expenditure requirements in the foreseeable future.

The market capitalisation of the Company as at 30 June 2006 was approximately HK$3,517 million.

Gearing ratio

As at 30 June 2006, the Group had no long-term debts and the shareholders' fund of the Group was approximately HK$1,376 million. The Group's gearing ratio, expressed as a ratio of total long-term debts to shareholders' fund, as at 30 June 2006 was nil (2005 – nil).

Capital commitments, contingencies and charges on assets

The Group made capital expenditure commitments mainly for machineries of approximately HK$76.3 million which were authorised but not contracted for and approximately HK$38.1 million which were contracted but not provided for in the accounts as at 30 June 2006. These commitments were mainly related to the expansion of the Group's production capacity. The funding of such capital commitments will be paid out of the proceeds of the new issue as stated in the prospectus dated 17 January 2005.

As at 30 June 2006, the Group had no material contingent liabilities and the Group's assets were free from any charge.

Material acquisitions and disposals of subsidiaries and associated companies

The Group signed a sale and purchase agreement to acquire 25% equity interest of Ning Xia Heavenly Palace Yuma Winery Co., Ltd.* (寧夏天宮御馬葡萄釀酒有限公司) at a consideration of HK$11.49 million on 21 April 2006. The acquisition helps to secure stable and high quality supply of grape juice. The transaction was not yet completed as at 30 June 2006. Except for as disclosed above, the Group had no material acquisition or disposal of subsidiaries and associated companies during the six months ended 30 June 2006.

Use of proceeds

The Company was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 26 January 2005. The net proceeds raised from the placing and public offer amounted to approximately HK$724 million. The satisfactory results of the placing and public offer reflected the confidence of investors in the prospects of our business as well as in the grape wine industry in the People's Republic of China (the "PRC"). The planned usage of proceeds was as follows:

Use	**Usage as announced** HK$ million	**Actual progress** HK$ million
Expansion of existing production facilities	200	129
Establishment of new production facilities	160	–
Expansion of sales and distribution network	20	–
Acquisition of Smiling East	47	47
Other acquisition opportunities and general working capital	297	13
Total	724	189

We have placed the unutilised net proceeds as short term bank deposits.

Future plans for material investments or capital assets

To support the Group's long term development and crystallise our business plans, we are planning to build a new production facility in Tianjin which will boost our production capacity.

Business review

Sales analysis

During the period under review, the Group recorded satisfactory growth in sales volume. The number of bottles of wine sold increased from approximately 24.9 million in the first half year of 2005 to approximately 26.2 million in the first half year of 2006, together with increase in the average ex-factory sales price. The primary revenue source of the Group continued to be red wine product sale which accounted for approximately 94.1% of the Group's turnover for the period (2005 – 95.1%). The Group's best selling wine product remained as Dynasty Dry Red, the prototype of our mass market product, accounting for approximately 45.9% of the Group's turnover for the six months ended 30 June 2006 (2005 – 49.6%).

During the period under review, our products were sold in all provinces and autonomous regions and four directly-administered municipalities under the central government of the PRC. Huadong region, or Eastern region of the PRC, comprising Shanghai, Zhejiang and Jiangsu provinces still remained as the Group's primary markets. In addition to these primary markets, sales of our products in other markets, such as Guangdong, Jiangxi, Hunan and Hubei provinces etc., in the PRC, are expanding and we are enhancing our marketing and promotion efforts in other coastal provinces in order to increase our market share. In respect of the export of the Group's products to overseas, sales remained insignificant at 0.2% (2005 – 0.2%) of the Group's turnover during the period as the domestic market was our primary focus.

* *for identification purpose only*

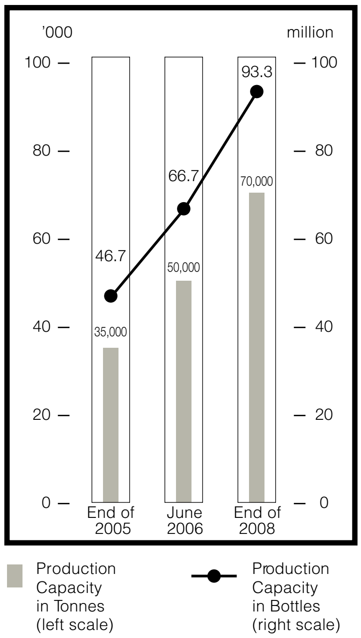
We produce a wide spectrum of over 50 products under the ''Dynasty'' brand to meet different consumer demands in the PRC grape wine market and focus on medium to high end segments. With a high quality and diversified product portfolio, we believe we will be able to attract high-end consumers by introducing premium products. During the period under review, sales of premium wine products, such as Dynasty Dry Red Wine-Aged in Oak Barrels, Dynasty Cabernet Sauvignon Reserve 2003 and Dynasty Chardonnay Reserve 2002, recorded encouraging growth. Although the contribution from the sales of these products to our turnover was insignificant during the first half year of 2006, we believe these premium product sales will become an increasingly significant source of income and a growth driver for the future.

We will also explore appropriate acquisition opportunities of grape wine producers in the PRC and overseas to realise our vision of enlarging our market share and range of high quality products.

Supplies of grapes or grape juice

Production for quality wine products is highly dependent on sufficient supply of quality grapes or grape juice. We currently have over 10 major grape juice suppliers, mainly located in Tianjin, Shandong, Hebei and Ningxia, with whom we have established good, long term and stable relationships. To ensure we have reliable and solid supplies of quality grapes and grape juice to meet the production needs of our growing business and resultant demand of production capacity expansion plan added, we are working with our grape growing partners to enlarge their existing vineyards and increase harvests and also identify new suppliers who can meet our quality requirements. For new suppliers, the quality of their products will be fully tested before orders are placed. Such measures will enable us to secure grape supplies and lower the risk of our production being interrupted by effects of weather, thus affecting the quality of grapes or grape juice. In addition, after completion of quality control testing, the Group commenced to import high quality grape juice from Australian suppliers in the second quarter of 2006 since the unit purchase cost in Australia is lower than that in the domestic market. We will continue to explore opportunities of acquiring grape juice suppliers in the PRC or overseas.

Production Capacity



Production capacity

The production capacity expanded from 30,000 tonnes (equivalent to approximately 40.0 million bottles) to 50,000 tonnes (equivalent to approximately 66.7 million bottles) per annum was on schedule and completed in June 2006. During the period under review, we identified an appropriate site in Tianjin for further enhancing the production capacity. The new production facility, expected to be completed by the end of 2008, will further increase our production capacity to 70,000 tonnes (equivalent to approximately 93.3 million bottles) per annum. The enlarged production capacity will enable us to promptly respond to the booming market.

Employees

The Group employed a work force of 405 staff (including Directors) in Hong Kong and the PRC. The total salaries and related costs incurred for the six months ended 30 June 2006 amounted to HK$12.6 million. The Group offers competitive remuneration packages commensurate with the industry level and provides various fringe benefits, including trainings, medical, insurance coverage as well as retirement benefits to all employees in Hong Kong and in the PRC. The Group review its human resource and remuneration policies regularly in the light of local legislation, market conditions, industry practice and the performance of both the Group and individuals.

The Company also adopted a share option scheme on 6 December 2004 for the purpose of providing incentives and rewards to eligible participants who have contributed to the success of our operations. As at 30 June 2006, 18,200,000 share options were granted and outstanding under the scheme.

Outlook

In the second half of 2006, the Group will continue to take the following measures to alleviate the pressure from challenges that may be likely to erode margins:

(i) selecting our suppliers through quotations from tenders to drive down the purchasing costs;

(ii) increasing production volume to enhance the bargaining power of the Group on bulk purchase; and

(iii) continuing to import grape juice from Australia in order to lower the average cost of grape juice of the Group.

Looking ahead, despite the intensifying market competition, the Group is confident to capitalise on the increasingly strong market demand of grape wine products in the PRC boosted by rising economy and stimulated by the 11th Five-Year Plan of the PRC government. Leveraging on the advantages of the Group, such as our reputable brand name, medium to high end segment portfolio and market knowledge, extensive distribution network and consistently expanding and refining product mix, we will enable the Group to maintain its leading position in the grape wine market.

To stay in line with our future organic growth in the market, we will continue to seek acquisition opportunities that bring synergies to our business strategies to help us generate greater value for our shareholders.

Interim Dividend

The Directors are pleased to declare an interim dividend of HK3.0 cents per Share. The interim dividend will be paid to shareholders whose names appear on the Register of Members on Thursday, 19 October 2006. The interim dividend will be paid on Thursday, 2 November 2006.

Closure of Register of Members

The Register of Members of the Company will be closed from Tuesday, 17 October 2006 to Thursday, 19 October 2006, both days inclusive, during which period no share transfer will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, for registration by not later than 4: 30 pm on Monday, 16 October 2006.

Share Option Scheme

Details of the Company's Share Option Scheme are set out in the published annual report of the Company for the year ended 31 December 2005. Share options are granted to Directors, other than the independent non-executive directors, and employees of the Group to provide incentive and/or reward for their contribution to, and continuing efforts to promote the interest of the Group. Details of the share options granted, exercised, lapsed and cancelled under the Scheme during the period and outstanding as at 30 June 2006 are as follows:

	No. of options outstanding at the beginning of the period	Exercised	Cancelled	Outstanding options held at 30 June 2006	Approximate percentage of issued share capital of the Company
Executive directors:					
Mr. Bai Zhisheng	1,100,000	–	–	1,100,000	0.09%
Mr. Nie Jiansheng	1,950,000	–	–	1,950,000	0.16%
Mr. Chen Naiming	1,950,000	–	–	1,950,000	0.16%
Mr. He Xiuheng (resigned on 1 January 2006)	2,300,000	–	(2,300,000)	–	–
Mr. Gao Xiaode (resigned on 1 January 2006)	2,100,000	–	(2,100,000)	–	–
Non-executive directors:					
Mr. Heriard-Dubreuil Francois	1,200,000	–	–	1,200,000	0.10%
Mr. Wang Guanghao	900,000	–	–	900,000	0.07%
Mr. Cheung Wai Ying, Benny	900,000	–	–	900,000	0.07%
Mr. Zhang Wenlin	900,000	–	–	900,000	0.07%
Mr. Wong Ching Chung	900,000	–	–	900,000	0.07%
Mr. Robert Luc	900,000	–	–	900,000	0.07%
Other employees	7,500,000	–	–	7,500,000	0.60%
Total	22,600,000	–	(4,400,000)	18,200,000	1.46%

All of the above share options were granted on 27 January 2005, with an exercise price of HK$3.00 and are exercisable from 17 August 2005 to 26 January 2015.

Directors' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company

As at 30 June 2006, the interests and short positions of the Directors, chief executives and their respective associates of the Company in the shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which require notification pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required to be recorded in the register required to be kept under Section 352 of SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

(a) Long position in Shares

Name of Director	Capacity	Number of Shares interested	Approximate percentage of issued share capital of the Company
Mr. Cheung Wai Ying, Benny	Corporate interest	10,000,000 *(Note)*	0.8%

Note: Inttra Limited directly owns 10,000,000 Shares or 0.8% of the issued share capital of the Company as at 30 June 2006. The entire issued share capital of Inttra Limited is owned by Mr. Cheung Wai Ying, Benny and his spouse. By virtue of the SFO, Mr. Cheung Wai Ying, Benny is deemed to be interested in the Shares held by Inttra Limited.

(b) Rights to acquire Shares

The interests of the Directors in the share options of the Company as beneficial owner are set out in the section headed "Share Option Scheme" above.

Except as set out above, as at 30 June 2006, none of the Directors and chief executives and their respective associates has any interest or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which require notification pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required to be recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed companies.

Substantial Shareholders' Interests and Short Positions in the Shares and Underlying Shares of the Company

As at 30 June 2006, so far as was known to the Directors or chief executive of the Company, the interests or short positions of every person, other than a Director or chief executive of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO are as follows:

Long position in Shares

Name	Nature of interest	Number of Shares held	Approximate percentage of the Company's issued share capital
Famous Ever Group Limited *(Note 1)*	Beneficial owner	558,000,000	44.82%
Tianjin Development Holdings Limited *(Note 1)*	Interest of a controlled corporation	558,000,000	44.82%
Tianjin Investment Holdings Limited *(Note 2)*	Interest of a controlled corporation	558,000,000	44.82%
Tsinlien Group Company Limited *(Note 3)*	Interest of a controlled corporation	558,000,000	44.82%
Remy Pacifique Limited *(Note 4)*	Beneficial owner	327,000,000	26.27%
Remy Concord Limited *(Note 4)*	Interest of a controlled corporation	327,000,000	26.27%
Remy Cointreau S.A. *(Note 4)*	Interest of a controlled corporation	327,000,000	26.27%
Orpar S.A. *(Note 4)*	Interest of a controlled corporation	327,000,000	26.27%
Andromede S.A. *(Note 4)*	Interest of a controlled corporation	327,000,000	26.27%
Fidelity International Limited	Investment manager	62,872,000	5.05%
Matthews International Capital Management, LLC	Investment manager	75,554,000	6.07%

Notes:

(1) Famous Ever Group Limited is a wholly owned subsidiary of Tianjin Development Holdings Limited ("Tianjin Development''). By virtue of the SFO, Tianjin Development is deemed to be interested in the Shares held by Famous Ever Group Limited.

(2) Tianjin Investment Holdings Limited ("Tianjin Investment") owns 59.8% shareholdings in Tianjin Development. By virtue of the SFO, Tianjin Investment is deemed to be interested in the Shares held by Tianjin Development.

(3) Tianjin Investment is a wholly owned subsidiary of Tsinlien Group Company Limited, the ultimate holding company of Tianjin Development. By virtue of the SFO, Tsinlien Group Company Limited is deemed to be interested in the Shares held by Tianjin Investment.

(4) Remy Pacifique Limited is a wholly owned subsidiary of Remy Concord Limited, which is wholly owned by Remy Cointreau S.A.. Orpar S.A. owns approximately 50.87% of the shareholding in Remy Cointreau S.A. and Andromede S.A. owns approximately 84.83% of the shareholding in Orpar S.A. By virtue of Part XV of the SFO, each of Remy Concord Limited, Remy Cointreau S.A., Orpar S.A. and Andromede S.A. is deemed to be interested in the Shares held by Remy Pacifique Limited.

Saved as disclosed above, as at 30 June 2006, no person, not being a Director or chief executive of the Company, had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

Purchase, Sale or Redemption of Shares of the Company

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's Shares during the financial period under review.

Corporate Governance

The Company recognises its responsibilities to shareholders and aims to protect and enhance shareholder value through solid corporate governance. Considerable efforts are devoted to identify and formalise best practices. The Group is committed to ensuring greater transparency and quality of disclosures. The Board has been and will continue to uphold the appropriate standards of corporate governance within the Group, thereby ensuring all business is conducted in an honest, ethical and responsible manner.

During the financial period under review, basically as previously mentioned in our 2005 annual report, none of the Directors is aware of information that would reasonably indicate that the Company is not in compliance with the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") except for the code provision A.2.1. This code stipulates that the roles of chairman and chief executive officer should be separate and should not be preformed by the same individual. Mr. Bai Zhisheng is the chairman and general manager (which is equivalent to the chief executive officer) of the Company since the retirement of Mr. He Xiuheng, ex-chairman and Mr. Gao Xiaode, ex-general manager on 1 January 2006. In order to ensure the compliance with code A.2.1, the Directors is in the process of recruiting a potential candidate for the position of general manager. Mr. Bai will continue to assume the general manager's duties during this transitional period until a suitable candidate is identified.

Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted procedures governing Directors' securities transactions in compliance with the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. Upon enquiry by the Company, all Directors had confirmed that they had complied with the required standards set out in the Model Code throughout the six months ended 30 June 2006.

By order of the Board
Mr. Bai Zhisheng
Chairman

Hong Kong, 13 September 2006