**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**



**If you are in doubt** as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in **INNOMAXX Biotechnology Group Limited** (the "Company"), you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or the transferee or to the bank or stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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**INNOMAXX BIOTECHNOLOGY GROUP LIMITED**

**創 富 生 物 科 技 集 團 有 限 公 司***

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 00340)**

# MAJOR TRANSACTION: ACQUISITION OF 57% EQUITY INTERESTS IN LEAD SUN INVESTMENTS LIMITED, TRANSFER OF THE ENTIRE EQUITY INTEREST IN BVI PROPERTY COMPANY TO THE FIRST VENDOR, PLACING OF NEW SHARES AND INCREASE IN AUTHORISED SHARE CAPITAL

**Financial adviser to INNOMAXX Biotechnology Group Limited**

**GOLDBOND CAPITAL (ASIA) LIMITED**

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A notice convening the special general meeting of the Company to be held on Wednesday, 25 October 2006 at 3:00 p.m. at The Ballroom, B3, The Ritz Carlton Hong Kong, No. 3 Connaught Road, Central, Hong Kong is set out on pages 197 to 199 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 46/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the meeting if you so wish.

* *For identification purpose only*

9 October 2006

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*In this circular, unless the context otherwise require, the following expressions have the following meanings:*

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| "**Acquisition**" | the acquisition of 57% equity interests in Lead Sun and the Sale Debts by the Company from the Vendors in accordance with the terms and conditions of the Formal Acquisition Agreement |
| "**Board**" | the board of Directors, including independent non-executive Directors |
| "**Business Day**" | a day (other than Saturday) on which banks in Hong Kong are generally open for business |
| "**BVI Property Company**" | INNOMAXX Property (B.V.I.) Limited, a company incorporated in the British Virgin Islands with limited liability and wholly owned by the Company |
| "**Company**" | INNOMAXX Biotechnology Group Limited (stock code: 340), whose Shares are listed on the Main Board of the Stock Exchange |
| "**Completion**" | completion of the Acquisition in accordance with the terms and conditions of the Formal Acquisition Agreement |
| "**Completion Date**" | the 3rd Business Day immediately after fulfillment (or waiver in accordance with the Formal Acquisition Agreement) of the conditions as set out in the section headed "Conditions" of the "Letter from the Board" in this circular, or such other date as the parties may agree in writing, on which Completion shall take place in accordance with the terms thereof |
| "**Consideration Shares**" | 1,081,480,000 new Shares to be issued and allotted by the Company to the Second Vendor, the Third Vendor and the Fourth Vendor in relation to the Acquisition |
| "**Directors**" | the directors of the Company |
| **"Enlarged Group"** | the Group (excluding the Property Group) and Lead Sun Group upon Completion |
| "**First Consideration**" | HK$185,328,000, being the aggregate consideration for the First Sale Shares and the First Sale Debt |

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| **"First Sale Debt"** | all amount owing from Lead Sun to the First Vendor as at Completion |
| **"First Sale Shares"** | 130 shares in the capital of Lead Sun, representing 13% of the issued share capital of Lead Sun legally and beneficially owned by the First Vendor |
| **"First Vendor"** | AIM Elite Limited, a company incorporated in the British Virgin Islands with limited liability and wholly and beneficially owned by Mr. Ng Hoi |
| **"Formal Acquisition Agreement"** | the formal sale and purchase agreement dated 12 July 2006 entered into between, among other persons, the Company and the Vendors in relation to the Acquisition |
| **"Fourth Consideration"** | HK$199,584,000, being the aggregate consideration for the Fourth Sale Shares and the Fourth Sale Debt |
| **"Fourth Sale Debt"** | all amount owing from Lead Sun to the Fourth Vendor as at Completion |
| **"Fourth Sale Shares"** | 140 shares in the capital of Lead Sun, representing 14% of the issued share capital of Lead Sun legally and beneficially owned by the Fourth Vendor |
| **"Fourth Vendor"** | See Good Group Limited, a company incorporated in the British Virgin Islands with limited liability and wholly and beneficially owned by Mr. Ng Hiu King |
| **"GITIC Properties"** | GITIC Properties Limited, a company incorporated in Hong Kong with limited liability and wholly and beneficially owned by the BVI Property Company |
| **"Group"** | the Company and its subsidiaries |
| **"Guarantors"** | Mr. Ng Hoi, Mr. Kwok Man, Mr. Yeh Tung Ming and Mr. Ng Hiu King |
| **"Hong Kong"** | the Hong Kong Special Administrative Region of the PRC |
| **"HK$"** | Hong Kong dollar(s), the lawful currency of Hong Kong |
| **"Independent Shareholders"** | such Shareholders who do not have a material interest in the Acquisition or the Placing |
| **"Independent Third Party(ies)"** | parties and their respective ultimate beneficial owners which are independent of the Company and connected persons (as defined under the Listing Rules) of the Company |

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| **"Independent Valuer"** | Greater China Appraisal Limited, independent chartered valuation surveyors and property consultants |
| **"kt"** | kilo tonnes |
| **"Last Trading Date"** | 12 July 2006, being the last trading day prior to the suspension of trading in the Shares |
| **"Latest Practicable Date"** | 3 October 2006 |
| **"Lead Sun"** | Lead Sun Investments Limited, a company incorporated in the British Virgin Islands and is currently owned as to 13%, 29%, 29%, 29% by the First Vendor, the Second Vendor, the Third Vendor and the Fourth Vendor respectively |
| **"Lead Sun Group"** | Lead Sun and its subsidiaries |
| **"Listing Rules"** | the Rules Governing the Listing of Securities on the Stock Exchange |
| **"Mine"** | a natural rutile mine known as 山西代縣金紅石礦 and located at Dai County, Shanxi Province, the PRC, and which is referred to as the "Project" in the technical assessment report as set out in Appendix VI to this circular |
| **"Mt"** | million tonnes |
| **"Over-allotment Option"** | the option granted by the Company to the Placing Agent to require the Company to issue the Over-allotment Shares pursuant to the Placing Agreement |
| **"Over-allotment Shares"** | up to 150,000,000 new Shares which may be allotted and issued by the Company pursuant to the exercise of the Over-allotment Option |
| **"Placing"** | the placing of Placing Shares and the Over-allotment Shares (where applicable) pursuant to the terms of the Placing Agreement |
| **"Placing Agent"** | Goldbond Securities Limited, a licensed corporation for Types 1 and 4 regulated activities under the SFO |
| **"Placing Agreement"** | the conditional agreement dated 7 July 2006 entered into between the Company and the Placing Agent in relation to the Placing |
| **"Placing Completion Date"** | the 3rd Business Day upon the conditions set out in Placing Agreement being fulfilled or such other date as the Company and the Placing Agent shall agree |

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| **"Placing Price"** | HK$0.40 per Placing Share |
| **"Placing Shares"** | an aggregate of up to 1,000,000,000 Shares to be placed pursuant to the terms of the Placing Agreement |
| **"PRC"** | the People's Republic of China which excludes Hong Kong, Macau Special Administrative Region and Taiwan |
| **"PRC Property"** | the property located at Level 2 of GITIC Plaza, No. 339 Huanshi Road East, Guangzhou, Guangdong Province, the PRC |
| **"Property Group"** | the BVI Property Company and its subsidiary, GITIC Properties |
| **"Remaining Shareholders" or "Remaining Vendors"** | the Second Vendor, the Third Vendor and the Fourth Vendor |
| **"RMB"** | Renminbi, the lawful currency of the PRC |
| **"Sale Debts"** | the First Sale Debt, the Second Sale Debt, the Third Sale Debt and the Fourth Sale Debt |
| **"Sale Shares"** | the First Sale Shares, the Second Sale Shares, the Third Sale Shares and the Fourth Sale Shares |
| **"Second Consideration"** | HK$213,840,000, being the aggregate consideration for the Second Sale Shares and the Second Sale Debt |
| **"Second Sale Debt"** | all amount owing from Lead Sun to the Second Vendor as at Completion |
| **"Second Sale Shares"** | 150 shares in the capital of Lead Sun, representing 15% of the issued share capital of Lead Sun legally and beneficially owned by the Second Vendor |
| **"Second Vendor"** | Long Cheer Group Limited, a company incorporated in the British Virgin Islands with limited liability and wholly and beneficially owned by Mr. Kwok Man |
| **"SFO"** | the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) |
| **"SGM"** | special general meeting of the Company |
| **"Shanxi Shenli"** | 山西神利航天鈦業有限公司 (Shanxi Shenli Aerospace Titanium Co., Ltd.), a Sino-foreign equity joint venture enterprise established in the PRC and is indirectly owned by Lead Sun as to 90% and Xinzhou Tianyang as to 10% |

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| **"Share(s)"** | ordinary share(s) of HK$0.10 each in the share capital of the Company |
| **"Shareholder(s)"** | holder(s) of Shares |
| **"Stock Exchange"** | The Stock Exchange of Hong Kong Limited |
| **"Third Consideration"** | HK$213,840,000, being the aggregate consideration for the Third Sale Shares and the Third Sale Debt |
| **"Third Sale Debt"** | all amount owing from Lead Sun to the Third Vendor as at Completion |
| **"Third Sale Shares"** | 150 shares in the capital of Lead Sun, representing 15% of the issued share capital of Lead Sun legally and beneficially owned by the Third Vendor |
| **"Third Vendor"** | Fit Plus Limited, a company incorporated in the British Virgin Islands with limited liability and wholly and beneficially owned by Mr. Yeh Tung Ming |
| **"Top Rank"** | Top Rank International Group Limited, a company incorporated in the British Virgin Islands with limited liability and wholly-owned by Lead Sun |
| **"Total Consideration"** | the total consideration payable by the Company to the Vendors of about HK$812,592,000 for the Acquisition |
| **"USD"** | United States dollars, the lawful currency of the United States of America |
| **"Vendors"** | the First Vendor, the Second Vendor, the Third Vendor and the Fourth Vendor |
| **"Vendors' Warranties"** | the representations, warranties, undertakings or indemnities made or given by the Vendors to the Company |
| **"Xinzhou Tianyang"** | 忻州開發天陽鈦業有限責任公司 (Xinzhou Tianyang Titanium Co., Ltd.), an enterprise established in the PRC and is beneficially owned by two Independent Third Parties |
| **"%"** | per cent. |

*Translation of RMB into Hong Kong dollars are based on the exchange rates of RMB1.03 to HK$1.00 for information purpose only. Such translations should not be construed as a representation that the relevant amounts have been, could have been, or could be converted at that or any other rate or at all.*

**INNOMAXX BIOTECHNOLOGY GROUP LIMITED**
**創富生物科技集團有限公司***
*(Incorporated in Bermuda with limited liability)*
**(Stock Code: 00340)**

*Executive Directors:*
Mr. Cai Yuan
Mr. Luk Kin Peter Joseph

*Independent Non-executive Directors:*
Mr. Lee Kwan Hung
Mr. Poon Chiu Kwok
Dr. Tang Tin Sek

*Registered Office:*
Clarendon House
Church Street
Hamilton, HM11
Bermuda

*Principal place of business In Hong Kong:*
Suites 3206-3211, 32/F
One International Finance Centre
1 Harbour View Street
Hong Kong

9 October 2006

*To the Shareholders*

Dear Sir or Madam,

**MAJOR TRANSACTION:
ACQUISITION OF 57% EQUITY INTERESTS IN
LEAD SUN INVESTMENTS LIMITED,
TRANSFER OF THE ENTIRE EQUITY INTEREST
IN BVI PROPERTY COMPANY
TO THE FIRST VENDOR,
PLACING OF NEW SHARES AND
INCREASE IN AUTHORISED SHARE CAPITAL**

## INTRODUCTION

On 10 August 2006, the Board announced that on 12 July 2006, the Company entered into the Formal Acquisition Agreement with the Vendors and the Guarantors, pursuant to which (a) the Vendors have conditionally agreed to sell, and the Company has conditionally agreed to acquire, 57% equity interests in Lead Sun and the Sale Debts at the Total Consideration in the sum of HK$812,592,000; and (b) the Guarantors have agreed to guarantee the performance of the Vendors' obligations under the Formal Acquisition Agreement.

* *For identification purpose only*

On 10 July 2006, the Board announced that on 7 July 2006, the Company entered into the Placing Agreement with the Placing Agent, pursuant to which the Company has conditionally agreed to place, through the Placing Agent, and the Placing Agent has conditionally agreed to place, on a best effort basis, a total of 1,000,000,000 Placing Shares (subject to the Over-allotment Option) at the Placing Price of HK$0.40 per Placing Share.

The purpose of this circular is to give you further details of the Acquisition (including the transfer of the entire equity interest in BVI Property Company to the First Vendor), the Placing, and the increase in authorised share capital of the Company.

## THE FORMAL ACQUISITION AGREEMENT

On 12 July 2006, the Company entered into the Formal Acquisition Agreement with the Vendors and the Guarantors, pursuant to which (a) the Vendors have conditionally agreed to sell, and the Company has conditionally agreed to acquire, 57% equity interests in Lead Sun and the Sale Debts at the Total Consideration in the sum of HK$812,592,000; and (b) the Guarantors have agreed to guarantee the performance of the Vendors' obligations under the Formal Acquisition Agreement. Major terms of the Formal Acquisition Agreement are summarised as follows:

**Parties:**

Purchaser: The Company

Vendors:

(1) the First Vendor, AIM Elite Limited, which is wholly and beneficially owned by Mr. Ng Hoi. The principal business activity of the First Vendor is investment holding.

(2) the Second Vendor, Long Cheer Group Limited, which is wholly and beneficially owned by Mr. Kwok Man. The principal business activity of the Second Vendor is investment holding.

(3) the Third Vendor, Fit Plus Limited, which is wholly and beneficially owned by Mr. Yeh Tung Ming. The principal business activity of the Third Vendor is investment holding.

(4) the Fourth Vendor, See Good Group Limited, which is wholly and beneficially owned by Mr. Ng Hiu King. The principal business activity of the Fourth Vendor is investment holding.

Guarantors: Mr. Ng Hoi, Mr. Kwok Man, Mr. Yeh Tung Ming and Mr. Ng Hiu King, as guarantors for the obligations of each of the First Vendor, the Second Vendor, the Third Vendor and the Fourth Vendor, respectively, under the Formal Acquisition Agreement.

**Subject matters**

(1) the Sale Shares, representing 57% equity interests in Lead Sun, comprising the First Sale Shares, the Second Sale Shares, the Third Sale Shares and the Fourth Sale Shares; and

(2) the Sale Debts, representing all amounts owing from Lead Sun to the Vendors as at Completion, comprising the First Sale Debt, the Second Sale Debt, the Third Sale Debt and the Fourth Sale Debt.

Upon Completion, Lead Sun will be owned as to 57%, 14%, 14% and 15% by the Company, the Second Vendor, the Third Vendor and the Fourth Vendor respectively. Upon Completion, Lead Sun will become a non-wholly owned subsidiary of the Company. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendors and their ultimate beneficial owners, are third parties independent of the Company and its connected persons (as defined under the Listing Rules) and, save as being shareholders of Lead Sun, the Vendors and their ultimate beneficial owners are independent of each other.

As at 30 June 2006, there was no outstanding amount as owed from Lead Sun to each of the First Vendor, the Second Vendor, the Third Vendor and the Fourth Vendor.

**Consideration**

The Total Consideration of HK$812,592,000 for the Sale Shares and the Sale Debts is to be satisfied (i) as to HK$432,592,000 by the issue of the Consideration Shares by the Company to the Remaining Vendors; (ii) as to HK$175,000,000 by the transfer of the entire interest in BVI Property Company by the Company to the First Vendor; and (iii) as to the remaining balance of HK$205,000,000 in cash by the Company to the Vendors.

The Total Consideration will be satisfied by the Company in the following manner:

(a) in respect of the First Vendor, the First Consideration of HK$185,328,000 shall be satisfied (i) as to HK$10,328,000 in cash; and (ii) as to HK$175,000,000 by way of the sale and transfer by the Company of the entire issued share capital of BVI Property Company to the First Vendor within 2 Business Days after Completion;

(b) in respect of the Second Vendor, the Second Consideration of HK$213,840,000 shall be satisfied (i) as to HK$66,365,600 in cash and (ii) as to HK$147,474,400 by the issue of 368,686,000 Shares by the Company to the Second Vendor within 2 Business Days after Completion. Out of the cash consideration of HK$66,365,600, HK$17,365,600 will be paid to the Second Vendor and HK$49,000,000 will be paid to Lead Sun or Top Rank, as the Company may require, on behalf of the Second Vendor as shareholder's loan to Lead Sun;

(c) in respect of the Third Vendor, the Third Consideration of HK$213,840,000 shall be satisfied (i) as to HK$66,365,600 in cash and (ii) as to HK$147,474,400 by the issue of 368,686,000 Shares by the Company to the Third Vendor within 2 Business Days after Completion. Out of the cash consideration of HK$66,365,600, HK$17,365,600 will be paid to the Third Vendor and HK$49,000,000 will be paid to Lead Sun or Top Rank, as the Company may require, on behalf of the Third Vendor as shareholder's loan to Lead Sun; and

(d) in respect of the Fourth Vendor, the Fourth Consideration of HK$199,584,000 shall be satisfied (i) as to HK$61,940,800 in cash and (ii) as to HK$137,643,200 by the issue of the 344,108,000 Shares by the Company to the Fourth Vendor within 2 Business Days after Completion. Out of the cash consideration of HK$61,940,800, HK$9,440,800 will be paid to the Fourth Vendor and HK$52,500,000 will be paid to Lead Sun or Top Rank, as the Company may require, on behalf of the Fourth Vendor as shareholder's loan to Lead Sun.

Subject to Completion and compliance with the Listing Rules, the Company, the Second Vendor, the Third Vendor and the Fourth Vendor agreed that the shareholders' loan to be provided to Lead Sun on Completion shall be unsecured, interest-free and repayable at such time as the board of directors of Lead Sun may from time to time resolve, unless the board of directors of Lead Sun may otherwise from time to time resolve.

The Total Consideration was determined with reference to an internal assessment of the fair value of the mining rights relating to the Mine on a discounted cash flow basis after taking into consideration factors including but not limited to the estimated total amount of contained natural rutile of the Mine of about 1.89 million tonnes as stated in the technical assessment report as set out in Appendix VI to this circular and the present prices of rutile ore, titanium tetrachloride ($TiCl4$) and titanium sponge. To the best knowledge of the Directors and based on publicly available information from metal exchange, trade news and inquiries made, the present market price of rutile ore is in the range of about USD450 to USD480 (equivalent to about HK$3,510 to HK$3,744) per tonne FOB Australia; the present market price of titanium tetrachloride is in the range of about RMB14,000 to RMB18,000 (equivalent to about HK$13,592 to HK$17,476) per tonne; and the present market price of titanium sponge is in the range of about RMB230 to RMB240 (equivalent to about HK$223 to HK$233) per kilogram, depending on factors such as the grade of the ore concentrates and demand and supply. FOB or free on board basis means that the value of the goods sold already includes all the costs until such time as the seller delivers the goods at the port of shipment, in this case Australia.

The Total Consideration was arrived at after arm's length negotiations between the Company and the Vendors and on normal commercial terms. The Directors are of the opinion that the terms of the Formal Acquisition Agreement (including the Total Consideration) are fair and reasonable and on normal commercial terms and that the entering into of the Formal Acquisition Agreement is in the interests of the Company and the Shareholders as a whole.

The value of HK$175,000,000 of the First Consideration represented by the entire issued share capital of BVI Property Company has been arrived at after arm's length negotiation between the Company and the First Vendor with reference to the unaudited consolidated net asset value of BVI Property Company, which ultimately owns 100% of the PRC Property, of about HK$156,841,000 as at 31 December 2005 prepared in accordance with accounting principles generally accepted in Hong Kong. The value of HK$175,000,000 represents a premium of about 11.6% over the unaudited consolidated net asset value of BVI Property Company as at 31 December 2005. As at 30 June 2006, the unaudited consolidated net asset value of BVI Property Company amounted to about HK$171,219,000 which included valuation of the PRC Property of RMB142,000,000 (equivalent to about HK$137,864,000). The audited net book value of the PRC Property as at 31 December 2005 amounted to HK$124,800,000. According to an independent valuation by the Independent Valuer, the valuation of the PRC Property as at 31 July 2006 amounted to about RMB142,000,000 (equivalent to about HK$137,864,000). As a result of the disposal of BVI Property Company, the difference of HK$3,781,000 between the transfer value of HK$175,000,000 and the unaudited consolidated net asset value of BVI Property Company of about HK$171,219,000 will be included in the calculation of goodwill or negative goodwill, if any, arising from the Acquisition on consolidation.

Pursuant to the terms of the Formal Acquisition Agreement, the Company shall procure that the principal amount together with interests accrued thereon pursuant to a term loan facility granted by CITIC Ka Wah Bank Limited to GITIC Properties, a wholly owned subsidiary of BVI Property Company, shall be repaid in full by utilising sums advanced by the Company to the Property Group to settle the amount due from the Company to the Property Group prior to Completion. As at 30 June 2006, the outstanding principal loan balance of GITIC Properties as owing to CITIC Ka Wah Bank amounted to about HK$30,910,000 and the net amount due from the Company to the Property Group amounted to about HK$40,927,000. It is expected that the Company will be released from all its obligations in respect of any mortgages or guarantees in respect of the PRC Property prior to Completion.

The cash portion of the Total Consideration will be funded as to about HK$28,000,000 by internal resources of the Group and the remaining from net proceeds from the Placing.

**Consideration Shares**

The Consideration Shares will be issued to the Remaining Vendors at a price of HK$0.40 per Share, which represents (i) a discount of about 41.18% over the closing price of HK$0.68 per Share as quoted on the Stock Exchange on the Last Trading Date; (ii) a discount of about 25.09% to the average closing price of about HK$0.534 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Date; (iii) a discount of about 3.61% over the closing price of HK$0.415 per Share as quoted on the Stock Exchange prior to the suspension of trading of the Shares on 12 June 2006; (iv) a premium of about 7.82% to the average closing price of about HK$0.371 per Share as quoted on the Stock Exchange for the last ten trading days up to and including 12 June 2006; and (v) a discount of about 72.41% to the closing price of HK$1.45 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The issue price of the Consideration Shares was arrived at after arm's length negotiation between the Company and the Remaining Vendors with reference to, among other things, the Placing Price and the recent trading prices of the Shares on the Stock Exchange prior to the suspension of trading of the Shares on 12 June 2006. The Directors consider the issue price of the Consideration Shares to be fair and reasonable.

The aggregate number of Consideration Shares of 1,081,480,000 Shares to be issued to the Remaining Vendors represents (i) about 43.753% of the existing issued share capital of the Company of 2,471,812,853 Shares as at the Latest Practicable Date; (ii) about 23.76% of the issued share capital of the Company of 4,553,292,853 Shares as enlarged by the Consideration Shares and Placing Shares (before exercise of the Over-allotment Option); and (iii) about 22.99% of the issued share capital of the Company of 4,703,292,853 Shares as enlarged by the Consideration Shares and the Placing Shares after the exercise of the Over-allotment Option in full. The number of Consideration Shares to be issued to the Second Vendor, the Third Vendor and the Fourth Vendor represents (i) about 14.916%, 14.916% and 13.921% respectively of the existing issued share capital of the Company of 2,471,812,853 Shares as at the Latest Practicable Date; (ii) about 8.10%, 8.10% and 7.56% respectively of the issued share capital of the Company of 4,553,292,853 Shares as enlarged by the Consideration Shares and the Placing Shares (before exercise of the Over-allotment Option); and (iii) about 7.84%, 7.84% and 7.31% respectively of the issued share capital of the Company of 4,703,292,853 Shares as enlarged by the Consideration Shares and the Placing Shares after the exercise of the Over-allotment Option in full. The Consideration Shares, when issued on Completion, will rank pari passu in all respects with the existing Shares in issue.

Each of the Second Vendor, the Third Vendor and the Fourth Vendor will not nominate any person to be appointed as director of the Company and its subsidiaries. Currently, Mr. Yeh Tung Ming who wholly and beneficially owns the Third Vendor is also a director of Lead Sun. Pursuant to the terms of the Formal Acquisition Agreement, Mr. Yeh Tung Ming will resign as a director of Lead Sun at Completion and none of the Remaining Vendors will nominate a person to be appointed as a director of Lead Sun or its subsidiaries after Completion. After the Completion, the Company will control the board of directors of Shanxi Shenli.

An application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

**Other terms**

Pursuant to the terms of the Formal Acquisition Agreement:

(a) each of the Remaining Shareholders has severally undertaken to the Company that it will not, and will procure none of its associates, nominees, trustees holding in trust for it shall during a period of 12 months following the date of Completion: (i) sell, transfer or otherwise create any rights in respect of any of the Consideration Shares held by it or its associates, nominees or trustee on or after Completion; and (ii) sell, transfer or otherwise dispose of any interest in any shares in any company which is directly or indirectly the beneficial owner of the Consideration Shares;

(b) each of the Remaining Shareholders has granted a right of first refusal to the Purchaser to acquire from such Vendor its interests in the shares and shareholder's loan in Lead Sun in the event that such Vendor proposes to sell its interests to another party; and

(c) each of the Remaining Shareholders has further undertaken to the Company that it shall not sell any of the shares in Lead Sun (and/or any shareholder's loan as owed by Lead Sun to it) to a third party who is regarded as a competitor of the Company and/or any member of the Lead Sun Group in the absolute opinion of the Purchaser.

**Conditions**

Completion of the Formal Acquisition Agreement shall be conditional upon the fulfilment of the following conditions precedent set out as below:

(a) the application for the mining licence, in form and substance acceptable to the Company, having been made by Shanxi Shenli to the proper PRC government authority in respect of the issue of the mining licence as referred to in (b) below;

(b) Shanxi Shenli has obtained the mining licence validly issued by the proper PRC government authority in favour of Shanxi Shenli which entitles Shanxi Shenli to explore, exploit and extract natural rutile located underground and within the vicinity of the Mine, in form and substance acceptable to the Company;

(c) the receipt by the Company of a legal opinion issued by a PRC law firm acceptable to the Company covering, inter alia, such matters relating to: (i) the due incorporation, shareholders and scope of business activities of Shanxi Shenli; (ii) the mining licence has been duly and validly issued by the proper PRC government authority; and (iii) such other matters as may be required by the Company, in form and substance acceptable to the Company;

(d) the receipt by the Company of a report issued from a technical expert acceptable to the Company relating to the state and condition of the Mine covering such matters as may be required by the Company, in form and substance acceptable to the Company;

(e) the issue of the consolidated audited accounts of Lead Sun and Top Rank for the period commencing from their respective dates of incorporation to 30 June 2006 by an accounting firm acceptable to the Company and in form and substance acceptable to the Company;

(f) the Company having notified the Vendors that it is satisfied with the due diligence review and investigation referred to in the Formal Acquisition Agreement;

(g) the passing of the resolution by shareholders of the Company in general meeting approving the Formal Acquisition Agreement and the transactions contemplated thereunder;

(h) the passing of the resolution by shareholders of the Company in general meeting approving the increase in the authorised share capital of the Company from HK$400,000,000 to HK$1,000,000,000;

(i) there has been no suspension of trading of the Shares on the Stock Exchange for more than 20 consecutive Business Days (other than in connection with the transactions contemplated under the Formal Acquisition Agreement) and no investigation by any government or regulatory authorities against any member of the Group has been made known to the Company;

(j) the passing of the resolution by the shareholders of the Company in general meeting approving of the Placing Agreement and the transactions contemplated thereunder;

(k) the Placing Agreement being unconditional in accordance with its terms;

(l) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in the Consideration Shares;

(m) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in the Placing Shares and the Over-allotment Shares;

(n) (where required) the Bermuda Monetary Authority granting its permission in respect of the allotment and issue of the Consideration Shares;

(o) (where required) the Bermuda Monetary Authority granting its permission in respect of the allotment and issue of the Placing Shares and the Over-allotment Shares; and

(p) there being no event existing or having occurred and no condition being in existence which would constitute a breach of the Vendors' Warranties by any of the Vendors.

Save and except for the conditions set out in (g), (i), (l) and (n) above, the Company may waive any of the above conditions at any time by notice in writing to the Vendors. The Vendors may waive the condition as set out in (i) above at any time in writing to the Company.

The Company has been informed that the mining licence in relation to the Mine was issued to Shanxi Shenli by the Shanxi Provincial Department of Land and Resources on 26 September 2006. The Directors advise that conditions as set out in (a), (b) and (d) above have been satisfied.

The Directors will observe Rule 3.08 of the Listing Rules and act in the best interests of the Company and the Shareholders as a whole in proceeding with the Acquisition, including the exercise of the option to waive any conditions. At present, the Company do not foresee to waive any of the conditions. In the event that any of the above conditions are waived, further announcement will be made by the Company as and when appropriate.

The Formal Acquisition Agreement and the Placing Agreement are subject to the other becoming unconditional and will remain inter-conditional as long as conditions set out in (j) and (k) above are not waived by the Company.

**Completion**

Completion will take place on the third Business Day immediately after the conditions of the Formal Acquisition Agreement as set out in the section headed "Conditions" of this letter have been fulfilled or otherwise waived (as the case may be), or such other date as the parties shall agree in writing. The Formal Acquisition Agreement will lapse if the conditions are not fulfilled or waived (as the case may be) by 31 December 2006 unless the parties agree otherwise whereupon none of the parties thereto shall have any further liabilities towards the others save for antecedent breaches. In the event that Completion has not taken place by 31 December 2006, further announcement will be made by the Company.

**THE PLACING AGREEMENT**

On 10 July 2006, the Board announced that on 7 July 2006, the Company entered into the Placing Agreement with the Placing Agent. Pursuant to the Placing Agreement, the Company has conditionally agreed to place, through the Placing Agent, and the Placing Agent has conditionally agreed to place, on a best effort basis, a total of 1,000,000,000 Placing Shares (subject to the Over-allotment Option) at the Placing Price of HK$0.40 per Placing Share to not less than six placees. The choice of placees for the Placing Shares shall be determined by the Placing Agent, subject to the requirements of the Listing Rules (in particular, the Placing Agent shall use all reasonable endeavours to ensure that placees and their respective ultimate beneficial owners shall be third parties independent of the Vendors and their ultimate beneficial owners, the Company and its connected persons (as defined under the Listing Rules)). In addition, the Company has granted the Over-allotment Option to the Placing Agent to issue up to an additional 150,000,000 new Shares to such person or persons as the Placing Agent shall direct at the Placing Price for the purpose of covering over-allocations which may be made in connection with the Placing.

**Placing Agent**

Goldbond Securities Limited

**Placing Shares**

The Placing Shares represent (i) about 40.46% of the existing issued share capital of the Company of 2,471,812,853 Shares as at the Latest Practicable Date; and (ii) about 21.95% of the issued share capital of the Company of 4,553,292,853 Shares as enlarged by the Consideration Shares and the Placing Shares (before the exercise of Over-allotment Option).

The Placing Shares will rank, upon issue, pari passu in all respect with the Shares in issue on the date of the allotment and issue of the Placing Shares.

**Placing Price**

The Placing Price represents (i) a discount of about 3.61% to the closing price of HK$0.415 per Share as quoted on the Stock Exchange on 12 June 2006, being the last trading date prior to suspension of trading in the Shares pending the issue of the announcement of the Company in relation to the Placing; (ii) a discount of about 7.19% over the average closing price per Share of about HK$0.431 as quoted on the Stock Exchange for the last five trading days up to and including 12 June 2006; (iii) a premium of about 7.82% over the average closing price per Share of about HK$0.371 as quoted on the Stock Exchange for the last ten trading days up to and including 12 June 2006; and (iv) a discount of about 72.41% to the closing price of HK$1.45 per share as quoted on the Stock Exchange on the Latest Practicable Date.

The Placing Price was negotiated on an arm's length basis between the Company and the Placing Agent with reference to, among other things, the recent trading prices of the Shares on the Stock Exchange prior to the entering of the Placing Agreement. The Board considers that the terms of the Placing Agreement (including the Placing Price and the placing commission which were determined at the prevailing market rate) to be fair and reasonable and in the interest of the Company and its Shareholders as a whole.

**Conditions Precedent of the Placing Agreement**

Completion of the Placing Agreement is conditional upon, among others:

1. the Stock Exchange granting listing of and permission to deal in the Placing Shares and/or the Over-allotment Shares (subject to conditions to which neither the Placing Agent nor the Company may reasonably object);

2. the passing of the resolution by Shareholders approving the Placing Agreement and the transactions contemplated thereunder (including but not limited to the allotment and issue of the Placing Shares and/or the Over-allotment Shares) at the SGM;

3. the passing of the resolution by Shareholders approving the increase in the authorised share capital of the Company for the purpose of the allotment and issue of Shares under the Placing Agreement and the Formal Acquisition Agreement and the transactions contemplated thereunder;

4. the passing of the resolution by Shareholders approving the Formal Acquisition Agreement and the transactions contemplated thereunder at the SGM;

5. the obtaining of the permission of the Bermuda Monetary Authority for the allotment and issue of the Placing Shares and/or the Over-allotment Shares (if necessary);

6. the entering into of the Formal Acquisition Agreement; and

7. the Formal Acquisition Agreement being unconditional in accordance with its terms.

If the above conditions precedent of the Placing Agreement are not fulfilled on or prior to 30 November 2006 or such later date as may be agreed between the Company and the Placing Agent, the Placing Agreement shall terminate and none of the parties shall have any claim against the other for any costs or losses (save for any prior breaches of the Placing Agreement). In the event that the Placing Agreement is terminated, a further announcement will be issued by the Company.

**Over-allotment Option**

The Company has granted the Over-allotment Option to the Placing Agent to issue up to an additional 150,000,000 new Shares to such person or persons as the Placing Agent shall direct at the Placing Price for the purpose of covering over-allocations which may be made in connection with the Placing. The Over-allotment Shares represents (i) about 6.07% of the existing issued share capital of the Company of 2,471,812,853 Shares as at the Latest Practicable Date; and (ii) about 3.19% of the issued share capital of the Company of 4,703,292,853 Shares as enlarged by the Consideration Shares, the Placing Shares and the Over-allotment Shares. The aggregate number of the Placing Shares and the Over-allotment Shares to be issued represent (i) about 46.52% of the existing issued share capital of the Company of 2,471,812,853 Shares as at the Latest Practicable Date; and (ii) about 24.45% of the issued share capital of the Company of 4,703,292,853 Shares as enlarged by the Consideration Shares, the Placing Shares and the Over-allotment Shares.

The Over-allotment Option shall be exercisable no earlier than the date of signing of the Formal Acquisition Agreement and shall expire at 5:00 p.m. (Hong Kong time) on the Placing Completion Date.

**Termination**

The Placing Agent may terminate the Placing Agreement without liability to the Company:

(A) if at any time prior to 10:00 a.m. on the Placing Completion Date, in the reasonable opinion of the Placing Agent, the success of the Placing or the business or financial prospects of the Group would or might be adversely affected by:

(a) any breach of any of the representations and warranties set out in the Placing Agreement or any failure to perform any of the Company's undertakings or agreements in the Placing Agreement; or

(b) any suspension in the trading of the Shares on the Stock Exchange for more than five consecutive trading days save for (i) the purposes of clearing of the announcement relating to the Placing Agreement for publication in press or circulars relating to the placing of the Placing Shares in the ancillary agreements thereto; and (ii) the transactions contemplated under the Formal Acquisition Agreement; or

(c) if there shall have been in the reasonable opinion of the Placing Agent, since the date of the Placing Agreement, any event, development or thing which in the reasonable opinion of the Placing Agent is or will be materially prejudicial to the Company or to the successful outcome of the placing of the Placing Shares.

(d) any of the following events:

(i) the introduction of any new laws or regulations or any change in existing laws or regulations (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may, in the reasonable opinion of the Placing Agent, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or

(ii) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before and/or after the date of the Placing Agreement) of a political, military, financial, economic, currency (including a change in the system under which the value of the Hong Kong currency is linked to the currency of the United States of America) or other nature (whether or not sui generis with any of the foregoing), or in the nature of any local, national, international outbreak or escalation of hostilities or armed conflict, or affecting local securities market or the occurrence of any combination of circumstances which would, in the reasonable opinion of the Placing Agent, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or adversely prejudices the success of the Placing by potential investor(s) or otherwise makes it inexpedient or inadvisable for the Company or the Placing Agent to proceed with the Placing; or

(iii) any change in market conditions or combination of circumstances in Hong Kong (including without limitation suspension or material restriction on trading in securities) which would materially and adversely affect the success of the Placing (such success being the Placing to potential investor(s)) or otherwise in the opinion of the Placing Agent makes it inexpedient or inadvisable or inappropriate for the Company or the Placing Agent to proceed with the Placing.

(B) upon occurrence of any of the following events at any time prior to the completion of the Placing Agreement:

(i) there occurs any material deviation to the business plan of Shanxi Shenli or any matter or event that gives rise or may give rise to a material deviation to the business plan of Shanxi Shenli, as referred to in the Formal Acquisition Agreement, in each case, that has come to the attention of the Company; and

(ii) there occurs any material breach of the terms of the Formal Acquisition Agreement (including but not limiting to representations, warranties and undertakings thereunder).

**Reason for the Placing and Use of proceeds**

The Directors are of the view that the placing of new Shares can raise capital for the Company to finance the proposed acquisition of Lead Sun Group and further development of the Mine whilst at the same time broadens the shareholder and capital bases of the Company and improves its liquidity position.

The proceeds from the Placing are estimated to be about HK$400,000,000 (before the exercise of the Over-allotment Option and expenses incurred in relation to the Placing). The net proceeds from the Placing after deducting relevant expenses are estimated to be about HK$397,000,000 (before the exercise of the Over-allotment Option). The Board intends to apply such proceeds to finance the proposed acquisition of Lead Sun Group and further development of the Mine.

None of the placees will become a substantial shareholder of the Company as a result of the Placing. So far as the Company can ascertain, and based on the written confirmation by the placees and the written declaration given by each of the ultimate beneficial owner of the Remaining Vendors, the placees are independent of each of the Second Vendor, the Third Vendor and the Fourth Vendor and their ultimate beneficial owners.

According to the Placing Agent, not less than six placees have signed written confirmations agreeing to subscribe for a total of 1,389,850,000 Placing Shares representing 1.39 times of the total number of the initial Placing Shares available under the Placing. Among these confirmations, 7 placees agreeing to subscribe for a total of 395,000,000 Placing Shares and their respective ultimate beneficial owners have agreed to a lock-up undertaking in respect of those Placing Shares being allocated to these placees ("**Allocated Shares**").

Under the lock-up undertaking, the ultimate beneficial owners of the placees have agreed to procure that, and the placees have undertaken to the Company that, during a period of 12 months immediately following the date of Completion (the "**Lock-up Period**"), neither the placees nor any person acting on their behalf will (i) offer, sell, contract to sell, pledge, encumber or otherwise dispose of any of the Allocated Shares, or offer, sell, contract to sell, pledge or otherwise dispose of any securities exchangeable for or convertible into or exercisable for the Allocated Shares, warrants or other rights to purchase the Allocated Shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the Allocated Shares, including equity swaps, forward sales and options representing the right to receive any Allocated Shares; or (ii) enter into any other arrangement that transfers to others, in whole or in part, any of the economic consequences of ownership of the Allocated Shares.

In addition, the ultimate beneficial owners of the placees have undertaken to the Company that during the Lock-up Period, neither they nor any person acting on their behalf will (i) offer, sell, contract to sell, pledge, encumber or otherwise dispose of any of their equity interests in the placees, or offer, sell, contract to sell, pledge or otherwise dispose of any securities exchangeable for or convertible into or exercisable for their equity interests in the placees, warrants or other rights to purchase their equity interests in the placees or any security or financial product whose value is determined directly or indirectly by reference to the price of their equity interests in the placees, including equity swaps, forward sales and options representing the right to receive their equity interests in the placees; or (ii) enter into any other arrangement that transfers to others, in whole or in part, any of the economic consequences of ownership of their equity interests in the placees.

It is expected that completion of the Placing Agreement and the Formal Acquisition Agreement will take place simultaneously.

The Company does not expect any change in control or change in Directors as a result of the completion of the Acquisition and the Placing. Currently, the Company has no controlling shareholder and there will not be a controlling shareholder as a result of the Placing and the Acquisition. The board of Directors will remain the same after the completion of the Placing and the Acquisition.

## EFFECTS ON SHAREHOLDING STRUCTURE

The shareholding structure of the Company immediately before and after completion of the Acquisition and the Placing are set out as follows:

| | As at the Latest Practicable Date | | Immediately after completion of the Acquisition and the Placing | | Immediately after completion of the Acquisition and the Placing (assuming full exercise of the Over-allotment Option) | |
|---|---|---|---|---|---|---|
| | Number of Shares | % | Number of Shares | % | Number of Shares | % |
| Cai Yuan *(Note 1)* | 500,000,000 | 20.23% | 500,000,000 | 10.98% | 500,000,000 | 10.63% |
| Luk Kin Peter Joseph *(Note 2)* | 226,584,000 | 9.17% | 226,584,000 | 4.98% | 226,584,000 | 4.82% |
| Tang Tin Sek *(Note 3)* | 300,000 | 0.01% | 300,000 | 0.01% | 300,000 | 0.01% |
| the Second Vendor | – | – | 368,686,000 | 8.10% | 368,686,000 | 7.84% |
| the Third Vendor | – | – | 368,686,000 | 8.10% | 368,686,000 | 7.84% |
| the Fourth Vendor | – | – | 344,108,000 | 7.56% | 344,108,000 | 7.31% |
| Existing public Shareholders *(Note 4)* | 1,737,828,853 | 70.30% | 1,737,828,853 | 38.16% | 1,737,828,853 | 36.95% |
| Vision Tech International Limited *(Note 5)* | 7,100,000 | 0.29% | 17,100,000 | 0.37% | 17,100,000 | 0.36% |
| Other placees | – | – | 990,000,000 | 21.74% | 1,140,000,000 | 24.24% |
| Total | 2,471,812,853 | 100.00% | 4,553,292,853 | 100.00% | 4,703,292,853 | 100.00% |

*Notes:*

1. Mr. Cai Yuan is the chairman of the Company.

2. Mr. Luk Kin Peter Joseph is the chief executive officer and the deputy chairman of the Company.

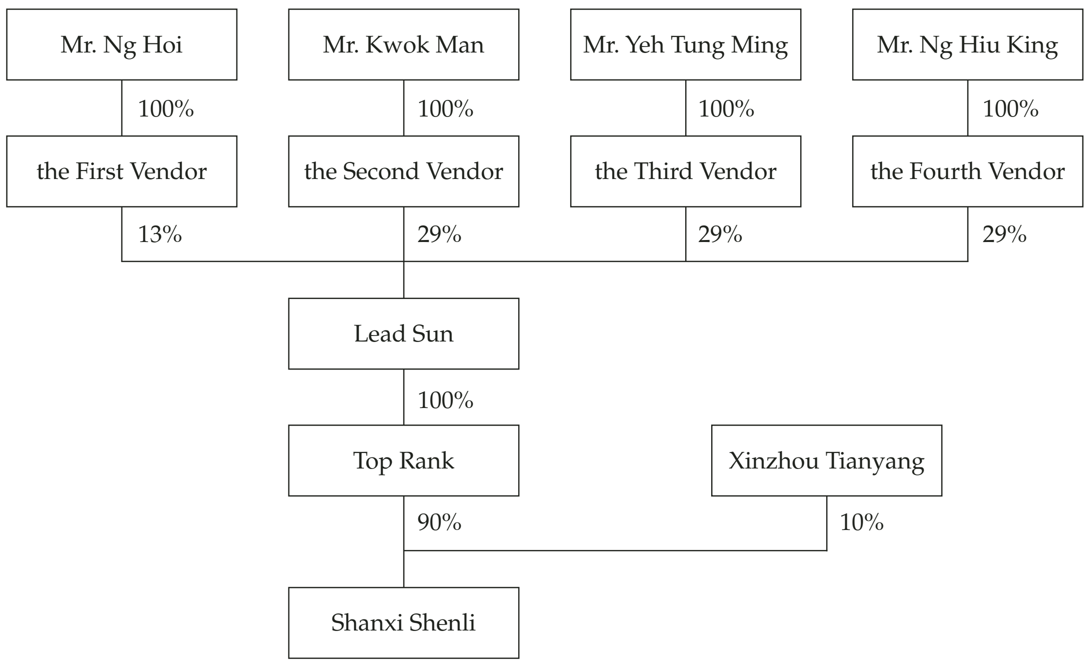
3. Dr. Tang Tin Sek is an independent non-executive Director.

4. Excluding Vision Tech International Limited being one of the placees under the Placing.

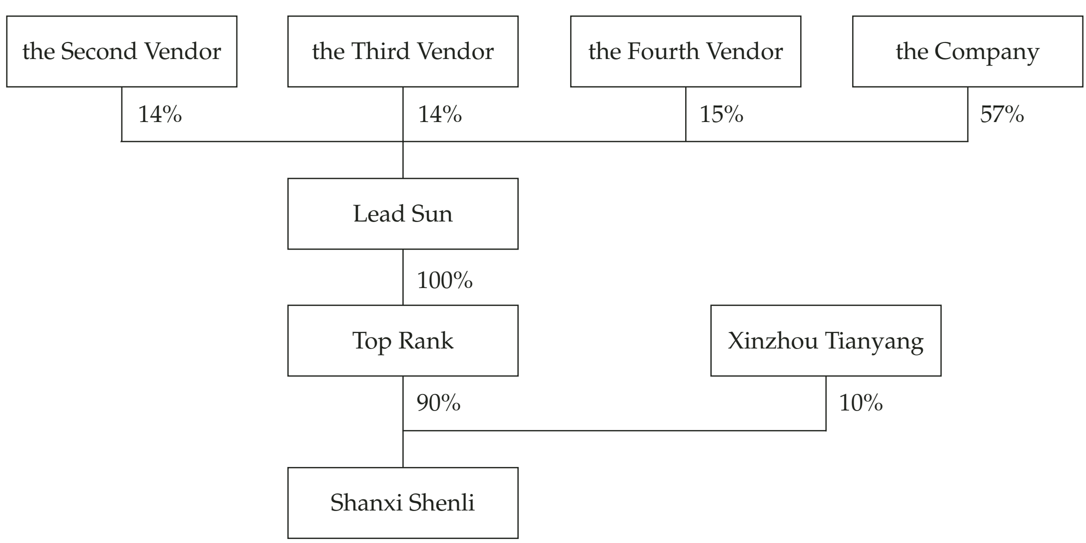
5. Vision Tech International Limited, being a Shareholder as at the Latest Practicable Date, is one of the placees under the Placing.

The following charts provide an illustration of the shareholding structure of the Lead Sun Group immediately before and after completion of the Acquisition and the Placing.

Shareholding structure of Lead Sun Group immediately before completion of the Acquisition and the Placing:




Shareholding structure of Lead Sun Group immediately after completion of the Acquisition and the Placing:



## INFORMATION ON THE GROUP, LEAD SUN, TOP RANK AND SHANXI SHENLI

The Group is principally engaged in the business of investment holding, property investment, processing and storage of cord blood and provision of laboratory services.

The Lead Sun Group is principally engaged in the exploration and exploitation of natural rutile and the production and trading of rutile and titanium related products. Rutile is the raw material for titanium tetrachloride and titanium sponge. Titanium has a wide range of applications including aerospace, military, industrial and consumer products (such as eye glasses, golf club, ski equipments). Lead Sun directly owns 100% of Top Rank, which in turn owns 90% of Shanxi Shenli. Lead Sun and Top Rank are investment holding companies incorporated in the British Virgin Islands. Lead Sun is an investment holding company incorporated in April 2006 with no other businesses or assets other than its shareholding in Top Rank.

Shanxi Shenli is a Sino-foreign equity joint venture enterprise established on 17 March 2005 which is owned as to 90% by Top Rank and 10% by Xinzhou Tianyang. Xinzhou Tianyang is an enterprise established in the PRC. Shanxi Shenli is established to engage in exploitation, flotation of minerals, processing and sale of mineral products, titanium sponge, titanium metal, research and development of new products (採礦、選礦生產、銷售礦產品、海棉鈦、鈦合金、研究開發新產品). The registered capital of Shanxi Shenli is RMB184,800,000, of which RMB41,827,000 has been paid up, and its total investment amount is RMB410,000,000. The second instalment of the registered capital of Shanxi Shenli payable by Top Rank of RMB58,212,000 and Xinzhou Tianyang of RMB6,468,000 will be due in December 2006.

### Financial information on Lead Sun and Top Rank

Immediately before the Completion, Lead Sun is owned by the First Vendor, the Second Vendor, the Third Vendor and the Fourth Vendor. Immediately upon Completion, Lead Sun will be owned as to 57% by the Company and Shanxi Shenli will become a non-wholly owned subsidiary of the Company.

The audited consolidated financial information of Lead Sun prepared in accordance with accounting principles generally accepted in Hong Kong from 6 April 2006, its date of incorporation, to 30 June 2006 is set out as follows:

| | **As at 30 June 2006** *HK$'000* |
|---|---|
| Total assets | 42,428 |
| Total liabilities | 31,280 |
| Total equity | 11,148 |

| | **Period from 6 April 2006 to 30 June 2006** *HK$'000* |
|---|---|
| Turnover | – |
| Profit before/after taxation | 2,467 |

The audited consolidated financial information of Top Rank prepared in accordance with accounting principles generally accepted in Hong Kong from 19 October 2004, its date of incorporation, to 30 June 2006 is set out as follows:

| | **As at 31 December 2005** | **As at 30 June 2006** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Total assets | 35,580 | 31,666 |
| Total liabilities | 30,900 | 31,259 |
| Total equity | 4,680 | 407 |

| | **For the period from 19 October 2004 to 31 December 2005** | **Six months ended 30 June 2006** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Turnover | – | – |
| Loss before/after taxation | (6,316) | (4,278) |

**Management Discussions and Analysis on the Lead Sun Group**

As at 30 June 2006, no exploitation of the Mine has commenced and no income has been generated by the Lead Sun Group. The net losses of Top Rank were primarily attributable to administrative expenses incurred at the initial stage of operation, consultancy and testing fees in relation to the development of the Mine and bad debts written off of about HK$2,452,000 during the six months ended 30 June 2006.

As at 30 June 2006, the total assets of Top Rank primarily comprise of property, plant and equipment of about HK$620,000, other receivables and deposits of about HK$566,000 and an amount due from Xinzhou Tianyang of about HK$30,155,000 for purchase of equipment and payment of the first instalment of the mining right premium on behalf of Shanxi Shenli. Its total liabilities primarily comprised an amount payable to a former shareholder of about HK$30,439,000.

The results of Lead Sun primarily represent the expenses incurred by Top Rank and Shanxi Shenli after Lead Sun's acquisition of Top Rank on 1 June 2006 up to 30 June 2006 and a waived amount of about HK$2,964,000 due to a former shareholder. The relatively higher total assets of Lead Sun as at 30 June 2006 compared to that of Top Rank was primarily attributable to a goodwill arising from the acquisition of Top Rank of about HK$10,754,000.

As at the Latest Practicable Date, the Lead Sun Group did not have any bank borrowings.

For the future funding requirements of the Lead Sun Group for the development of the Mine, please refer to the section headed "Funding requirements" below.

**Information on the Mine**

The Mine is located in Dai County, Shanxi Province, the PRC, which is about 305 kilometres south-west of Beijing. The Mine has been explored by the 211 Geological Team of Shanxi Provincial Bureau of Geological Minerals Exploration and Development (山西省地質礦產勘查開發局211地質隊) (the "211 Team") during the period from 1973 to 2003. Shanxi Provincial Bureau of Geological Minerals Exploration and Development, an Independent Third Party which is independent of the Vendors, is subordinate to the Shanxi Provincial People's Government and is an organisation appointed and funded by the local government to explore geological minerals within the territory of the Shanxi Province.

According to technical assessment report issued by Behre Dolbear Asia, Inc., which have been commissioned by the Company to review relevant aspects of the Mine as set out in Appendix VI to this circular, the estimated resources of natural rutile of the Mine are as follows:

**The Mine's Resource Summary**

| **JORC Mineral Resource Category** | **Tonnage** *(Mt)* | **Rutile $TiO_2$ Grade** *(%)* | **Contained Rutile $TiO_2$** *(kt)* |
|---|---|---|---|
| Indicated *(Note 1)* | 46.629 | 2.13 | 993.2 |
| Inferred | 37.715 | 1.94 | 731.3 |
| **Subtotal (Economic)** *(Note 2)* | **84.344** | **2.04** | **1,724.5** |
| Indicated (Sub-economic) | 14.229 | 1.19 | 169.1 |
| **Total** | **98.573** | **1.92** | **1,893.5** |

*Notes:*

1. Includes 4.747 Mt containing 96kt rutile $TiO_2$ categorized as "Measured" by the 211 Team.

2. Economic mineral resource has an average rutile $TiO_2$ grade equal or above 1.6%; sub-economic mineral resource has an average rutile $TiO_2$ grade less than 1.6%.

According to the technical assessment report as set out in Appendix VI to this circular, the total indicated and inferred rutile ore and contained rutile $TiO_2$ resources at the Mine are about 98.573 Mt and 1,893.5 kt respectively.

As at the Latest Practicable Date, no exploitation of the Mine has commenced. Documents with respect to the mining licence application were previously submitted to the relevant PRC government authorities by Xinzhou Tianyang in June 2005. Xinzhou Tianyang submitted an application for the mining licence with respect to the exploitation of the Mine with Dai County Department of Land and Resources (代縣國土資源局) on 6 June 2005 together with an assignment agreement (《山西省代縣金紅石礦採礦權轉讓協議》) dated 31 May 2005 entered into between Xinzhou Tianyang and Dai County Rutile Mine (代縣金紅石礦), pursuant to which Dai County Rutile Mine, a State-owned enterprise which previously owned the mining licence, agreed to assign the mining rights to Xinzhou Tianyang. Pursuant to the document dated 5 December 2005 issued by Shanxi Provincial Department of Land and Resources (山西省國土資源廳) to Xinzhou Tianyang which sets out the approval for the area marked for the application to be made for the mining licence with respect to the Mine, the exploration area of the Mine is 2.07 square kilometres with an estimated geological reserve of natural rutile of about 1.826 million tonnes. Based on the mineral resource estimate prepared by the 211 Team, Behre Dolbear Asia, Inc. has estimated the mineral resource to amount to about 1.8935 million tonnes as set out in Appendix VI to this circular.

On 17 July 2006, Shanxi Shenli submitted an application for the mining licence with respect to the exclusive exploitation of the Mine to be issued under its name with Shanxi Provincial Department of Land and Resources, and amongst which, a letter from Xinzhou Tianyang dated 20 June 2006 agreeing the mining licence to be issued to Shanxi Shenli was also submitted in connection therewith. An acknowledgement letter (《山西省國土資源廳行政業務事項受理回執》) dated 17 July 2006 was issued by Shanxi Provincial Department of Land and Resources to Shanxi Shenli. The mining licence for the Mine was issued to Shanxi Shenli by the Shanxi Provincial Department of Land and Resources on 26 September 2006. The mining licence covers an area of 2.07 square kilometres with an annual production capacity of 1.5 million tonnes of ore.

As advised by the PRC legal advisers to the Company, according to the existing PRC laws and regulations, after Shanxi Shenli has obtained the mining licence with respect to the exploitation of the Mine, Shanxi Shenli shall be entitled to carry on further exploration of the Mine if so require for the purpose of its own exploitation and production (for example to carry out further exploration of the Mine during the course of mine exploitation for identification of the most appropriate location to start mining and search for any additional reserve) and no additional exploration permit is required to be obtained.

Pursuant to a mining rights premium agreement (《採礦權價款繳納協議》) dated 30 June 2006 entered into between Shanxi Shenli as the applicant of the mining licence and Xinzhou Bureau of Land and Resources as the representative of the approval authorities which sets out the mining rights premium (採礦權價款) and the payment schedule of the different instalments, the mining rights premium in respect of the mining rights of the Mine amounted to RMB67,474,824.80 (equivalent to about HK$65,510,000), of which the first instalment in an amount of RMB15,000,000 (equivalent to about HK$14,563,000) was due on 30 July 2006 and has been paid. The remaining balance of the mining rights premium for the mining rights of the Mine of RMB52,474,824.80 (equivalent to about HK$50,946,000) shall be payable to Xinzhou Bureau of Land and Resources in five instalments in the following manner: (a) RMB12,474,824.80 (equivalent to about

HK$12,111,000) on or before 30 December 2007; and (b) four equal instalments of RMB10,000,000 (equivalent to about HK$9,709,000) to be payable on or before 30 December 2008, 30 December 2009, 30 December 2010 and 30 June 2012, respectively.

As advised by the PRC legal advisers to the Company, the premium in respect of the mining rights (採礦權價款) of the Mine represents the amount payable to the PRC government before mining licence can be granted due to the fact that the exploration of the Mine has been funded by the PRC government. The premium is a one-off payment and such amount would not be required to be paid on renewal of the mining licence. Based on the enquiries with the Shanxi Provincial Department of Land and Resources, the Company expects that on renewal of the mining licence, the payment of mining rights usage fee in the amount of RMB1,000 per square kilometres per year in accordance with Procedures for Administration of Registration of Mining of Mineral Resources (《礦產資源開採登記管理辦法》) and a minimal registration fee will be required. The current mining licence will remain valid until September 2009.

Based on enquiries made with Xinzhou Bureau of Land and Resources, in the event that the mining licence is granted by the government authority but Shanxi Shenli unilaterally decides not to proceed with the mining of the Mine, the paid premium will not be refundable. According to the understanding obtained by the Company, Shanxi Shenli will be obliged to settle the remaining balance of the mining rights premium unless otherwise agreed with Xinzhou Bureau of Land and Resources.

Apart from the first instalment of the mining rights premium, the fees paid by Shanxi Shenli in obtaining the mining rights of the Mine mainly involved the following:

(a) RMB7,500 representing three years' mining rights usage fee in the amount of RMB1,000 per square kilometres per year in accordance with Procedures for Administration of Registration of Mining of Mineral Resources (《礦產資源開採登記管理辦法》);

(b) change of holder of mining rights registration fees in the amount of about RMB200; and

(c) announcement fee in the amount of about RMB2,000.

As at the Latest Practicable Date, Shanxi Shenli has not yet obtained the land use right certificates and building ownership certificates in relation to the Mine and factory premises nor commenced the construction of the factory premises. The land use rights contract is expected to be entered into after obtaining the mining licence.

**Summary of the principal approvals, licences, tests or steps required after Completion**

As advised by the PRC legal advisers to the Company, the following are the principal approvals, licences, tests or steps required to be obtained or completed after Completion before natural rutile can be exploited from the Mine under PRC laws:

1. Prior to the commencement of the construction of the Mine, documents in relation to the design of the Mine must be subject to the approval by the local administrative authority for Safety Monitorary in Shanxi Province (山西省當地安全監督管理部門) and the design of all safety facilities in relation to the construction of the Mine must be approved by and safety facilities must pass the inspection from the relevant government authorities in relation to the administration of work safety in Shanxi Province. Conduct of operations without the above approvals could result in the imposition of stop-work order on the operations, and in serious cases, the withdrawal of the mining licence or business licence.

2. Shanxi Shenli must obtain the approval of the environmental impact evaluation reports (環境影響評價文件) for the Mine and pass the inspection of the environmental protection facilities by the Shanxi Provincial Bureau of Environment Protection. In addition, a scheme for conservation of soil and water (水土保持方案) must be included in the environmental effect evaluation reports and approved by the local administrative authorities of water resources in Shanxi Province (山西省當地水行政主管部門). Conduct of operations without the approval of the environmental effect evaluation reports could result in the imposition of stop-work order on the operations and a penalty charge.

3. Shanxi Shenli must obtain a production safety permit (安全生產許可証) from Shanxi Provincial Administration of Work Safety (山西省安全監督局). Commencement of operations without the licence can lead to imposition of a stop-work order, confiscation of proceeds, and a penalty charge.

4. Shanxi Shenli has to obtain land use right certificates and building ownership certificates in relation to the Mine and factory premises from the administration of land and resources authority of Shanxi Province. Pursuant to the Detailed Rules For the Implementation of the Mineral Resources Law of the PRC (中華人民共和國礦產資源法實施細則), after Shanxi Shenli has obtained the mining licence, it will be entitled to obtain the relevant land use right under the PRC laws in relation to its production and construction requirements. Accordingly, Shanxi Shenli would only need to follow the procedures as required by the relevant PRC laws and regulations to obtain the land use rights. The timing of payment of the land premium and obtaining of the land use right certificate will depend on the terms of the grant of the land use rights contract to be entered into between Shanxi Shenli and the local land and resources bureau. Alternatively, upon obtaining the approval by the relevant land and resources bureau, Shanxi Shenli can choose to enter into a tenancy agreement in relation to the land on which the Mine and the factory premises are situated with the local land and resources bureau. In addition, prior to the commencement of operations of the Mine, Shanxi Shenli has to obtain construction land planning permit (建設用地規畫許可証), construction project planning permit (建設工程規畫許可証) and construction permit (施工許可証). Commencement of operations without the permits can lead to the imposition of a stop-work order and/or a penalty charge.

5. Shanxi Shenli must obtain explosive purchase permit (爆炸物品購買許可証), explosive transport permit (運輸許可証), explosive use licence (使用許可証), explosive storage permit (儲存許可証) and explosive working permit (爆破作業許可証) in connection with the operations of the Mine. Conduct of operations without the permits could result in the imposition of a stop-work order, a penalty charge and confiscation of the explosive.

The matters mentioned in paragraphs 1 to 5 above for the Mine can only be performed after the mining licence is issued. Failure to comply with the matters set out in paragraphs 1 to 5 above will lead to the Group being unable to exploit, produce and sell rutile from the Mine.

The Company considers that the mining licence is the most crucial permit to be obtained in relation to the intended business activities of Shanxi Shenli after the Completion, to engage in the business of rutile mining and titanium production. After the mining licence has been obtained, the Company considers that the other approvals are related to the implementation of the business plan for rutile mining and titanium production before the construction of the Mine and factory premises can take place and which, based on the PRC legal opinion obtained by the Company, are procedural matters subject to Shanxi Shenli satisfying the required standards and other requirements under the relevant rules and regulations and by the relevant government authorities. In this respect, the Company intends to build up a professional management and technical team as soon as possible after the Completion to focus on the implementation of the business plan. Until the Completion, the Company does not have any control of Shanxi Shenli and on the implementation process. After the Completion, the Company with its technical team will have acquired control on the operations of Shanxi Shenli and the timetable of implementation to ensure the mining and production can commence on a timely manner. Therefore, the Directors do not see any significant risk in acquiring a business that cannot be put into operation as Shanxi Shenli has already obtained the mining licence in connection with the Mine. As such, the Directors consider it is in the best interest of the Company and the Shareholders to acquire the interests in Lead Sun at this stage.

**Risks relating to the mining industry:**

Risks relating to the mining industry are set out as below:

1. As set out under the section headed "Summary of the principal approvals, licences, tests or steps required after Completion", certain approvals, licences, tests or steps are required to be obtained or completed before natural rutile can be exploited from the Mine under PRC laws. According to the PRC legal opinion, the aforementioned approvals, save for the mining licence which has already been obtained by Shanxi Shenli, are procedural matters subject to Shanxi Shenli satisfying the required standards and other requirements under the relevant rules and regulations and by the relevant government authorities. However, any problem, delay, rejection arises in obtaining or completing these approvals, licences, tests or steps may result in delay or prohibition in carrying out the mining operations by the Group.

2. The renewal of the mining licence issued to Shanxi Shenli upon its expiry in September 2009 is subject to the approval of the relevant government authorities in the PRC. According to the PRC legal opinion, the application for the renewal of the mining licence is a procedural matter subject to Shanxi Shenli satisfying the required standards and other requirements under the relevant rules and regulations and by the relevant government authorities. However, in the event that the mining licence issued to Shanxi Shenli cannot be renewed upon its expiry, Shanxi Shenli will lose its exploitation rights in the Mine which may in turn materially and adversely affect the operations of the Group.

3. The reserves and resources data set forth in this circular represent estimates. Such estimates are judgments based on knowledge, experience and industry practice. Estimates which were valid when originally made may need to be updated when new information or techniques become available. By nature, reserves and resources estimates depend to some extent on interpretations and deductions which may prove to be inaccurate. The estimated geological reserve of natural rutile may differ from the actual mine reserves in tonnage, quality and feasibility. Any material discrepancies will adversely affect the profitability of the Group's mining operations.

4. The profitability of the Group's mining operations may be affected by fluctuations in the market price of rutile ore, titanium tetrachloride and titanium sponge and cyclical nature of the domestic and international market. As most of the future revenue from these operations will come from the sale of rutile ore, titanium tetrachloride and titanium sponge, the earnings from these operations will be closely related to such prices and demand which may be influenced by numerous factors beyond the control of the Group, including the PRC and the worldwide demand, forward selling activities, the bargaining power of the customers and general economic conditions in the PRC and elsewhere in the world.

5. Compared to other more common materials, the world market of titanium metal is relatively small and is vulnerable to supply-side changes. Should there be any significant increase in the number of rutile and titanium related projects similar to the Mine in the PRC, competition would be intensified. Increase in competition may have adverse effects on the sales, the selling prices and the competitiveness of the Group's products. Should the Group be unable to cope with the changing market conditions or satisfy the standard and preference of its customers, the profitability of the Group's mining operation will be adversely affected.

6. The rutile industry in the PRC is subject to extensive regulation by the PRC government. The operations under the Mine may be materially and adversely affected by any future changes in the government regulations and policies.

7. Rutile mine operations are subject to environmental protection laws and regulations in the PRC. The expenditure for environmental regulatory compliance will increase if the environment protection laws become more stringent. The Group's financial position may be adversely affected by any environmental liabilities which may be imposed under such new environmental policies and/or standards.

8. The operations of the Mine are carried out in the PRC. Any adverse changes in economic policy and legal development in the PRC will affect the revenue generated.

9. The development of the Mine and the new rutile related business is currently at the planning stage and only limited, conceptual work has been done at this stage and the Group may face many operational risks, which include risk related to the actual implementation of the development plan, the geological structure of the Mine, weather conditions, geological disasters that occur during the mining process, and catastrophic events such as fires, earthquakes, floods or other natural disasters.

10. The construction and mining operation of the Mine will be conducted by contractors, supervised by the Group's personnel. Failure to maintain a cooperative relationship with contractors or to renew the contracts or on similar terms when they expire may affect the mining and exploration activities of the Group and thus adversely affect the Group's operating results.

11. Electricity is one of the main energy sources used for mining operation. As there can be no assurance that the Group will always have adequate and uninterrupted supply of electricity in the future, any suspension or shortage of electricity supply may results in interruption to the mining operations. In addition, increase in the price of electricity may result in the increase in the mining operating costs of the Group.

12. The Group's mining operation may be affected by accidents, technical difficulties, mechanical failure or plant breakdown encountered in the mining and refining processes. Such technical difficulties, mechanical failure or plant breakdown may result in disruptions to the mining operation, increases in operating costs or personal injuries. Although the Group intends to setup and implement a set of stringent internal safety and preventive measures as safety precautions, there is no guarantee that no accident will occur in the future. Any occurrence of accidents may disrupt the business operation of the Group and may result in mandatory suspension of operation, financial losses, compensatory claims, fines, penalties or damage to the reputation of the Group.

13. The Group's mining operation involves significant risks, for instance, improper handling and storage of dangerous articles such as explosives may lead to explosions which could lead to injury or death or economic loss of our Group. Although the Group intends to implement very stringent rules in relation to the handling of such dangerous articles, there is no guarantee that no accident will occur in the future. Should there be any accident occur or should the Group be liable for such accident(s), it may result in economic loss to and penalty for the Group and criminal liabilities for the Group and/or its employees.

14. This is the Group's first venture into the rutile mining and titanium production industries, a highly specialised market and the fundamentals of which are not readily visible and such market could present management challenges. The Company and its current management have no experience in the mining industry. However, the Company intends to build up a professional management and technical team with expertise in the mining area as soon as practicable after the Completion to cope with the possible challenges.

Please also refer to the section headed "Risk analysis" in the technical assessment report as set out in Appendix VI to this circular.

**INFORMATION ON THE PROPERTY GROUP**

The Property Group is engaged in property investment. BVI Property Company is a wholly owned subsidiary of the Company and an investment holding company incorporated in the British Virgin Islands holding 100% beneficial interest in GITIC Properties, which owns 100% of the PRC Property. The principal activity of GITIC Properties is property investment. BVI Property Company acts as an investment holding company with no other business or asset other than its shareholding in GITIC Properties.

The unaudited consolidated financial information of BVI Property Company prepared in accordance with accounting principles generally accepted in Hong Kong for the two years ended 31 December 2005 and the six months ended 30 June 2006 is set out as follows:

| | **As at** | | **As at** |
|---|---|---|---|
| | **31 December 2004** | **31 December 2005** | **30 June 2006** |
| | *(HK$'million)* | *(HK$'million)* | *(HK$'million)* |
| Total assets | 236.06 | 200.12 | 212.53 |
| Total liabilities | 48.27 | 43.28 | 41.31 |
| Total equity | 187.79 | 156.84 | 171.22 |

| | **For the year ended** | | **For the period ended** |
|---|---|---|---|
| | **31 December 2004** | **31 December 2005** | **30 June 2006** |
| | *(HK$'million)* | *(HK$'million)* | *(HK$'million)* |
| Turnover | 8.81 | 8.68 | 4.50 |
| Net profits (losses) before taxation | (2.81) | (31.69) | 17.76 |
| Net profits (losses) after taxation | (2.93) | (30.95) | 17.46 |

The PRC Property is located at Level 2 of GITIC Plaza, No. 339 Huanshi Road East, Guangzhou, Guangdong Province, the PRC, comprising the entire shopping mall situated on the second floor of GITIC Plaza in Guangzhou. GITIC Plaza is located at the centre of one of the prime commercial districts in Guangzhou. The PRC Property has a gross floor area of about 8,976.56 square meters. Currently, the PRC Property is held by the Group as investment property.

Upon Completion, each of BVI Property Company and GITIC Properties will cease to be a subsidiary of the Company.

## REASONS AND BENEFITS FOR THE ACQUISITION

As stated in the 2005 annual report of the Company, the Company plans to continue to exploit and pursue any investment opportunities which can enhance the Group's performance and returns to shareholders.

Titanium has a wide range of applications including aerospace, military, industrial and consumer products (such as eye glasses, golf clubs, ski equipments). According to the 11th Five-Year plan, the PRC government is planning to develop several scalable high-tech projects for the period of 2006-2010. Those projects include the development of civil airplane, helicopters as well as advanced engines, satellite application and building of demonstration projects for commercial production of high-performance new materials needed in information, biological and aerospace industries. These projects will require the use of titanium hence increasing the demand of titanium. According to the Mineral Commodity Summaries published in January 2006 by the U.S. Geological Survey, the sole science agency for the U.S. Department of the Interior, a department which manages the natural resources of the United States, the increasing demand in the commercial aircraft and military markets caused the United States production and consumption of titanium sponge metal continued to rise in 2005, and countries like the United States, Japan and Russia are expected to increase their titanium sponge capacities by 2006 and 2007. With the continued increase in the demand and applications of titanium in these aspects, the Directors foresee demand for high quality titanium sponge. The Directors also believe the control of the raw material, rutile, for the production of titanium sponge and titanium tetrachloride will give the Group a competitive advantage over its competitors in the raw material supply and production. The Directors believe that the Group, following the Acquisition, will enhance performance and returns to the Shareholders.

## FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, Lead Sun will become a subsidiary of the Company and its financial results will be consolidated with those of the Group.

Based on the unaudited pro forma balance sheet on the Enlarged Group, assuming that the Acquisition had been completed on 30 June 2006, the assets base of the Enlarged Group will increase with non-current assets increase by about HK$1,816,114,000 from about HK$157,041,000 to about HK$1,973,155,000, mainly attributable to the recognition of the mining right amounting to HK$1,810,000,000, the goodwill arising from the Acquisition of about HK$132,826,000 offset by the disposal of the PRC Property of about HK$137,864,000 as a result of the disposal of the BVI Property Company as part of the Total Consideration. Current asset of the Enlarged Group will increase by about HK$218,286,000 from about HK$144,835,000 to about HK$363,121,000, mainly attributable to the increase in cash inflow from Placing proceeds of about HK$456,550,000 (assuming over-allotment has been exercised in full), the increase in amount due from a minority investor of about HK$30,155,000 offset by the settlement of part of the Total Consideration of HK$205,000,000 in cash, the repayment of amount due to BVI Property Company of about HK$30,910,000 and the decrease in trade and other receivables of about HK$29,464,000 as a result of the disposal of the BVI Property Company.

Total liabilities of the Enlarged Group will increase by about HK$483,245,000 from about HK$70,112,000 to about HK$553,357,000, primarily attributable to the recognition of deferred taxation arising from the mining rights of about HK$470,600,000, the increase in trade and other payables from Lead Sun Group of about HK$31,280,000 offset by the removal of about HK$30,910,000 secured bank borrowings as a result of the disposal of the BVI Property Company as part of the Total Consideration.

As a result of the Acquisition, the net assets of the Enlarged Group will increase by about HK$1,551,155,000 from about HK$231,764,000 to about HK$1,782,919,000. The Group will not have any bank borrowings immediately after the Acquisition.

As stated on note 3 to the unaudited pro forma financial information on the Enlarged Group, for the purpose of preparing the pro forma balance sheet of the Enlarged Group, the fair value of the Lead Sun Group and purchase consideration are applied in calculating the estimated goodwill arising from the Acquisition. As the fair values of the Lead Sun Group and Consideration Shares as at the date of Completion may be substantially different from their fair values as at 30 June 2006, the actual goodwill arising from the Acquisition may also be substantially different from the estimated goodwill as mentioned above.

For details of the unaudited pro forma financial information on the Enlarged Group before and after Completion and its basis of preparation, please refer to Appendix IV to this circular.

**BUSINESS PROSPECTS OF THE ENLARGED GROUP**

The Group's core business is the umbilical cord blood storage service and property investment. In pursuing the competitiveness and strengthening the business of the Group, it has recently streamlined the operation. The business of the umbilical cord blood storage service has been developing and the Group will dedicate more resources in developing and creating the public awareness regarding the benefits of cord blood storage. Subject to the completion of the Acquisition and the transfer of the entire equity interest in BVI Property Company which owns 100% of the PRC property, the business of the property investment will be discontinued.

Looking ahead, the Group will remain dynamic and continue to pursue investment opportunities and strategic acquisitions which can enhance the performance and accelerate the growth of the business of the Group.

Upon Completion, the Group will also be engaged in rutile mining and titanium production in the PRC. As stated in the section headed "Reasons for the Acquisition", with the continued increase in the demand and applications of titanium in these aspects, the Directors foresee demand for high quality titanium sponge. The Directors also believe the control of the raw material, rutile, for the production of titanium sponge and titanium chloride will give the Group a competitive advantage over its competitors in the raw material supply and production. The Directors therefore believe that the Group, following the Acquisition, will enhance performance and returns to the Shareholders.

**FUNDING REQUIREMENTS**

It is expected that the construction of the Mine will commence after the Completion. Based on the current development plan, the development of the new rutile related business of the Group is divided into three phrases. Phase I will involve the extraction and production of natural rutile of an annual processing capacity of 1,500,000 tonnes of rutile. Phase II will involve the production of titanium tetrachloride ($TiCl4$) with an annual production capacity of 42,000 tonnes of $TiCl4$. Phase III will involve the production of titanium sponge with a preliminary planned annual production capacity of 5,000 tonnes of titanium sponge.

Taking into account the time estimated for obtaining the relevant approvals, licences, tests or steps required to be obtained or completed after Completion before natural rutile can be exploited from the Mine under PRC laws as set out in the section headed "Summary of the principal approvals, licences, tests or steps required after Completion", it is anticipated that construction of Phase I will commence in the first quarter of 2007 and test production will commence in the fourth quarter of 2007. Construction of Phase II is expected to commence in the second quarter of 2007 and complete in the first quarter of 2008. The timing for the development of Phase III depends on the progress of Phases I and II and is preliminarily expected to commence after end of 2008. Currently, the anticipated capital expenditures (including land use rights, design, building and construction, equipment costs) required for the development of Phase I and Phase II are about RMB291,600,000 (equivalent to about HK$283,100,000) and RMB188,400,000 (equivalent to about HK$182,900,000) respectively. In addition, other anticipated costs include the balance of the mining rights premium in respect of the Mine will amount to about RMB52,475,000 (equivalent to about HK$50,947,000) and the costs for additional drilling and feasibility study of about RMB6,900,000 (equivalent to about HK$6,700,000).

It is currently expected that for the two years following the date of this circular (assuming that Completion will take place), the material funding requirements of Shanxi Shenli will include the anticipated costs for additional drilling and feasibility study of about RMB6,900,000 (equivalent to about HK$6,700,000); anticipated aggregated capital expenditures for Phases I and II of about RMB480,000,000 (equivalent to about HK$466,000,000); the second instalment of about RMB12,475,000 (equivalent to about HK$12,112,000) on or before 30 December 2007 and the third instalment of about RMB10,000,000 (equivalent to about HK$9,709,000) on or before 30 December 2008 of the remaining balance of the mining rights premium; and operating expenses, administrative expenses, repair and maintenance of fixed assets and taxes incurred in relation to the operation of the Mine. It is currently intended that these funding requirement will be satisfied by shareholders' loan from the respective shareholders of Lead Sun and Shanxi Shenli. The Group's relevant contribution will be funded by the net proceeds of the Placing and internal resources.

Taking into account the present internal financial resources of the Group, the net proceeds from the Placing and the cash to be generated from the Enlarged Group and the Group's investment in the Enlarged Group, it is estimated that the Group will have a net cash inflow for each of the subsequent two years following the date of this circular.

**FAIR VALUE OF THE MINING RIGHTS**

The fair value of the mining rights relating to the Mine was determined on a discounted cash flow basis after taking into consideration factors including but not limited to the estimated total amount of contained natural rutile of the Mine of about 1.89 million tonnes as stated in the technical assessment report and the present prices of rutile ore, titanium tetrachloride ($TiCl4$) and titanium sponge. An income approach technique known as Discounted Economic Income Approach was adopted which is based on the premise that the present value of an asset or business is a function of the earnings or cash flow it is expected to produce over its economic life.

**Bases and assumptions**

The fair value of the mining rights relating to the Mine was determined by the management of the Company with guidance and technical assistance from Greater China Appraisal Limited, an independent qualified valuer; Behre Dolbear Asia, Inc., a mining industry consulting firm with extensive experience in mining related projects and Canadian Imperial Bank of Commerce (CIBC), a Canadian-based adviser which possesses expertise in the mining industry. The management of the Company determines the fair value of the mining rights relating to the Mine based on the following bases and assumptions:

(a) there will not be material changes in government policies or political, legal (including legislation or regulations or rules), fiscal, market or economic conditions, the bases or rates of taxation in the PRC, where the Mine is situated;

(b) there will be no material changes in foreign currency rates and interest rates from those currently prevailing;

(c) the development, exploration and operation of the Mine and the Group will not be severely interrupted by any force majeure events or unforeseeable factors or any unforeseeable reasons that are beyond the control of the Company, including but not limited to the occurrence of natural disasters of catastrophes or serious accidents;

(d) total reserve and, extractable reserve and, metal grade and, recovery rate of the Mine is based on the business plan prepared by the Company with reference to exploration reports from Shanxi Provincial Bureau of Geological Minerals Exploration and Development;

(e) the extraction volume is based on the total extractable reserve, the planned production capacity of the Mine and the mining application made to the relevant PRC government authorities and assuming there are 300 days of production per year;

(f) prices of products are based on present prices of rutile ore, titanium tetrachloride ($TiCl4$) and titanium sponge to the best knowledge of the Directors and based on publicly available information from metal exchange, trade news and inquiries made;

(g) sales, supplementary and income tax rates are based on the relevant PRC tax regulations;

(h) capital requirement is based on the planned scale of operation and production capacity of the Mine and information obtained from equipment suppliers and design institution;

(i) discount rate on the range of 20% is based on the weighted average cost of capital of the Company, after taken into account the specific risks in relation to the Company and the mining project and liquidity risk; and

(j) projection period is based on the assumed mine life of 25 years which in the opinion of the Company is a sufficient period to account for the contribution of the Mine.

The Directors considered that they have made due and careful enquiries in determining the fair value of the mining rights in relation to the Mine.

Greater China Appraisal Limited, an independent qualified valuer, has reviewed the methodologies adopted in preparing and the calculation of the valuation models for the mining rights relating to the Mine. They have also reviewed the discount rate used in the calculation models and they considered that the discount rate used is within a reasonable range. They are not aware of any evidence or information which renders the above bases and assumptions unreasonable.

Baker Tilly, the Company's reporting accountants, have reviewed the arithmetical accuracy of the discounted cash flow forecast underlying the internal assessment of the fair value of the mining rights relating to the Mine on a discounted cash flow basis by the management of the Company. Because the discounted cash flow forecast is a cash flow model, no accounting policies of the Company have been adopted in its preparation. Based on their view, so far as calculations are concerned, the underlying forecast has been properly complied in accordance with the assumptions made by the management of the Company.

**Valuation**

The Directors consider that, based on the bases and assumptions set out above and in the absence of unforeseen circumstances, the fair value of the mining rights of the Mine as at 30 June 2006 was about HK$1,810,000,000. The relevant amount attributable to 57% equity interests in Lead Sun which owns 90% equity interests in the Mine is equivalent to about HK$928,530,000.

## INCREASE IN AUTHORISED SHARE CAPITAL

To facilitate the issue of the Consideration Shares and the Placing Shares, the Company also proposes to increase its authorised share capital from HK$400,000,000 divided into 4,000,000,000 Shares to HK$1,000,000,000 divided into 10,000,000,000 Shares. The increase in the authorised share capital of the Company will be proposed as a separate resolution at the SGM and will be conditional upon the approval of the Acquisition.

## SGM

The SGM will be held at The Ballroom, B3, The Ritz Carlton Hong Kong, No. 3 Connaught Road, Central, Hong Kong at 3:00 p.m. on Wednesday, 25 October 2006 to consider and, if thought fit, approve, among other matters, the Formal Acquisition Agreement and the transactions contemplated thereunder including the transfer of the interests in BVI Property Company to the First Vendor, the Placing Agreement and the transactions contemplated thereunder and the proposed increase in authorised share capital of the Company.

A notice convening the SGM is set out on pages 197 to 199 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 46/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the SGM if you so wish.

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, the Vendors, their beneficial owners and their respective associates, do not hold any Shares as at the Latest Practicable Date.

So far as the Company can ascertain and based on the written confirmations given by each of the placees and, in the case of a placee which is a corporation, its ultimate beneficial owners, each of them has confirmed that it does not have any interest in the share capital of the Company as at the Latest Practicable Date save for the holding of 7,100,000 Shares, representing about 0.287% of the issued share capital of the Company as at the Latest Practicable Date, by one of the placees, Vision Tech International Limited, under the Placing as at the Latest Practicable Date. Pursuant to Rule 14.63 of the Listing Rules, any shareholder with a material interest in a proposed transaction and his associates will abstain from voting on the resolution(s) approving that transaction. Such placee holding 7,100,000 Shares as at the Latest Practicable Date has undertaken that it and its associates will abstain, and will procure their respective nominees (if any) to abstain, from voting on all resolutions proposed at the SGM.

Based on the two immediate preceding paragraphs, and having made all reasonable enquiries, as at the Latest Practicable Date, the Company is not aware of any Shareholder who is required to abstain from voting on the resolutions proposed at the SGM save for Vision Tech International Limited as aforesaid. Pursuant to the Listing Rules, any Shareholder who has a material interest in the Acquisition or the Placing is required to abstain from voting on all resolutions proposed at the SGM. Pursuant to Rule 13.39(4)(d) of the Listing Rules, all ordinary resolutions as set out in the notice of the SGM will be voted by way of poll by the Independent Shareholders at the SGM.

**PROCEDURE TO DEMAND A POLL AT GENERAL MEETING**

Pursuant to Bye-law 66 of the bye-laws of the Company, a resolution put to the vote of a meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

(i) by the chairman of such meeting; or

(ii) by at least three Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or

(iii) by a Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or

(iv) by a Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

**RECOMMENDATION**

The Directors consider that the terms of the Acquisition including the transfer of interests of BVI Property Company to the First Vendor, the Placing and the increase in authorised share capital of the Company are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM.

**ADDITIONAL INFORMATION**

Your attention is drawn to the additional information set out in the Appendices to this circular.

Yours faithfully,
For and on behalf of the Board
**INNOMAXX Biotechnology Group Limited**
**Luk Kin Peter Joseph**
*Deputy Chairman & Chief Executive Officer*

## 1. SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for the last three financial years, as extracted from the audited financial statements, is set out below.

| | Year Ended 31 December | | |
|---|---|---|---|
| | **2005** | **2004** | **2003** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| RESULTS | | | |
| Turnover | 190,838 | 242,459 | 18,109 |
| Loss before taxation | (55,859) | (86,040) | (34,013) |
| Taxation credit (charge) | 659 | (175) | (1,277) |
| Loss for the year | (55,200) | (86,215) | (35,290) |

| | At 31 December | | |
|---|---|---|---|
| | **2005** | **2004** | **2003** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| ASSETS AND LIABILITIES | | | |
| Total assets | 297,041 | 484,225 | 427,860 |
| Total liabilities | (69,614) | (203,971) | (97,435) |
| Equity attributable to equity holders of the parent | 227,427 | 280,254 | 330,425 |

## 2. REPORT OF THE AUDITORS FOR THE FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2005

*The following is the report of Deloitte Touche Tohmatsu for the year ended 31 December 2005 as extracted from the annual report of the Company for the year ended 31 December 2005 (''2005 Annual Report''). The page reference in this report are the same as those in the 2005 Annual Report. The audited financial statements together with the relevant notes to the financial statements of the Group as extracted from the 2005 Annual Report are also set out below.*

**Auditors' Report**

**TO THE SHAREHOLDERS OF INNOMAXX BIOTECHNOLOGY GROUP LIMITED**
**創富生物科技集團有限公司**
*(incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements on pages 17 to 58 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

*Respective responsibilities of directors and auditors*

The Company's directors are responsible for the preparation of consolidated financial statements which give a true and fair view. In preparing consolidated financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those consolidated financial statements and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

*Basis of opinion*

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the consolidated financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

*Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2005 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*

Hong Kong
21 April 2006

**CONSOLIDATED INCOME STATEMENT**
*For the year ended 31 December 2005*

| | *Notes* | **2005** *HK$'000* | **2004** *HK$'000* |
|---|---|---|---|
| Turnover | *7* | 190,838 | 242,459 |
| Cost of sales | | (166,714) | (223,051) |
| Gross profit | | 24,124 | 19,408 |
| Other income | *9* | 1,591 | 1,892 |
| Administrative expenses | | (42,663) | (41,947) |
| Decrease in fair value of investment properties | | (31,000) | (6,600) |
| Impairment loss recognised in respect of receivables | | (3,866) | – |
| Impairment loss recognised in respect of goodwill | | (2,126) | – |
| Impairment loss recognised in respect of investments in securities | | – | (20,000) |
| Finance costs | *10* | (1,919) | (2,373) |
| Share of results of associates | | 1,373 | (28,065) |
| Loss on disposal of an associate | *18* | (1,373) | – |
| Impairment loss recognised in respect of goodwill arising on acquisition of an associate | *18* | – | (8,355) |
| Loss before taxation | | (55,859) | (86,040) |
| Taxation credit (charge) | *11* | 659 | (175) |
| Loss for the year | *12* | (55,200) | (86,215) |
| Loss per share – basic | *14* | (2.24) HK cents | (3.92) HK cents |

## CONSOLIDATED BALANCE SHEET

*At 31 December 2005*

| | Notes | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 15 | 3,399 | 4,622 |
| Investment properties | 16 | 124,800 | 155,800 |
| Goodwill | 17 | 15,600 | 17,726 |
| Interest in associates | 18 | – | 155,660 |
| Available-for-sale investments | 19 | – | – |
| Investments in securities | 20 | – | – |
| | | 143,799 | 333,808 |
| Current assets | | | |
| Inventories | | 375 | 362 |
| Trade and other receivables | 21 | 53,331 | 64,450 |
| Investments held for trading | 22 | 2,268 | – |
| Investments in securities | 20 | – | 7,639 |
| Pledged bank deposits | 23 | 5,099 | 10,342 |
| Pledged deposits in financial institutions | 23 | 8,412 | 6,208 |
| Bank balances and cash | 24 | 83,757 | 61,416 |
| | | 153,242 | 150,417 |
| Current liabilities | | | |
| Trade and other payables | 25 | 7,751 | 37,282 |
| Deferred income | | 21,983 | 12,415 |
| Amount due to a related company | 26 | – | 108,962 |
| Taxation payable | | 488 | 90 |
| Secured bank borrowings – amount due within one year | 27 | 4,000 | 4,000 |
| Obligations under finance leases – due within one year | 28 | 117 | 249 |
| | | 34,339 | 162,998 |
| Net current assets (liabilities) | | 118,903 | (12,581) |
| Total assets less current liabilities | | 262,702 | 321,227 |

| | Notes | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|---|
| Non-current liabilities | | | |
| Secured bank borrowings – amount due after one year | 27 | 28,910 | 32,910 |
| Obligations under finance leases – due after one year | 28 | – | 117 |
| Deferred taxation | 29 | 6,365 | 7,946 |
| | | 35,275 | 40,973 |
| Net assets | | 227,427 | 280,254 |
| Capital and reserves | | | |
| Share capital | 30 | 246,481 | 246,481 |
| Reserves | | (19,054) | 33,773 |
| Total equity attributable to equity holders of the parent | | 227,427 | 280,254 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31 December 2005*

| | Attributable to equity holders of the parent | | | | | |
|---|---|---|---|---|---|---|
| | Share capital | Share premium | Contributed surplus | Share options reserve | Accumulated losses | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 January 2004 | 210,451 | 177,165 | 152,150 | – | (209,341) | 330,425 |
| Conversion of convertible bond | 36,000 | – | – | – | – | 36,000 |
| Exercise of share options | 30 | 14 | – | – | – | 44 |
| Loss for the year and total recognised loss | – | – | – | – | (86,215) | (86,215) |
| At 1 January 2005 | 246,481 | 177,179 | 152,150 | – | (295,556) | 280,254 |
| Recognition of equity-settled share based payments | – | – | – | 2,373 | – | 2,373 |
| Loss for the year and total recognised loss | – | – | – | – | (55,200) | (55,200) |
| At 31 December 2005 | 246,481 | 177,179 | 152,150 | 2,373 | (350,756) | 227,427 |

The contributed surplus represents the special reserve arising upon the Group reorganisation in March 1997.

The accumulated losses of the Group included approximately HK$37,666,000 (2004: HK$29,311,000) retained by associates of the Group.

**CONSOLIDATED CASH FLOW STATEMENT**
*For the year ended 31 December 2005*

| | **2005** | **2004** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Operating activities | | |
| Loss before taxation | (55,859) | (86,040) |
| Adjustments for: | | |
| Decrease in fair value of investment properties | 31,000 | 6,600 |
| Dividend income | (150) | (21) |
| Interest expense | 1,919 | 2,373 |
| Interest income on bank deposits | (1,282) | (137) |
| Amortisation of goodwill | – | 2,914 |
| Depreciation of property, plant and equipment | 1,568 | 1,600 |
| Loss on disposal of an associate | 1,373 | – |
| Loss on disposal of property, plant and equipment | – | 57 |
| Impairment loss recognised in respect of receivables | 3,866 | – |
| Impairment loss recognised in respect of goodwill | 2,126 | – |
| Impairment loss recognised in respect of goodwill arising on acquisition of an associate | – | 8,355 |
| Impairment loss recognised in respect of investments in securities | – | 20,000 |
| Recognition of share-based payments | 2,373 | – |
| Share of results of associates | (1,373) | 28,065 |
| Operating cash outflows before movements in working capital | (14,439) | (16,234) |
| Increase in inventories | (13) | (48) |
| Decrease in trade and other receivables | 7,253 | 13,912 |
| Decrease (increase) in investments held for trading/investments in securities | 5,371 | (7,455) |
| (Decrease) increase in trade and other payables | (29,531) | 31,743 |
| Increase in deferred income | 9,568 | 6,433 |
| Cash (used in) generated from operations | (21,791) | 28,351 |
| Mainland China (the "PRC") Enterprise income tax paid | (524) | (456) |
| Net cash (used in) generated from operating activities | (22,315) | 27,895 |
| Investing activities | | |
| Dividend income | 150 | 21 |
| Interest on bank deposits received | 1,282 | 137 |
| Purchase of property, plant and equipment | (345) | (976) |
| Acquisition of an associate | – | (46,698) |
| Proceeds from disposal of an associate | 46,698 | – |
| Decrease (increase) in pledged bank deposits | 5,243 | (9,112) |
| Increase in pledged deposits in financial institutions | (2,204) | (6,208) |
| Proceeds from disposal of property, plant and equipment | – | 227 |
| Net cash generated from (used in) investing activities | 50,824 | (62,609) |

| | 2005 | 2004 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Financing activities | | |
| Interest paid | (1,919) | (2,373) |
| Net proceeds from issue of new shares | – | 44 |
| Repayment of bank borrowings | (4,000) | (4,000) |
| Repayment of obligation under finance leases | (249) | (321) |
| Net cash used in financing activities | (6,168) | (6,650) |
| Net increase (decrease) in cash and cash equivalents | 22,341 | (41,364) |
| Cash and cash equivalents at 1 January | 61,416 | 102,780 |
| Cash and cash equivalents at 31 December | 83,757 | 61,416 |
| Analysis of the balances of cash and cash equivalents | | |
| Bank balances and cash | 83,757 | 61,416 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2005*

**1. General**

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office and principal place of business of the Company are disclosed in the corporate information to the annual report.

The consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company.

The Company acts as an investment holding company. The principal activities of the subsidiaries are set out in note 37.

**2. Application of Hong Kong Financial Reporting Standards and Changes in Accounting Policies**

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1 January 2005. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and prior accounting years are prepared and presented.

**Business combinations**

In the current year, the Group has applied HKFRS 3 Business Combinations which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

*Goodwill*

In previous years, goodwill arising on acquisitions was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the balance sheet, the Group on 1 January 2005 eliminated the carrying amount of the related accumulated amortisation of HK$11,413,000 with a corresponding decrease in the cost of goodwill. The Group has discontinued amortising such goodwill from 1 January 2005 and goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. Comparative figures for 2004 have not been restated (see note 3 for the financial impact).

**Share-based payments**

In the current year, the Group has applied HKFRS 2 Share-based Payment, which requires an expense to be recognised when the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Group, determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 January 2005. In relation to share options granted before 1 January 2005, the Group elected not to apply HKFRS 2 with respect to share options granted on or before 7 November 2002 and vested before 1 January 2005. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7 November 2002 and had not yet vested on 1 January 2005. As there were no such unvested options outstanding on 1 January 2005, no prior year adjustments required.

For the year ended 31 December 2005, impact of share-based payment is a charge to income statement of HK$2,373,000 for share options granted during the year, with a corresponding amount adjusted to share options reserve (see note 3 for the financial impact).

**Financial instruments**

In the current year, the Group has applied HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of the financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

*Classification and measurement of financial assets and financial liabilities*

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

*Debt and equity securities*

By 31 December 2004, the Group classified and measured its equity securities in accordance with the alternative treatment of Statement of Standard Accounting Practice 24 (SSAP 24). Under SSAP 24, investments in debt or equity securities are classified as "trading securities", "non-trading securities" or "held-to-maturity investments" as appropriate. Both "trading securities" and "non-trading securities" are measured at fair value. Unrealised gains or losses of "trading securities" are reported in profit or loss for the period in which gains or losses arise. Unrealised gains or losses of "non-trading securities" are reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for that period. From 1 January 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

On 1 January 2005, the Group reclassified its "non-trading securities" to "available-for-sale investments" and reclassified its "trading securities" to "investments held for trading" in accordance with the transitional provisions of HKAS 39 (see note 3 for financial impact).

*Convertible bond*

The principal impact of HKAS 32 on the Group is in relation to convertible bond issued by the Company that contain both liability and equity components. Previously, convertible loan notes were classified as liabilities on the consolidated balance sheet. HKAS 32 requires an issuer of a compound financial instrument that contains both financial liability and equity components to separate the compound financial instrument into the liability and equity components on initial recognition and to account for these components separately. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. There is no significant impact on the Group's financial position and operating results for current or prior accounting period.

*Financial assets and financial liabilities other than debt and equity securities*

From 1 January 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition.

Prior to the application of HKAS 39, the receivables were stated at the nominal amount. HKAS 39 requires all financial assets and financial liabilities to be measured at fair value on initial recognition. Such receivables are measured at amortised cost determined using the effective interest method at subsequent balance sheet dates. The Group has applied the relevant transitional provisions in HKAS 39. As a result of this change in the accounting policy, an impairment loss of HK$3,866,000 was made to the Group's receivables during the year which was determined based on future cash flows of the receivables discounted at the original effective interest rate (see note 3 for financial impact). As the receivables on 1 January 2005 was approximately equal to their amortised cost, there is no significant impact on the Group's financial position and operating results on 1 January 2005.

**Investment properties**

In the current year, the Group has, for the first time, applied HKAS 40 Investment Property. The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in profit or loss for the year in which they arise. In previous years, investment properties under the predecessor standard were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the consolidated income statement. Where a decrease had previously been charged to the consolidated income statement and a revaluation surplus subsequently arose, that increase was credited to the consolidated income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 January 2005 onwards. The carrying values of the investment properties are lower than their cost. As a result, there is no significant effect on the accumulated losses of the Group on 1 January 2005.

**3. Summary of the Effects of the Changes in Accounting Policies**

The effects of the changes in the accounting policies described above on the results for the current and prior years are as follows:

| | **2005** | **2004** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Non-amortisation of goodwill | 2,914 | – |
| Expenses in relation to share options granted to employees | (2,373) | – |
| Impairment on receivables | (3,866) | – |
| Increase in loss for the year | (3,325) | – |

Analysis of increase in loss for the year by line items presented according to their function:

| | 2005 | 2004 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Increase in impairment loss recognised in respect of receivables | (3,866) | – |
| Decrease in administrative expenses | 541 | – |
| Increase in loss for the year | (3,325) | – |

The cumulative effects of the application of the new HKFRSs as at 31 December 2004 and 1 January 2005 are summarised below:

| | 31.12.2004 | Opening adjustments | 1.1.2005 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* (restated) |
| **Balance sheet items** | | | |
| Investments in securities | 7,639 | (7,639) | – |
| Investments held for trading | – | 7,639 | 7,639 |
| | 7,639 | – | 7,639 |

There is no financial effects of the application of the new HKFRSs to the Group's equity on 1 January 2004.

The Group has not early applied the new standards, interpretations and amendments that have been issued but are not yet effective as at 31 December 2005. The Group has commenced considering the potential impact of these standards, interpretations and amendments. The directors anticipate the application of these standards, interpretations and amendments will have no material impact on the consolidated financial statements of the Group.

| | |
|---|---|
| HKAS 1 (Amendment) | Capital disclosures[1] |
| HKAS 19 (Amendment) | Actuarial gains and losses, group plans and disclosures[2] |
| HKAS 21 (Amendment) | Net investment in a foreign operation[2] |
| HKAS 39 (Amendment) | Cash flow hedge accounting of forecast intragroup transactions[2] |
| HKAS 39 (Amendment) | The fair value option[2] |
| HKAS 39 and HKFRS 4 (Amendments) | Financial guarantee contracts[2] |
| HKFRS 6 | Exploration for and evaluation of mineral resources[2] |
| HKFRS 7 | Financial instruments: Disclosures[1] |
| HK(IFRIC) – INT 4 | Determining whether an arrangement contains a lease[2] |
| HK(IFRIC) – INT 5 | Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2] |
| HK(IFRIC) – INT 6 | Liabilities arising from participating in a specific market – waste electrical and electronic equipment[3] |
| HK(IFRIC) – INT 7 | Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4] |

1 Effective for annual periods beginning on or after 1 January 2007.
2 Effective for annual periods beginning on or after 1 January 2006.
3 Effective for annual periods beginning on or after 1 December 2005.
4 Effective for annual periods beginning on or after 1 March 2006.

**4. Significant Accounting Policies**

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosure required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost convention except for certain properties and financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

**Goodwill**

*Goodwill arising on acquisitions prior to 1 January 2005*

Goodwill arising on an acquisition of subsidiaries for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiaries or associates at the date of acquisition.

For previously capitalised goodwill arising on acquisitions prior to 1 January 2005, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

*Goodwill arising on acquisitions on or after 1 January 2005*

Goodwill arising on an acquisition of subsidiaries for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiaries or associates at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment loss.

Capitalised goodwill arising on an acquisition of subsidiaries is presented separately in the balance sheet. Capitalised goodwill arising on acquisition of associates is included in the cost of the investment of the relevant associates, and is tested for impairment by comparing the carrying amount of the investment with the recoverable amount, wherever there is any indication that the investment may be impaired.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of subsidiaries or associates, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

**Investment properties**

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in fair value of investment property are included in profit or loss for the period in which they arise.

**Property, plant and equipment**

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method, at the following rates per annum:

| | |
|---|---|
| Leasehold improvements | 15% - $33^1/_3$% |
| Furniture, fixtures and equipment | 10% - 20% |
| Motor vehicles | 20% |

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

**Interest in associates**

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

In the consolidated balance sheet, investments in associates are stated at the Group's share of the net assets of its associate plus unamortised goodwill arising on acquisition, less any identified impairment losses.

**Inventories**

Inventories, which represent consumables, are stated at cost. Cost is calculated using the first-in, first-out method.

**Impairment (other than goodwill)**

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

**Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

*The Group as lessor*

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

*The Group as lessee*

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred taxation.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred taxation liabilities are generally recognised for all taxable temporary differences, and deferred taxation assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred taxation assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred taxation is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred taxation is charged or credited to the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred taxation is also dealt with in equity.

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Processing and storage fees are recognised when services are rendered. Enrolment fees are recognised upon the signing of the enrolment contract.

Rental income is recognised on a straight-line basis over the term of relevant lease.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

**Deferred income**

Deferred income represents storage fee received in advance from customers and is recognised to income over the term of relevant contract on a straight-line basis.

**Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

Goodwill and fair value adjustments arising on acquisitions of foreign operations prior to 1 January 2005 are treated as non-monetary foreign currency items of the acquirer and reported using the historical exchange rate prevailing at the date of the acquisition.

**Financial instruments**

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

*Financial assets*

The Group's financial assets mainly comprise the loans and receivables, available-for-sale investments and investments held for trading. The accounting policies adopted in respect of each category of financial assets are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables) and bank deposits and balances are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories (set out above). At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Investments held for trading

At each balance sheet date subsequent to initial recognition, investments held for trading are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash at bank and demand deposits which are subject to an insignificant risk of changes in value.

*Financial liabilities and equity*

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted for financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade and other payables, amount due to a related company, obligation under finance leases and bank borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Bank borrowings

Interest-bearing bank loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowings costs.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

**Share-based payments**

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated losses.

**Retirement benefits costs**

Payments to the mandatory provident fund scheme are charged as an expense as they fall due.

### 5. Key Sources of Estimation Uncertainty

In the process of applying the Group's accounting policies, which are described in note 4, management had made the following estimations that have the most significant effect on the amounts recognised in the consolidated financial statements.

**Impairment of goodwill**

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amount of goodwill as at 31 December 2005 was HK$15,600,000 arising from acquisition of subsidiaries. Details of the recoverable amount calculations of goodwill arising from acquisitions of subsidiaries are disclosed in note 17. Changes in estimation of the value in use would materially affect the amounts of impairment loss recognised in respect of goodwill in the consolidated income statement and the balance of goodwill in the consolidated balance sheet.

**Impairment of trade receivables**

Note 4 describes that trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the receivables are not recoverable.

Management considered detailed procedures have been in place to monitor this risk as a significant proportion of the Group's majority of working capital is devoted to trade receivables. In determining whether impairment on trade receivable is occurred, the Group takes into consideration the ageing status and the likelihood of collection. An impairment loss on trade receivables is recognised when they are unlikely to be collected. The measurement of impairment loss requires the Group to estimate the future cash flows expected to be collected. Adjustments will be made in future periods if the estimated future cash flows changes. Changes in the estimation would materially affect the impairment of trade receivables recognised in the consolidated income statement and balance of trade receivables in the consolidated balance sheet.

### 6. Financial Risk Management Objectives and Policies

The Group's major financial instruments include pledged bank deposits, pledged deposits in financial institutions, bank balances and cash, trade and other receivables, trade and other payables and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**Currency risk**

Certain trade receivables of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

**Credit risk**

The Group's credit risk is primarily attributable to trade and other receivables. The maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has reviewed the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Except for disclosures in note 21, the Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

**Cash flow interest rate risk**

The Group's cash flow interest rate risk primarily relates to variable-rate bank borrowings (see note 27). The Group currently does not have interest cash flow hedging policy. However, management monitors the related interest cash flow exposure closely and will consider hedging significant interest cash flow exposure should the need arises.

## 7. Turnover

| | **2005** | **2004** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Turnover represents the net amounts received and receivable for: | | |
| Trading of pharmaceutical ingredients and chemicals | 130,262 | 163,730 |
| Sales of investments held for trading/ investments in securities | 36,108 | 58,179 |
| Processing, storage and enrolment fees | 15,634 | 11,724 |
| Rental income | 8,684 | 8,805 |
| Dividend income | 150 | 21 |
| | 190,838 | 242,459 |

## 8. Business and Geographical Segments

**Business segments**

The Group is currently engaged in property investment, processing and storage of cord blood, trading of investments and trading of pharmaceutical ingredients and chemicals. There are no sales or trading transactions between the business segments. These segments are the basis on which the Group reports its primary segment information.

Segment information about these businesses for the year ended 31 December 2005 is set out as follows:

**For the year ended 31 December 2005**

| | Property investment | Processing and storage of cord blood | Trading of investments | Trading of pharmaceutical ingredients and chemicals | Total |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Turnover | 8,684 | 15,634 | 36,258 | 130,262 | 190,838 |
| Results | (29,934) | (95) | 1,101 | (381) | (29,309) |
| Finance costs | | | | | (1,919) |
| Share of results of associates | | | | | 1,373 |
| Loss on disposal of an associate | | | | | (1,373) |
| Unallocated corporate expenses | | | | | (24,631) |
| Loss before taxation | | | | | (55,859) |
| Taxation | | | | | 659 |
| Loss for the year | | | | | (55,200) |

**At 31 December 2005**

| | Property investment | Processing and storage of cord blood | Trading of investments | Trading of pharmaceutical ingredients and chemicals | Total |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Segment assets | 153,385 | 25,675 | 3,334 | – | 182,394 |
| Unallocated corporate assets | | | | | 114,647 |
| Total assets | | | | | 297,041 |
| Segment liabilities | 3,069 | 23,280 | – | – | 26,349 |
| Unallocated corporate liabilities | | | | | 43,265 |
| Total liabilities | | | | | 69,614 |

**For the year ended 31 December 2005**

| | Property investment | Processing and storage of cord blood | Trading of Investments | Unallocated | Total |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| OTHER INFORMATION | | | | | |
| Capital additions | 5 | 328 | – | 12 | 345 |
| Depreciation | 137 | 509 | – | 922 | 1,568 |
| Decrease in fair value of investment properties | 31,000 | – | – | – | 31,000 |
| Impairment loss recognised in respect of receivable | 3,866 | – | – | – | – |
| Impairment loss recognised in respect of goodwill | – | 2,126 | – | – | 2,126 |

Segment information about these businesses for the year ended 31 December 2004 is set out as follows:

**For the year ended 31 December 2004**

| | Property investment | Processing and storage of cord blood | Trading of investments | Trading of pharmaceutical ingredients and chemicals | Total |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Turnover | 8,805 | 11,724 | 58,200 | 163,730 | 242,459 |
| Results | (1,714) | 973 | (17,105) | 320 | (17,526) |
| Finance costs | | | | | (2,373) |
| Share of results of associates | | | | | (28,065) |
| Impairment loss recognised in respect of goodwill arising on acquisition of an associate | | | | | (8,355) |
| Unallocated corporate expenses | | | | | (29,721) |
| Loss before taxation | | | | | (86,040) |
| Taxation | | | | | (175) |
| Loss for the year | | | | | (86,215) |

**At 31 December 2004**

| | Property investment | Processing and storage of cord blood | Trading of investments | Trading of pharmaceutical ingredients and chemicals | Total |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Segment assets | 187,947 | 24,006 | 7,639 | 26,004 | 245,596 |
| Unallocated corporate assets | | | | | 238,629 |
| Total assets | | | | | 484,225 |
| Segment liabilities | 3,280 | 13,549 | – | 25,952 | 42,781 |
| Unallocated corporate liabilities | | | | | 161,190 |
| Total liabilities | | | | | 203,971 |

**For the year ended 31 December 2004**

| | Property investment | Processing and storage of cord blood | Trading of Investments | Unallocated | Total |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| OTHER INFORMATION | | | | | |
| Capital additions | – | 901 | – | 75 | 976 |
| Depreciation and amortisation | 137 | 3,338 | – | 1,039 | 4,514 |
| Loss (gain) on disposal of property, plant and equipment | – | 97 | – | (40) | 57 |
| Impairment loss recognised in respect of investments in securities | – | – | 20,000 | – | 20,000 |
| Decrease in fair value of investment properties | 6,600 | – | – | – | 6,600 |

**Geographical segments**

The following table provides a geographical analysis of the Group's turnover according to the location of customers and total assets according to location of the assets:

| | Turnover | Segment assets | Capital additions |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| 2005 | | | |
| Hong Kong | 106,593 | 143,656 | 5 |
| The PRC | 8,684 | 153,385 | 340 |
| New Zealand | 75,561 | – | – |
| | 190,838 | 297,041 | 345 |
| 2004 | | | |
| Hong Kong | 211,223 | 118,187 | 976 |
| The PRC | 8,805 | 343,607 | – |
| New Zealand | 22,431 | 22,431 | – |
| | 242,459 | 484,225 | 976 |

**9. Other Income**

Other income for the year includes the following:

| | 2005 | 2004 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Bad debt recovery | 139 | – |
| Exchange gain | – | 48 |
| Interest income on bank deposits | 1,282 | 137 |
| Sundries | 170 | 1,215 |
| Unrealised holding gain of investments in securities | – | 492 |
| | 1,591 | 1,892 |

**10. Finance costs**

| | 2005 | 2004 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Interest on: | | |
| Bank borrowings and overdrafts wholly repayable within five years | (1,899) | (1,278) |
| Finance leases | (20) | (37) |
| Convertible bond | – | (1,058) |
| | (1,919) | (2,373) |

**11. Taxation credit (charge)**

| | 2005 | 2004 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| The credit (charge) comprises: | | |
| Hong Kong Profits Tax | – | (56) |
| PRC Enterprise Income Tax | (922) | (455) |
| Current tax | (922) | (511) |
| Deferred taxation *(Note 29)* | 1,581 | 336 |
| | 659 | (175) |

Hong Kong Profits Tax is calculated at 17.5% of the estimated profit for the year.

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group had no assessable profit for the year.

The provision for PRC Enterprise Income Tax is based on the estimated taxable income for PRC taxation purposes at the rate prevailing in the relevant jurisdictions applicable to each of the years.

The charge for the year can be reconciled to the loss before taxation per the consolidated income statement as follows:

| | 2005 | 2004 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Loss before taxation | (55,859) | (86,040) |
| Tax at the income tax rate of 17.5% | 9,775 | 15,057 |
| Tax effect of shares of results of associates | 240 | (4,911) |
| Tax effect of income that is not taxable in determining taxable profit | 267 | 356 |
| Tax effect of expenses that are not deductible in determining taxable profit | (2,304) | (6,612) |
| Tax effect of tax losses not recognised | (3,917) | (3,478) |
| Utilisation of tax losses previously not recognised | 493 | 75 |
| Effect of different taxation rate used in other jurisdictions | (4,042) | (558) |
| Others | 147 | (104) |
| Taxation credit (charge) for the year | 659 | (175) |

**12. Loss for the year**

| | 2005 | 2004 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Loss for the year has been arrived at after charging: | | |
| Directors' remuneration *(Note 13)* | 6,364 | 6,801 |
| Other staff costs | 8,584 | 9,891 |
| Other staff retirement benefit scheme contributions | 325 | 220 |
| Share option benefits expenses, excluding directors | 697 | – |
| Total staff costs | 15,970 | 16,912 |
| Auditors' remuneration | 750 | 1,215 |
| Amortisation of goodwill (included in administrative expenses) | – | 2,914 |
| Depreciation of property, plant and equipment | | |
| – owned by the Group | 1,138 | 1,170 |
| – held under finance leases | 430 | 430 |
| Decrease in changes in fair values of investments held for trading | 34 | – |
| Exchange loss | 59 | – |
| Loss on disposal of property, plant and equipment | – | 57 |
| Operating lease rentals in respects of rented premises | 2,750 | 3,057 |
| Share of tax of associates (included in share of results of associates) | 106 | – |
| and after crediting: | | |
| Gross rental income from investment properties | 8,684 | 8,805 |
| *Less:* Direct operating expenses from investment properties that generated rental income during the year | (3,305) | (3,344) |
| | 5,379 | 5,461 |
| Interest income | 1,282 | 137 |
| Net gain from disposal of investments held for trading/trading securities | 1,064 | 2,450 |
| Unrealised holding gain of investments in securities | – | 492 |

**13. Directors' and Five Highest paid Employees' Emoluments**

(i) Details of directors' remuneration are as follows:

The emoluments paid or payable to each of the 11 (2004: 10) directors were as follows:

| | 2005 | | | | |
|---|---|---|---|---|---|
| Name of director | Fee | Salaries and other benefits | Retirement benefit scheme contributions | Share option benefits expenses | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Cai Yuan | – | – | – | 838 | 838 |
| Luk Kin Peter Joseph | – | 540 | 25 | 838 | 1,403 |
| Fu Weimin | – | 237 | – | – | 237 |
| Zhao Linye | – | 237 | 5 | – | 242 |
| Qi Xianchao | – | 1,423 | 49 | – | 1,472 |
| Zhou Yucheng | – | 1,620 | – | – | 1,620 |
| Tang Tin Sek | 211 | – | – | – | 211 |
| Lee Kwan Hung | 129 | – | – | – | 129 |
| Poon Chiu Kwok | – | – | – | – | – |
| Julia Frances Charlton-Stevens | 32 | – | – | – | 32 |
| Wang Yiming | 180 | – | – | – | 180 |
| | 552 | 4,057 | 79 | 1,676 | 6,364 |

| | 2004 | | | |
|---|---|---|---|---|
| Name of director | Fee | Salaries and other benefits | Retirement benefit scheme contributions | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Zhou Yucheng | 150 | 1,950 | – | 2,100 |
| Fu Weimin | 150 | 650 | – | 800 |
| Qi Xianchao | 150 | 1,184 | 12 | 1,346 |
| Zhao Linye | 32 | 178 | – | 210 |
| Julia Frances Charlton-Stevens | 52 | – | – | 52 |
| Tong Nai Kan | 55 | 1,628 | 5 | 1,688 |
| Leung Wai Kwan | 68 | 131 | 6 | 205 |
| Tang Tin Sek | 200 | – | – | 200 |
| Wang Yiming | 200 | – | – | 200 |
| Chan Iu Nam John Bosco | – | – | – | – |
| | 1,057 | 5,721 | 23 | 6,801 |

(ii) Employees

Details of remuneration paid by the Group to the five highest paid individuals included three (2004: four) directors, and the remaining two (2004: one) employees for the year are as follows:

| | **2005** | **2004** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Salaries and other benefits | 1,261 | 611 |
| Retirement benefit scheme contributions | 38 | 12 |
| Share option benefits expenses | 291 | – |
| | 1,590 | 623 |

Remuneration of each of the employees for both years falls within the band of less than HK$1,000,000.

During the year, no remuneration has been paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as a compensation for loss of office. No directors have waived any remunerations during the year.

**14. Loss per share**

The calculation of the loss per share is based on the loss for the year of approximately HK$55,200,000 (2004: HK$86,215,000) and on 2,464,812,853 (2004: the weighted average number of 2,199,224,328) shares in issue during the year.

The effect of share options is excluded from the calculation of the diluted loss per share for both years since their exercise would result in a decrease in the loss per share.

The computation of the diluted loss per share for 2004 did not assume the conversion of the convertible bond since its exercise would result in a decrease in the loss per share.

The following table summarises the impact on loss per share as a result of changes in accounting policies:

| | **2005** | **2004** |
|---|---|---|
| | *HK cents* | *HK cents* |
| Figures before adjustments | (2.11) | (3.92) |
| Adjustments arising from changes in accounting policies *(see note 3)* | (0.13) | – |
| Reported | (2.24) | (3.92) |

**15. Property, Plant and Equipment**

| | Leasehold improvements *HK$'000* | Furniture, fixtures and equipment *HK$'000* | Motor vehicles *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|
| COST | | | | |
| At 1 January 2004 | 5,700 | 4,200 | 3,511 | 13,411 |
| Additions | 13 | 963 | – | 976 |
| Write-off | (4,374) | – | – | (4,374) |
| Disposals | – | (335) | (800) | (1,135) |
| At 31 December 2004 | 1,339 | 4,828 | 2,711 | 8,878 |
| Additions | – | 345 | – | 345 |
| At 31 December 2005 | 1,339 | 5,173 | 2,711 | 9,223 |
| DEPRECIATION | | | | |
| At 1 January 2004 | 4,460 | 1,717 | 1,704 | 7,881 |
| Provided for the year | 330 | 648 | 622 | 1,600 |
| Eliminated on write-off | (4,374) | – | – | (4,374) |
| Eliminated on disposals | – | (211) | (640) | (851) |
| At 31 December 2004 | 416 | 2,154 | 1,686 | 4,256 |
| Provided for the year | 325 | 739 | 504 | 1,568 |
| At 31 December 2005 | 741 | 2,893 | 2,190 | 5,824 |
| CARRYING VALUES | | | | |
| At 31 December 2005 | 598 | 2,280 | 521 | 3,399 |
| At 31 December 2004 | 923 | 2,674 | 1,025 | 4,622 |

The net book value of motor vehicles includes an amount of approximately HK$509,000 (2004: HK$939,000) in respect of assets under finance leases.

**16. Investment Properties**

| | *HK$'000* |
|---|---|
| FAIR VALUE | |
| At 1 January 2004 | 162,400 |
| Decrease in fair value recognised in the consolidated income statement | (6,600) |
| At 31 December 2004 | 155,800 |
| Decrease in fair value recognised in the consolidated income statement | (31,000) |
| At 31 December 2005 | 124,800 |

The fair value of the Group's investment properties held under medium term leases in the PRC have been arrived at on the basis of a valuation carried out on that date by Malcolm & Associates Appraisal Limited, independent qualified firm of professional valuers not connected with the Group. The valuation, which conforms to The Hong Kong Institute of Surveyors Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

Majority of the Group's investment properties are rented out under operating leases to earn rentals or for capital appreciation purposes and are measured using the fair value model.

The Group has pledged all of its investment properties to secure general banking facilities granted to the Group.

**17. Goodwill**

| | *HK$'000* |
|---|---|
| GROSS VALUE | |
| At 1 January 2004 and 31 December 2004 | 29,139 |
| Elimination of accumulated amortisation upon the application of HKFRS 3 *(see note 3)* | (11,413) |
| At 1 January 2005 and 31 December 2005 | 17,726 |
| AMORTISATION | |
| At 1 January 2004 | 8,499 |
| Charge for the year | 2,914 |
| At 31 December 2004 | 11,413 |
| Elimination of accumulated amortisation upon the application of HKFRS 3 | (11,413) |
| At 1 January 2005 and 31 December 2005 | – |
| IMPAIRMENT LOSS RECOGNISED FOR THE YEAR AND AT 31 DECEMBER 2005 | (2,126) |
| CARRYING VALUES | |
| At 31 December 2005 | 15,600 |
| At 31 December 2004 | 17,726 |

Until 31 December 2004, goodwill arising on acquisition of subsidiaries had been amortised over the estimated useful life of 10 years.

For the purpose of impairment review, goodwill set out above is allocated to the processing and storage of cord blood cash generating unit ("CGU"). The carrying amount of goodwill allocated to the CGUs as at 31 December 2005 is HK$15,600,000.

The recoverable amounts of the CGU is determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the year. Management estimates discount rates using a risk-free rate, the market return and company-specific factors. The growth rates are based on the estimation on the historical annual growth rates of the CGU and the comparable companies industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

During the year, the Group performed impairment review for goodwill with reference to the valuation carried out by BMI Appraisals Limited, independent qualified professional valuers not connected with the Group. The valuation is based on cash flow forecasts derived from the most recent financial budgets approved by management for the next year and extrapolates cash flows for the following four years based on an estimated growth rate of 20% to 25% plus a terminal value. The rate used to discount the forecast cash flow is 10.66%. Due to the fact that there are new competitors entered into the market this year, the value in use calculated by using the discount rate is lower than the carrying amount of the CGU and accordingly, an impairment loss of HK$2,126,000 was considered necessary.

**18. Interest in Associates**

| | **2005** | **2004** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Costs of investments in associates - unlisted | 40,285 | 195,945 |
| Share of post-acquisition profits | (40,285) | (31,930) |
| | – | 164,015 |
| *Less:* Impairment losses recognised | – | (8,355) |
| | – | 155,660 |

Included in the costs of investments in associates in 2004 was goodwill of HK$24,488,000 arising on acquisition of an associate. The movement of goodwill is set out below:

| | **Goodwill** |
|---|---|
| | *HK$'000* |
| CARRYING VALUES | |
| Arising on acquisition of an associate and balance at 31 December 2004 | 24,488 |
| Elimination upon the disposal | (24,488) |
| At 31 December 2005 | – |

Particulars of the principal associates at 31 December 2005 were as follows:

| **Name** | **Place of incorporation/ establishment/ operation** | **Percentage of attributable equity interest 2005** | **2004** | **Principal activities** |
|---|---|---|---|---|
| Happy Bright Holdings Limited ("Happy Bright") | Hong Kong | 20% | 20% | Investment holding |
| Guangzhou Huakang Dikong Development Company Limited ("GHDDCL") | PRC | 17% * | 17% * | Property development and investments |

* *Happy Bright held 85% equity interest in GHDDCL*

In 2004, the Group entered into a conditional agreement with China Worldbest Life Industries Company Limited ("CWGC Life"), a subsidiary of China Worldbest Group Company Limited, a former shareholder of the Company, to acquire 30% equity interests in Shanghai Worldbest Treeful Pharmaceuticals (Group) Company Limited ("SW Treeful") at total consideration of HK$155,660,000 (equivalent to RMB165,000,000) (the "Agreement"). The Group had paid the first instalment in amount of approximately HK$46,698,000 (equivalent to approximately RMB49,500,000) to CWGC Life in 2004, but failed to pay the second and third instalments upon the due date. On 1 April 2005 (the "Disposal Date") , the Group entered into a rescission agreement (the "Rescission Agreement") with CWGC Life to rescind the Agreement and transferred the 30% equity interest in SW Treeful back to CWGC Life on the condition that CWGC Life returned the first instalment to the Group.

On 13 July 2005, Shanghai Foreign Investment Commission approved the Rescission Agreement and the reinstatement of the status of SW Treeful into a PRC domestic company was registered at the Shanghai Administration of Industry and Commerce on 4 November 2005.

Since its acquisition and up to 31 December 2004, the Group shared profit from SW Treeful of HK$8,355,000 and recognised an impairment loss of HK$8,355,000 in respect of the goodwill arising on the acquisition, resulted in a balance of interest in SW Treeful of HK$155,660,000 at 31 December 2004.

During the year end 31 December 2005, the directors estimated the Group's share of profits from SW Treeful in current year up to the Disposal Date of HK$1,373,000, based on the unaudited management accounts of SW Treeful, and recognised a loss on disposal with same amount in the consolidated income statement. There were no audited financial information of SW Treeful available. However, any increase or decrease in the results of the associate would result in increase or decrease in the loss on disposal of the associate correspondingly and would have had no effect on the loss for the year then ended.

**19. Available-for-Sale Investments**

Available-for-sale investments as at 31 December 2005 comprise:

| | **2005** |
|---|---|
| | *HK$'000* |
| Unlisted equity securities, at cost | 30,000 |
| *Less:* Impairment loss recognised | (30,000) |
| | – |

The available-for-sale investments at 31 December 2005 represent the Group's 10% shareholding in Universal Biotech Company Limited 寰生生物科技有限公司 ("UBC") which was incorporated in Taiwan and engaged in the provision of research and development, production and sales of Chinese medical health food and Chinese medical pharmaceutical products. They are measured at cost less impairment at each balance sheet date because the directors of the Company are of the opinion that their fair values cannot be measured reliably.

**20. Investments in Securities**

Investments in securities as at 31 December 2004 are set out below. Upon the application of HKAS 39 on 1 January 2005, investments in securities were reclassified to appropriate categories under HKAS 39 *(see note 3 for details)*.

| | **Trading securities** | **Other securities** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Equity securities: | | |
| Listed in Hong Kong | 7,639 | – |
| Unlisted | – | 30,000 |
| *Less:* Impairment loss recognised | – | (30,000) |
| | 7,639 | – |
| Market value of listed securities | 7,639 | – |
| Carrying amount analysed for reporting purposes as: | | |
| Current | 7,639 | – |
| Non-current | – | – |
| | 7,639 | – |

The unlisted securities at 31 December 2004 represented the Group's 10% shareholding in UBC as mentioned in note 19 above.

**21. Trade and Other Receivables**

| | 2005 | 2004 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Trade debtors | 35,360 | 61,269 |
| Other debtors | 2,079 | 1,191 |
| Deposits and prepayments | 15,892 | 1,990 |
| | 53,331 | 64,450 |

At the balance sheet date, trade debtors include an amount of receivable from Guangdong International Building Enterprises Company Limited ("GIBE"), a former fellow subsidiary company, amounting to approximately HK$27,809,000 (2004: HK$31,608,000). As at 31 December 2005, the carrying amount (after an impairment loss of HK$3,866,000) was determined based on the present value of the estimated future cash inflows discounted using the prevailing market rate at the balance sheet. The effective interest rate of the receivable is 6.98% per annum. This receivable represents rental income generated from the investment properties of the Group after netting off the relevant property management fees payable for the properties.

Guangdong International Trust & Investment Corporation ("GITIC"), the former ultimate holding company, commenced liquidation in October 1998. As a result, GIBE encountered financial difficulties to repay the outstanding amount to the Group. As agreed with the liquidators of GITIC, part of the proceeds from the disposal of its interest in GIBE will be used to repay this receivable.

The directors have been advised by the liquidators that the transaction would be completed and the proceeds from the disposal would be used to fully repay the outstanding amount owed to the Group when the potential purchaser completed the sale. The liquidators had also been approached by a number of other potential purchasers currently who were interested in acquiring GIBE. Against this background, the directors are of the opinion that this receivable will be fully recoverable.

Included in the deposits and prepayments at 31 December 2005 is a prepayment amounting to HK$13,850,000 made to a supplier for purchase of goods.

Rental income from tenants is due and payable in advance.

The Group allows credit periods normally ranging from 30 days to 60 days to its trade customers other than from its tenants.

The following is an aged analysis of the remaining trade debtors at the balance sheet date:

| | 2005 | 2004 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| 0 to 30 days | 3,033 | 5,051 |
| 31 to 60 days | 962 | 23,217 |
| 61 to 90 days | 817 | 625 |
| Over 90 days | 2,739 | 768 |
| | 7,551 | 29,661 |

The fair value of the Group's trade and other receivables at 31 December 2005 approximated to the corresponding carrying amount.

**22. Investments Held for Trading**

Investments held for trading as at 31 December 2005 represented equity securities listed in Hong Kong and are carried at fair value with reference to the quoted market bid prices available on the relevant exchanges.

### 23. Pledged Bank Deposits and Pledged Deposits in Financial Institutions

The amounts represent deposits pledged to banks amounting to HK$5,099,000 (2004: HK$10,342,000) and deposits pledged to financial institutions amounting to HK$8,412,000 (2004: HK$6,208,000) to secure bank borrowings and credit facilities granted to the Group.

The pledged bank deposits and the pledged deposits in financial institutions carrying fixed interest rate at a range from 0.1% to 3.9% (2004: 0.1% to 2.1%) per annum. The fair value of pledged bank deposits approximated to the corresponding carrying amounts.

### 24. Bank Balances and Cash

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less at interest rate in a range from 1% to 4% per annum. The directors consider that the carrying amount of these assets approximate their fair value.

### 25. Trade and Other Payables

| | **2005** | **2004** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Trade payables | 980 | 25,910 |
| Other payables | 31 | 156 |
| Accrued charges | 6,740 | 11,216 |
| | 7,751 | 37,282 |

The following is an aged analysis of trade payables at the balance sheet date:

| | **2005** | **2004** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| 0 to 30 days | 940 | 25,909 |
| 31 to 60 days | 16 | – |
| Over 60 days | 24 | 1 |
| | 980 | 25,910 |

The fair value of the Group's trade and other payables at 31 December 2005 approximated to the corresponding carrying amount.

### 26. Amount Due to a Related Company

The amount was due to CWGC Life. The amount was unsecured and interest-free. The amount was derecognised upon the completion of a rescission agreement as set out in note 18.

**27. Secured Bank Borrowings**

| | 2005 | 2004 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| The carrying amounts of secured bank borrowings repayable: | | |
| Within one year | 4,000 | 4,000 |
| Between one to two years | 4,200 | 4,000 |
| Between two to five years | 14,400 | 13,800 |
| After five years | 10,310 | 15,110 |
| | 32,910 | 36,910 |
| *Less:* Amount due within one year shown under current liabilities | (4,000) | (4,000) |
| Amount due after one year | 28,910 | 32,910 |

The bank borrowings are denominated in Hong Kong dollars and carry interest rate at HIBOR plus 2.65% per annum for both years.

The fair value of the Group's bank borrowings as at 31 December 2005 approximated to the corresponding carrying amount calculated by discounting the future cash flows at the prevailing market borrowing rate for similar borrowings at the balance sheet date.

**28. Obligations under Finance Leases**

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Amounts payable under finance leases: | | | | |
| Within one year | 120 | 269 | 117 | 249 |
| More than one year but not more than two years | – | 120 | – | 117 |
| | 120 | 389 | 117 | 366 |
| *Less:* Future finance charges | (3) | (23) | – | – |
| Present value of lease obligations | 117 | 366 | 117 | 366 |
| *Less:* Amount due within one year | | | (117) | (249) |
| Amount due after one year | | | – | 117 |

It is the Group's policy to lease certain of its motor vehicles under finance leases. The average lease term is approximately 4 years. For the year ended 31 December 2005, the average effective borrowing rate was 2.4% (2004: 2.4%) per annum.

The fair value of the Group's finance lease obligations, determined based on the present value of the estimated cash flows discounted using the prevailing market rate at the balance sheet date approximate to their carrying amount.

**29. Deferred Taxation**

A summary of the deferred tax liabilities recognised and movements thereon during the current and prior reporting years is as follows.

| | Revaluation of investment properties<br>*HK$'000* |
|---|---|
| At 1 January 2004 | 8,282 |
| Credit to consolidated income statement for the year | (336) |
| At 1 January 2005 | 7,946 |
| Credit to consolidated income statement for the year | (1,581) |
| At 31 December 2005 | 6,365 |

At the balance sheet date, the Group has unused tax losses of approximately HK$110,019,000 (2004: HK$91,456,000) available for offset against future profits. The tax losses may be carried forward indefinitely. No deferred taxation asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. There were no other significant temporary differences arising during the year or at the balance sheet date.

**30. Share Capital**

| | Number of ordinary shares of HK$0.1 each | | Amount | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005**<br>*HK$'000* | **2004**<br>*HK$'000* |
| Authorised: | | | | |
| At 1 January and 31 December | 4,000,000,000 | 4,000,000,000 | 400,000 | 400,000 |
| Issued and fully paid: | | | | |
| At 1 January | 2,464,812,853 | 2,104,512,853 | 246,481 | 210,451 |
| Issue of new shares on exercise of share options | – | 300,000 | – | 30 |
| Issue of new shares on conversion of convertible bond *(note 31)* | – | 360,000,000 | – | 36,000 |
| At 31 December | 2,464,812,853 | 2,464,812,853 | 246,481 | 246,481 |

**31. Convertible Bond**

On 9 December 2003, the Company issued a convertible bond of HK$36 million at par to China Worldbest HK. The bond carried interest at 4% per annum, payable half yearly in arrears, and a right to convert into new shares of HK$0.10 each in the issued share capital of the Company at a conversion price of HK$0.10 per share, subject to adjustment, at any time from 9 March 2004 to 8 December 2005. The bond was fully converted into 360,000,000 ordinary shares of the Company on 27 September 2004. The effective interest rate of the bond is 4.5% per annum.

**32. Share Options**

Pursuant to ordinary resolutions of the shareholders of the Company passed on 11 March 1997 and 26 June 2002, the Company adopted an old share option scheme (the "Old Share Option Scheme") and a new share option scheme (the "New Share Option Scheme") respectively. The Old Share Option Scheme was terminated on 26 June 2002 such that no further options shall be offered under the Old Share Option Scheme but the options granted shall continue to be valid and exercisable in accordance with their terms of issue and, in all other respects, its provisions shall remain in full force and effect.

The Company operates these share option schemes for the purpose of providing incentives or rewards to participants.

*(a) Old Share Option Scheme*

Details of the movements in the number of share options during the year under the Old Share Option Scheme are as follows:

| | | | | Number of Share Options | | | | |
|---|---|---|---|---|---|---|---|---|
| Type of participants | Date of grant | Exercisable period | Exercise price per share *HK$* | Outstanding at 1.1.2004 | Exercised during the year | Outstanding at 1.1.2005 | Lapsed during the year | Outstanding at 31.12.2005 |
| Ex-director | 29 August 2001 | 1 March 2002 to 28 February 2005 | 0.145 | 17,500,000 | – | 17,500,000 | 17,500,000 | – |
| Employee | 29 August 2001 | 1 March 2002 to 28 February 2005 | 0.145 | 300,000 | 300,000 | – | – | – |
| | | | | 17,800,000 | 300,000 | 17,500,000 | 17,500,000 | – |

The HK$0.145 exercise price per share of the above share options granted under the Old Share Option Scheme was determined by the Board of Directors.

In respect of the above share options exercised in 2004, the weighted average share price at the date of exercise is HK$0.480.

No option may be granted to any existing option holder which, if exercised in full, would result in the total number of shares already issued and issuable to him under this scheme exceeding 25 percent of the aggregate number of shares in respect of which options are issuable under this scheme.

No option shall be granted under this scheme which would result in the aggregate number of shares issued or issuable or which may be issuable under this scheme, when added to the number of shares issued or issuable or which may be issued under all other share option schemes (if any) of the Company, exceeding 10 per cent of the issued share capital of the Company at the time of granting of the option (excluding any shares issued upon exercise of the options).

*(b) New Share Option Scheme*

Details of the movements in the number of share options during the year under the New Share Option Scheme are as follows:

| | | | | Number of Share Options | | | | |
|---|---|---|---|---|---|---|---|---|
| Type of participant | Date of grant | Exercisable period | Exercise price per share *HK$* | Outstanding at 1.1.2004 | Cancelled during the year | Outstanding as at 1.1.2005 | Granted during the year | Outstanding as at 31.12.2005 |
| Ex-director | 3 January 2003 | 3 January 2003 to 2 January 2008 | 0.100 | 9,966,000 | 9,966,000 | – | – | – |
| Directors | 20 December 2005 | 3 January 2006 to 2 January 2009 | 0.160 | – | – | – | 17,300,000 | 17,300,000 |
| Employees | 20 December 2005 | 3 January 2006 to 2 January 2009 | 0.160 | – | – | – | 7,188,000 | 7,188,000 |
| | | | | 9,966,000 | 9,966,000 | – | 24,488,000 | 24,488,000 |

The HK$0.160 exercise price per share represented the closing price of the Company's shares quoted on the Stock Exchange on the date of grant of the options.

The overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under this scheme and any other share option scheme for the time being of the Company shall not, in aggregate, exceed such number of shares as equals 30% of the shares in issue from time to time. No option may be granted under the scheme or any other share option scheme of the Company if it would result in the above-mentioned 30% limit being exceeded.

The total amount of shares covered by the options granted to a participant (including exercised and outstanding options) in any 12-month period must not exceed 1% of the shares in issue from time to time. If any further grant of options to the participant would result in the shares covered by such options (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant exceeding 1% of the shares in issue as at the date of the further grant, then the following conditions have to be satisfied:

– the shareholders must approve the grant at a general meeting, with such participant and his associates abstaining from voting;

– the Company must send a circular in relation to the proposal for the further grant to its shareholders, with such information from time to time required by the Rules Governing the Listing of Securities on the Stock Exchange; and

– the number and terms (including the subscription price) of the options to be granted to such proposed grantee must be fixed before the approval by the shareholders as mentioned above.

During the year ended 31 December 2005, options were granted on 20 December 2005. The estimated fair value of the options granted was HK$0.097. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapsed or are cancelled prior to their exercise date are deleted from the register of outstanding options.

As mentioned in note 2, the Group has, for the first time, applied HKFRS 2 Share-based Payment to account for equity-settled share-based payment transactions. In accordance with HKFRS 2, fair value of share options granted to employees determined at the date of grant is expensed over the vesting period, with a corresponding adjustment to the Group's share options reserve. In the current year, an amount of share option expense of HK$2,373,000 has been recognised in the income statement, with a corresponding adjustment made in the Group's share options reserve.

The fair value of the options determined at the date of grant using the Black-Scholes option pricing model, taken into account the terms and conditions upon which the share options were granted.

The following assumptions were used to calculate the fair value of share options granted during the year.

| | **20.12.2005** |
|---|---|
| Weighted average share price | HK$0.160 |
| Exercise price | HK$0.160 |
| Expected life of options | 3 years |
| Expected volatility | 93% |
| Expected dividend yield | 0% |
| Risk free rate | 4% |
| Estimated fair value of option on grant date | HK$0.097 |
| Closing share price on grant date | HK$0.160 |

*Notes:*

(i) The volatility measured at the standard deviation of expected share price returns is based on a statistical analysis of daily share prices over last three years immediately preceding the grant date.

(ii) The above calculation is based on the assumption that there is no material difference between the expected volatility over the whole life of the options and the historical volatility of the shares in the Company set out above.

**33. Operating Lease Commitments**

**The Group as lessee**

At the balance sheet date, the Group was committed to make the following minimum lease payments under non-cancellable operating leases in respect of rental premises and office equipment which fall due as follows:

| | **2005** | **2004** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Within one year | 2,250 | 2,686 |
| In the second to fifth years inclusive | 1,221 | 3,145 |
| | 3,471 | 5,831 |

Leases are negotiated for terms ranging from 1 to 3 years.

**The Group as lessor**

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

| | **2005** | **2004** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Within one year | 8,151 | 8,220 |
| In the second to fifth years inclusive | 23,016 | 19,058 |
| After five years | 47,910 | 46,595 |
| | 79,077 | 73,873 |

**34. Retirement Benefit Schemes**

The Group operates a Mandatory Provident Fund for all the qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees.

**35. Pledge of Assets**

At the balance sheet date, the Group has pledged the following assets to banks and financial institutions to secure the credit facilities granted to the Group:

| Category | 2005 | 2004 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Investments held for trading | – | 7,639 |
| Investment properties | 124,800 | 155,800 |
| Bank deposits | 5,099 | 10,342 |
| Deposits in financial institutions | 8,412 | 6,208 |
| Trade receivables | 28,299 | 31,725 |

In addition, the Group has also assigned, at the balance sheet date, all benefits and proceeds which may be effected from the Group's insurances entered in connection with the above investment properties to the bank to secure the credit facilities granted to the Group.

At the balance sheet date, the Group also assigned all rights, title, benefits and interests in respect of its receivables as referred to above in one of its wholly-owned subsidiaries to the bank to secure the credit facilities to the Group.

**36. Related Party Transactions**

The Group has entered into following related party transactions:

| | 2005 | 2004 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Convertible bond interest paid to China Worldbest HK | – | 1,058 |
| Sales of goods to SW Treeful | 945 | – |

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

The Company's directors are also the key management of the Group. Details of their remuneration paid during the year are set out in note 13.

In addition, at the balance sheet date, the former director, Mr. Tong Nai Kan, has given an unlimited personal guarantee to the bank to secure the credit facilities granted to the Group.

## 37. Particulars of Principal Subsidiaries

Particulars of the Company's principal subsidiaries as at 31 December 2005 were as follows:

| Name of subsidiary | Place of incorporation/ operation | Nominal value of issued ordinary share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held by the Company % | Principal activities |
|---|---|---|---|---|
| Biogrowth Assets Limited * | British Virgin Islands/ Hong Kong | US$1 | 100 | Investment holding |
| Cell Therapy Technologies Centre Limited | Hong Kong/ Hong Kong | HK$200,000 | 100 | Provision of cord blood bank and its relevant laboratory services |
| China Kent Development Limited | Hong Kong/ Hong Kong | HK$2 ordinary HK$10,000 non-voting deferred | 100 | Investment holding |
| INNOMAXX International Trading Company Limited | Hong Kong/ Hong Kong | HK$1 | 100 | Trading of pharmaceutical ingredients and chemicals |
| Fullgain International Investment Limited | Hong Kong/ Hong Kong | HK$2 | 100 | Securities investment holding and trading of securities investment |
| GITIC Properties Limited | Hong Kong/ PRC | HK$10,000 | 100 | Property investment |
| INNOMAXX Investment Holdings Limited * | Hong Kong/ Hong Kong | HK$2 | 100 | Investment holding |
| INNOMAXX Property (BVI) Limited * | British Virgin Islands/ Hong Kong | US$2 | 100 | Investment holding |
| Longship Limited * | British Virgin Islands/ Hong Kong | US$1 | 100 | Investment holding |
| Offspring Investments Limited * | British Virgin Islands/ Hong Kong | US$1 | 100 | Investment holding |
| United Profit Investments Limited * | British Virgin Islands/ Hong Kong | US$1 | 100 | Investment holding |

* *Subsidiaries directly held by the Company*

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.

## 3. INTERIM REPORT OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2006

The following are the unaudited consolidated results of the Group for the six months ended 30 June 2006.

**CONDENSED CONSOLIDATED INCOME STATEMENT**
*For the six months ended 30 June 2006*

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2006** | **2005** |
| | | (Unaudited) | (Unaudited) |
| | *Notes* | *HK$'000* | *HK$'000* |
| Turnover | *3* | 129,603 | 154,288 |
| Cost of sales | | (125,976) | (139,358) |
| Gross profit | | 3,627 | 14,930 |
| Other income | | 1,669 | 397 |
| Administrative expenses | | (13,261) | (20,241) |
| Increase in fair value of investment properties | | 13,064 | – |
| Unrealised loss on financial assets at fair value through profit or loss | | – | (526) |
| Finance costs | *4* | (1,582) | (736) |
| Share of results of associates | | – | 1,373 |
| Loss on disposal of an associate | | – | (1,373) |
| Profit (loss) before taxation | | 3,517 | (6,176) |
| Taxation | *5* | (300) | (290) |
| Profit (loss) for the period | *6* | 3,217 | (6,466) |
| | | *HK cents* | *HK cents* |
| Earnings (loss) per share | | | |
| – Basic | *7* | 0.13 | (0.26) |
| – Diluted | *7* | 0.13 | N/A |

**CONDENSED CONSOLIDATED BALANCE SHEET**
*As at 30 June 2006*

| | Notes | 30 June 2006 (Unaudited) HK$'000 | 31 December 2005 (Audited) HK$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | | 3,577 | 3,399 |
| Investment properties | 9 | 137,864 | 124,800 |
| Goodwill | | 15,600 | 15,600 |
| | | 157,041 | 143,799 |
| Current assets | | | |
| Inventories | | 529 | 375 |
| Trade and other receivables | 10 | 44,482 | 53,331 |
| Investments held for trading | | – | 2,268 |
| Pledged bank deposits | | 16,644 | 5,099 |
| Pledged deposits in financial institutions | | – | 8,412 |
| Bank balances and cash | | 83,180 | 83,757 |
| | | 144,835 | 153,242 |
| Current liabilities | | | |
| Trade and other payables | 11 | 4,656 | 7,751 |
| Deferred income | | 27,693 | 21,983 |
| Taxation payable | | 488 | 488 |
| Secured bank borrowings – amount due within one year | 12 | 4,000 | 4,000 |
| Obligation under finance leases – due within one year | | – | 117 |
| | | 36,837 | 34,339 |
| Net current assets | | 107,998 | 118,903 |
| Total assets less current liabilities | | 265,039 | 262,702 |
| Non-current liabilities | | | |
| Secured bank borrowings – amount due after one year | 12 | 26,910 | 28,910 |
| Deferred taxation | | 6,365 | 6,365 |
| | | 33,275 | 35,275 |
| Net assets | | 231,764 | 227,427 |
| Capital and reserves | | | |
| Share capital | 13 | 247,181 | 246,481 |
| Reserves | | (15,417) | (19,054) |
| Total equity attributable to equity holders of the parent | | 231,764 | 227,427 |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30 June 2006*

| | Attributable to equity holders of the parent | | | | | |
|---|---|---|---|---|---|---|
| | Share Capital | Share Premium | Contributed Surplus | Share Option Reserve | Accumulated losses | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 January 2005 | 246,481 | 177,179 | 152,150 | – | (295,556) | 280,254 |
| Loss for the period | – | – | – | – | (6,466) | (6,466) |
| At 30 June 2005 | 246,481 | 177,179 | 152,150 | – | (302,022) | 273,788 |
| At 1 January 2006 | 246,481 | 177,179 | 152,150 | 2,373 | (350,756) | 227,427 |
| Exercise of share options | 700 | 420 | – | – | – | 1,120 |
| Profit for the period | – | – | – | – | 3,217 | 3,217 |
| At 30 June 2006 | 247,181 | 177,599 | 152,150 | 2,373 | (347,539) | 231,764 |

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

*for the six months ended 30 June 2006*

| | Six months ended 30 June | |
|---|---|---|
| | **2006** | **2005** |
| | (Unaudited) | (Unaudited) |
| | *HK$'000* | *HK$'000* |
| Net cash generated from operating activities | 4,542 | 18,892 |
| Net cash used in investing activities | (2,540) | (20,368) |
| Net cash used in financing activities | (2,579) | (2,901) |
| Net decrease in cash and cash equivalents | (577) | (4,377) |
| Cash and cash equivalents at 1 January | 83,757 | 61,416 |
| Cash and cash equivalents at 30 June | 83,180 | 57,039 |
| Analysis of the balances of cash and cash equivalents | 83,180 | 57,039 |

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

*For the six months ended 30 June 2006*

### 1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005 except as described below.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (new "HKFRSs") issued by the HKICPA, which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The application of these new HKFRSs has had no material effect on how the results for the current and prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

| | |
|---|---|
| HKAS 19 (Amendment) | Actuarial gains and losses, group plans and disclosures |
| HKAS 21 (Amendment) | The effects of change in foreign exchange rate – net investment in a foreign operation |
| HKAS 39 (Amendment) | Cash flow hedge accounting of forecast intragroup transactions |
| HKAS 39 (Amendment) | The fair value option |
| HKAS 39 & HKFRS 4 (Amendments) | Financial guarantee contracts |
| HKFRS 6 | Exploration for and evaluation of mineral resources |
| HK(IFRIC)-INT 4 | Determining whether an arrangement contains a lease |
| HK(IFRIC)-INT 5 | Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds |
| HK(IFRIC)-INT 6 | Liabilities arising from participating in a specific market-waste electrical and electronic equipment |

The Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective. The Directors of the Company is still not yet in the position to reasonably estimate the impact that may arise on the Group's results and financial position from the application of these standards, amendments or interpretations.

| | |
|---|---|
| HKAS 1 (Amendment) | Capital disclosures[1] |
| HKFRS 7 | Financial instruments: Disclosures[1] |
| HK(IFRIC)-INT 7 | Applying the restatement approach under HKAS 29 Financial reporting in hyperinflationary economies[2] |
| HK(IFRIC)-INT 8 | Scope of HKFRS 2[3] |
| HK(IFRIC)-INT 9 | Reassessment of embedded derivatives[4] |

1 Effective for annual periods beginning on or after 1 January 2007.
2 Effective for annual periods beginning on or after 1 March 2006.
3 Effective for annual periods beginning on or after 1 May 2006.
4 Effective for annual periods beginning on or after 1 June 2006.

## 3. SEGMENT INFORMATION

**Business segments**

The Group is engaged in property investment, processing and storage of cord blood, trading of investments and trading of pharmaceutical ingredients and chemicals.

Segment information for the period ended 30 June 2006 is set out as follows:

*For the period ended 30 June 2006*

| | Property investment | Processing and storage of cord blood | Trading of Investments | Trading of pharmaceutical ingredients and chemicals | Total |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Turnover | 4,496 | 8,692 | 116,415 | – | 129,603 |
| Results | 15,764 | 1,125 | (5,791) | 174 | 11,272 |
| Finance costs | | | | | (1,582) |
| Unallocated corporate expenses | | | | | (6,173) |
| Profit before taxation | | | | | 3,517 |
| Taxation | | | | | (300) |
| Profit for the period | | | | | 3,217 |

*For the period ended 30 June 2005*

| | Property investment | Processing and storage of cord blood | Trading of investments | Trading of pharmaceutical ingredients and chemicals | Total |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Turnover | 4,364 | 7,401 | 14,261 | 128,262 | 154,288 |
| Results | 2,373 | 1,113 | (158) | 278 | 3,606 |
| Finance costs | | | | | (736) |
| Share of results of associates | | | | | 1,373 |
| Loss on disposal of an associate | | | | | (1,373) |
| Unallocated corporate expenses | | | | | (9,046) |
| Loss before taxation | | | | | (6,176) |
| Taxation | | | | | (290) |
| Loss for the period | | | | | (6,466) |

**Geographical segments**

The following table provides a geographical analysis of the Group's turnover according to the location of customers:

| | Turnover | Operating Results |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| *For the period ended 30 June 2006* | | |
| Hong Kong | 125,107 | (4,492) |
| The PRC | 4,496 | 15,764 |
| | 129,603 | 11,272 |
| *For the period ended 30 June 2005* | | |
| Hong Kong | 149,924 | 1,233 |
| The PRC | 4,364 | 2,373 |
| | 154,288 | 3,606 |

## 4. FINANCE COSTS

| | Six months ended 30 June | |
|---|---|---|
| | 2006 | 2005 |
| | *HK$'000* | *HK$'000* |
| Interest on: | | |
| Bank borrowings and overdrafts wholly repayable within five years | 1,579 | 722 |
| Finance leases | 3 | 14 |
| | 1,582 | 736 |

## 5. TAXATION

| | Six months ended 30 June | |
|---|---|---|
| | 2006 | 2005 |
| | *HK$'000* | *HK$'000* |
| PRC Enterprise Income Tax | 300 | 290 |

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profit for the period.

The provision for PRC Enterprise Income Tax is based on the estimated taxable income for PRC taxation purposes at the rate of taxation prevailing in the relevant jurisdictions applicable to each of the periods.

## 6. PROFIT (LOSS) FOR THE PERIOD

| | Six months ended 30 June | |
|---|---|---|
| | **2006** | **2005** |
| | *HK$'000* | *HK$'000* |
| Profit (loss) for the period has been arrived at after charging: | | |
| Depreciation of property, plant and equipment | 702 | 877 |
| Operating lease rentals in respects of rented premises | 1,577 | 1,372 |
| Net loss from disposal of investments held for trading | 5,921 | – |
| Decrease in changes in fair values of investments held for trading | – | 526 |
| and after crediting: | | |
| Gross rental income from investment properties | 4,496 | 4,364 |
| *Less:* Direct operating expenses from investment properties that generated rental income during the period | (1,410) | (1,568) |
| | 3,086 | 2,796 |
| Interest income | 1,291 | 361 |
| Net gain from disposal of investments held for trading | – | 345 |

## 7. EARNINGS (LOSS) PER SHARE

The calculation of basic earnings (loss) per share is based on the Group's profit (loss) attributable to shareholders of HK$3,217,000 (2005: loss of HK$6,466,000) and on the weighted average number of 2,465,934,400 (2005: 2,464,812,853) shares in issue during the period.

Diluted earnings per share is calculated by adjusting the weighted average number of 2,465,934,400 shares in issue by 4,593,622 to assume conversion of all dilutive potential shares granted under the share option scheme. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share option.

The effect of share options is excluded from the calculation of the diluted loss per share in 2005 since their exercise would result in a decrease in the loss per share from continuing ordinary operations.

## 8. DIVIDEND

The Board of Directors does not recommend the payment of an interim dividend for the six months ended 30 June 2006. (2005: nil)

## 9. INVESTMENT PROPERTIES

A revaluation of investment properties was performed on 30 June 2006. The fair value of the investment properties have been arrived on the basis of a valuation carried out by Greater China Appraisal Limited, independent qualified firm of professional valuers not connected with the Group. The valuation, which conforms to The Hong Kong Institute of Surveyors Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

## 10. TRADE AND OTHER RECEIVABLES

| | 30 June 2006 HK$'000 | 31 December 2005 HK$'000 |
|---|---|---|
| Trade debtors | 38,494 | 35,360 |
| Other debtors | 1,654 | 2,079 |
| Deposits and prepayments | 4,334 | 15,892 |
| | 44,482 | 53,331 |

At the balance sheet date, trade debtors included an amount of receivable from Guangdong International Building Enterprises Company ("GIBE"), a former fellow subsidiary, amounting to approximately HK$27,805,000 (31 December 2005: HK$27,809,000). This receivable represents rental income generated from the investment properties to the Group after netting off the relevant property management fees payable for the properties. Details have been set out in the Annual Report 2005.

Rental income from tenants is due and payable in advance.

The Group allows credit periods normally ranging from 30 days to 60 days to its trade customers other than from its tenants.

The following is an aged analysis of the remaining trade debtors at the balance sheet date:

| | 30 June 2006 HK$'000 | 31 December 2005 HK$'000 |
|---|---|---|
| 0 to 30 days | 1,353 | 3,033 |
| 31 to 60 days | 1,243 | 962 |
| 61 to 90 days | 1,322 | 817 |
| Over 90 days | 6,771 | 2,739 |
| | 10,689 | 7,551 |

The fair value of the Group's trade and other receivables at 30 June 2006 approximated to the corresponding carrying amount.

## 11. TRADE AND OTHER PAYABLE

| | 30 June 2006 HK$'000 | 31 December 2005 HK$'000 |
|---|---|---|
| Trade creditors | 365 | 980 |
| Other payables | 31 | 31 |
| Accrued charges | 4,260 | 6,740 |
| | 4,656 | 7,751 |

The following is an aged analysis of trade payables at the balance sheet date:

| | 30 June 2006 HK$'000 | 31 December 2005 HK$'000 |
|---|---|---|
| 0 to 30 days | 348 | 940 |
| 31 to 60 days | – | 16 |
| Over 60 days | 17 | 24 |
| | 365 | 980 |

The fair value of the Group's trade and other payables at 30 June 2006 approximated to the corresponding carrying amount.

**12. SECURED BANK BORROWINGS**

During the period, the Group repaid bank borrowings of HK$2,000,000.

**13. SHARE CAPITAL**

| | Number of shares | HK$'000 |
|---|---|---|
| *Authorized:* | | |
| Ordinary shares of HK$0.1 each | 4,000,000,000 | 400,000 |
| *Issued and fully paid:* | | |
| At 1 January 2006 | 2,464,812,853 | 246,481 |
| Issue of new shares on exercise of share options | 7,000,000 | 700 |
| At 30 June 2006 | 2,471,812,853 | 247,181 |

The Company has a share option scheme for Directors and eligible employees of the Group. The numbers of outstanding share options at the beginning and end of the period were 24,488,000 and 17,488,000 respectively.

During the period, 7,000,000 share options were exercised.

As a result of the exercise of the Company's share options during the period, 7,000,000 ordinary shares were issued by the Company during six months ended 30 June 2006.

**14. PLEDGED OF ASSETS**

At the balance sheet date, the Group has pledged the following assets to banks and financial institutions to secure the credit facilities granted to the Group:

| | 30 June 2006 HK$'000 | 31 December 2005 HK$'000 |
|---|---|---|
| Investment properties | 137,864 | 124,800 |
| Bank deposits | 16,644 | 5,099 |
| Deposits in financial institutions | – | 8,412 |
| Trade receivables | 29,425 | 28,299 |

**15. EVENTS AFTER THE BALANCE SHEET DATE**

On 7 July 2006, the Group entered into the conditional agreement in relation to the placing of shares ("Placing Agreement") with the placing agent. Pursuant to the Placing Agreement, the Group has conditionally agreed to place, through the placing agent, and the placing agent has conditionally agreed to place, on a best effort basis, a total of 1,000,000,000 placing shares at the placing price of HK$0.40 per placing share. The Group has also granted the over-allotment option to the placing agent to issue up to an additional 150,000,000 new shares. Further details of the transaction have been set out in the announcement dated 10 July 2006.

On 12 July 2006, the Group entered into the Formal Acquisition Agreement with AIM Elite Limited, Long Cheer Group Limited, Fit Plus Limited and See Good Limited (the "Vendors") and Mr Ng Hoi, Mr Kwok Man, Mr Yeh Tung Ming and Mr Ng Hiu King (the "Guarantors"), pursuant to which the Vendors have conditionally agreed to sell, and the Company has conditionally agreed to acquire 57% equity interests in Lead Sun which is principally engaged in rutile related business. The total consideration is to be satisfied (i) as to HK$432.592 million by the issue of the consideration shares by the Group to the Vendors; (ii) as to HK$175 million by the transfer of the entire interest in a subsidiary to one of the Vendors; and (iii) as to the remaining balance of HK$205 million in cash by the Group to the Vendors. Further details of the transaction have been set out in the announcement date 10 August 2006.

## 4. MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in the business of investment holding, property investment, processing and storage of cord blood and provision of laboratory services.

**For the year ended 31 December 2003**

*Business Review*

For the financial year under review, the turnover of the Group decreased by 50% to HK$18,109,000 (2002: HK$36,463,000). The decrease in turnover was mainly due to the sales of investment property of HK$19,200,000 during 2002 while no investment property was disposed in the current year. Apart from the disposal, the Group's business operation has no significant changes comparing with 2002. Major income of the Group includes the processing and storage fees of cord blood business, and the rental income from the shopping mall in the PRC, which accounted for 51% and 49% of the Group's turnover, respectively. The Group's loss attributable to shareholders was HK$35,290,000 for 2003 (2002: HK$36,667,000), representing a decrease of 4%.

Umbilical cord blood storage

Established in 1996, Cell Therapy Technologies Centre Limited ("CTTC"), a wholly-owned subsidiary of the Company, is principally involved in the processing, storage, matching and use of umbilical cord blood stem cells and the research and commercial development of stem cells for therapeutic and scientific applications.

CTTC's financial performance in 2003 reflected some underlying strengths. Income from the annual storage fee increased 29% over the previous year. This growing annual storage fee provides a predictable and expanding source of recurring revenue and is a significant contributor to a healthy cash flow performance.

From an operation perspective, CTTC has successfully recruited additional experienced and highly qualified staff to increase the number of specimens that can be processed annually and to maintain the highest standard of the laboratory. The Board believes this would make CTTC one of the Asia's largest and best providers of umbilical cord blood storage services.

Chinese medical health food

In March 2003, the Group acquired 10% equity interest in Universal Biotech Company Limited ("UBC"), a biotechnology company incorporated in Taiwan, at a cash consideration of HK$30,000,000. UBC's principal activities are research and development, production and sale of Chinese medical health food and Chinese medical pharmaceutical products.

Property investment

The Group holds the shopping mall situated at Level 2, GITIC Plaza, 339 Huanshi Road East, Guangzhou, Guangdong Province, the PRC (the "GITIC Plaza"), of which the rental income has been steady with satisfactory occupation rate for the year under review.

At the year end, the Group held 20% equity interest in Happy Bright Holdings Limited, which shares 85% net profit in Guangzhou Huakang Dikong Development Company Limited (廣州市華康地空開發有限公司), a company incorporated in the PRC, of which its main business is the development and sales of Kang Wang Centre, a development project in Guangzhou, the PRC. Kang Wang Centre is a two-storey underground shopping mall located at Kang Wang Road, Liwan District, Guangzhou City, Guangdong Province, the PRC, and is expected to commence business in the second half of 2004.

***Liquidity and Financial Resources***

As at 31 December 2003, the Group had net current assets of HK$166,993,000 (2002: HK$67,978,000) and a current ratio of 11.5 (2002: 2.8). All the Group's funding and treasury activities are centrally managed and controlled at the corporate level. Following the placing of new shares, the financial position of the Group is strong and the Group's bank balances, cash and other short-term investments as at 31 December 2003 amounted to HK$104,194,000 (2002: HK$4,020,000). As at 31 December 2003, the Group has pledged certain unlisted securities, the investment property and the receivable from Guangdong International Building Enterprises Company Limited for secured bank loan amounted to HK$40,910,000. The gearing ratio, as a ratio of total borrowings (excluding the convertible bonds of HK$36,000,000) to shareholders' funds, was 12.6% (2002: 7.7%).

As most of the cash reserves were placed in HK dollars short-term deposits with major banks in Hong Kong, exposure to exchange fluctuation is minimal.

*Placing and Subscription of New Shares*

On 5 February and 5 August 2003, the Company allotted and issued 239,200,000 and 287,000,000 new shares respectively of HK$0.10 each to independent investors at a price of HK$0.10 per share. During the year, the Company issued 75,184,000 and 27,100,000 new shares of HK$0.10 each to eligible participants through exercising their share options previously granted at exercise prices of HK$0.10 per share and HK$0.145 per share respectively.

Pursuant to the conditional subscription agreement dated 5 August 2003 entered with China Worldbest Group (Hong Kong) Company Limited ("China Worldbest (HK)"), an independent third party engaging in textile and pharmaceutical business in the PRC and oversea countries, 280,000,000 new shares of HK$0.10 each were allotted on 26 September 2003 to China Worldbest (HK) at a price of HK$0.10 per share.

Pursuant to the conditional subscription agreement dated 5 August 2003 with China Worldbest (HK), the Company issued convertible bonds of HK$36 million at par. The bonds carry interest at 4% per annum, payable half yearly in arrears, and a right to convert into new shares of HK$0.10 each in the issued share capital of the Company at a conversion price of HK$0.10 per share, subject to adjustment, at any time from 9 March 2004 to 8 December 2005. The bonds, if not being converted, shall not become due nor repayable until 8 December 2005.

The aggregate proceeds for the issuance of new shares and convertible bonds was approximately HK$127 million after deducting placing commission. HK$15.7 million has been applied as part of the total consideration of HK$30 million in acquiring 10% of equity interest in UBC. The remaining proceeds of approximately HK$111.3 million will be applied as general working capital and for the acquisition of interest of SW Treeful.

*Charges on Assets*

At the balance sheet date, the Group had pledged the investment property, the receivable in amount of approximately HK$33,506,000 from Guangdong International Building Enterprises Company Limited and certain unlisted securities for secured bank loan, which was denominated in Hong Kong dollars and carried interest rate at 2.65% above HIBRO, amount to HK$40,910,000. The Group had also pledged the deposits and investments in securities, amounted to HK$1,414,000 to bank and financial institutions in securing the credit facilities granted to the Group.

*Contingent Liabilities*

The Group did not have any material contingent liabilities as at 31 December 2003.

*Material Acquisition and Disposal of Subsidiaries and Associated Companies*

There were no material acquisitions or disposals of subsidiaries and connected companies during the year.

*Human Resources*

As at 31 December 2003, the Group had 37 and 2 employees in Hong Kong and Mainland China respectively. Employee remunerations are in accordance with nature of their duties and remain competitive under current market trend. Staff benefits include medical schemes, Mandatory Provident Fund schemes and share options for Hong Kong employees.

**For the year ended 31 December 2004**

*Business Review*

For the year under review, the Group reported a turnover of HK$242,459,000 (2003: HK$18,109,000), representing a remarkable increase of 12.4 times as compared with 2003. The substantial increase in turnover was mainly due to the commencement of trading business during the year 2004. The Group's loss attributable to shareholders for the year was HK$86,215,000 (2003: HK$35,290,000).

Umbilical cord blood storage

The Group has devoted much of its efforts in increasing the public awareness of the benefits of umbilical cord blood storage during the recent years. During the year 2004, the enrolment of our umbilical cord blood storage services has reached a record high, representing a growth rate of 31%, and a turnover of HK$11,724,000 (2003: HK$9,287,000) was reported.

In the second half of 2004, the Group has successfully introduced its umbilical cord blood storage services into Macau and it is expected that the business in Macau will grow in a faster pace in 2005.

Investment

The Group has been holding an investment property, being Level 2, GITIC Plaza, 339 Huanshi Road East, Guangzhou, Guangdong Province, the PRC (the "GITIC Plaza"), since 3 March 1997 under medium term lease in the PRC. The value of GITIC Plaza was stated as approximately HK$155,800,000 at a professional valuation made by Savills (Hong Kong) Limited, an independent valuer, on 31 December 2004 on an open market basis.

GITIC Plaza has generated a rental income of HK$8,805,000 (2003: HK$8,807,000) for the year ended 31 December 2004.

In addition, the Group has invested in some listed securities during the year, which has realised a profit of HK$2,450,000 (2003: Nil) for the year ended 31 December 2004.

International trade

The Group commenced trading business in the second half of 2004 which mainly involved in the sourcing and distribution of pharmaceutical ingredients and chemicals. A turnover of HK$163,730,000 (2003: Nil) was reported for the year.

Shanghai Worldbest Treeful Pharmaceuticals (Group) Company Limited

On 5 March 2004, Offspring Investments Limited ("Offspring"), a wholly-owned subsidiary of the Company, entered into a conditional agreement to acquire 30% equity interest in Shanghai Worldbest Treeful Pharmaceuticals (Group) Company Limited ("SW Treeful") a transfusion agent manufacturer and distributor in the PRC from China Worldbest Life Industries Company Limited ("CWGC Life"), a subsidiary of China Worldbest Group Company Limited, a substantial shareholder of the Company, at a consideration of RMB165,000,000 (approximately HK$156,000,000), subject to adjustment (the "Agreement").

By 30 July 2004, all conditions in the Agreement were satisfied and the formalities in transferring the 30% equity interest in SW Treeful from CWGC Life to Offspring have been completed according to the terms of the Agreement. Pursuant to the Agreement, Offspring should within 3 months after the effective date of the Agreement, being 30 July 2004, pay an aggregate sum of RMB165 million by 3 instalments to CWGC Life as consideration for the acquisition. CWGC Life has subsequently agreed to extend the payment period in respect of the second and third instalments to 31 March 2005.

As disclosed in the announcement of the Company made on 1 April 2005, since the Group had failed to raise sufficient fund to pay the second and third instalments on or before 31 March 2005, CWGC Life and Offspring had entered into a rescission agreement to rescind the Agreement on 1 April 2005 (the "Rescission Agreement"). Pursuant to the Rescission Agreement, Offspring shall sign the necessary documents to transfer the 30% equity interest in SW Treeful back to CWGC Life and within 10 working days after the completion of such transfer, CWGC Life shall return RMB49.5 million, being the first instalment previously paid to CWGC Life under the Agreement, to Offspring. The Rescission Agreement will be completed when the necessary statutory approvals and registration procedures in the PRC are properly obtained and completed.

***Liquidity, Financial Resources and Capital Structure***

As at 31 December 2004, the Group had net current liabilities of HK$12,581,000 (2003: Net current assets of HK$166,993,000) and the current ratio was 0.92 (2003: 11.5). Current liabilities increased by HK$147,121,000 or 927%, mainly due to the outstanding balance of the consideration for the acquisition of 30% equity interest in SW Treeful as at the year end date. Upon signing of the Rescission Agreement on 1 April 2005, the Group's payment obligation under the Agreement was released and the first instalment paid to CWGC Life, being RMB49.5 million (equivalent to approximately HK$46,698,000) will be returned to the Group after completion of the transfer of shares back to CWGC Life. The current ratio will be improved thereafter.

As at 31 December 2004, the Group had bank balances and cash, pledged deposits and investments in securities amounted to HK$85,605,000, of which all of them were denominated in Hong Kong dollars. The Group had total borrowings of HK$37,276,000 (2003: HK$41,597,000) which were all interest bearing loans. The gearing ratio, as a ratio of total borrowings to shareholders' fund was 13.3% (2003: 12.6%). As most of the Group's assets and liabilities are denominated in Hong Kong dollars, the Group does not expect significant exposure to foreign exchange fluctuation.

On 9 December 2003, the Group issued a convertible bond of HK$36,000,000 at par. The bond carried interest at 4% per annum, payable half yearly in arrears, and a right to convert into new shares of HK$0.10 each in the issued share capital of the Company at a conversion price of HK$0.10 per share, subject to adjustment, at any time from 9 March 2004 to 8 December 2005. The bond was fully converted into 360,000,000 ordinary shares of the Company on 27 September 2004.

***Charges on Assets***

At the balance sheet date, the Group had pledged the investment property, the receivable in amount of approximately HK$31,725,000 (2003: HK$33,506,000) from Guangdong International Building Enterprises Company Limited and certain unlisted securities for secured bank loan, which was denominated in Hong Kong dollars and carried interest rate at 2.65% above HIBRO, amounted to HK$36,910,000 (2003: HK$40,910,000). The Group had also pledged the deposits and investments in securities, amounted to HK$24,189,000 (2003: HK$1,414,000) to bank and financial institutions in securing the credit facilities granted to the Group.

***Contingent Liabilities***

The Group did not have any material contingent liabilities as at 31 December 2004.

***Material Acquisitions and Disposals of Subsidiaries and Associated Companies***

Save as disclosed above under the heading "Shanghai Worldbest Treeful Pharmaceuticals (Group) Company Limited", there were no material acquisitions or disposals of subsidiaries and associated companies during the year.

*Human Resources*

As at 31 December 2004, the Group had 35 and 6 employees in Hong Kong and the PRC respectively. Employees are remunerated at a competitive level and are rewarded according to their performance. Our Group's remuneration packages include medical scheme, group insurance, mandatory provident fund and performance bonus.

According to the share option scheme adopted by the Company on 26 June 2002, share options may be granted to Directors and employees of the Group to subscribe for shares in the Company in accordance with the terms and conditions stipulated therein.

**For the year ended 31 December 2005**

*Business Review*

For the year under review, the Group reported a consolidated turnover of HK$190,838,000 (2004: HK$242,459,000), representing a decrease of 21% as compared with last year. The Group's gross profit improved to HK$24,124,000, representing an increase of 24% as compared with last year and the profit margin was 13% (2004: 8%). The Group's loss attributable to shareholders and loss per share for the year was HK$55,200,000 (2004: HK$86,215,000) and 2.24 HK cents (2004: 3.92 HK cents) respectively.

Umbilical cord blood storage

Notwithstanding the entrance of competitors in the umbilical cord blood storage service in Hong Kong during the year, the Group is still the market leader in Hong Kong to provide such service. During the year, income from the umbilical cord blood storage service amounted to HK$15,634,000 (2004: HK$11,724,000), with a significant increase of 33%.

Investment

The Group has been holding an investment property, being Level 2, GITIC Plaza, 339 Huanshi Road East, Guangzhou, Guangdong Province, PRC (the "GITIC Plaza"), since 3 March 1997 under medium term lease in Mainland China. The value of GITIC Plaza was stated as HK$124,800,000 (2004: HK$155,800,000) at a professional valuation made by Malcolm & Associates Appraisal Limited, an independent valuer, on 31 December 2005. In the current year, the Group has, for the first time, applied HKAS 40 Investment Property and elected to use the fair value model to account for its investment property which requires decrease in fair value of investment property of HK$31,000,000 to be charged directly in the income statement for the year.

GITIC Plaza has generated a steady rental income of HK$8,684,000 (2004: HK$8,805,000) for the Group for the year ended 31 December 2005.

The Group continued to invest in some listed securities during the year and has realized a profit of HK$1,064,000 (2004: HK$2,450,000) for the year ended 31 December 2005.

International Trade

The Group has involved in the trading of pharmaceutical ingredients and chemicals during the year and a turnover of HK$130,262,000 (2004: HK$163,730,000) was reported for the year. The change of management has affected the international trading business of the Group during the year, especially on the trading of pharmaceutical ingredients. The Group has been restructuring its strategies on the trading business during the current year.

***Liquidity, Financial Resources, Charges on Assets and Capital Structure***

As at 31 December 2005, the Group had total assets and net assets amounted to HK$297,041,000 (2004: HK$484,225,000) and HK$227,427,000 (2004: HK$280,254,000) respectively. The current ratio was improved at 4.5, as compared to 0.9 as of last year end. The Group had bank balances and cash, pledged deposits and investment in securities amounted to HK$99,536,000 (2004: HK$85,605,000), of which all of them were denominated in Hong Kong dollars. The Group had total borrowings of HK$33,027,000 (2004: HK$37,276,000) which represented a decrease of 11% over that of last year end. The gearing ratio, as a ratio of total borrowings to shareholders' fund was 14.5% (2004: 13.3%). As most of the Group's assets and liabilities are denominated in Hong Kong dollars, the Group does not expect significant exposure to foreign exchange fluctuation.

***Material Acquisitions and Disposals of Subsidiaries and Associated Companies***

As disclosed in the announcement of the Company made on 1 April 2005, Offspring Investments Limited, a wholly-owned subsidiary of the Company, entered into the Rescission Agreement with China Worldbest Life Industries Company Limited to rescind the conditional agreement to acquire 30% equity interest in Shanghai Worldbest Treeful Pharmaceuticals (Group) Company Limited. The Rescission Agreement has been completed during the year.

There were no material acquisitions or disposals of subsidiaries during the year.

***Charges on Assets***

At the balance sheet date, the Group had pledged the investment property, the receivable in amount of approximately HK$28,299,000 from Guangdong International Building Enterprises Company Limited and certain unlisted securities for secured bank loan, which was denominated in Hong Kong dollars and carried interest rate at 2.65% above HIBRO, amount to HK$32,910,000. The Group had also pledged the deposits and investments in securities, amounted to HK$13,511,000 to bank and financial institutions in securing the credit facilities granted to the Group.

***Contingent Liabilities***

The Group did not have material contingent liabilities as at 31 December 2005.

***Human Resources***

As at 31 December 2005, the Group had 27 and 4 employees in Hong Kong and the PRC respectively. Employees are remunerated at a competitive level and are rewarded according to their performance. Our Group's remuneration packages include medical scheme, group insurance, mandatory provident fund and performance bonus.

According to the share option scheme adopted by the Company on 26 June 2002, share options may be granted to directors, employees and other eligible participants of the Group to subscribe for shares in the Company in accordance with the terms and conditions stipulated therein.

## 5. INDEBTEDNESS, LIQUIDITY AND FINANCIAL RESOURCES

At the close of businesses on 31 July 2006, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had the following indebtedness:

| | As at 31 July 2006 | |
|---|---|---|
| | **The Group** | **Lead Sun Group** |
| | *HK$'000* | *HK$'000* |
| **Secured bank borrowings** | | |
| – due within one year | 25,910 | – |
| – due after one year | 4,000 | – |
| **Total borrowings** | 29,910 | – |

**Finance Lease**

As at 31 July 2006, the Group and the Enlarged Group had no finance lease.

**Securities and guarantees**

Secured bank borrowings – amounts due within one year and amounts due after one year.

As at 31 July 2006, the bank borrowings of the Group and Enlarged Group are denominated in Hong Kong dollars and carry interest rate at HIBOR plus 2.65% per annum. The bank facilities are secured by the Group's investment properties, rental receivable, unlisted securities, deposits and are secured by the corporate guarantees provided by INNOMAXX Biotechnology Group Limited.

**Contingent liabilities**

As at 31 July 2006, the Group and the Enlarged Group had no material contingent liabilities.

**Commitments**

As at 31 July 2006, the Group and the Lead Sun Group had operating lease commitments of approximately HK$2,972,000 and HK$186,080 respectively in respect of rental premises, which were not provided for in the Group and the Enlarged Group's pro forma financial information.

**Credit facilities**

As at 31 July 2006, the Group and the Enlarged Group have been granted banking facilities of HK$48,000,000 by local banks of which HK$29,910,000 were utilized as at the same date.

**Disclaimers**

To the best knowledge of the Directors, save as aforesaid or as otherwise disclosed herein and apart from intra-group liabilities, none of the companies in the Enlarged Group has outstanding mortgages, charges, debentures, or other loan capital, loans or other similar indebtedness or acceptance credits or hire purchase commitments or any guarantees or other material contingent liabilities as at the close of business on 31 July 2006.

The Directors have confirmed that, save as disclosed above, there has not been any material change in the indebtedness and contingent liabilities of the Group and the Enlarged Group since 31 July 2006.

## 6. WORKING CAPITAL

The Directors are of the opinion that the Enlarged Group will, following the completion of the Acquisition and the Placing and taking into account the present internal financial resources, the present available credit facilities of the Enlarged Group, the net proceeds from the Placing and in the absence of unforeseen circumstances, have sufficient working capital for its present requirements.

## 7. MATERIAL ADVERSE CHANGE

The Directors confirm that (i) there has been no material adverse change in the financial or trading position of the Group since 31 December 2005, the date to which the latest audited financial statements of the Group were made up; and (ii) there has been no material adverse change in the financial or trading position of the Lead Sun Group since 30 June 2006, the date to which the latest audited financial statements of Lead Sun Group were made up.

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9 October 2006

The Director,
INNOMAXX Biotechnology Group Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") relating to Lead Sun Investments Limited ("Lead Sun") and its subsidiaries (hereafter collectively referred to as the "Lead Sun Group") for the period from 6 April 2006 (the date of incorporation) to 30 June 2006 (the "Relevant Period") for inclusion in the circular issued by INNOMAXX Biotechnology Group Limited ("INNOMAXX" or the "Company") dated 9 October 2006 in connection with INNOMAXX's proposed acquisition of 57% equity interest in Lead Sun.

Lead Sun was incorporated in the British Virgin Islands (the "BVI") on 6 April 2006 with limited liability under the BVI Business Companies Act, 2004 of the BVI. The principal activity of Lead Sun is investment holding.

As at the date of this report, Lead Sun, through acquisition made on 1 June 2006, has direct and indirect interest in the following subsidiaries, all of which are private limited companies.

| Name of subsidiary | Place and date of incorporation/ Establishment | Normal value of issued capital/ registered capital | Attributable equity interest held by Lead Sun | | Principal activities |
|---|---|---|---|---|---|
| | | | Directly | Indirectly | |
| Top Rank International Group Limited ("Top Rank") | BVI 19 October 2004 | Ordinary US$50,000 | 100% | – | Investment holding |
| Shanxi Shenli Aerospace Titanium Co. Ltd. ("Shanxi Shenli") | The People's Republic of China (the "PRC") 17 March 2005 | Rmb184,800,000 | – | 90% | Exploration and trading of titanium products |

All companies now comprising the Lead Sun Group have adopted 31 December as their financial year end date.

No audited financial statements have been prepared for Lead Sun, which was incorporated in a country where there is no statutory audit requirement. For the purpose of this report, we have, however, reviewed all the relevant transactions of the Company since its date of incorporation.

Although there is no statutory requirement to prepare audited financial statements, the financial statements of Top Rank for the period from 19 October 2004 (date of incorporation) to 31 May 2006 have been audited by Santo CPA Limited, Certified Public Accountants registered in Hong Kong.

The statutory financial statements of Shanxi Shenli for the period from 17 March 2005 (date of establishment) to 31 December 2005 and the financial statements of Shanxi Shenli for the six months ended 30 June 2006, both prepared in accordance with relevant accounting principles and financial regulations applicable to the PRC enterprises, were audited by Xinzhou Yuxin Certified Public Accountants, certified public accountants registered in the PRC.

For the purpose of this report, we have carried out an independent audit on the consolidated financial statements of Top Rank and its subsidiary (hereafter collectively referred to as the "Top Rank Group") prepared by the director of the Top Rank Group in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all applicable Hong Kong Accounting Standards ("HKAS"), Statements of Standard Accounting Practice and Interpretations) for the period from 19 October 2004 (the date of incorporation) to 30 June 2006 in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by Hong Kong Institute of Certified Public Accountants (the "HKICPA").

For the purpose of this report, the director of the Lead Sun have prepared the consolidated financial statements of the Lead Sun Group for the Relevant Period (the "Consolidated Financial Statements"), in accordance with HKFRSs issued by the HKICPA. We have undertaken independent audit procedures on the Consolidated Financial Statements in accordance with HKSAs issued by HKICPA.

The Financial Information of the Lead Sun Group as set out in Section I to V has been prepared by the directors of the Company based on the Consolidated Financial Statements of the Lead Sun Group for the Relevant Period in accordance with HKFRSs issued by the HKICPA. We have examined the Financial Information and carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The directors of the respective companies, during the Relevant Period, are responsible for preparing the financial statements of the respective companies which give a true and fair view. The director of Lead Sun is responsible for preparing the Consolidated Financial Statements which give a true and fair view. In preparing these financial statements, it is fundamental that appropriate accounting policies are selected and applied consistently.

The director of Lead Sun is responsible for the Financial Information which gives a true and fair view. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

In forming our opinion, we also evaluated the overall adequacy of the presentation of the Financial Information together with the notes thereto. We believe that our work provides a reasonable basis for our opinion.

In our opinion, the Financial Information together with the notes thereto, for the purpose of this report, gives a true and fair view of the state of affairs of Lead Sun and the Lead Sun Group as at 30 June 2006 and of the results and cash flows of the Lead Sun Group for the Relevant Period.

## I. FINANCIAL INFORMATION

### CONSOLIDATED INCOME STATEMENT

| | *Notes* | **Period from 6 April 2006 (date of incorporation) to 30 June 2006** *HK$'000* |
|---|---|---|
| Waiver of payable balances | *14* | 2,964 |
| Administrative expenses | | (497) |
| Profit before income tax | *4* | 2,467 |
| Income tax | *5* | – |
| Profit after income tax | | 2,467 |
| Attributable to: | | |
| Equity holders of Lead Sun | | 2,488 |
| Minority interests | | (21) |
| | | 2,467 |

## CONSOLIDATED BALANCE SHEET

| | Notes | As at 30 June 2006 HK$'000 |
|---|---|---|
| **Non-current assets** | | |
| Property, plant and equipment | *7* | 620 |
| Goodwill | *8* | 10,754 |
| | | 11,374 |
| **Current assets** | | |
| Other receivables and deposits | | 574 |
| Amount due from minority investor | *9* | 30,155 |
| Bank balances and cash | | 325 |
| | | 31,054 |
| **Current liabilities** | | |
| Other payables and accruals | *10* | 31,280 |
| **Net current liabilities** | | (226) |
| **Net assets** | | 11,148 |
| **Capital and reserves** | | |
| Share capital | *11* | 8 |
| Reserves | | 2,488 |
| | | 2,496 |
| Minority interests | | 8,652 |
| **Total equity** | | 11,148 |

## BALANCE SHEET

| | Notes | As at 30 June 2006 HK$'000 |
|---|---|---|
| **Non-current assets** | | |
| Investments in subsidiaries | *6* | – |
| **Current assets** | | |
| Other receivables | | 8 |
| **Current liabilities** | | |
| Other payables and accruals | | 21 |
| **Net current liabilities** | | (13) |
| **Net liabilities** | | (13) |
| **Capital and reserves** | | |
| Share capital | *11* | 8 |
| Reserves | | (21) |
| | | (13) |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

### Lead Sun Group

| | Share capital | Retained profits | Total | Minority interests | Total equity |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Issue of shares | 8 | – | 8 | – | 8 |
| Acquisition of subsidiaries | – | – | – | 8,673 | 8,673 |
| Net profit for the period | – | 2,488 | 2,488 | (21) | 2,467 |
| Balance as at 30 June 2006 | 8 | 2,488 | 2,496 | 8,652 | 11,148 |

## STATEMENT OF CHANGES IN EQUITY

### Lead Sun

| | Share capital | Accumulated losses | Total |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Issue of shares | 8 | – | 8 |
| Net loss for the period | – | (21) | (21) |
| Balance as at 30 June 2006 | 8 | (21) | (13) |

## CONSOLIDATED CASH FLOW STATEMENT

| | Note | Period from 6 April 2006 (date of incorporation) to 30 June 2006 |
|---|---|---|
| | | HK$'000 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Profit before income tax | | 2,467 |
| Adjustments for: | | |
| Depreciation | | 22 |
| Operating profit before working capital changes | | 2,489 |
| Decrease in other receivables and deposits | | 3,555 |
| Decrease in other payables and accruals | | (5,880) |
| Cash generated from operations | | 164 |
| Net Cash inflow from operating activities | | 164 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Net cash inflow from acquisition of subsidiaries | 12 | 153 |
| Net cash inflow from investing activities | | 153 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Issue of shares capital | | 8 |
| Net cash inflow from financing activities | | 8 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 325 |
| Cash and cash equivalents at beginning of period | | – |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | | 325 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Bank balances and cash | | 325 |

## II. NOTES TO FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION

Lead Sun was incorporated in the BVI on 6 April 2006 with limited liability under the BVI Business Companies Act, 2004 of the BVI.

The Financial Information is presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Lead Sun is an investment holding company. The principal activities of the subsidiaries are set out in note 6.

### 2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

#### (a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with principal accounting policies set out below. These accounting policies are in accordance with Hong Kong Financial Reporting Standards ("HKFRS") (which include all applicable Hong Kong Accounting Standards ("HKAS"), Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong that has been adopted as at the beginning of the Relevant Period.

At the date of this report, the following standards and interpretations were in issue but not yet effective:

| | | |
|---|---|---|
| HKAS 1 (Amendment) | *(Note a)* | Capital disclosures |
| HKFRS 7 | *(Note a)* | Financial instruments – Disclosures |
| HK(IFRIC) – Int 8 | *(Note b)* | Scope of HKFRS 2 |
| HK(IFRIC) – Int 9 | *(Note c)* | Reassessment of embedded derivatives |

*Note a:* Effective for annual periods beginning on or after 1 January 2007

*Note b:* Effective for annual periods beginning on or after 1 May 2006

*Note c:* Effective for annual periods beginning on or after 1 June 2006

Lead Sun Group has commenced considering the potential impact of the above new HKFRS but is not yet in a position to determine these HKFRS would have a significant impact on how its results of operations and financial position are prepared and presented. These HKFRS may result in changes in the future as to how the results and financial position are prepared and presented.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information and throughout the Lead Sun Group.

#### (b) Basis of preparation

The measurement basis used in the preparation of the Financial Information of the Lead Sun Group is historical cost.

**(c) Basic of consolidation**

The consolidated financial statements incorporate the financial statements of Lead Sun and its subsidiaries. Control is achieved where Lead Sun has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the periods are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intra-company transactions and balances within the Lead Sun Group are eliminated on consolidation.

**(d) Goodwill**

Goodwill represents the excess of the cost of an acquisition over the Lead Sun Group's interest in the fair value of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

**(e) Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The initial cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation is calculated on the straight-line basis to write off the cost of property, plant and equipment, less any estimated residual values, over the following estimated useful lives:

| | |
|---|---|
| Furniture, fixtures and equipment | 5 years |
| Motor vehicles | 10 years |

The gain or loss arising from the disposal or retirement of property, plant and equipment is determined between the net disposal proceeds and the carrying amount of the relevant asset and is recognized in the income statement on the date of disposal or retirement.

**(f) Impairment of assets**

Assets that have an indefinite useful life are not subject to amortization, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

**(g) Provisions and contingencies**

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognized for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

**(h) Income tax**

(i) Income tax comprises current and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax and liabilities are generally recognized in the income statement except to the extent that they relate to items recognized directly in equity, in which case they are recognized in equity.

(ii) Current tax is the expected tax payable on the taxable income for the period, using the tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred taxation is provided in full, using the liability method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the Financial Information.

(iv) Deferred tax assets are recognized to the extent that it is probable that the future taxable profit will be available against which the temporary differences can utilized. Deferred tax assets also arise from unused tax losses and unused tax credits.

**(i) Foreign currencies**

In the separate financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognized in the income statement.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, the financial statements of subsidiary, originally presented in a currency different from the Lead Sun Group's presentation currency, have been converted into HK$. Assets and liabilities have been translated into HK$ at the closing rates at the balance sheet date. Income and expenses have been converted into the HK$ at the average rates over the reporting period. Any differences arising from this have been dealt with in the translation reserve of the Lead Sun Group.

**(j) Related parties**

For the purpose of this report, parties are considered to be related to the Lead Sun Group if the Lead Sun Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or the Lead Sun Group and the party are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

**(k) Cash and cash equivalents**

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Lead Sun Group's cash management.

For the purpose of the consolidated balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

## 3. TURNOVER

The principal activities of the Lead Sun Group are the exploration and exploitation of natural rutile and the production and trading of rutile and titanium related products. During the Relevant Period, there was no turnover recognized as the Lead Sun Group has not yet commenced business.

## 4. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

| | **Period from 6 April 2006 (date of incorporation) to 30 June 2006** *HK$'000* |
|---|---|
| Depreciation | 22 |
| Staff salaries (excluding directors' remuneration) | 240 |

## 5. INCOME TAX

No provision for Hong Kong profits tax has been made as the Lead Sun Group had no assessable profits arising in Hong Kong for the Relevant Period.

No provision for PRC enterprise income tax has been made as the subsidiary in the PRC had no assessable profits for the Relevant Period.

There was no material unprovided deferred taxation for the Relevant Period.

## 6. INVESTMENTS IN SUBSIDIARIES

| | **Lead Sun As at 30 June 2006** *HK$* |
|---|---|
| At costs | 8 |

The original purchase consideration of the acquisition of the subsidiaries amounted to US$2,700,000. Pursuant to the letter issued by the seller on 30 June 2006, part of the consideration amounting to US$2,699,999 due by the Company was waived, and as a result, the total investment cost in subsidiaries is US$1 (equivalent to HK$8).

Particulars of the subsidiaries are set out below:

| Name of subsidiary | Place and date of incorporation/ Establishment | Normal value of issued capital/ registered capital | Attributable equity interest held by Lead Sun Directly | Attributable equity interest held by Lead Sun Indirectly | Principal activities |
|---|---|---|---|---|---|
| Top Rank | BVI 19 October 2004 | Ordinary US$50,000 | 100% | – | Investment holding |
| Shanxi Shenli | The PRC 17 March 2005 | Rmb184,800,000 | – | 90% | Exploration and exploitation of natural rutile and the production and trading of rutile and titanium related products |

## 7. PROPERTY, PLANT AND EQUIPMENT

**The Lead Sun Group**

| | Furniture, fixtures and equipment *HK$'000* | Motor vehicles *HK$'000* | Total *HK$'000* |
|---|---|---|---|
| **Cost** | | | |
| Acquisition of subsidiaries and at 30 June 2006 | 164 | 550 | 714 |
| **Accumulated depreciation** | | | |
| Acquisition of subsidiaries | 19 | 53 | 72 |
| Charge for the period | 9 | 13 | 22 |
| At 30 June 2006 | 28 | 66 | 94 |
| **Net book value** | | | |
| At 30 June 2006 | 136 | 484 | 620 |

## 8. GOODWILL

| | As at 30 June 2006 *HK$'000* |
|---|---|
| Arising on acquisition of subsidiaries *(Note 12)* | 10,754 |

Goodwill is tested at least annually for impairment and whenever there is an indication that it may be impaired.

## 9. AMOUNT DUE FROM MINORITY INVESTOR

The balance is due from Xinzhou Tianyang Titanium Co., Ltd. which holds 10% of equity interest of the subsidiary, Shanxi Shenli.

The balance is unsecured, interest free and repayable on demand. The director considers the carrying value of the amount approximates to the fair value.

### 10. OTHER PAYABLES AND ACCRUALS

| | As at 30 June 2006 *HK$'000* |
|---|---|
| Amounts due to a former shareholder | 30,440,000 |
| Amounts due to the director of Shanxi Shenli | 485,000 |
| Accrued inspection and exploration fees | 257,000 |
| Accrued professional fee and others | 98,000 |
| | 31,280,000 |

### 11. SHARE CAPITAL

| | As at 30 June 2006 *HK$'000* |
|---|---|
| *Authorized:* | |
| 50,000 ordinary shares of US$1 each | 387 |
| *Issued and fully paid:* | |
| 1,000 ordinary shares of US$1 each | 8 |

Lead Sun was incorporated with authorized capital of US$50,000 divided into 50,000 ordinary shares with a par value of US$1 each. Upon incorporation, 1 ordinary share was subscribed and issued. On 8 June 2006, additional 999 ordinary shares were allotted and issued.

### 12. ACQUISITION OF SUBSIDIARIES

On 1 June 2006, Lead Sun acquired all issued share capital of Top Rank and its subsidiary for a consideration of US$2,700,000. Pursuant to the letter issued by the seller on 30 June 2006, part of the consideration amounting to US$2,699,999 due by the Company has waived and as a result, the total investment cost in subsidiaries is US$1 (equivalent to HK$8). This acquisition is accounted for using the purchase method of accounting.

Details of the net liabilities acquired by Lead Sun as at 1 June 2006 were as follows:

| | Acquiree's carrying amount before acquisition and its fair value *HK$'000* |
|---|---|
| Property, plant and equipment | 643 |
| Other receivables and deposits | 4,128 |
| Amounts due from minority investor | 30,155 |
| Cash and cash equivalents | 153 |
| Other payables and accruals | (1,167) |
| Amounts due to a shareholder | (35,993) |
| Minority interests | (8,673) |
| Net liabilities | (10,754) |
| Goodwill *(Note 8)* | 10,754 |
| Total consideration and satisfied by cash of HK$8 | – |
| Net cash outflow arising on acquisition: | |
| Purchase consideration settled in cash of HK$8 | – |
| Cash and cash equivalents in subsidiaries acquired | (153) |
| | 153 |

**13. OPERATING LEASE COMMITMENTS**

At the balance sheet date, the Lead Sun Group had outstanding commitments under non-cancellable operating leases, which fall due as follows:–

| | **As at 30 June 2006** |
|---|---|
| | *HK$'000* |
| Within one year | 143 |
| In the second to fifth years inclusive | 74 |
| | 217 |

**14. RELATED PARTY TRANSACTIONS**

During the period ended 30 June 2006, the former shareholder of Top Rank waived the amount due by Top Rank of HK$2,964,000. Therefore, the balance is treated as an income during the period.

## III. FINANCIAL RISKS AND MANAGEMENT

The Lead Sun Group is exposed to a variety of financial risks which result from its operating and investing activities. The Lead Sun Group does not hold or issue derivative financial instruments for trading purposes. The most significant financial risks to which the Lead Sun Group is exposed to are described below.

### 1. Foreign currency risk

Being the subsidiary of Lead Sun, Shanxi Shenli operates in the PRC with most of the transactions denominated in Renminbi ("Rmb"). The Lead Sun Group is exposed to foreign exchange risk arising from the exposure of Rmb against the HK$. It has not hedged its foreign exchange rate risk. However, management monitors foreign exchange exposure and will consider hedging significant currency exposure should the need arise.

### 2. Credit risk

The maximum credit risk exposure of financial assets is the carrying amount of financial assets as shown on the face of the consolidated balance sheet. Credit risk, therefore, is only disclosed in circumstances where the maximum potential loss differs significantly from the financial asset's carrying amount.

The carrying amount of other receivables and deposits and amount due from minority investor represented the Lead Sun Group's maximum exposure to credit risk in relation to financial assets.

### 3. Fair values

The fair values of the Lead Sun Group's financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short term maturity.

## IV. SUBSEQUENT EVENTS

There were no significant subsequent events after 30 June 2006.

## V. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Lead Sun Group in respect of any period subsequent to 30 June 2006.

Yours faithfully,
For and on behalf of
**BAKER TILLY HONG KONG LIMITED**
*Certified Public Accountants*
Hong Kong

Andrew David Ross
Practising Certificate number P01183

BAKER TILLY
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9 October 2006

The Directors,
INNOMAXX Biotechnology Group Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") relating to Top Rank International Group Limited ("Top Rank") and its subsidiary (hereafter collectively referred to as the "Top Rank Group") for the period from 19 October 2004 (date of incorporation) to 31 December 2005 and for the six months ended 30 June 2006 (the "Relevant Periods") for inclusion in the circular issued by INNOMAXX Biotechnology Group Limited ("INNOMAXX" or "the Company") dated 9 October 2006 in connection with INNOMAXX's proposed acquisition of 57% equity interest in the holding company of Top Rank, namely Lead Sun Investments Limited.

Top Rank was incorporated in the British Virgin Islands (the "BVI") on 19 October 2004 with limited liability under the International Business Companies Act, Cap 291 of the BVI. The principal activity of Top Rank is investment holding.

As at the date of this report, Top Rank has 90% direct interest in Shanxi Shenli Aerospace Titanium Co. Ltd. ("Shanxi Shenli"), which is a private limited company established in the People's Republic of China ("PRC") on 17 March 2005. The registered capital of Shanxi Shenli is Rmb184,800,000 and its principal activities are the exploration and exploitation of natural rutile and the production and trading of rutile and titanium related products in the PRC.

All companies now comprising the Top Rank Group have adopted 31 December as their financial year end date.

Although there is no statutory requirement to prepare audited financial statements, the financial statements of Top Rank for the period from 19 October 2004 (date of incorporation) to 31 May 2006 have been audited by Santo CPA Limited, Certified Public Accountants registered in Hong Kong.

The statutory financial statements of Shanxi Shenli for the period from 17 March 2005 (date of establishment) to 31 December 2005 and the financial statements of Shanxi Shenli for the six months ended 30 June 2006, both prepared in accordance with relevant accounting principles and financial regulations applicable to the PRC enterprises, were audited by Xinzhou Yuxin Certified Public Accountants, certified public accountants registered in the PRC.

For the purpose of this report, the director of Top Rank has prepared the consolidated financial statements of the Top Rank Group for the Relevant Periods (the "Consolidated Financial Statements"), in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all applicable Hong Kong Accounting Standards ("HKAS"), Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). We have undertaken independent audit procedures on the Consolidated Financial Statements in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by HKICPA.

The Financial Information of the Top Rank Group as set out in Section I to V has been prepared by the directors of the Company based on the Consolidated Financial Statements of the Top Rank Group for the Relevant Periods in accordance with HKFRSs issued by the HKICPA. We have examined the Financial Information and carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

For the purpose of this report, we have performed a review on the comparative financial information, which includes the consolidated income statement and consolidated cash flow statement of the Top Rank Group for the six months ended 30 June 2005, together with the notes thereto, (the "30 June 2005 Financial Information"), for which the directors of Top Rank are responsible, in accordance with SAS 700 "Engagements to review interim financial reports" issued by the HKICPA. Our review consists principally of making enquires of management and applying analytical procedures to the financial information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope and therefore provides a lower level of assurance than the audit or examination procedures as described in the preceding paragraph and accordingly, we do not express an audit opinion on the 30 June 2005 Financial Information.

The directors of the respective companies, during the Relevant Periods, are responsible for preparing the financial statements of the respective companies which give a true and fair view. The director of Top Rank is responsible for preparing the Consolidated Financial Statements which give a true and fair view. In preparing these financial statements, it is fundamental that appropriate accounting policies are selected and applied consistently.

The director of Top Rank is responsible for the Financial Information which gives a true and fair view. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

In forming our opinion, we also evaluated the overall adequacy of the presentation of the Financial Information together with the notes thereto. We believe that our work provides a reasonable basis for our opinion.

In our opinion, the Financial Information together with the notes thereto, for the purpose of this report, gives a true and fair view of the state of affairs of Top Rank and the Top Rank Group as at 31 December 2005 and 30 June 2006 and of the results and cash flows of the Top Rank Group for the Relevant Periods.

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the 30 June 2005 Financial Information.

## I. FINANCIAL INFORMATION

### CONSOLIDATED INCOME STATEMENTS

| | | Period from 19 October 2004 (date of incorporation) to 31 December | Six months ended 30 June | |
|---|---|---|---|---|
| | | **2005** | **2005** | **2006** |
| | *Notes* | *HK$'000* | *HK$'000* (unaudited) | *HK$'000* |
| Other income | | 55 | 7 | 40 |
| Waiver of payable balances | *12* | – | – | 2,964 |
| Administrative expenses | | (6,371) | (3,548) | (7,282) |
| **Loss before income tax** | *4* | (6,316) | (3,541) | (4,278) |
| Income tax | *5* | – | – | – |
| **Loss after income tax** | | (6,316) | (3,541) | (4,278) |
| **Attributable to:** | | | | |
| **Equity holders of Top Rank** | | (5,710) | (3,187) | (3,827) |
| **Minority interests** | | (606) | (354) | (451) |
| | | (6,316) | (3,541) | (4,278) |

**CONSOLIDATED BALANCE SHEETS**

| | *Notes* | **As at 31 December 2005** *HK$'000* | **As at 30 June 2006** *HK$'000* |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | *7* | 595 | 620 |
| **Current assets** | | | |
| Other receivables and deposits | | 2,588 | 566 |
| Amounts due from minority investor | *8* | 20,641 | 30,155 |
| Bank balances and cash | | 11,756 | 325 |
| | | 34,985 | 31,046 |
| **Current liabilities** | | | |
| Other payables and accruals | | 313 | 31,259 |
| Amounts due to a shareholder | *9* | 30,587 | – |
| | | 30,900 | 31,259 |
| **Net current assets/(liabilities)** | | 4,085 | (213) |
| **Net assets** | | 4,680 | 407 |
| **Capital and reserves** | | | |
| Share capital | *10* | 387 | 387 |
| Reserves | | (4,810) | (8,632) |
| | | (4,423) | (8,245) |
| Minority interests | | 9,103 | 8,652 |
| **Total equity** | | 4,680 | 407 |

## BALANCE SHEETS

| | Notes | As at 31 December 2005 HK$'000 | As at 30 June 2006 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments in subsidiary | 6 | 30,000 | 30,800 |
| **Current assets** | | | |
| Other receivables and deposits | | 619 | – |
| Bank balances and cash | | 99 | – |
| | | 718 | – |
| **Current liabilities** | | | |
| Other payables and accruals | | – | 30,439 |
| Amounts due to a shareholder | 9 | 30,587 | – |
| | | 30,587 | 30,439 |
| **Net current liabilities** | | (29,869) | (30,439) |
| **Net assets** | | 131 | 361 |
| **Capital and reserves** | | | |
| Share capital | 10 | 387 | 387 |
| Reserves | 11 | (256) | (26) |
| | | 131 | 361 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

### Top Rank Group

| | Share capital | Translation reserve | Accumulated losses | Total | Minority interests | Total equity |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Issue of shares | 387 | – | – | 387 | – | 387 |
| Capital contributions from minority investor of the subsidiary | – | – | – | – | 9,709 | 9,709 |
| Exchange difference on translation of overseas operation | – | 900 | – | 900 | – | 900 |
| Net loss for the period | – | – | (5,710) | (5,710) | (606) | (6,316) |
| Balance as at 31 December 2005 and 1 January 2006 | 387 | 900 | (5,710) | (4,423) | 9,103 | 4,680 |
| Exchange difference on translation of overseas operation | – | 5 | – | 5 | – | 5 |
| Net loss for the period | – | – | (3,827) | (3,827) | (451) | (4,278) |
| Balance as at 30 June 2006 | 387 | 905 | (9,537) | (8,245) | 8,652 | 407 |

## STATEMENT OF CHANGES IN EQUITY

### Top Rank

| | Share capital | Accumulated losses | Total |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Issue of shares | 387 | – | 387 |
| Net loss for the period | – | (256) | (256) |
| Balance as at 31 December 2005 and 1 January 2006 | 387 | (256) | 131 |
| Net profit for the period | – | 230 | 230 |
| Balance as at 30 June 2006 | 387 | (26) | 361 |

## CONSOLIDATED CASH FLOW STATEMENTS

| | Period from 19 October 2004 (date of incorporation) to 31 December 2005 | Six months ended 30 June 2005 | Six months ended 30 June 2006 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* (unaudited) | *HK$'000* |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Loss before income tax | (6,316) | (3,541) | (4,278) |
| Adjustments for: | | | |
| Interest income | (55) | (7) | (40) |
| Depreciation | 35 | 4 | 59 |
| Operating loss before working capital changes | (6,336) | (3,544) | (4,259) |
| (Increase)/Decrease in other receivables and deposits | (2,588) | (1,430) | 2,022 |
| Increase in amounts due from minority investor | (20,641) | – | (9,514) |
| Increase in other payables and accruals | 313 | 50 | 30,946 |
| Increase/(Decrease) in amounts due to a shareholder | 30,587 | 30,233 | (30,587) |
| Cash generated from/(used in) operations | 1,335 | 25,309 | (11,392) |
| Net Cash inflow/(outflow) from operating activities | 1,335 | 25,309 | (11,392) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of property, plant and equipment | (630) | (489) | (84) |
| Interest received | 55 | 7 | 40 |
| Net cash outflow from investing activities | (575) | (482) | (44) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Issue of share capital | 387 | – | – |
| Capital contribution from minority investor | 9,709 | 9,709 | – |
| Net cash inflow from financing activities | 10,096 | 9,709 | – |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | 10,856 | 34,536 | (11,436) |
| Cash and cash equivalents at beginning of period | – | – | 11,756 |
| Effect on foreign exchange rate changes | 900 | 900 | 5 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | 11,756 | 35,436 | 325 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Bank balances and cash | 11,756 | 35,436 | 325 |

## II. NOTES TO FINANCIAL INFORMATION

### 1. GENERAL INFORMATION

Top Rank was incorporated in the BVI on 19 October 2004 with limited liability under the International Business Companies Act, Cap 291 of the BVI.

The Financial Information is presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Top Rank is an investment holding company. The principal activities of the subsidiary are set out in note 6.

### 2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

#### (a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with principal accounting policies set out below. These accounting policies are in accordance with Hong Kong Financial Reporting Standards ("HKFRS") (which include all applicable Hong Kong Accounting Standards ("HKAS"), Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong that has been early adopted as at the beginning of the relevant periods.

At the date of this report, the following standards and interpretations were in issue but not yet effective:

| | | |
|---|---|---|
| HKAS 1 (Amendment) | *(Note a)* | Capital disclosures |
| HKAS 19 (Amendment) | *(Note b)* | Employee benefits – Actuarial gains and losses, group plans and disclosures |
| HKAS 21 (Amendment) | *(Note b)* | The effects of changes in foreign exchange rates – Net investment in a foreign operation |
| HKAS 39 (Amendment) | *(Note b)* | Cash flow hedge accounting of forecast intragroup transactions |
| HKAS 39 (Amendment) | *(Note b)* | The fair value option |
| HKAS 39 and HKFRS 4 (Amendments) | *(Note b)* | Financial instruments: Recognition and measurement and insurance contracts – Financial guarantee contracts |
| HKFRS 6 | *(Note b)* | Exploration for and evaluation of mineral resources |
| HKFRS 7 | *(Note a)* | Financial instruments – Disclosures |
| HKFRS – Int 4 | *(Note b)* | Determining whether an arrangement contains a lease |
| HKFRS – Int 5 | *(Note b)* | Rights to Interests arising from decommissioning, restoration and environmental rehabilitation funds |
| HK(IFRIC) – Int 6 | *(Note c)* | Liabilities arising from participating in a specific market – Waste electrical and electronic equipment |
| HK(IFRIC) – Int 7 | *(Note d)* | Applying the restatement approach under HKAS 29 – Financial reporting in hyperinflationary economies |
| HK(IFRIC) – Int 8 | *(Note e)* | Scope of HKFRS 2 |
| HK(IFRIC) – Int 9 | *(Note f)* | Reassessment of embedded derivatives |

*Note a:* Effective for annual periods beginning on or after 1 January 2007

*Note b:* Effective for annual periods beginning on or after 1 January 2006

*Note c:* Effective for annual periods beginning on or after 1 December 2005

*Note d:* Effective for annual periods beginning on or after 1 March 2006

*Note e:* Effective for annual periods beginning on or after 1 May 2006

*Note f:* Effective for annual periods beginning on or after 1 June 2006

Top Rank Group has commenced considering the potential impact of the above new HKFRS but is not yet in a position to determine these HKFRS would have a significant impact on how its results of operations and financial position are prepared and presented. These HKFRS may result in changes in the future as to how the results and financial position are prepared and presented.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information and throughout the Top Rank Group.

**(b) Basis of preparation**

The measurement basis used in the preparation of the Financial Information of the Top Rank Group is historical cost.

**(c) Basic of consolidation**

The consolidated financial statements incorporate the financial statements of Top Rank and its subsidiaries. Control is achieved where Top Rank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the periods are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intra-company transactions and balances within the Top Rank Group are eliminated on consolidation.

**(d) Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The initial cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation is calculated on the straight-line basis to write off the cost of property, plant and equipment, less the estimated residual value, over the following estimated useful lives:

| | |
|---|---|
| Furniture, fixtures and equipment | 5 years |
| Motor vehicles | 10 years |

The gain or loss arising from the disposal or retirement of property, plant and equipment is determined between the net disposal proceeds and the carrying amount of the relevant asset and is recognized in the income statement on the date of disposal or retirement.

**(e) Impairment of assets**

Assets that have an indefinite useful life are not subject to amortization, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

**(f) Provisions and contingencies**

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognized for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

**(g) Income tax**

(i) Income tax comprises current and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax and liabilities are generally recognized in the income statement except to the extent that they relate to items recognized directly in equity, in which case they are recognized in equity.

(ii) Current tax is the expected tax payable on the taxable income for the period, using the tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred taxation is provided in full, using the liability method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the Financial Information.

(iv) Deferred tax assets are recognized to the extent that it is probable that the future taxable profit will be available against which the temporary differences can utilized. Deferred tax assets also arise from unused tax losses and unused tax credits.

**(h) Foreign currencies**

In the separate financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognized in the income statement.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, the financial statements of subsidiary, originally presented in a currency different from the Top Rank Group's presentation currency, have been converted into HK$. Assets and liabilities have been translated into HK$ at the closing rates at the balance sheet date. Income and expenses have been converted into the HK$ at the average rates over the reporting period. Any differences arising from this have been dealt with in the translation reserve of the Top Rank Group.

**(i) Related parties**

For the purpose of this report, parties are considered to be related to the Top Rank Group if the Top Rank Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or the Top Rank Group and the party are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

**(j) Cash and cash equivalents**

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Top Rank Group's cash management.

For the purpose of the consolidated balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

**3. TURNOVER**

The principal activities of the Top Rank Group are the exploration and exploitation of natural rutile and the production and trading of rutile and titanium related products. During the Relevant Periods, there was no turnover recognized as the Top Rank Group has not yet commenced business.

**4. LOSS BEFORE INCOME TAX**

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

| | Period from 19 October 2004 (date of incorporation) to 31 December | Six months ended 30 June | |
|---|---|---|---|
| | 2005 | 2005 | 2006 |
| | *HK$'000* | *HK$'000* (unaudited) | *HK$'000* |
| Interest income | (55) | (7) | (40) |
| Depreciation | 35 | 4 | 59 |
| Exchange losses | 598 | 598 | 28 |
| Bad debts written off | – | – | 2,452 |
| Staff salaries (excluding directors' remuneration) | 240 | – | 418 |

**5. INCOME TAX**

No provision for Hong Kong profits tax has been made as the Top Rank Group had no assessable profits arising in Hong Kong for the Relevant Periods.

No provision for PRC enterprise income tax has been made as the subsidiary in the PRC had no assessable profits for the Relevant Periods.

There was no material unprovided deferred taxation for the Relevant Periods.

**6. INVESTMENTS IN SUBSIDIARY**

| | Top Rank | |
|---|---|---|
| | As at 31 December 2005 | As at 30 June 2006 |
| | *HK$'000* | *HK$'000* |
| At costs | 30,000 | 30,800 |

Particulars of the subsidiary is set out below:

| Name of subsidiary | Place and date of establishment | Registered capital | Attributable equity interest held | Principal activities |
|---|---|---|---|---|
| Shanxi Shenli | PRC, 17 March 2005 | Rmb184,800,000 | 90% | Exploration and exploitation of natural rutile and the production and trading of rutile and titanium related products |

## 7. PROPERTY, PLANT AND EQUIPMENT

**The Top Rank Group**

| | Furniture, fixtures and equipment | Motor vehicles | Total |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **Cost** | | | |
| Additions and at 31 December 2005 | 80 | 550 | 630 |
| Additions | 84 | – | 84 |
| At 30 June 2006 | 164 | 550 | 714 |
| **Accumulated depreciation** | | | |
| Charge for the period and at 31 December 2005 | 7 | 28 | 35 |
| Charge for the period | 21 | 38 | 59 |
| At 30 June 2006 | 28 | 66 | 94 |
| **Net book value** | | | |
| At 30 June 2006 | 136 | 484 | 620 |
| At 31 December 2005 | 73 | 522 | 595 |

## 8. AMOUNTS DUE FROM MINORITY INVESTOR

The balances are due from Xinzhou Tianyang Titanium Co., Ltd. which holds 10% of equity interest of the subsidiary, Shanxi Shenli.

The balances are unsecured, interest free and repayable on demand. The director considers the carrying value of the amounts approximates to the fair value.

## 9. AMOUNTS DUE TO A SHAREHOLDER

The balances were unsecured, interest free and repayable on demand. As this shareholder is not holding any equity interests in Top Rank as at 30 June 2006, the balance is transferred to other payables and accruals as at 30 June 2006.

### 10. SHARE CAPITAL

| | As at 31 December 2005 *HK$'000* | As at 30 June 2006 *HK$'000* |
|---|---|---|
| *Authorized:* | | |
| 50,000 ordinary shares of US$1 each | 387 | 387 |
| *Issued and fully paid:* | | |
| 50,000 ordinary shares of US$1 each | 387 | 387 |

Top Rank was incorporated with the authorized capital of US$50,000 divided into 50,000 ordinary shares with a par value of US$1 each. Upon incorporation, 50,000 ordinary shares were subscribed and issued.

### 11. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Top Rank Group had outstanding commitments under non-cancellable operating leases, which fall due as follows:–

| | As at 31 December 2005 *HK$'000* | As at 30 June 2006 *HK$'000* |
|---|---|---|
| Within one year | – | 143 |
| In the second to fifth years inclusive | – | 74 |
| | – | 217 |

### 12. RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2006, the former shareholder of Top Rank waived the amount due by Top Rank of HK$2,964,000. Therefore, the balance is treated as an income during the period.

## III. FINANCIAL RISKS AND MANAGEMENT

The Top Rank Group is exposed to a variety of financial risks which result from its operating and investing activities. The Top Rank Group does not hold or issue derivative financial instruments for trading purposes. The most significant financial risks to which the Top Rank Group is exposed to are described below.

### 1. Foreign currency risk

Being the subsidiary of Top Rank, Shanxi Shenli operates in the PRC with most of the transactions denominated in Renminbi ("Rmb"). The Top Rank Group is exposed to foreign exchange risk arising from the exposure of Rmb against the HK$. It has not hedged its foreign exchange rate risk. However, management monitors foreign exchange exposure and will consider hedging significant currency exposure should the need arise.

**2. Credit risk**

The maximum credit risk exposure of financial assets is the carrying amount of financial assets as shown on the face of the consolidated balance sheet. Credit risk, therefore, is only disclosed in circumstances where the maximum potential loss differs significantly from the financial asset's carrying amount.

The carrying amount of other receivables and deposits and amounts due from minority investor represented the Top Rank Group's maximum exposure to credit risk in relation to financial assets.

**3. Fair values**

The fair values of the Top Rank Group's financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short term maturity.

## IV. SUBSEQUENT EVENTS

There were no significant subsequent events after 30 June 2006.

## V. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Top Rank Group in respect of any period subsequent to 30 June 2006.

Yours faithfully,
For and on behalf of
**BAKER TILLY HONG KONG LIMITED**
*Certified Public Accountants*
Hong Kong

Andrew David Ross
Practising Certificate number P01183

BAKER TILLY
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9 October 2006

The Board of Directors
INNOMAXX Biotechnology Group Limited

Dear Sirs,

We report on the unaudited pro forma financial information of INNOMAXX Biotechnology Group Limited (INNOMAXX or the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") and Lead Sun Investments Limited ("Lead Sun") and its subsidiaries (hereinafter collectively referred to as the "Lead Sun Group") (hereinafter collectively referred to as the "Enlarged Group") set out in Appendix IV to the circular dated 9 October 2006 issued in connection with a major transaction in relation to the proposed acquisition of 57% interest in the issued capital of Lead Sun (the "Circular"), which has been prepared, for illustrative purposes only, to provide information about how the acquisition might have affected the financial information presented.

**RESPONSIBILITIES**

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on the Market of The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

## BASIS OF OPINION

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work, which involved on independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company.

Our work does not constitute an audit or a review in accordance with the Statements of Auditing Standards issued by the HKICPA and accordingly, we do not express any such assurance on the unaudited pro forma financial information.

The unaudited pro forma financial information has been prepared on the basis set out in Appendix IV to the Circular for illustrative purpose only and, because of its nature, it may not give an indicative of the financial position of the Enlarged Group at 30 June 2006 or any future date.

## OPINION

In our opinion:

- the unaudited pro forma financial information has been properly compiled on the basis stated;
- such basis is consistent with the accounting policies of the Group; and
- the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29 of the Listing Rules.

Yours faithfully,
For and on behalf of
**Baker Tilly Hong Kong Limited**
*Certified Public Accountants*
Hong Kong

Andrew David Ross
Practising Certificate number P01183

## 1. PRO-FORMA FINANCIAL INFORMATION ON THE ENLARGED GROUP

### (i) UNAUDITED PRO FORMA BALANCE SHEET OF THE ENLARGED GROUP

The following is the unaudited pro forma balance sheet of the Enlarged Group, assuming that the transactions contemplated under the Formal Acquisition Agreement had been implemented on 30 June 2006 based on the unaudited consolidated balance sheet of the Group as at 30 June 2006, which has been extracted from the interim report of the Group for the six months ended 30 June 2006 as set out in Appendix I, the audited consolidated balance sheet of the Lead Sun Group as at 30 June 2006 as set out in Appendix II to this Circular and adjusted to reflect the effect of Completion of the Formal Acquisition Agreement.

The unaudited pro forma balance sheet of the Enlarged Group is prepared to provide the unaudited pro forma financial information on the Enlarged Group as a result of Completion of the Formal Acquisition Agreement. As it has been prepared for illustrative purpose only, and because of its nature, it may not give a true picture of the financial position of the Enlarged Group as at the date to which it is made up to or at any future date.

| | **(Unaudited) The Group as at 30 June 2006** | **(Audited) Lead Sun Group as at 30 June 2006** | **Pro forma adjustments** | | **Pro forma Enlarged Group** |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *Notes* | *HK$'000* |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 3,577 | 620 | (222) | *1* | 3,975 |
| Investment properties | 137,864 | – | (137,864) | *1* | – |
| Mining rights | – | – | 1,810,000 | 2 | 1,810,000 |
| Goodwill | 15,600 | 10,754 | 132,826 | 3 | 159,180 |
| | 157,041 | 11,374 | | | 1,973,155 |
| **Current assets** | | | | | |
| Inventories | 529 | – | | | 529 |
| Trade and other receivables | 44,482 | 574 | (29,464) | *1* | 15,592 |
| Pledged bank deposits | 16,644 | – | (3,944) | *1* | 12,700 |
| Amount due from a minority investor | – | 30,155 | | | 30,155 |
| Bank balances and cash | 83,180 | 325 | 220,640 | 4 | 304,145 |
| | 144,835 | 31,054 | | | 363,121 |

| | (Unaudited) The Group as at 30 June 2006 | (Audited) Lead Sun Group as at 30 June 2006 | Pro forma adjustments | | Pro forma Enlarged Group |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *Notes* | *HK$'000* |
| **Current liabilities** | | | | | |
| Trade and other payables | 4,656 | 31,280 | 19,072 | *1,5* | 55,008 |
| Deferred income | 27,693 | – | | | 27,693 |
| Taxable payable | 488 | – | (432) | *1* | 56 |
| Secured bank borrowings – amount due within one year | 4,000 | – | (4,000) | *1* | – |
| | 36,837 | 31,280 | | | 82,757 |
| Net current assets/ (liabilities) | 107,998 | (226) | | | 280,364 |
| Total assets less current liabilities | 265,039 | 11,148 | | | 2,253,519 |
| Non-current liabilities | | | | | |
| Secured bank borrowings – amount due after one year | 26,910 | – | (26,910) | *1* | – |
| Deferred taxation | 6,365 | – | 464,235 | *1,6* | 470,600 |
| | 33,275 | – | | | 470,600 |
| Net assets | 231,764 | 11,148 | | | 1,782,919 |
| Capital and reserves | | | | | |
| Share capital | 247,181 | 8 | 223,140 | *7* | 470,329 |
| Reserves | (15,417) | 2,488 | 663,506 | *7* | 650,577 |
| | 231,764 | 2,496 | | | 1,120,906 |
| Minority interests | – | 8,652 | 653,361 | *8* | 662,013 |
| Total equity | 231,764 | 11,148 | | | 1,782,919 |

*Note:*

1 This represents the disposals of the issued capital of the subsidiary, INNOMAXX Property (BVI) Limited (the "BVI Property Company") and its subsidiaries (collectively referred to as the "Property Group" hereafter), as part of the acquisition consideration. Details of the net assets of the Property Group as at 30 June 2006, amounting to HK$171,219,000, are as follows:

| | *HK$'000* |
|---|---|
| **Non-current assets** | |
| Property, plant and equipment | 222 |
| Investment properties | 137,864 |
| | **138,086** |
| **Current assets** | |
| Trade and other receivables | 29,464 |
| Amounts due from group companies | 41,037 |
| Pledged bank deposits | 3,944 |
| | **74,445** |
| **TOTAL ASSETS** | **212,531** |
| **Current liabilities** | |
| Trade and other payables | 3,495 |
| Taxable payable | 432 |
| Secured bank borrowings – amount due within one year | 4,000 |
| Amounts due to group companies | 110 |
| | **8,037** |
| **Non-current liabilities** | |
| Secured bank borrowings – amount due after one year | 26,910 |
| Deferred taxation | 6,365 |
| | **33,275** |
| **TOTAL LIABILITIES** | **41,312** |
| **Net assets** | **171,219** |

2 This represents the fair value of the mining rights of a natural rutile mine known as 山西代縣金紅石礦 (the "Mine") as if the Acquisition had been completed on 30 June 2006, in accordance with Hong Kong Financial Reporting Standard ("HKFRS") 3 "Business Combination". Please refer to page 35 in the Circular for further details of the fair value of the mining rights.

The obtaining of the mining license in relation to the Mine is a condition precedent to the completion of the Acquisition. Subsequent to the balance sheet date of the unaudited pro forma financial information of the Enlarged Group, the mining license was obtained on 26 September 2006. The unaudited pro-forma financial information on the Enlarged Group is presented as if this license had been obtained as at 30 June 2006 to reflect the impact of the completion of the Acquisition on the Enlarged Group. As such, this mining rights are presented as an intangible asset of the Enlarged Group. Mining rights are stated as fair value less accumulated amortization and accumulated impairments. Amortization is calculated to write off the carrying amount of the Mining rights with reference to the unit of production method over its estimated useful life. Before the Acquisition, the Company does not have any intangible assets except goodwill during its previous financial years. It is the first time for the Company or the Enlarged Group to adopt the accounting policy for the mining rights in the unaudited pro forma financial information on the Enlarged Group. The accounting policies adopted in the unaudited pro forma financial information on the Enlarged Group is in accordance with HKFRS 6 "Exploration for and Evaluation of Mineral Resources" and Hong Kong Accounting Standards ("HKAS") 38 "Intangible Assets". The same accounting policies will be adopted in subsequent financial periods of the Enlarged Group after the Acquisition.

3 This is to reflect the adjustment required the excess of the purchase consideration (comprising of cash, Consideration Shares and net assets of the Property Group as well as the related transaction costs) of the net assets of the Lead Sun Group, acquired by the Group, over their fair values and the related tax effect thereon. The excess amount arising from the Acquisition is treated as goodwill and is accounted for under the purchase method in the consolidated financial statements of the Enlarged Group, upon completion of the Acquisition.

For the purpose of preparing the pro forma balance sheet of the Enlarged Group, the fair value of the Lead Sun Group and purchase consideration are applied in calculating the estimated goodwill arising from the Acquisition which is in compliance with HKFRS 3. As the fair values of the Lead Sun Group and Consideration Shares at the date of completion may be substantially different from their fair values as at 30 June 2006, the actual goodwill arising from the Acquisition may also be substantially different from the estimated goodwill as mentioned above.

Reconciliation of the goodwill is as follows:

| | *Note* | *HK$'000* | *HK$'000* |
|---|---|---|---|
| Purchase consideration: | | | |
| Cash | | | 205,000 |
| Consideration Shares | | | 432,592 |
| The fair value of the Property Group | (*i*) | | 171,219 |
| | | | 808,811 |
| Add: Transaction costs for the Acquisition | | | 12,550 |
| Less: The equity interests in Lead Sun Group: | | | |
| Net assets of Lead Sun Group, at fair value | | (11,148) | |
| Fair value of mining rights | *(ii)* | (1,810,000) | |
| Fair value of deferred tax liabilities | *(iii)* | 470,600 | |
| Minority interests of the pro forma net assets of Lead Sun Group | *8* | 662,013 | |
| | | | (688,535) |
| Goodwill | | | 132,826 |

*Notes:*

(i) As at 30 June 2006, the fair value of the Property Group is about HK$171,219,000 (31 December 2005: HK$156,841,000), including the investment properties with fair value of HK$137,864,000 (equivalent to RMB142,000,000) which is determined by an independent professional valuer. Please refer to the Property Valuation as set out in Appendix V.

(ii) The fair value of the mining rights of HK$1,810,000,000 relating to the Mine was determined by the management of the Company with the technical support and advises from Greater China Appraisal Limited, an independent qualified valuer; Behre Dolbear Asia, Inc., a consulting firm with extensive experience in mining related projects within mining industry and Canadian Imperial Bank of Commerce (CIBC), a Canadian-based adviser possessing expertise in the mining industry.

(iii) Deferred tax liability is arising from the fair value of the mining rights of the Mine based on the weighted average enterprise income tax rate of 26% with reference to the assumed mine life of 25 years as disclosed on page 36 of the Circular. Such treatment is in compliance with the HKAS 12.

4 This represents the net impact of the following transactions:

| | *Notes* | *HK$'000* |
|---|---|---|
| Cash raised in the Placing Agreement | *(i)* | 456,550 |
| Cash paid out to acquire the Lead Sun Group | *3* | (205,000) |
| Partial repayment of amounts due from Property Group | *1, (ii)* | (30,910) |
| | | 220,640 |

*Note:*

(i) The adjustment reflects the issue of the shares as if the Placing Agreement has been completed. Pursuant to the Placing Agreement, the Group shall issue 1,000,000,000 Placing Shares (subject to the Over-allotment Option) at the Placing Price of HK$0.4 per Share. As stated in the Letter from the Board, total subscription represented 1.39 times of the total number of the initial Placing Shares available under the Placing. Accordingly, it is assumed that Over-allotment Option will be fully exercised and the Group will issue 1,150,000,000 Placing Shares. The proceeds from the Placing are estimated to be about HK$460,000,000. The net cash proceeds from the Placing after deducting relevant expenses are estimated to be about HK$456,550,000. The share capital and share premium of HK$115,000,000 and HK$341,550,000 are credited to share capital account and the reserve account respectively. This is further detailed in table form in Note 7 (i).

(ii) Pursuant to the terms of the Formal Acquisition Agreement, the Company shall repay the amount due from the Company to the Property Group to settle a term loan facility granted to GITIC Properties prior to the completion of the Acquisition. As at 30 June 2006, the outstanding loan balance amounted to HK$30,910,000.

5 This represents the net impact of the following transactions:

| | *Notes* | *HK$'000* |
|---|---|---|
| Reversing the trade and other payables held by the Property Group | *1* | (3,495) |
| Accrued transaction costs arising from the professional fee rendered in the Acquisition | *3* | 12,550 |
| Reclassifying the net amounts due from group companies by the Property Group after the repayment of HK$30,910,000 | *1, 4* | 10,127 |
| Reclassifying the amounts due to group companies by the Property Group | *1* | (110) |
| | | 19,072 |

6 This represents the net impact of the following transactions:

| | *Notes* | *HK$'000* |
|---|---|---|
| Deferred taxation held by the Property Group | *1* | (6,365) |
| Deferred taxation arising from the mining rights | *3(iii)* | 470,600 |
| | | 464,235 |

7 This represents the net impact of the following transactions:

| | *Notes* | **Share capital** *HK$'000* | **Reserves** *HK$'000* |
|---|---|---|---|
| Elimination of capital of the Lead Sun/ pre acquisition of loss of the Lead Sun Group | | (8) | (2,488) |
| Placing Agreement and Acquisition Agreement | *(i)* | 223,148 | 665,994 |
| | | 223,140 | 663,506 |

*Notes:*

(i) These are summarized as follows:

| | Notes | Number of Placing/ Consideration Shares issued | Placing/ Agreed Price per Share | Share Consideration | Cash proceeds | Issuing cost | Net cash proceeds | Amounts credited to share capital (Par value at HK$0.1 each) | Amounts credited to reserve accounts |
|---|---|---|---|---|---|---|---|---|---|
| | | | *HK$* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Placing Agreement | 4 *(i)* | 1,150,000,000 | 0.4 | – | 460,000 | (3,450 ) | 456,550 | 115,000 | 341,550 |
| Acquisition Agreement | *(a)* | 1,081,480,000 | 0.4 | 432,592 | - | - | - | 108,148 | 324,444 |
| | | | | | | | | 223,148 | 665,994 |

*Note (a):* The adjustment reflects the issue of the shares as if the Acquisition Agreement has been completed. Pursuant to the Acquisition Agreement, the Group shall issue 1,081,480,000 Consideration Shares at the agreed Price of HK$0.4 per Share. Accordingly, the share consideration of HK$432,592,000 are issued. The corresponding amounts of HK$108,148,000 and HK$324,444,000 are credited to share capital account and the reserve account respectively.

8 This represents the net impact of the following transactions:

| | | | **Changes of minority interests** | **Minority interests of the Lead Sun Group at 30 June 2006** | **Total minority interests of the pro forma Enlarged Group** |
|---|---|---|---|---|---|
| | *HK$'000* | | *HK'000* | *HK$'000* | *HK'000* |
| Increase in fair value of the mining rights | 1,810,000 | 48.7%* | 881,470 | – | 881,470 |
| Increase in deferred tax liability | (470,600) | 48.7%* | (229,182) | – | (229,182) |
| Acquisition of Lead Sun Group | 2,496# | 43%** | 1,073 | – | 1,073 |
| Minority interest of Shanxi Shenli | | | – | 8,652 | 8,652 |
| | | | 653,361 | 8,652 | 662,013 |

* This represents the total percentage owned by the minority interest (taking into account of the 10% minority interest holding the equity interests of the Shanxi Shenli)

** This represents the percentage owned by the minority interest of Lead Sun

\# This represents the net assets of Lead Sun Group of HK$11,148,000 less net assets held by the minority interest of Shanxi Shenli of HK$8,652,000.

**GREATER CHINA APPRAISAL LIMITED**
漢 華 評 值 有 限 公 司

Room 2703
Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

9 October 2006

The Directors
INNOMAXX Biotechnology Group Limited

Dear Sirs,

In accordance with the instructions from INNOMAXX Biotechnology Group Limited (referred to as "the Company") to value certain property interest in the People's Republic of China (referred to as the "PRC"), we confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing the market value of such property interest as at 31 July 2006 (referred to as the "date of valuation").

This letter which forms part of our valuation report explains the basis and methodology of valuation, and clarifies our assumptions made, titleship of properties and the limiting conditions.

**BASIS OF VALUATION**

Our valuation is our opinion of the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties has each acted knowledgeably, prudently and without compulsion".

**VALUATION METHODOLOGY**

The property interest is valued by the comparison method where comparison based on prices realized or market prices of comparable properties is made. Comparable properties of similar size, character and location are analyzed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of capital values.

Where property is let to independent third parties, the amount of rent payable on the valuation date was capitalized for the residue period of the lease. Full market rent was applied for capitalization after the current lease expired. The comparison method is also adopted to obtain the full market rental value.

## ASSUMPTIONS

Our valuation has been made on the assumption that on the open market the owner sells the property interest in its existing state without the benefit of any deferred terms contracts, leaseback, joint ventures, management agreements or any similar arrangement which would serve to increase the value of the property interest.

For the property interest which is held under long term land use rights, we have assumed that the owner of the property interest has free and uninterrupted rights to use, transfer or lease the property interest for the whole of the unexpired term of the respective land use rights term. In our valuation, we have assumed that the property interest can be freely disposed of, transferred and leased to third parties on the open market without any additional payment to the relevant government authorities.

We have assumed that all consents, approvals and licenses from relevant government authorities for the buildings and structures erected thereon have been granted. Also, we have assumed that all buildings and structures fall within the site are held by the owner or permitted to be occupied by the owner.

Other special assumptions, if any, have been stated out in the footnotes of the valuation certificate for the respective properties.

## TITLESHIP INVESTIGATION

We have been provided with copies of the title document and the sales and purchase agreement. However, due to the current registration system of the PRC, no investigations have been made for the legal title or any liabilities attached to the property.

As far as the property in the PRC is concerned, we have relied upon the legal opinions given by Guantao Law Firm (the "PRC Legal Advisor") on 6 October 2006 in relation to the legal title to the property in the PRC under valuation.

All legal documents disclosed in this report are for reference only and no responsibility is assumed for any legal matters concerning the legal title to the property interest set out in this report.

## LIMITING CONDITIONS

We have not carried out detailed site measurements to verify the correctness of the land or building areas in respect of the relevant property but have assumed that the areas shown on the legal documents provided to us are correct. Based on our experience of valuation of similar properties, we consider the assumptions so made to be reasonable. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

We have inspected the exterior and, where possible, the interior of the properties included in the attached valuation certificate. However, no structural survey has been made and we are therefore unable to report as to whether the property is free from rot, infestation or any other structural defects. No tests were carried out on any of the services.

Having examined all relevant documentation, we have relied to a very considerable extent on the information provided by the Company and have accepted advice given to us by it on such matters as planning approvals, statutory notices, easements, tenure, occupation, rentals, site and floor areas and in the identification of the property in which the Company has valid interest. We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We were also advised by the Company that no material factors have been omitted from the information to reach an informed view, and have no reason to suspect that any material information has been withheld.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on any of the property valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the interest is free of encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

**OPINION OF VALUE**

The valuation certificate has already shown the market value of the property interest.

**REMARKS**

Our valuation has been prepared in accordance with generally accepted valuation procedures and in compliance with the requirements of the Rules Governing The Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Rules"), including but not limited to the provisions of Chapter 5 and Practice Note 12 of the Rules. In valuing the property interest, we have complied with the requirements contained in the HKIS Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Surveyors and effective from 1 January 2005.

Property value is denominated in Chinese Renminbi (RMB).

We enclose herewith the valuation certificate.

This valuation report is issued subject to our General Service Conditions.

Yours faithfully,
For and on behalf of
**Greater China Appraisal Limited**
**K. K. Ip**
*BLE LLD*
*Chartered Valuation Surveyor*
*Registered Professional Surveyor*
*Managing Director*

*Note:* Mr. K. K. Ip, who is a Chartered Valuation Surveyor and a Registered Professional Surveyor, has substantial experience in valuation of property interest in the PRC since 1992.

## VALUATION CERTIFICATE

| Property | Description and Tenure | Particular of Occupancy | Market Value as at 31 July 2006 *(RMB)* |
|---|---|---|---|
| Level 2 GITIC Plaza No. 339 Huanshi Road East Guangzhou Guangdong Province The PRC | The subject property comprises the whole of Level 2 within a 6-storey commercial podium of a complex development completed in 1992 to 1996.<br><br>The complex development comprises a 57-storey hotel building and a 27-storey office building (namely Tower A) built above a 6-storey commercial podium, where the subject property is located, with 2-storey basement of car park spaces and machine rooms. The complex development also comprises a service apartment building (namely Tower B).<br><br>The gross floor area of the subject property is approximately 8,976.56 square metres (96,623.69 square feet).<br><br>The property is held by the Group under a Real Estate Ownership Certificate and a Transfer Registration for commercial purpose. | Portion of the property, with total gross floor area of approximately 7,235.36 square metres is currently leased to various individual tenants for various terms from 1 year to 24 years with the latest one expiring on 31 January 2022. The total rental income for July 2006 was approximately RMB727,108 (inclusive of management fee).<br><br>The remaining portion is either vacant or occupied by the Company as office. | 142,000,000 |

*Notes:*

(i) According to the Real Estate Ownership Certificate (穗房地証字第86527號) dated 6 October 1994 issued by Guangzhou People's Government, the title of the property is vested in 廣東國際信托投資(香港)有限公司 for commercial purpose.

(ii) According to the Transfer Registration dated 3 March 1997 issued by Guangzhou State-owned Land and Building Administration Bureau, the property was transferred to GITIC Properties Limited (a wholly owned subsidiary of the Company).

(iii) In the course of our valuation, we have assumed a land use right term of 40 years commencing from the date of the Real Estate Ownership Certificate, that is 6 October 1994. The above mentioned period is by reference to the relevant land use regulations.

(iv) Opinions of the PRC Legal Advisor are summarized as follows:

(a) The GITIC Properties Limited is the legal owner of the property.

(b) The property is subject to mortgage in favour of CITIC Ka Wah Bank.

(c) Subject to the consent of the mortgagee, GITIC Properties Limited is entitled to freely transfer, lease or mortgage the property.

# BEHRE DOLBEAR

*founded* 1911 MINERALS INDUSTRY CONSULTANTS

BEIJING DENVER GUADALAJARA HONG KONG LONDON NEW YORK SANTIAGO SYDNEY TORONTO VANCOUVER

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9 October 2006

The Board of Directors
INNOMAXX Biotechnology Group Limited
Suite 3206-3211, 32/F
One International Finance Center
1 Harbour View Street
Central, Hong Kong

Gentlemen,

Behre Dolbear Asia, Inc. ("BDASIA"), a subsidiary of Behre Dolbear & Company, Inc. ("Behre Dolbear" or "BDCI"), herewith submits a report on the independent technical review of the Nianzigou rutile mineral project (the "Project") located at Dai County, Shanxi Province of the People's Republic of China, mining license of which has been obtained by Shanxi Shenli Aerospace Titanium Company Limited ("Shanxi Shenli"). Address for BDASIA is noted above. This letter of transmittal is part of the report.

The review covers the Project. The Project has recently completed a pre-feasibility level study and a feasibility level study is underway.

The purpose of this report is to provide an independent technical assessment of the Project in relation to the acquisition (the "Acquisition") of 57% interest in Lead Sun Investments Limited, a company which indirectly owns 90% equity interests of Shanxi Shenli, by INNOMAXX Biotechnology Group Limited ("INNOMAXX" or the "Company", together with its subsidiaries, the "INNOMAXX Group"), a company whose shares are listed on The Stock Exchange of Hong Kong Limited ("SEHK"). This technical assessment report has been prepared in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), in particular, Chapter 18. The reporting standard adopted by this report is the VALMIN Code and Guidelines for Technical Assessment and Valuation of Mineral Assets and Mineral Securities for Independent Expert Reports as adopted by the Australasian Institute of Mining and Metallurgy in 1995 and updated in 2005. Mineral resources defined for the Project by the 211 Geological Team of the Shanxi Province Geological Exploration Bureau ("the 211 Team") in October 2005, and ore reserves defined by Taiyuan City Guangzhi Metallurgical Engineering Design Company Limited ("Taiyuan Guangzhi") in December 2005 have been reviewed for conformity with the Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves (the "JORC Code") prepared by the Joint Ore Reserve Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia in 1999 and revised in 2004.

The evidence upon which the estimated mineral resources and ore reserves are based includes the deposit geology, drilling and sampling information, and project economics. The basis upon which BDASIA forms its view on the mineral resource and ore reserve estimates includes the site visits of BDASIA's professionals to the subject mineral property, interviews with Shanxi Shenli's site personnel, and critical review of the drilling and sampling database, procedures and parameters used for the estimates.

The BDASIA project team consisted of senior-level mining professionals from Behre Dolbear's Denver office in the United States, Sydney office in Australia and London office in the United Kingdom. The scope of work conducted by BDASIA included site visits to the mineral property, technical analysis of the project geology, mineral resource and ore reserve estimates, and review of the proposed mining, processing, production, environment, occupational health and safety, operating costs, capital costs and product value. BDASIA's report comprises an Introduction, followed by reviews of the technical aspects of Geology, Mineral Resources and Ore Reserves, Mining, Processing, Production, Project Economics, Environmental, Occupational Health and Safety Issues, and a Risk Analysis of the Project.

BDASIA has not undertaken an audit of Shanxi Shenli's data, re-estimated the mineral resources and ore reserves, or reviewed the tenement status with respect to any legal or statutory issues.

This report documents the findings of BDASIA's review of the Project as of 27 September 2006. Subject to the disclaimer provided in Section 3.0, BDASIA is of the opinion that the Mineral Resource (defined in the JORC Code as an identified in-situ mineral occurrence from which valuable or useful minerals may be recovered) estimated by the 211 Team conforms to the JORC Code with the exception that the "Measured" category (approximately 5% of the total Mineral Resource) should be amended to "Indicated". The "Indicated" level of confidence is generally considered insufficient for final feasibility. BDASIA believes that additional drilling is needed, and understands that a drilling program has already started as of 31 August 2006 to increase confidence in the Mineral Resource and the Ore Reserve of the open pit. Based on the geological character of the mineralization and the work reviewed to date, BDASIA expects that a satisfactory level of confidence will be developed with the infill drilling.

Neither BDASIA nor any of its employees or associates involved in this project hold any share or has any direct or indirect pecuniary or contingent interests of any kind in INNOMAXX, Shanxi Shenli or the Project. To the best knowledge, information and belief, having made all reasonable enquiries, BDASIA is independent and not connected with INNOMAXX or any of its subsidiaries or any of their respective directors, chief executive or substantial holders or any of their respective associates. To the best of our knowledge BDASIA had no interest, directly or indirectly, in the promotion of, or any assets which have been, within the two years immediately preceding the date of this report, acquired or disposed of by or leased to any member of the INNOMAXX Group. Our relationship with the INNOMAXX Group is solely one of professional association between client and independent consultant. BDASIA is to receive a fee for its services at its normal commercial rate and customary payment schedule. The payment of the professional fee is not contingent on the outcome of this report.

The sole purpose of this report is for the use of the Directors of INNOMAXX and their Sponsors and Advisors and for inclusion in the circular of INNOMAXX to its shareholders in relation to the Acquisition and should not be used or relied upon for any other purpose. Neither the whole nor any part of this report nor any reference thereto may be included in or with or attached to any document or used for any other purpose, without BDASIA's written consent to the form and context in which it appears. BDASIA consents to the inclusion of this report in the circular of INNOMAXX to its shareholders in relation to the Acquisition.

Yours faithfully,
**BEHRE DOLBEAR ASIA, INC.**
**Qingping Deng**
*President*

Behre Dolbear Project 06-083

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## 1.0 INTRODUCTION

INNOMAXX Biotechnology Group Limited ("INNOMAXX" or the "Company") is a company listed on The Stock Exchange of Hong Kong Limited ("SEHK"). INNOMAXX is proposing to acquire (the "Acquisition") a 57% interest of Lead Sun Investments Limited ("Lead Sun"); Lead Sun indirectly owns a 90% equity interest in Shanxi Shenli Aerospace Titanium Company Limited ("Shanxi Shenli"), a Sino-foreign joint venture enterprise established in the People's Republic of China ("PRC" or "China"). Shanxi Shenli has been granted the mining rights in relation to the Nianzigou rutile mineral project (the "Project") in Dai County, Shanxi Province of the PRC (Figure 1) pursuant to a mining license granted by the Shanxi Provincial Department of Land and Resources dated 26 September 2006.

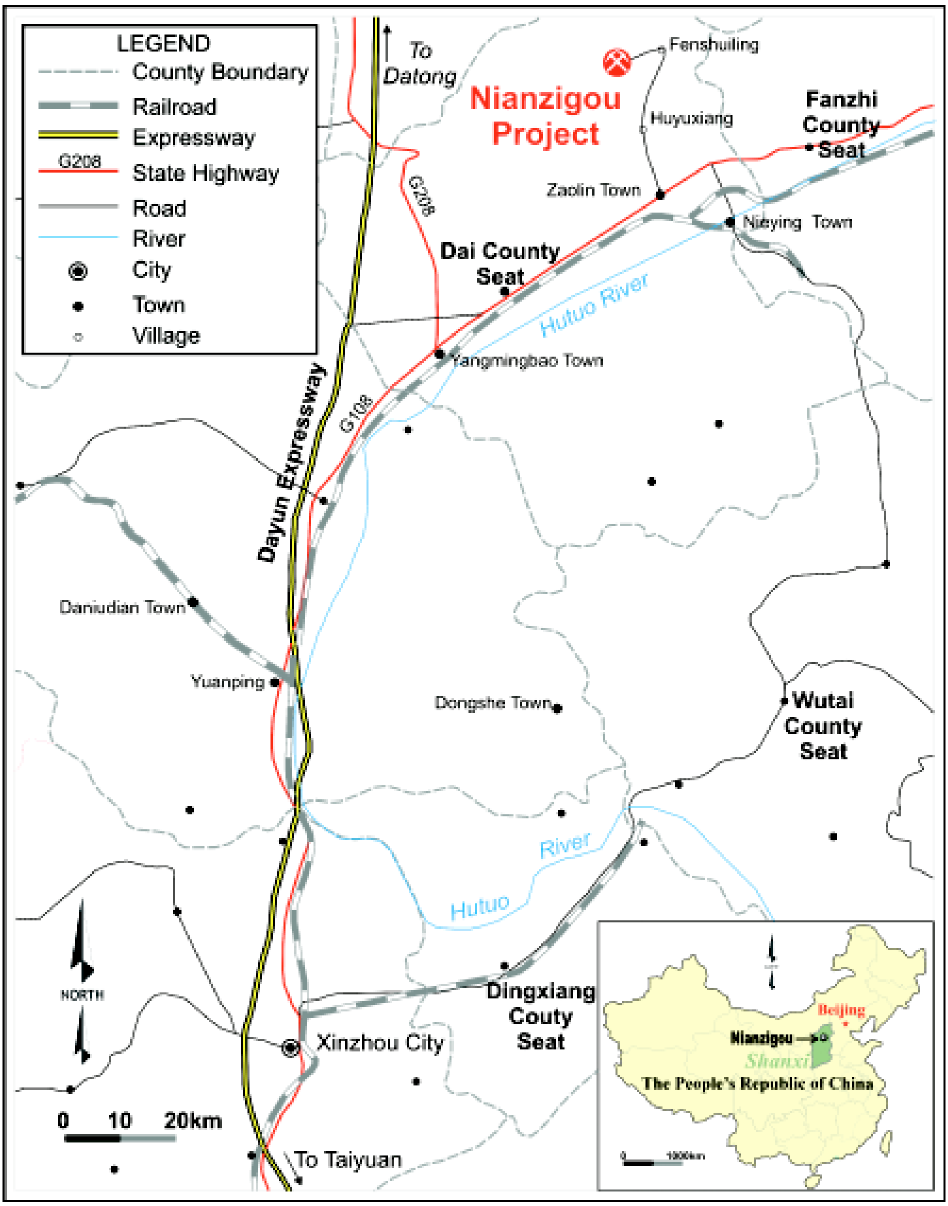



**Figure 1 General Location Map**

Rutile, with a chemical formula of $TiO_2$, is one of the primary raw materials for production of titanium chloride and titanium sponge, from which titanium metal is produced. Titanium metal is widely used in the manufacture of aircraft, spacecraft and automobile as well as in the petroleum, construction, chemical, medical and other industries. The Project is one of the largest known rutile deposits in China. Shanxi Shenli has recently completed a pre-feasibility level study and is currently conducting a feasibility level study. Shanxi Shenli plans to develop the property to produce 21,400 tonnes ("t") of rutile concentrate annually based on the open pit mining and gravity-magnetic processing of 1.5 million tonnes ("Mt") of ore annually at a rate of 5,000t per day ("tpd") based on 300 working days per annum. Shanxi Shenli is studying the possibility of building a facility to produce titanium chloride and titanium sponge from the rutile concentrate.

The Board of Directors of INNOMAXX has engaged Behre Dolbear Asia, Inc. ("BDASIA"), a subsidiary of Behre Dolbear & Company, Inc. ("Behre Dolbear" or "BDCI"), as the independent technical advisor to undertake an independent technical review of the Project and to prepare an independent technical assessment report in connection with the INNOMAXX Acquisition. This BDASIA report is intended to be included in the circular of INNOMAXX to its shareholders in relation to the Acquisition.

BDASIA's project team for this technical review consists of senior-level professionals from Behre Dolbear's Denver office in the United States, Sydney office in Australia and London office in the United Kingdom. Behre Dolbear personnel contributing to the study and to this technical assessment report include:

- **Dr. Qingping Deng**, President of BDASIA and Global Director of Ore Reserves and Mine Planning for BDCI, is BDASIA's Project Manager and Project Geologist for this technical review. Dr. Deng is a geologist with more than 22 years of professional experience in the areas of exploration, deposit modeling and mine planning, estimation of mineral resources and ore reserves, geostatistics, cash-flow analysis, project evaluation/valuation, and feasibility studies in North, Central and South America, Asia, Europe and Africa. Dr. Deng is a Certified Professional Geologist of the American Institute of Professional Geologists and meets all the requirements for "Competent Person" as defined in the 2004 Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves ("the JORC Code") and the requirements for "Qualified Person" as defined in Canadian National Instrument 43-101. Dr. Deng is fluent in both English and Chinese.

- **Dr. Alan Temple**, a Senior Associate of Behre Dolbear's Denver office and a Director of BDCI, is BDASIA's Project Advisor. Dr. Temple has more than 35 years worldwide experience in the mining industry and has extensive specific experience with the exploration, development, mining and processing of titanium minerals, including nine years with E.I.du Pont de Nemours & Co., Inc., one of the world's largest consumers of titanium minerals for pigment production and one of the world's largest producers of titanium minerals, and 18 years with Philipp Brothers, a major marketer of titanium minerals and other related beach sand minerals. Dr. Temple is a Registered Professional Geologist and meets all the requirements for "Competent Person" under the Australasian JORC Code and "Qualified Person" under Canadian NI 43-101.

- **Dr. Richard L. Bullock**, a Senior Associate of Behre Dolbear's Denver office, is BDASIA's Project Mining Engineer. He has over 35 years of experience in the mining industry in mining operations management, project evaluation and mining research. Dr. Bullock has worked on engineering studies and mineral property feasibility or evaluation studies on approximately 200 prospective or operating properties on 18 different commodities in 14 countries. He is a Registered Professional Engineer in the United States and is the co-editor of three mining and tunneling books and over thirty other published articles. He also worked as the department chairman and professor of mining engineering at the University of Missouri-Rolla for seven years and is still teaching there part-time.

- **Mr. Vuko Lepetic**, a Senior Associate of Behre Dolbear's London office, is BDASIA's Project Metallurgist. He has over 35 years of worldwide experience in mineral processing and metallurgy with emphasis on evaluation of metallurgical operations and projects, organization and direction of process development programs, feasibility studies, plant design, field studies, plant modification and optimization, cost reduction and production improvement. He holds patents for stibnite and cassiterite flotation (both industrially employed) as well as records of invention for the processing of lead and zinc oxide minerals, rare earths and phosphates.

- **Ms. Janet Epps**, a Senior Associate of Behre Dolbear's Sydney office, is BDASIA's Project Environmental Specialist. She has 30 years experience in environmental and community issues management, sustainability, policy development and regulatory consultancy services. Ms. Epps has worked extensively with the private sector, with government and the UN, World Bank, the IFC and the Multilateral Investment Guarantee Agency (MIGA), providing policy advice to governments of developing countries on designated projects and contributing towards sustainable development strategies. She has completed assignments in Australasia, the Pacific, Asia, Middle East, CIS, Africa, Eastern Europe, South America and the Caribbean.

BDASIA has visited the Project reviewed in this report and has discussed the project with Shanxi Shenli's management and technical staff in its head office in Xinzhou City, Shanxi Province. Dr. Deng visited the property and Shanxi Shenli's head office from 9 July to 11 July 2006. Dr. Bullock and Ms. Epps visited the property and Shanxi Shenli's head office from 19 July to 22 July 2006. Mr. Lepetic traveled to Beijing, China to discuss the proposed processing procedures of the project with Shanxi Shenli and its processing consultants in China from 21 July to 24 July 2006.

The metric system is used throughout this report. The currency used is the Chinese Yuan (or RMB). The exchange rate as of 21 August 2006 is 7.97 RMB to one United States Dollar.

## 2.0 QUALIFICATIONS OF BEHRE DOLBEAR

Behre Dolbear & Company, Inc. is an international minerals industry consulting group which has operated continuously in North America and worldwide since 1911, currently with offices in Beijing, Denver, Guadalajara, London, New York, Santiago, Sydney, Toronto, Vancouver, and Hong Kong.

The firm specializes in performing mineral industry studies for mining companies, financial institutions, and natural resource firms, including mineral resource/ore reserve compilations and audits, mineral property evaluations and valuations, due diligence studies and independent expert reviews for acquisition and financing purposes, project feasibility studies, assistance in negotiating mineral agreements, and market analyses. The firm has worked with a broad spectrum of commodities including base and precious metals, coal, ferrous metals, and industrial minerals on a worldwide basis. BDCI has acted on behalf of numerous international banks, financial institutions and mining clients and is well regarded world-wide as an independent expert engineering consultant in the minerals industry. BDCI has prepared numerous independent technical assessment reports for mining projects worldwide to support securities exchange filings of mining companies in Hong Kong, the United States, Canada, Australia, the United Kingdom, and other countries.

Most of BDCI's associates and consultants have occupied senior corporate management and operations roles and are thus well-experienced from an operational view point as well as being independent expert consultants.

BDASIA is a wholly-owned subsidiary of BDCI established in 2004 to manage BDCI's projects in China and other Asian countries.

## 3.0 DISCLAIMER

The opinions expressed in this report have been based on information supplied to BDASIA by Shanxi Shenli and its consultants. BDASIA has exercised all due care in reviewing the supplied information and believes that the basic assumptions are factual and correct and the interpretations are reasonable. BDASIA has independently analyzed Shanxi Shenli's data, but the accuracy of the conclusions of the review largely relies on the accuracy of the supplied data. BDASIA does not accept responsibility for any errors or omissions in the supplied information and does not accept any consequential liability arising from investment or other financial decisions or actions. BDASIA reserves the right to change its opinions on the Project expressed in this report should any of the information provided by Shanxi Shenli be significantly revised. Shanxi Shenli has reviewed this report for any material errors or omissions, and where noted, appropriate changes have been made in the report.

## 4.0 PROPERTY DESCRIPTION

### 4.1 Location, Infrastructure and Access

The Project is located in the Dai County, Xinzhou City in the north-central portion of the Shanxi Province. The Project is located approximately 25 km northeast of the county seat and less than 1 km southwest of the village of Nianzigou (Figure 1). The 108 State Highway and the Beijing-Yuanping Railroad pass through from the south of the property. Road distance from the property through Fenshuiling to the 108 State Highway is approximately 25 km; the distance to Zaolin Station on the Beijing-Yuanping Railroad is approximately 28 km. The road from Fenshuiling to the 108 State Highway is a paved or reasonably-maintained gravel/dirt road, but the 4 km long road from Fenshuiling to the property is only a poorly-maintained dirt road. This section of the access road will need to be upgraded before mine development and production.

The property is located approximately 16 km north of the Zaolin primary substation, which is connected to the 110 kv district power grid. A local power line and secondary substations will need to be constructed to connect the Zaolin substation and the property; BDASIA is advised that electricity supply from the grid will be sufficient for the proposed mining and processing operations at Nianzigou.

Water supply in the area is also sufficient for the proposed operation. The Jiaokou River located 4 km northwest of the property has a flow capacity of approximately 4,400 cubic meters per day ($m^3/d$); there is abundant ground water in the alluvium in the Huyu valley 10 km south of the property as well as in the Hutuo River valley 20 km south of the property. Water from the tailings pond will be re-circulated for production use.

Areas surrounding the property are sparsely populated. Nearby villages generally have only 30 to 40 families, mostly engaged in agriculture production. Approximately 20 houses in the local villages will need to be relocated for the tailings and processing facilities of the proposed mining operation. BDASIA is advised that the local government and people are generally supportive of the proposed mining operation.

### 4.2 Climate and Physiography

The Project is in a continental climate zone. Annual average temperature is generally 5 to 6°C. January is the coldest month with an average temperature of -9 to -8°C and a lowest temperature of -26°C. July is the hottest month with an average temperature of 23 to 24°C and a highest temperature of 34.5°C. Annual precipitation generally ranges from 400-500mm and the rainy season is from July to August. The average annual evaporation is more than 800mm.

The property is located in the western section of the Heng Mountains with an elevation range of 1,650-1,930m. The area is characterized by moderate to high mountains and deep valleys. Mountain ranges generally trend east-northeast.

### 4.3 Property History and Ownership

Rutile titanium mineralization at Nianzigou, Dai County was discovered by the 211 Geological Team of the Shanxi Province Geological Exploration Bureau ("the 211 Team") in 1973. Initial exploration from May 1973 to December 1976 by the 211 Team defined a mineral resource and preliminary metallurgical testwork was carried out. Further exploration and more detailed metallurgical testwork in the area were conducted by the Hebei Geological Exploration Team of the Geological Exploration Corporation under the Chemical Industry Ministry ("the Hebei Geological Exploration Team") from 1987 to 1988, by the 211 Team from 1989 to 1990 and in 2003, and by Shanxi Shenli in 2006.

Rutile mining in the area started in 1986 at the Dai County Rutile Mine with a designed ore production capacity of 70,000 tonnes per annum ("tpa") using open-pit mining and gravity-magnetic separation methods. A mining license covering an area of 0.2398 $km^2$ for the mine was issued to the Dai County Rutile Mine in December 2002 by Shanxi Provincial Department of Land and Resources. Based on estimation conducted by the 211 Team, the total in-situ mineral resource consumed by the mine to the end of 2005 was approximately 516,900t containing 11,200t of rutile.

A new mining license for an expanded project area has been granted by Shanxi Provincial Department of Land and Resources to Shanxi Shenli on 26 September 2006. The mining license covers an area of 2.07$km^2$ (Figure 2) and its license number is 1400000620633. The elevation range is from 1,180m to 1,920m and the term of the license is from September 2006 to September 2009. BDASIA is not aware of any other claims of mineral rights made by a third party for the mining license area of the Nianzigou project.

It should be noted that a mining license in China will only cover the mineral resource/ore reserve that is intended to be mined; processing facility and other auxiliary facilities can be located outside the mining license area. Consequently, the area for a Chinese mining license is generally smaller than that for a Western mining license as all the mining, processing and auxiliary facilities are generally required to be located inside the limits of a mining license in the West.

There are two other mining licenses adjacent to the Shanxi Shenli's mining license (Figure 2). One of them is for the Dai County Hongda Rutile Mine with a designed ore production capacity of 4,500tpa. However, there has been very limited production at the mine since its construction in 2001 reportedly due primarily to a lack of capital and management issues. The second mining license is for the Dai County Granite Mine of Shanxi Yingyeda Mining Company Limited, which mines tremolite from the metamorphosed ultramafic intrusives.

## 5.0 GEOLOGY AND DATABASE

### 5.1 Geological Setting

Rutile mineralization at Nianzigou occurs in metamorphosed mafic-ultramafic intrusives. The stratigraphy at Nianzigou and the surrounding areas consists mostly of Archean Wutai Group regional metamorphic rocks with some Cambrian sedimentary rocks and Quaternary alluvium. Some ultramafic intrusives intruded into the Wutai Group strata have been metamorphosed together with the host rocks (Figure 2).

The district is located on the southern limb of the Caoduoshan-Fenshuiling anticline. Wutai Group strata in the area generally strike in an east-west direction and dip to the south and southwest at angles from 20-40°. Three sets of fault structures have been identified in the area. The first set comprises east-west striking low-angle reverse faults, some of which have been intruded by Archean ultramafic rocks. The most important in these is the Yichenggou-Zhangshangou-Yangtingshi fault, which hosts the metamorphosed ultramafic rocks related to the rutile mineralization at Nianzigou. The second set of structures strike northeast and the third set of structures strike northwest; these structures generally post-date and may offset the rutile mineralization.

### 5.2 Deposit Geology and Mineralization

The Wutai Group at Nianzigou is divided into the Nianzigou Formation and Binglingou Formation. Primary rock types for the two formations are amphibole-plagioclase-gneisses, plagioclase-amphibolites, and biotite-granulites.

The Nianzigou Formation is the oldest formation in the area and consists of, in a stratigraphically ascending order, amphibole-plagioclase-gneisses, plagioclase-amphibolites with interbedded granulites and plagioclase-amphibolites. These strata generally dip south to south-southwest at angles of 30-60°. The Binglingou Formation consists of biotite-granulites and biotite-plagioclase-gneisses with similar attitudes to the Nianzigou Formation.

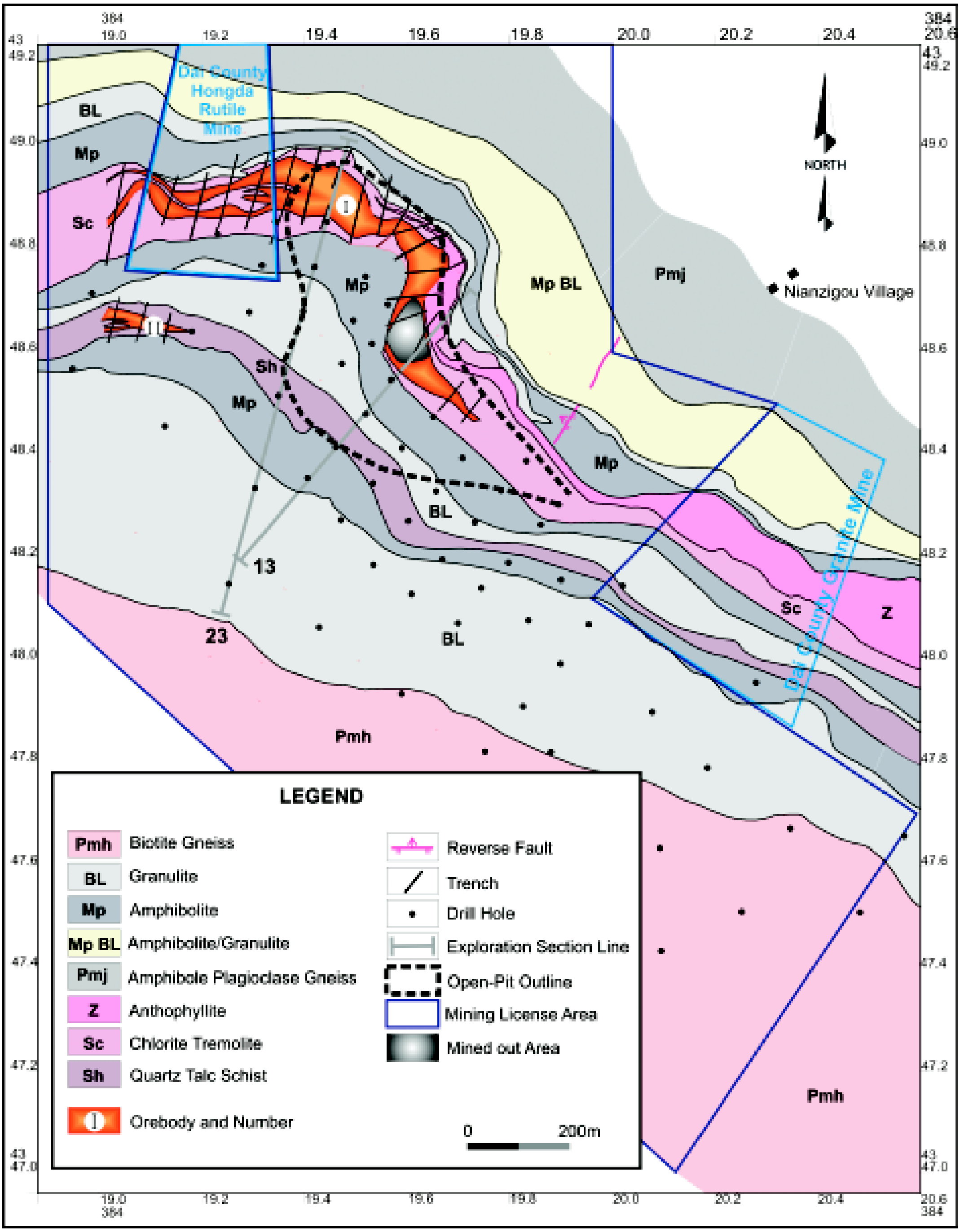



**Figure 2 Geology Map of the Project**

Some mafic-ultramafic rocks were intruded the Wutai Group during the Wutai and Luliang Orogenies and have been subjected to regional metamorphism together with the host rocks. These intrusives now occur as tremolites, including actinolite-tremolites and chlorite-tremolites, anthophyllites, quartz-talc-schists, and pyroxenites. Tremolite comprises the primary rutile mineralization host with quartz-talc-schist a secondary rutile host.

Rutile mineralization is mostly hosted by the metamorphosed mafic-ultramafic rocks in the upper portion of the Nianzigou Formation. The deposit is divided into two mineralized zones, i.e. the north actinolite-tremolite and chlorite-tremolite zone (the No.1 Zone) and the north-central quartz-talc-schist zone (the No.2 Zone). The rutile hosting intrusives are generally conformable to stratigraphy, with a west-northwest strike and a southern to southwestern dip.

The No.1 Zone is the primary host; it is approximately 1,700m long within Shanxi Shenli's mining license area and extends beyond the property boundary to the east. Based on drilling, the true thickness of the zone generally ranges from 25-80m with a maximum thickness of 107m. The unit strikes 200-210°, and dips to the south and southwest at angles from 35-40° at the surface but 30-35° at depth.

The No.2 Zone strikes near east-west in the mining license area; it is generally 16-25m thick and extends along strike for 1,650m within the license area. The rutile $TiO_2$ grade in the zone is generally less than 1% and it is considered uneconomic under current technical and economic conditions.

A total of 43 mineralized bodies have been identified within the two mineralized zones. The No.1 mineralized body in the No.1 Zone by far is the largest and is the target for the proposed mining operation (Figures 3 and 4). It extends from the Nianzigou area in an easterly direction beyond the mining license boundary with a drill documented strike length of 2,370m; documented extension in the dip direction is generally 400-500m, with a maximum of 800m. True thickness of the body ranges from a few meters to over 100m, with an average of 44m in the west portion of the mining license area and 32m in the east. The body rakes in the direction of 120° azimuth and –30° dip. Rutile $TiO_2$ grade generally ranges from 1-3% with a maximum of over 13% and an average of approximately 2%.

Rutile, with a chemical formula of $TiO_2$, is the primary economic mineral in the deposit. The mineral is brownish red or black and occurs as granular crystals in the host rocks. The crystal size generally ranges from 0.1-0.5mm, with a maximum of over 1mm and minimum of less than 0.02mm (Figures 5 and 6). Rutile grains are generally homogeneously disseminated within the tremolites and comprise 1-3% of the rock. Later alteration and metamorphism have locally enriched the zone and the rutile $TiO_2$ grade can reach as high as 13% locally. Rutile crystals sometime contain minor ilmenite and zircon inclusions.

Other metallic minerals in the deposits include ilmenite, magnetite and minor amounts of sulfide minerals. $TiO_2$ in ilmenite (chemical formula: $FeTiO_3$) is generally not considered useful feed in the production of titanium tetrachloride because of the iron content; ilmenite will not be extracted in planned rutile production at Nianzigou. The reported "rutile $TiO_2$" content is determined following the removal of ilmenite from the samples.

Gangue minerals in the deposit are mostly tremolite (40-60%), actinolite (15-35%) chlorite (25-45%) and talc (1-2%) with minor amounts of vermiculite, kyanite, and amphibole.

The hangingwall of the No.1 orebody is generally plagioclase-anthophyllites with minor amounts of amphibole-granulites, and the footwall is generally anthophyllites with minor amounts of plagioclase-amphibolites. Both are competent rocks with clean contacts with the mineralized body.

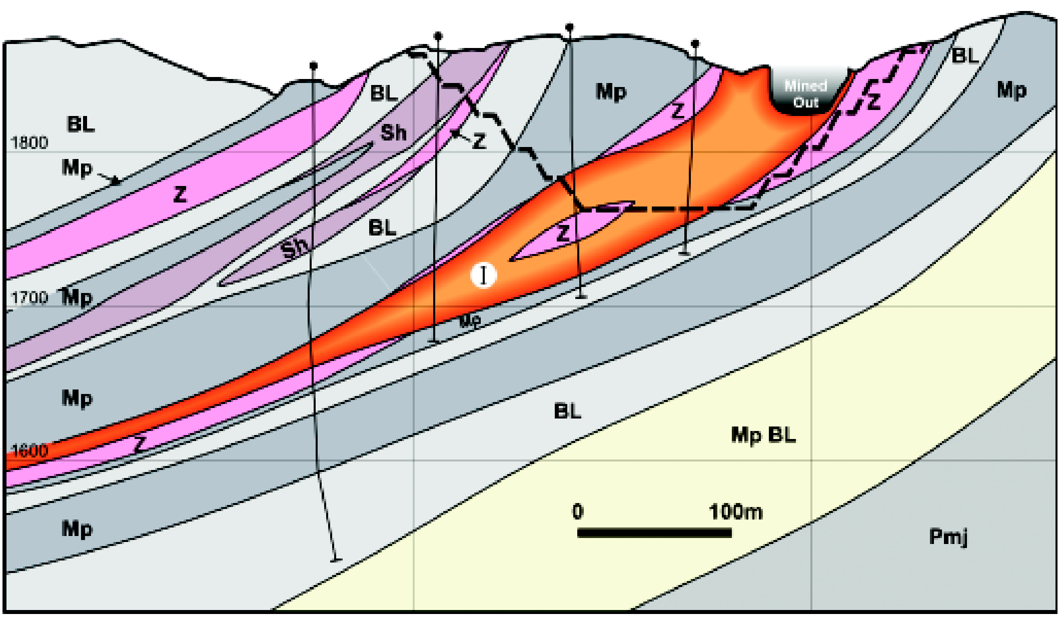



**Figure 3 Cross Section 13 of the Project**

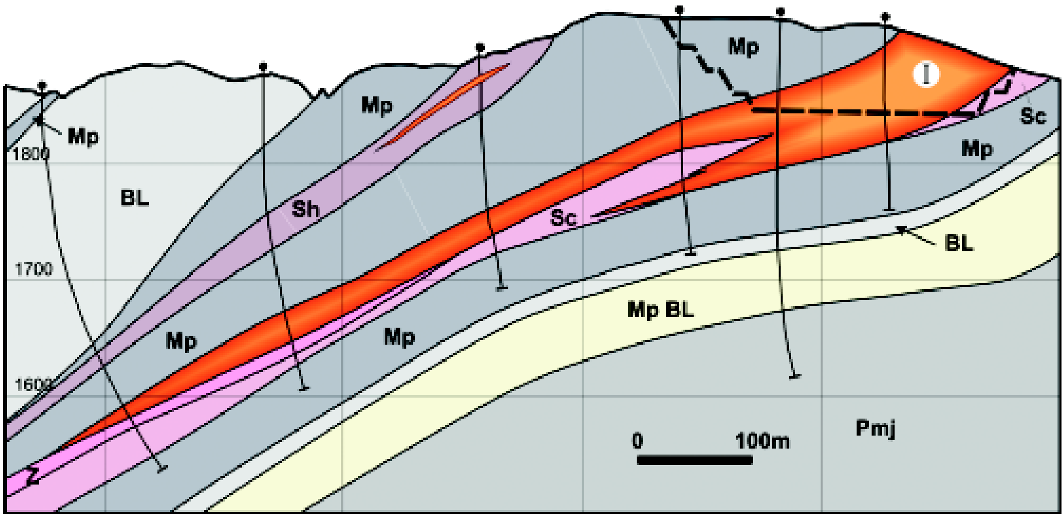



Figure 4 Cross Section 23 of the Project

LEGEND FOR FIGURES 3 AND 4


**Figure 5 High-Grade Rutile Ore of the Project**
(The dark red mineral in the rock is rutile. Scale in the photo is in cm.)

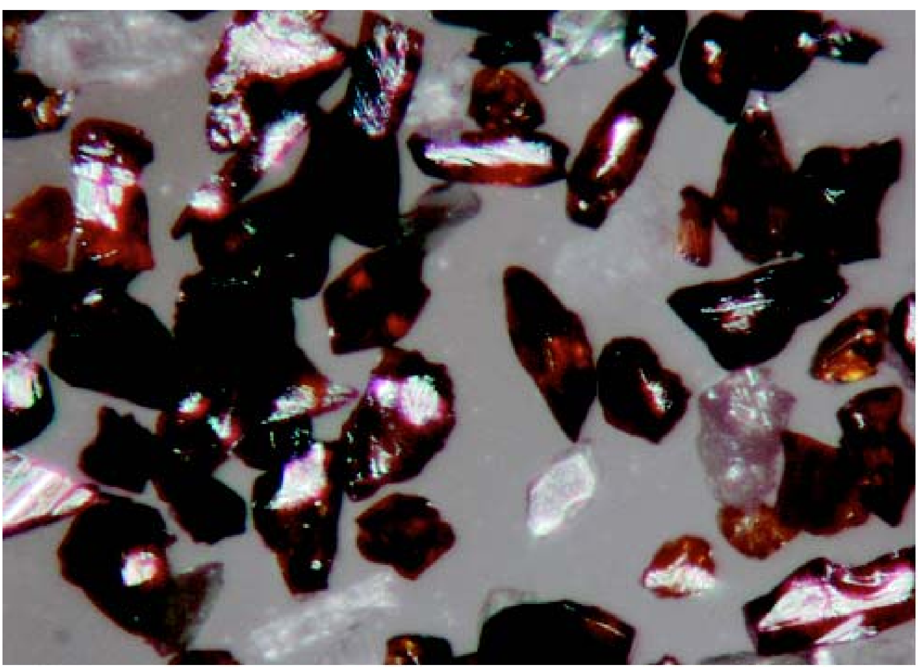


**Figure 6 Rutile Crystals under Microscope of the Project**
(The grain size of the rutile crystal is generally 0.2 to 0.5mm.)

## 5.3 Geological Database

### *5.3.1 Database Used for Mineral Resource Estimation*

The database used for mineral resource estimation of the Project is summarized in Table 5.1. This database was generated by the 211 Team in the period from 1973 to 1976 and in 2003. The 211 Team is a licensed exploration entity in China with its address at 10 Shengli Street, Xinzhou City, Shanxi Province 034000.

Guidelines specifying the appropriate sampling, sample preparation and assaying techniques and procedures for different type of mineral deposits are issued by the relevant government authorities in China. The database used for mineral resource estimation of the Project was produced following these set guidelines.

The principal sample types included in the assay database for the project comprise surface core drilling and surface channel sampling. Core holes were generally drilled along exploration section lines oriented perpendicular to the strike of the mineralized zones. Section spacing is generally 100m but increases to 200m at the edges of the mineralized zone. Drill hole spacing on the exploration sections is generally 100m or 200m. Surface trenches were dug at the outcrops of a mineralized zone in the direction perpendicular to the strike of the mineralized zone. Trench spacing is generally 50-100m.

**Table 5.1**

**Database Used for Mineral Resource Estimation of the Project**

| **Campaign** | **1973-1976** | **2003** |
|---|---|---|
| Surface Drilling | | |
| Number of Holes | 54 | 11 |
| Total Drilled Length *(m)* | 11,784 | 4,415 |
| Surface Sampling Trenches *($m^3$)* | 51,804 | 2,000 |
| Chemical Analysis | 6,373 | 324 |
| Other Analysis | 1,020 | 40 |
| Small Bulk Density Measurements | 103 | 64 |
| Large Bulk Density Measurements | 1 | – |
| Milling Tests | 2 | – |

Core recovery was generally not very high for the holes drilled in the 1973-1976 period due to the limitations in the drilling technology at the time. Of the 75 mineralized intervals penetrated by the 54 holes, 45 have average core recovery over 70% (ranging from 71.1% to 98.7%, with an average of 80.6%), 22 have core recovery of 60-70% (with an average of 66.0%) and 8 have core recovery less than 60% (ranging from 29.0% to 59.8%, with an average of 47.9%). Drill holes with core recovery less than 60% were considered unreliable and were not used for mineral resource estimation. Drill holes with core recovery of 60-70% were considered less reliable; they were still used for mineral resource estimation, but the mineral resource estimated from these holes was down graded in confidence level.

Core recovery for the 2003 drill holes was good and ranges from 93.1% to 100% with an average of 98.5% for the mineralized intervals.

*5.3.2 Drilling, Logging and Survey*

Surface diamond core drilling is the principal exploration and sampling method used in the exploration of the Project. Drill hole collar locations are surveyed and down-hole deviation is generally measured using down hole survey techniques. Drill cores are logged in detail by a project geologist before sampling.

*5.3.3 Sampling, Sample Preparation and Analysis*

Generally, only the drill core intercepts within the mineralization zones are sampled and assayed. Drill core is commonly split in half using a mechanical core splitter or a diamond rock saw. Half of the core is sent for assay, and the second half is retained. Typically the core is sampled in 1m lengths, although variable intervals from 0.5m to 2m may be used to coincide with geological contacts. BDASIA observed some of the retained core from the 2003 drilling during the site visit.

Surface trench channel sampling is also an important sample type for the Project as the mineralization is well exposed at the surface of the property. Surface trenches were mapped by a geologist and channel samples along the mineralized zones were taken from the trench walls. The channels are generally 10cm wide and 3cm deep; the channel sample length is typically 1m, but variable lengths may be used based on geological characteristics. BDASIA observed some of the surface trenches during the site visit; rocks in the trenches have been weathered to various degrees.

Samples were generally prepared at the sample preparation laboratory of the exploration entity. The sample preparation process typically involves a two- or three-stage crushing process, grinding, homogenization, splitting and fine grinding to -200 mesh (≤0.075mm).

Sample rutile $TiO_2$ content was determined by the exploration entity laboratory using a colorimetric method. Ilmenite and other minerals were dissolved from the sample first and rutile $TiO_2$ content was then determined from the sample residue. This analytical method is a standard procedure to determine the sample rutile $TiO_2$ content in China. The total sample $TiO_2$ content was generally not determined in the mineral resource database. Total $TiO_2$ was determined in the separate metallurgical test work.

*5.3.4 Quality Control and Quality Assurance*

Assay quality control programs include internal check assays and external check assays. For samples used for mineral resource estimation (i.e. samples within the orebody boundary) approximately 10 percent are subject to an internal check assay and approximately 5 percent are sent for external check assays. The external check assays are conducted by supervisory or independent assay laboratories. In order to determine the assay quality, check assay results are compared with the original assay results and the variance compared with permitted random error limits specified by government regulation for various grade ranges. The 211 Team reported that check assay results generally show acceptable analytical variance. BDASIA notes that check assaying used the same method of analysis as the original assaying. Confidence in the method of $TiO_2$ assay is indicated by the results of metallurgical testing (reviewed in Section 9.0 of this report).

*5.3.5 Bulk Density Measurements*

Bulk density measurements were conducted for core and surface trench rock samples for the Project. The bulk density was determined using a wax-coated water immersion method, weighing the wax coated core in air and in water; the dry bulk density is calculated from these measurements. Rock types for the bulk density measurements include mostly actinolite-tremolites, chlorite-tremolites and small amount of anthophyllites and plagioclase-amphibolites. A total of 103 bulk density measurements were conducted in the period from 1973-1976 and 64 measurements were taken in 2003. The average bulk density from these measurements is 2.99 $t/m^3$, which is consistent with the bulk density of 2.98 $t/m^3$ based on a large bulk density measurement.

## 6.0 MINERAL RESOURCE AND ORE RESERVE

### 6.1 Mineral Resource/Ore Reserve Classification System

The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia in September 1999 and revised in December 2004 ("the JORC Code") is a mineral resource/ore reserve classification system which has been widely used and is internationally recognized. It has also been used previously in independent technical assessment reports for mineral resource and ore reserve statements for other public companies. The JORC Code is used by BDASIA to report the mineral resource and ore reserve of the Project in this report.

A mineral resource is defined in the JORC Code as an identified in-situ mineral occurrence from which valuable or useful minerals may be recovered. Mineral resources are classified as Measured, Indicated or Inferred according to the degree of confidence in the estimate:

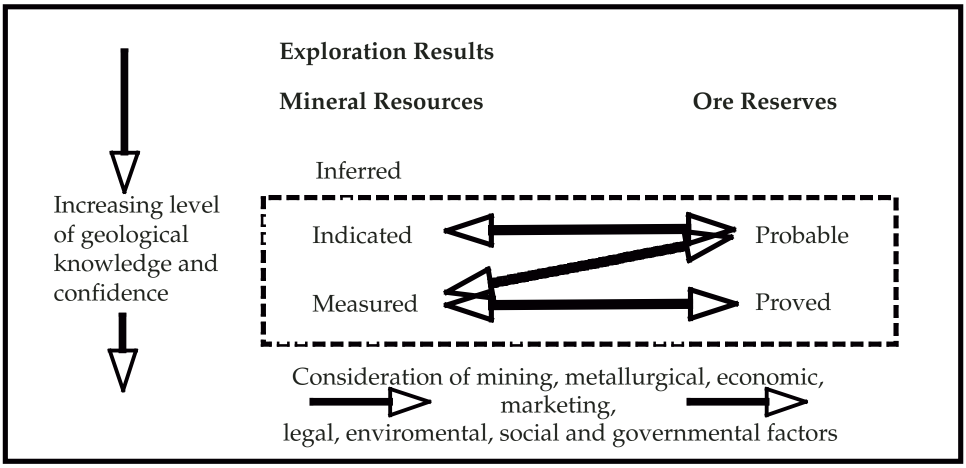
- a Measured Mineral Resource is one which has been intersected and tested by drill holes or other sampling procedures at locations which are close enough to confirm continuity and where geoscientific data are reliably known;

- an Indicated Mineral Resource is one which has been sampled by drill holes or other sampling procedures at locations too widely spaced to ensure continuity, but close enough to give a reasonable indication of continuity and where geoscientific data are known with a reasonable level of reliability; and

- an Inferred Mineral Resource is one where geoscientific evidence from drill holes or other sampling procedures is such that continuity cannot be predicted with confidence and where geoscientific data may not be known with a reasonable level of reliability.

An Ore Reserve is defined in the JORC Code as that part of a Measured or Indicated Mineral Resource which could be mined and from which valuable or useful minerals could be recovered economically under conditions reasonably assumed at the time of reporting. Ore reserve figures incorporate mining dilution and allow for mining losses, and are based on an appropriate level of mine planning, mine design and scheduling. Proved and Probable Ore Reserves are based on Measured and Indicated Mineral Resources respectively. Under the JORC Code, Inferred Mineral Resources are deemed to be too poorly delineated to be transferred into an Ore Reserve category, and therefore no equivalent Possible Ore Reserve category is used.

The general relationships between exploration results, mineral resources and ore reserves under the JORC Code are summarized in the diagram below.




Generally ore reserves are quoted as comprising part of the total mineral resource body rather than the mineral resources being additional to the ore reserves quoted. The JORC Code allows for either procedure, provided the system adopted is clearly specified. In this BDASIA report, all ore reserves are included within the mineral resource statements.

**6.2 General Procedures and Parameters for Mineral Resource Estimation of the Project**

The methods used to estimate mineral resources and the parameters used to categorize the mineral resources for a particular type of mineral deposit are generally prescribed by the relevant Chinese Government authorities in China. The mineral resources for a deposit can be estimated by the mine geologists and engineers or by a separate engineering entity. The mineral resource estimates have generally to be audited and approved by a government authority. The current mineral resources for the Project were estimated by the 211 Team in October 2005 and have been audited and approved by the Shanxi Provincial Department of Land and Resources. The 211 team is subordinate to the Shanxi Provincial People's Government and is an organization appointed and funded by the local government to explore geological minerals within the territory of the Shanxi Province. The rutile mineralization at Nianzigou was found by the 211 Team and most of the exploration work and mineral resource estimation of the Project from the 1970s to date have been carried out by the 211 Team. The 211 Team's exploration work on the Project was funded by the State government. In relation to the application by Shanxi Shenli for the mining license, the 211 Team was nominated by Shanxi Provincial Department of Land and Resources to work on the resource estimation. Shanxi Shenli was required to pay an amount to Shanxi Provincial Department of Land and Resources to compensate Shanxi Provincial Department of Land and Resources in respect of such work done. The 211 Team did not and does not hold any interest of the Project. The payment to the 211 Team for conducting the mineral resource estimation is not contingent on the outcome of the estimation. The 211 Team does not contribute directly to the technical report prepared by BDASIA, but BDASIA's review depends on the technical data and mineral resource estimation report from the 211 Team.

The drill hole or channel sampling density required to define a certain class of mineral resource depends on the type of deposit. Based on the orebody size and complexity, a deposit is classified into certain exploration types before mineral resource estimation. The deposit in the Project is a large tabular deposit and is categorized as exploration type I or II.

The parallel section method, a polygonal method based on projected cross sections, was used for the mineral resource estimation of the Project by the 211 Team. Based on information provided by Shanxi Shenli, the general procedures and parameters used in the mineral resource estimation are described as follows.

*6.2.1 Determination of "Deposit Industrial Parameters"*

The economic parameters for mineral resource estimation are referred to as "Deposit Industrial Parameters" ("DIP") in Chinese literature or technical assessment reports, and are normally approved by government authorities for each deposit. These parameters include the cutoff grades (separated into boundary cutoff grade and block cutoff grade), minimum mining width, and minimum waste exclusion width. The DIP used for the mineral resource estimates of the Project reviewed in this report are summarized in Table 6.1.

**Table 6.1**
**Deposit Industrial Parameters Used for the Mineral Resource Estimation of the Project**

| Parameter | Number |
|---|---|
| Boundary Cutoff Grade (Rutile $TiO_2$%) | 1.0 |
| Block Cutoff Grade (Rutile $TiO_2$%) | 1.6 |
| Minimum Mining Thickness (m) | 2.0 |
| Minimum Waste Exclusion Thickness (m) | 4.0 |

The cutoff grades were based on the economic and technical conditions at the time of the determination. BDASIA has reviewed the parameters under the economic conditions currently assumed by Shanxi Shenli and found them generally reasonable. In mineral resource estimation by the 211 Team, blocks satisfying both the boundary cutoff grade and the block cutoff grade are considered as economic blocks and were used for ore reserve estimation and mine planning; blocks meeting the boundary cutoff grade but below the block cutoff grade are considered as sub-economic and were not used for ore reserve estimation and mine planning.

*6.2.2 Determination of Block Boundaries and Confidence Level*

In the parallel section mineral resource estimation, the mineralized body on a cross section is separated into a number of blocks, with each block assigned a mineral resource confidence level based on the type, density and quality of available geological data. A measured block is defined by a drill hole/channel spacing of 100x100m or less with a core recovery for the mineralized interval of at least 70%. An indicated block is defined by a drill hole/channel spacing of 200x200m or less plus a core recovery for the mineralized interval of at least 70%; blocks with drill hole/channel spacing of 100x100m or less but with core recoveries for the mineralized interval of 60-70% are also classified as indicated. An inferred block is generally defined by extrapolation of 100m from the existing drill hole/channels; blocks with drill hole/channel spacing of 200x200m or less and with a core recovery for the mineralized interval of 60-70% are also classified as inferred (Figure 7).

*6.2.3 Mineral Resource Estimation*

In the mineral resource estimation process, the corresponding two-dimensional blocks on two neighboring parallel cross sections were used to define a three-dimensional block. The area of the three-dimensional block $(S)$ is calculated from the areas of the two-dimensional blocks on cross sections ($S_1$ *and* $S_2$). When the area difference for the two blocks on cross sections is less than 40%, the following formula is used for the three-dimensional block area calculation:

$$S = \frac{S_1 + S_2}{2}$$

When the area difference for the two blocks on cross sections is more than 40%, the following formula is used for the three-dimensional block area calculation:

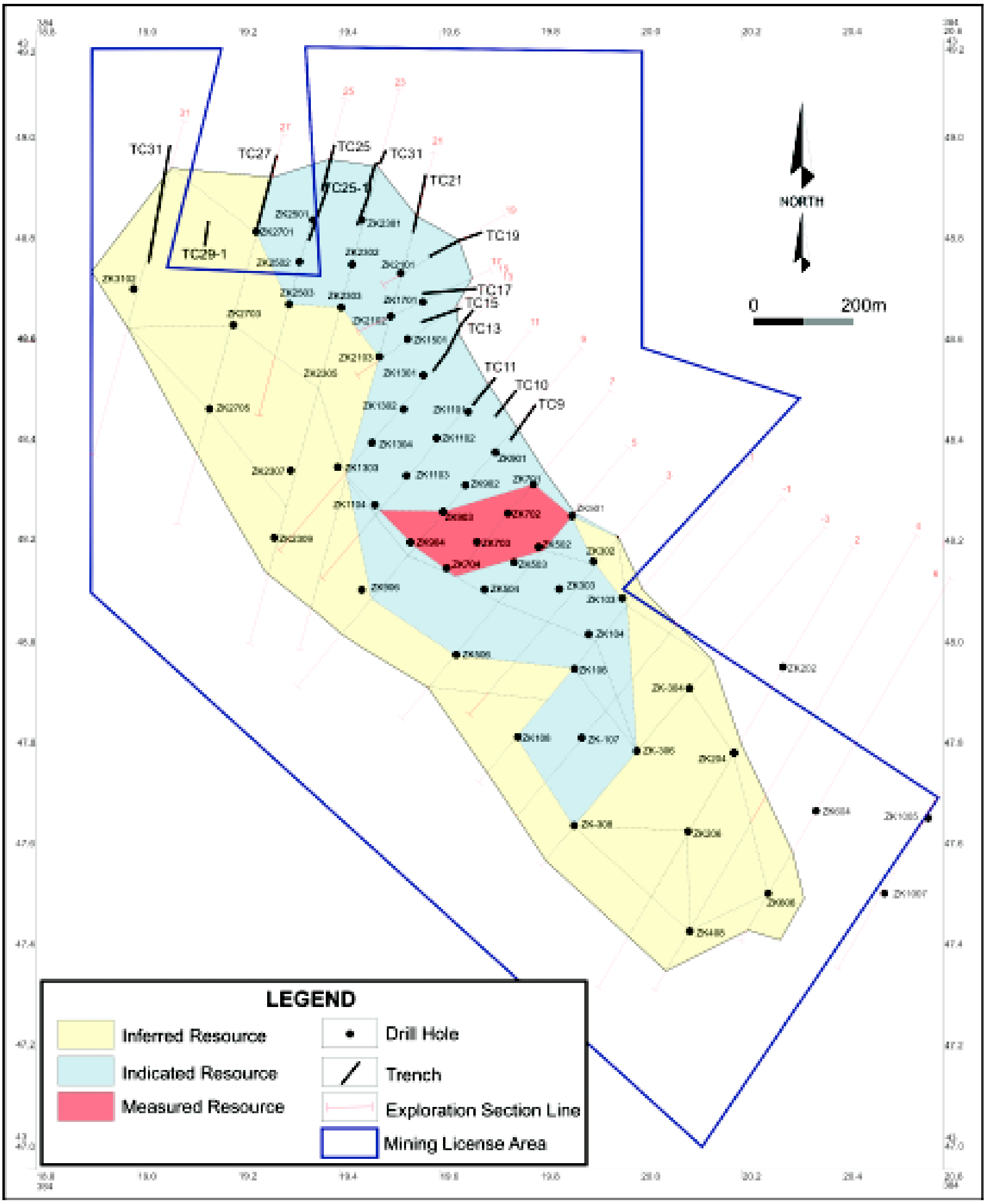



**Figure 7 Mineral Resource Blocks of the No.1 Orebody of the Project**
(As determined by the 211 Team in October, 2005.)

$$S = \frac{S_1 + S_2 + \sqrt{S_1 + S_2}}{3}$$

When a block on a cross section pinches out, the three-dimensional block area is half the two-dimensional block area if the block pinches out to a line or one third of the two-dimensional block area if the block pinches out to a point.

The volume of the three-dimensional block is determined by multiplying the area *(S)* with the sectional distance *(L)*. The block mineral resource tonnage is determined by multiplying the volume by the average bulk density of the mineralized material ($2.99t/m^3$), which is based on the bulk density measurements. The mineralized body and deposit tonnages are based on the sum of the block tonnages.

Average drill hole or channel sample rutile $TiO_2$ grades are calculated using the length-weighted average of all the drill hole or channel samples within the mineralized intersection. The block average grade is calculated using the length-weighted average of all drill hole or channel intersections inside the block. The mineralized body grade is calculated using the tonnage-weighted average of all blocks inside the orebody. The deposit grade is calculated using the tonnage weighted average of all the mineralized bodies in the deposit.

## 6.3 Mineral Resource Statement

### *6.3.1 Mineral Resource Statement*

The mineral resource estimate for the Project prepared by the 211 Team as of 31 October 2005 and amended by BDASIA is summarized in Table 6.2. As there has been no production on the property since that time, the mineral resource estimate represents the current mineral resource of the project.

**Table 6.2**
**Mineral Resource Summary of the Project**
(As estimated by the 211 Team and amended by BDASIA)

| **JORC Mineral Resource Category** | **Tonnage** *(Mt)* | **Rutile $TiO_2$ Grade** *(%)* | **Contained Rutile $TiO_2$** *(kt)* |
|---|---|---|---|
| Indicated* | 46.629 | 2.13 | 993.2 |
| Inferred | 37.715 | 1.94 | 731.3 |
| Subtotal (Economic)** | 84.344 | 2.04 | 1,724.5 |
| Indicated (Sub-economic)** | 14.229 | 1.19 | 169.1 |
| Total | 98.573 | 1.92 | 1,893.5 |

* *Includes 4.747 Mt containing 96 kt rutile $TiO_2$ categorized as "Measured" by the 211 Team.*

** *Economic mineral resource has an average rutile $TiO_2$ grade equal or above 1.6%; sub-economic mineral resource has an average rutile $TiO_2$ grade less than 1.6%.*

BDASIA notes that the highest mineral resource category for the project is only an Indicated Mineral Resource, which is considered generally insufficient for a feasibility level economic analysis of a mining project. BDASIA believes that additional drilling is needed before development of the Project.

BDASIA was informed that Shanxi Shenli has already started a new drilling program as of 31 August 2006 in order to increase the confidence level of the mineral resource. Based on the geological character of the mineralization and the work reviewed to date, BDASIA considers that it should be possible to bring the estimate up to a satisfactory confidence level with the proposed program of systematic infill drilling.

*6.3.2 BDASIA Opinion on Conformity of the Mineral Resource to the JORC Code*

BDASIA has reviewed the drilling and sampling data, procedures and parameters used for the estimation of the tonnage and rutile $TiO_2$ content of the mineral resource by the 211 Team and finds that the methodology conforms to generally accepted practice. However, BDASIA considers that the confidence level of the mineral resource defined by the 211 Team under the Chinese classification system requires amendment to conform to the JORC Code.

The mineral resource determined by the 211 Team is based on the trenches and drill holes listed in Table 5.1 at 100-200m spacing as shown on Figure 7. The 1973-1976 drilling incorporated in the database had a core recovery ranging from 60.6-98.7% for the mineralized intervals, with about 33% of the intersections in the 60%-70% recovery range, compared to a core recovery of generally over 98% for the 2003 drilling. The improvement in core recovery in the 2003 campaign is due primarily to improvement in drilling technology.

Rutile at the Project is found in a specific rock type, a metamorphosed mafic-ultramafic intrusive with distinct contacts with its host formations. The No.1 orebody is a large tabular orebody. It has good continuity with a drill demonstrated length of over 2,000m and width of 400-800m in the dip direction. Both thickness and rutile $TiO_2$ grade have good continuity from hole to hole within the orebody. In BDASIA's opinion, a 100m data spacing is adequate to confirm the continuity of the intrusive rock type and a 200m spacing provides a reasonable indication of continuity of the rock type.

Rutile is a rock-forming mineral; it is an integral part of the rock formation and has not been introduced from external sources. Rutile is disseminated in the deposit with a rutile $TiO_2$ grade generally ranging 1-3%. Because of this characteristic, BDASIA considers that those drill holes with 60-

70% core recovery are acceptable as giving a reasonable level of reliability of rutile content as there is no evidence in the 2003 core that the loss of core in 1973-1976 is related to rock features that could increase or decrease the rutile content. However, variation in rutile content does occur in the mineral occurrence and consequently BDASIA considers that the 100m data spacing, while close enough to provide a reasonable level of reliability, is not close enough to warrant the designation of "reliably known" required for the "Measured" categorization under the JORC Code.

BDASIA is of the opinion that the mineral resource estimated for the Project by the 211 Team using the current sampling database conforms to the JORC Code with the exception that the "Measured" category should be amended to "Indicated". Consequently the Mineral Resource summarized in Table 6.2 has been amended by BDASIA to conform to the JORC Code by the redesignation of 4.747 Mt containing 96kt rutile $TiO_2$, categorized as "Measured" by the 211 Team, to the "Indicated" category.

**6.4 Procedure and Parameters for the Ore Reserve Estimation of the Project**

In order to determine the economic value of the Project, a development plan has been generated by Taiyuan City Guangzhi Metallurgical Engineering Design Company Limited ("Taiyuan Guangzhi"), with its address at 12 Yifeng Street, Taiyuan City, Shanxi Province 030024 in December 2005.

As the mineralization is a massive tabular deposit exposed at the surface, open-pit mining method has been planned for the upper portion of the deposit and will constitute the early stage mining operation for the development of the Project. An ore processing feed rate of 5,000 tpd or approximately 1.5 Mtpa is proposed.

Preliminary open-pit design was conducted using a manual method. The deposit is assumed to have a constant rutile $TiO_2$ grade of 2.03%, which is the average grade of the economic Indicated and Inferred mineral resource in the deposit. A maximum economic strip ratio of 3.4:1 was used in the open-pit design by Taiyuan Guangzhi. The economic and technical parameters assumed by Taiyuan Guangzhi for the design of the open pit are listed in Table 6.3. The designed open pit is 900m long and 350m wide at the surface and 500m long and 120m wide at the pit bottom. Only the economic Indicated Mineral Resources have been used to define the Ore Reserves.

BDASIA noted that the assumed rutile concentrate (93% $TiO_2$) price of 7,200 RMB/t for the mine planning is considerably higher that the rutile concentrate price of 5,500 RMB/t currently assumed by Shanxi Shenli. However, the operating costs used for the mine planning are also higher than the operating costs currently assumed by Shanxi Shenli for the Project (discussed in details in Section 11.0 of this report). Using the rutile concentrate price and operating costs currently assumed by Shanxi Shenli for the project, BDASIA found that the maximum economic strip ratio of 3.4:1 is still valid.

The average rutile $TiO_2$ grade assumed in the mine planning was 2.03%, which was the average grade of the economic Indicated and Inferred Mineral Resources in the deposit calculated by Taiyuan Guangzhi. However, only the Indicated Mineral Resource was used to define mineable ore reserves in the study, and the average economic Indicated Mineral Resource in the deposit, as shown in Table 6.2, is 2.13% rutile $TiO_2$.

**Table 6.3**
**Economic and Technical Parameters Used for Open Pit Design of the Project**

| **Parameter** | **Number** |
|---|---|
| Ore Mining Cost *(RMB/t)* | 16.00 |
| Waste Mining Cost *(RMB/t)* | 11.00 |
| Concentrating Cost *(RMB/t)* | 28.94 |
| Average In-Situ Mineral Resource Rutile $TiO_2$ Grade *(%)* | 2.03 |
| Average Mill Feed Ore Rutile $TiO_2$ Grade *(%)* | 1.85 |
| Dilution Factor *(%)** | 5.3 |
| Mining Recovery Factor *(%)* | 95.0 |
| Milling Recovery *(%)* | 72 |
| Rutile Concentrate Grade *($TiO_2$%)* | 93 |
| Rutile Concentrate Sale Price *(RMB/t)* | 7,200 |
| Production Rate *(t/d)* | 5,000 |
| Bench Height *(m)* | 10 |
| Bench Face Slope Angle *(degree)* | 65 |
| Maximum Overall Pit Slope Angle *(degree)* | 45 |
| Minimum Haul Road Width *(m)* | 12 |
| Maximum Haul Road Slope *(%)* | 8 |
| Minimum Mining Phase Width *(m)* | 40 |

* *It should be noted that the definition of mining dilution factor in China is difference from that in the most Western countries. The Chinese mining dilution factor is defined as the ratio of the waste tonnage in the mill feed to the total tonnage of the mill feed, whereas the Western mining dilution factor is defined as the ratio of the waste tonnage in the mill feed to the ore tonnage in the mill feed. Therefore, the Western mining dilution factor is always higher than the Chinese mining dilution factor when calculating from the same data. The Western mining dilution factor of 5.3% is equivalent to the Chinese mining dilution factor of 5.0%. The Western mining dilution factor is used in this report as the JORC Code is adopted.*

BDASIA has reviewed Taiyuan Guangzhi's development plan and considers it adequate for application to the definition of an ore reserve with the caveat that the plan should be updated for final feasibility study following the completion of the current drilling program.

## 6.5 Ore Reserve Statement

### *6.5.1 Ore Reserve Statement*

The current ore reserve statement generated by Taiyuan Guangzhi for the Project dated December 2005 is summarized in Table 6.4. The current ore reserve estimate is categorized as a Probable Ore Reserve as the drilling density and/or sample quality is insufficient to define a Proved Ore Reserve for the project. The Probable Ore Reserve has been estimated from the Indicated Mineral Resource based on a block economic cut-off grade of 1.6% rutile $TiO_2$. The ore reserve is defined by the open pit designed by Taiyuan Guangzhi based on technical and economic parameters listed in Table 6.3. Mining dilution factor used for ore reserve estimation is 5.3% and mining recovery factor used is 95.0%. BDASIA considers the selected mining dilution factor and mining recovery factor reasonable based on the distribution of the primary orebody in the Project. BDASIA suggests to closely monitor mining dilution and mining recovery factors during actual open pit mining operation, adjusting the mining dilution factor and mining recovery factor for ore reserve estimation if there is a significant difference.

**Table 6.4**
**Open-Pit Ore Reserve Summary of the Project**

| JORC Ore Reserve Category | Tonnage Resource *(Mt)* | Rutile $TiO_2$ Grade *(%)* | Contained Rutile $TiO_2$ *(kt)* |
|---|---|---|---|
| Probable | 14.877 | 1.85 | 275.1 |
| Waste | 19.527 | – | – |
| Strip Ratio | 1.31 | – | – |

### *6.5.2 BDASIA's Opinion on conformity of the Ore Reserve to the JORC Code*

BDASIA has reviewed the open pit design. BDASIA finds the technical assumptions of Taiyuan Guangzhi to be reasonable with the selected mining dilution factor and mining recovery factor acceptable based on the continuity of the mineralization and the well defined nature of the ore-waste contacts. Based on the pre-feasibility work BDASIA considers that the potential margin between concentrate value and direct cost of production is appropriate to support "Ore Reserve" categorization under the JORC Code (further discussed in Section 11.0 of this report).

BDASIA finds the manual open pit design acceptable for the purpose of pre-feasibility Ore Reserve definition, but suggests that further pit optimization and pit design should be conducted using computerized three-dimensional mining software when the current drilling program is complete. Updating of mineral resource and ore reserve estimates should be done at that time based on the final pit design to confirm final feasibility.

### 6.6 Mine Life Analysis

The life of mine mill throughput rate, based on the proposed open pit mining operation, is planned to be 5,000 tpd or approximately 1.5 Mtpa based on a 300 working days per annum. The estimated open pit ore reserves will be sufficient for approximately 9.9 years of operation. Subject to the results of further detailed infill drilling, BDASIA considers that the mine life can be significantly increased in the future due to the following reasons:

- mineralization extends below the defined open-pit, and underground mining is envisioned by Shanxi Shenli following the completion of open-pit mining operations; and

- additional exploration and development could convert some of the Inferred mineral resource to Measured or Indicated mineral resources, which in turn might be converted to Proved and Probable ore reserves.

## 7.0 EXPLORATION POTENTIAL

BDASIA believes that additional exploration potential exists for the Project reviewed in this study for the following reasons:

- the deposit is generally open down dip; and

- the deposit extends beyond Shanxi Shenli's mining license boundary along strike; acquiring additional mining or exploration license areas along the strike of the deposit will increase the exploration potential for the project. In addition, acquiring or jointly developing the mining license area currently controlled by Dai County Hongda Rutile Mine could also increase the project mineral resource potential.

## 8.0 PROPOSED MINING

The current plan for the mining operation of the Project was produced by Taiyuan Guangzhi in December 2005. The construction and mining operation will be conducted by contractors, supervised by company personnel.

The proposed initial mining operation is by open pit, as the deposit outcrops on the surface. The mine will be worked as an open pit for approximately 10 years, following a one year construction period.

Underground mining is envisioned following completion of the open pit as the mineralization continues at depth. Planning for underground mining, however, is only at a conceptual stage.

### 8.1 Open Pit Mining Operation

The No.1 orebody, the primary orebody of the deposit, outcrops on the northwestern portion of the mining license area and dips at 35-40° to the south and southwest. The proposed open pit design is acceptable in concept but needs to be confirmed or updated once the current drilling is completed.

BDASIA found current planning for the open pit operation to be of a pre-feasibility level. Industry standards for China were used in the planning for the equipment requirements, utilizations and availability. Site specific geotechnical data was used for the pit planning and haul road design. All stripping and mining will be performed by contractors. The contractor will be required to deliver a specific grade and tonnage of material to the concentrating plant based on the drilling and sampling data. In addition, the company will have a grade control geologist working on site every shift.

From the designed open pit, the mine will extract 14.9 Mt of ore and remove 19.5 Mt of waste rock for an overall stripping ratio of 1.3:1. The planned ore production rate is 5,000 tpd for the life of the open pit mine.

The proposed pit will use a 10m bench height, with 16 benches to reach the bottom of the pit. The top of the pit will be 900m long and 350m wide. The base of the final pit, at a 160m depth will be 500m long and 120m wide. The overall pit slope angle is approximately 45° on the hangingwall side and less than 45° on the footwall side. Based on the geotechnical work done to date, most of the waste rock above the ore has a Rock Quality Designation ("RQD") of 75-80. In some of the shallower weathered areas fracturing is intense and the RQD averages less than 25. In these areas, special care in blasting will be needed to maintain the benches and pit slopes, and a shallower final pit slope angle may be required. The geotechnical study also shows that most of the ore has an RQD of 88-98. The haul road is designed to be 12m wide with a maximum grade of 8%.

The mine planning is based on four 10t electric hydraulic excavators loading thirty 27t rigid frame end dump highway trucks. The fleet includes one spare excavator and five spare trucks. The trucks will haul the ore approximately 3 km from the pit to the concentrating plant. The waste material haul averages approximately 1 km from the pit rim. BDASIA considers that the proposed fleet is adequate for the proposed production. As an alternative to truck haulage, installation of an aerial tramway is being considered. The tramway would be powered by electricity, which would reduce diesel costs. If it is decided to use an aerial tram system, an in-pit crushing system will probably also be required.

Both the waste rock and the ore will require drilling and blasting, using 200-220mm diameter blast holes. Four drills have been proposed. However, BDASIA considers that an additional drill should be purchased to provide adequate cover during required maintenance or break down. BDASIA also has some reservations as to whether the anticipated average drilling rate of 20,000mpa will be achieved when drilling highly fractured rock zones.

The early years of open pit mining will be at a high elevation towards the top of the mountain, and drainage should be straightforward. However, more hydrological study should be completed as the pit is deepened and certainly before the development of the underground mine.

### 8.2 Auxiliary Facilities of the Open Pit Mine

A maintenance and lubrication facility will be required. A warehouse, a compressor building with four compressors, and areas for bit sharpening and drill maintenance will also be required.

Office building for mine management and administration staff and mine technical and production staff will also be constructed.

Power will be required for the open pit drills, excavators, air compressors, pit and office lighting. The main power supply will service the concentrating plant and there will be a step down substation that will supply the required power to the mine. External and internal communication systems will be installed.

The mine water requirements will average approximately 620 tpd, which will be supplied from the concentrating plant area retention pond. Heating for all of the buildings will be supplied by a two-tonne boiler.

### 8.3 Manpower for Open Pit Operation

The staff and operating labor for the proposed open pit operation includes approximately 30 Shanxi Shenli's technical, administration and management staff and 315 contractors for a total of around 345.

### 8.4 Underground Mining

Underground mining will follow the completion of the open pit. The No.1 orebody dips at 30-35° at depth. Sublevel caving is envisaged as the probable mining method. The underground mine will be accessed by a railed decline to the 1,540m elevation level at the northwest shallower portion of the deposit and by a vertical shaft to the 1,250m elevation level at the southeast deeper portion of the deposit. A total of thirteen 40m levels are planned. As the underground mining operation will not start for at least 10 years, no detailed underground mine planning has been undertaken.

## 9.0 METALLURGY AND PROPOSED PROCESSING

Shanxi Shenli plans to produce approximately 21,400 tpa of rutile concentrate from the Project at a concentrate grade of approximately 93% $TiO_2$. About 72% of the rutile contained in the feed to the concentrating plant (average grade of 1.85% rutile $TiO_2$) is expected to be recovered. The selected flow sheet involves crushing, grinding, classification, spiral pre-concentration, hydraulic classification of the pre-concentrate, and tabling and low- and high-intensity magnetic cleaning of rutile from magnetite and ilmenite. This processing approach and proposed processing facilities are based on extensive metallurgical testwork.

Based on the information provided by Shanxi Shenli and by various research institutes who conducted metallurgical testwork, BDASIA considers that the proposed process is feasible and that production targets are achievable. The test work, flow sheet and proposed equipment are described below.

### 9.1 Process Development Test Work

Preliminary process research and development work was initially conducted in the 1974-1976 period. It was later followed by detailed laboratory testing and small plant production in 1988. This work included gravity concentration of rutile and other heavy minerals and the subsequent separation of rutile from magnetite and ilmenite by the low– and high-intensity magnetic separation methods. Additional test work was commenced in 2006. The latter investigations examined feasibility of flotation to produce a final rutile concentrate or its application as a pre-concentration step to reduce the tonnage going to the gravity concentration section.

The summary of the test work is presented in Table 9.1. The test work samples, their grades and mineralogical composition along with eventual flow sheets and results are briefly discussed below.

**Table 9.1**
**Summary of Process Test Work**

| Item | Year | | | | | |
|---|---|---|---|---|---|---|
| | 1974 | 1976 | 1988 | 2006 | | 2006 |
| Concentrate | | | | (a) | (b) | |
| Weight Yield, % | 2.00 | 1.50 | 1.71 | 1.15 | 1.39 | 2.26 |
| Grade, % Total $TiO_2$ | 94.09 | 93.45 | 93.24 | 93.24 | 90.34 | NA |
| Grade, % Rutile $TiO_2$ | 92.54 | 93.13 | 93.06 | 93.03 | 90.01 | 69.98 |
| Recovery, % Rutile $TiO_2$ | 78.13 | 75.06 | 76.93 | 60.23 | 70.48 | 75.08 |
| Feed Grade | | | | | | |
| % Rutile $TiO_2$ | 2.37 | 1.86 | 2.08 | 1.77 | | 2.11 |
| % Total $TiO_2$ | 2.50 | 2.21 | 2.87 | 2.15 | | NA |
| Processing Approach | | | | | | |
| Rutile Flotation | | | | | | x |
| Classification | | | | | | |
| Spirals | | | x | | | |
| Shaking Tables | x | x | x | x | | x |
| Low Intensity Magnetic | x | x | x | x | | x |
| High Intensity Magnetic | x | x | x | x | | x |
| Screening | | x | | x | | x |
| Electrostatic Separation | | x | | x | | |
| Acid Washing | x | x | | x | | |
| Test Samples | | | | | | |
| Origin | Surface | Surface | Trench: TC25, Drill Holes: CK 1301, 2102, 2301 | Trenches: TCX-2S, -3S, and -4S Banks: YK-1S, -2W, -3S, -4N | | Same as in preceding column |
| Sampling Method | Trenching | Trenching | Drill Holes, Trenching | Trenching | | Trenching |
| Taken by | The 211 Team | The 211 Team | NA | NA | | NA |
| Test Work by | Geo. Lab. Hubei Province | CRIMM[1] | Ministry Of Chemical Industry | CRIMM[1] | | BGRIMM[2] |

*(a) and (b) difference in results due to variation in testing;*
[1] *Changsha Research Institute of Mining and Metallurgy;*
[2] *Beijing General Research Institute of Mining and Metallurgy.*

*9.1.1 Ore Samples*

The origin of the ore processing test samples along with the sampling methods is shown in the table above. Most samples came from surface trenching. The sample used by the Ministry of Chemical Industry (1988) was a composite of surface samples and drill cores.

A typical chemical analysis of the ore is as follows: Total $TiO_2$ 2.50%, Rutile $TiO_2$ 2.37%, $SiO_2$ 49.31%, FeO 7.82%, $Fe_2O_3$ 1.99%, $Al_2O_3$ 7.77%, MgO 22.16%, $Na_2O$ 0.57%, $K_2O$ 0.05%, CaO 2.77%, $ZrO_2$ 0.01%, $P_2O_5$ 0.19%, and LOI 3.90%.

In addition, minor amounts of copper, manganese, chromium, nickel, cobalt and vanadium were detected by semi-quantitative analysis of the ore samples.

The only mineral of economic importance is rutile. Minor amounts of magnetite and ilmenite are present, but have little economic significance. Minor sulfide minerals include pyrite, pyrrhotite and chalcopyrite. Gangue minerals comprise tremolite, actinolite, chlorite, anthophyllite, talc and hornblende with minor quartz, biotite, kyanite and apatite. The rutile grains are red to black, with a grain size generally from 0.05 to 0.6mm. The rutile is disseminated through the rock but some local concentration as aggregates do occur. Rutile is generally associated with tremolite and chlorite. The liberation of rutile is 77% in the 0.25 to 0.074mm size range and 99% in the 0.074mm to 0.053mm size range after grinding.

The major chemical components of the rutile itself, based on analysis of hand picked grains, were found to be: 98.11% $TiO_2$, 0.76% $Fe_2O_3$, 0.35% $Al_2O_3$, 0.18% $V_2O_5$, 0.013% MnO and 0.009% $Nb_2O_5$, 0.0013% $SnO_2$.

*9.1.2 Test Work and Results*

Rutile concentration and separation testwork has included gravity separation by shaking tables alone, by spirals and shaking tables without classifying the pre-concentrate and by spirals with the pre-concentrate classified prior to tabling. More recently, flotation was tested to examine whether it could produce a saleable rutile concentrate or if it could be used as a pre-concentration step. In all approaches magnetic separation was used to remove magnetite (by low-intensity) and ilmenite (by high-intensity) from the final gravity concentrate.

The gravity separation approach tested by the Ministry of Chemical Industry in 1988 yielded the best results (see table 9.1). From an ore sample containing 2.08% rutile $TiO_2$, a rutile concentrate weighing 1.71% of the feed and assaying 93.06% rutile $TiO_2$ was obtained; the rutile $TiO_2$ recovery was

76.9%. The concentration process included pre-concentration on spirals, concentration on shaking tables and cleaning of the gravity concentrate by low– and high-intensity magnetic separation. In support of these results, it is reported that a +90% rutile $TiO_2$ concentrate was produced by a small gravity plant (Dai County Hongda Rutile Mine) located on site. It is understood that this plant was not a state-of-the-art facility and that it used a relatively simple gravity and magnetic separation process which could explain the rather low recovery of only 60% rutile $TiO_2$ as compared to 76.9% obtained by the Ministry laboratory.

Flotation of rutile into a concentrate or a pre-concentrate was examined in 2006. It did not yield satisfactory results. The concentrate grades were relatively low (70% $TiO_2$), flotation reagents expensive and the process rather cumbersome. Consequently, the flotation approach was abandoned, and the conventional gravity plus magnetic separation approach was selected.

The metallurgical testwork data summarized in Table 9.1 shows comparable rutile $TiO_2$ grades to the estimated mineral resources and ore reserves grades. The 1988 work, based on samples from both trenches and drill holes, suggests little change in processing characteristics with increasing depth in the open pit. Additional testwork in conjunction with the additional drilling program is needed to confidently characterize the deposit at depth. BDASIA understands that the $TiO_2$ analyses reported herein used the colorimetric method standard in China. Confirmation analysis by offshore laboratories should be included in future work.

*9.1.3 Quality of Rutile Concentrate*

A chemical analysis of the rutile concentrate produced by the 1988 study by the Chemical Geology and Mining Institute of the Ministry of Chemical Industry is as follows: Total $TiO_2$ 93.24%, Rutile $TiO_2$ 93.06%, $SiO_2$ 1.20%, $Al_2O_3$ 1.32%, S 0.00%, CaO 0.86%, MgO 0.79%, $FeO+Fe_2O_3$ 1.26%, $P_2O_5$ 0.0047%, $V_2O_5$ 0.01%, and LOI 0.38%.

The 1988 study also showed that, after sulfuric acid leaching and washing, the rutile concentrate can be further upgraded to above 95% $TiO_2$. With the minus 0.074mm size at less than 10% of the upgraded concentrate weight, the product should be commercially saleable or suitable as feed to the proposed TiCl4/titanium sponge plant by Shanxi Shenli.

## 9.2 Flowsheet

The flowsheet proposed for the Project is shown in Figure 8. The flowsheet is fairly typical of that used for similar ores. It comprises jaw crushing of the -750mm run-of-mine ore to –208mm. Additional crushing takes place in a standard cone crusher to the –30mm size. Each crusher operates in a closed circuit with a screen. The crushed product is fed to a rod mill working in a closed circuit to yield -0.4mm (or 45% -0.074mm) ground product. The rod mill product is pre-concentrated in spirals, which yield a final tail and a rutile pre-concentrate. The latter product proceeds to a hydraulic classifier, which classifies the feed into three sizes: -0.4+0.15mm, -0.15+0.074mm and -0.074+0.04mm. The finest fraction (-0.04mm) is rejected and joins the final tail. The other fractions are sent to shaking tables. The concentrate produced on the rougher shaking tables is hydraulically classified and sent to cleaner shaking tables. This cleaner concentrate is then subjected to low-intensity followed by high-intensity wet magnetic separation.

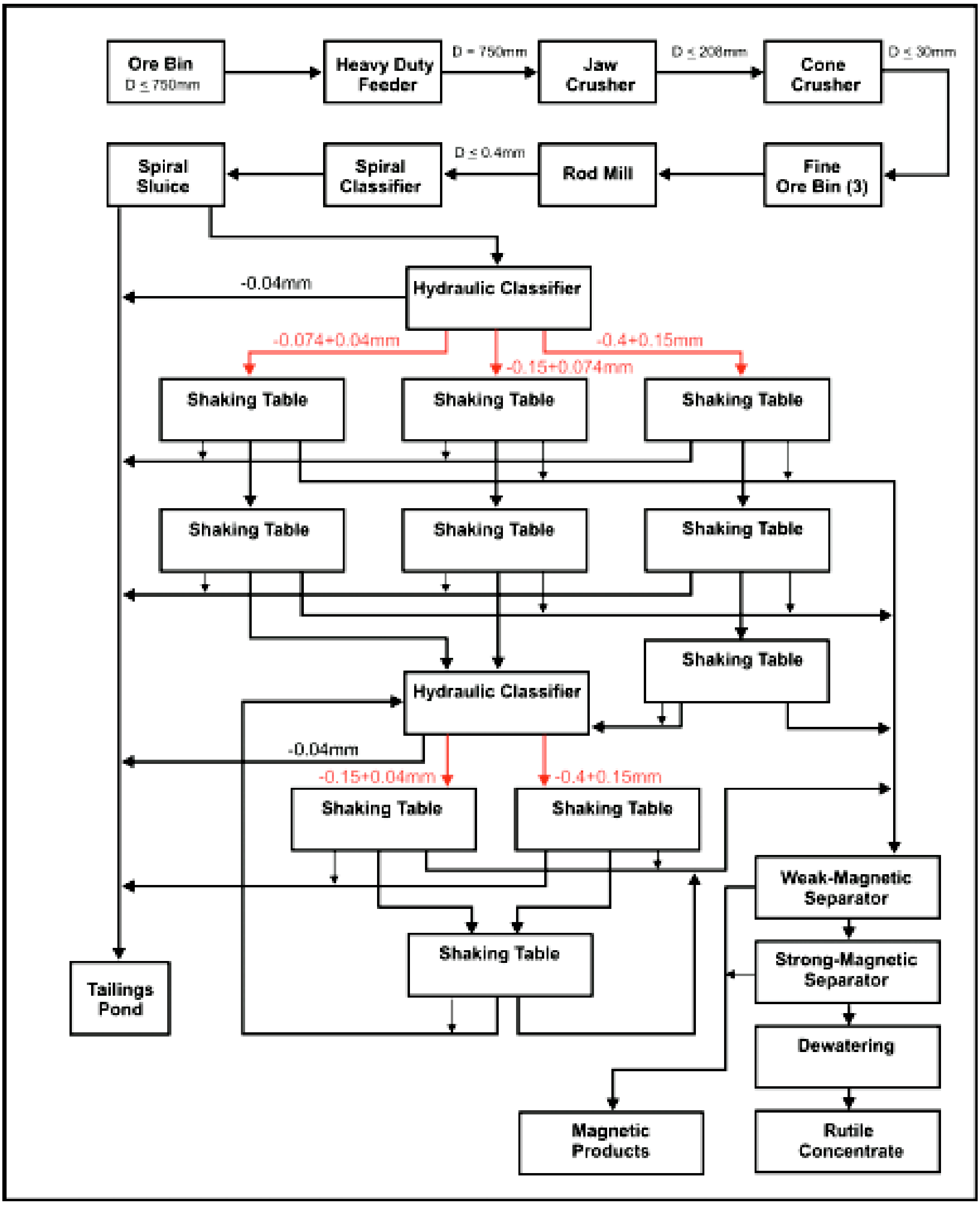



**Figure 8 Concentrating Plant Processing Flowsheet for the Project**

### 9.3 Equipment

The major equipment pieces selected for the process are: one heavy-duty plate feeder, one jaw crusher (1,200x1,500mm), two standard (2,200mm) cone crushers, two short head (2,200mm) cone crushers (optional), three (3,200x4,500mm) rod mills each with its own spiral classifier, 42 spiral concentrators (1,500x900mm), 384 6-S sand shaking tables and 120 6-S slimes shaking tables. Additionally, one low-intensity and one high-intensity magnetic separator, eight leaching tanks, eight plate and frame filter presses and four fluid bed dryers will be incorporated in the plant.

### 9.4 Plant Location

The planned location for the processing plant is on a hill slope to allow for gravity feed. The plant will be arranged step-wise, starting with the jaw crusher above and ending with concentrate warehouse below. The crushing and screening are in a single line; grinding, spirals and tables are in three parallel lines. Magnetic separators are in a single line and washing and drying are arranged in two parallel lines.

### 9.5 Tailings

In the selected option, the tailing facility, to be constructed in stages, will provide storage for approximately 30 years, assuming that underground mining will follow the open pit mining. In the open pit-mining period the dry tailings will amount to about 1.5 Mtpa. The tailings, at 8% solids, will be thickened to return to the process as much water as possible.

## 10.0 PRODUCTION

The planned mining and concentrating plant throughput rate when the Nianzigou mine is in full production is 5,000 tpd or 1.5 Mtpa. Rutile concentrate production is projected at approximately 21,400 tpa with a rutile $TiO_2$ grade of 93%.

Given the significant mineral resource at this property, BDASIA considers that there is potential for expansion of the production level, subject to the definition of additional ore reserves and confirmation of projected recoveries, grades and economics.

## 11.0 PROJECT ECONOMICS

### 11.1 Operating Costs

The operating costs for the Project estimated by Shanxi Shenli are listed in Table 11.1. The open pit mining is planned to be conducted by a contractor but the concentrating plant will be operated by the Company personnel.

The contractor open pit ore mining cost is estimated as RMB14.5 per tonne and waste mining is estimated as RMB11 per tonne. These prices will cover the contractor's cost for mining equipment replacement. These estimated costs are based on an actual proposal submitted by a potential contractor but Shanxi Shenli has advised that these costs are slightly higher than the actual contract mining costs of similar mining projects in the surrounding areas. These planned mining costs are approximately equivalent to Western mining costs for an open pit mine of similar size. Because of the relatively low labor cost in this area, a lower mining cost could be expected. Therefore, BDASIA considers the mining cost estimate to be reasonable within the specified levels of accuracy of estimation.

The unit cost of the concentrating plant is estimated as RMB25.17 per tonne of feed and the unit G&A and other cost is estimated as RMB5.14 per tonne of feed.

Based on the average strip ratio of the open pit mine of 1.31:1, the total operating cost for the open-pit and concentrating plant operation of the Project is RMB59.72 per tonne of feed.

This estimate is based on production at a level of 5,000tpd feed to the concentrating plant. Final feasibility will allow for start-up and ramp-up of production to this level.

**Table 11.1**
**Operating Cost Estimates for the Project**
(Based on operation at 5,000tpd Concentrating Plant feed)

| **Item** | **Amount** |
|---|---|
| **Mining** | |
| Contractor Ore Mining *(RMB/t)* | 14.50 |
| Contractor Waste Mining *(RMB/t)* | 11.00 |
| Total Contractor Mining *(RMB/t of ore, based on a strip ratio of 1.31)* | 28.91 |
| Company Mining Administration *(RMB/t of ore)* | 0.50 |
| Total Mining *(RMB/t of ore)* | 29.41 |
| **Concentrating** | |
| Material *(RMB/t of ore)* | 7.95 |
| Electricity *(RMB/t of ore)* | 11.60 |
| Coal *(RMB/t of ore)* | 1.02 |
| Water *(RMB/t of ore)* | 1.00 |
| Wages and Benefits *(RMB/t of ore)* | 1.60 |
| Repair and Maintenance *(RMB/t of ore)* | 0.50 |
| Concentrating Administration *(RMB/t of ore)* | 0.50 |
| Other Cost | 1.00 |
| Total Concentrating *(RMB/t of ore)* | 25.17 |
| **G&A and Others** | |
| Company Administration *(RMB/t of ore)* | 1.00 |
| Mineral Resource Compensation Levy *(RMB/t of ore, 2% of the sale)* | 1.64 |
| Mineral Resource Tax *(RMB/t of ore)* | 1.50 |
| Selling Cost *(RMB/t of ore)* | 1.00 |
| Total G&A *(RMB/t of ore)* | 5.14 |
| Total *(RMB/t of ore)* | 59.72 |

*Note*: Operating cost estimates in this table do not include depreciation/amortization cost.

Assuming an average feed grade of 1.85% rutile $TiO_2$, a concentrating recovery of 72% and a rutile concentrate grade of 93% rutile $TiO_2$, a total of approximately 69.8t of concentrating plant feed will be needed to produce a tonne of rutile concentrate. Therefore, the estimated operating cost to produce a tonne of 93% rutile $TiO_2$ concentrate is approximately RMB4,170 per tonne.

The operating cost estimates would be regarded as accurate within ±20% at this stage, given that fuel and equipment prices are changing rapidly in the current market environment.

### 11.2 Concentrate Value and Operating Margin

The sales price of the 93% rutile $TiO_2$ concentrate produced by the Project is currently estimated as 5,500 RMB/t by Shanxi Shenli based on actual recent sale of the rutile concentrate of the same grade from the Dai County Rutile Mine. Because the pricing of rutile concentrate varies depending on its chemical and physical qualities, BDASIA considers the assumed price to be acceptable for pre-feasibility purposes, but believes that for a feasibility level study a rutile concentrate price secured by a sales contract will be needed for the economic evaluation.

BDASIA is advised by INNOMAXX and Shanxi Shenli all the rutile concentrate produced by the Project will be consumed internally by the titanium chloride/ titanium sponge plants to be built for the project.

BDASIA considers that the potential cash margin between concentrate value and direct operating cost of production is appropriate at the pre-feasibility level to support the "Ore Reserve" designation under the JORC Code.

### 11.3 Capital Expenditures

Total capital expenditure for the Phase 1 operation of the Project, including a 5,000 tpd open pit mine and concentrating plant, is estimated by Shanxi Shenli to be approximately RMB338 million. BDASIA has been advised that the cost for equipment and construction is based on actual quotes from equipment vendors and construction contractors or based on recent actual cost on similar projects. A contingency of 20% has been added to the estimated capital expenditures. A mining license purchase price of RMB67.5 million and cost for additional drilling and feasibility study of approximately RMB6.9 million are included in the total capital expenditure estimate. BDASIA has reviewed the proposed capital expenditures, and considers that they are reasonable for a pre-feasibility level planning at ±20% accuracy. BDASIA notes that the estimate does not include provision for working capital.

**Table 12.1**
**Capital Expenditure Estimates for the Project**

| **Item** | **Amount** *(RMB in millions)* |
|---|---|
| **Land Use and Relocation** | **3.20** |
| **Infrastructures** | |
| Buildings, Tailings Storage Facility, and Internal Roads, etc. | 70.59 |
| Access Roads | 4.11 |
| Water Supply | 28.40 |
| Electricity Supply | 9.80 |
| Subtotal | 112.90 |
| **Equipment** | |
| Mining and Concentrating Plant Equipment | 57.70 |
| Others (including heat and ventilation systems, laboratory, warehouse, etc.) | 24.83 |
| Installation and Transportation | 16.24 |
| Subtotal | 98.77 |
| **Design and Engineering** | **5.01** |
| **Total Above** | **219.88** |
| Mining License Purchase Price | 67.50 |
| Additional Drilling and Feasibility Study | 6.90 |
| Contingency (20%) | 44.00 |
| **Total Capital Expenditure** | **338** |

## 12.0 ENVIRONMENTAL MANAGEMENT

Chinese national legislation provides for mining and environmental approvals to be obtained at the Provincial, City and County levels, all of which act in co-operation, but have their own specific provisions that must be met by a mining project. The Project, as reviewed by BDASIA, appears to possess all of the necessary mining and environmental approvals, except for the site of the proposed titanium chloride/titanium sponge plant. The Company anticipates that an environmental impact assessment ("EIA") for the titanium chloride/sponge site will commence shortly, and be completed, submitted and approved by the commencement of 2007. While Shanxi Province, Xizhou City and Dai County will all appraise the EIA, the environmental license will be issued by Shanxi Province authorities.

Once development commences, site inspections by officers from the Dai County Environmental Protection Bureau ("EPB") will occur regularly, to ensure compliance with the various statutory environment protection requirements. Random inspections are similarly undertaken by the Dai County Safety Supervision Bureau to check on compliance with occupational health and safety requirements. Ongoing environmental monitoring will be required, with regular monitoring results obtained and submitted to the EPB.

Due to the dry, low rainfall environment, water management will primarily involve recycling of waste waters, including tailings reclaim water to the concentrating plant or other plant and reuse of underground mine pump-out water.

Tailings from the concentrating plant will be pumped and stored in the site's tailings storage facility ("TSF"). Detailed design of the TSF is yet to commence, however BDASIA understands that the TSF, together with other plants, will be constructed with due regard for the seismically active area in which the mine is located in. A maximum recorded event of approximately 7 on the Richter scale occurred around two millennia ago; more recently the strength of the (quite frequent) earthquakes has been around 2.

Despite the steep slopes in the area, major land slips are not considered a high risk due to the low rainfall.

Plant exhaust gases and dust emissions are expected to be handled through the use of water sprays and dust collectors; boiler gas emissions will be directly vented to the atmosphere.

In general, the grazing practices in the project area have probably had some effect on the endemic flora and fauna of the proposed plant areas. Sited above the winter snow line, the only trees in the area appear to be specially planted, in the vicinity of the few houses that dot the landscape. The area enjoys an "alpine meadow" type vegetative cover. Subsidence of undermined land is predicted to occur over an area of 1.52 $km^2$. Rehabilitation and re-vegetation of the mine site is required by Government Agreement, ensuring that the disturbed area can revert to the pre-existing farming activity. Reforestation and regrassing will include use of species common to the area.

The population is sparse in the vicinity of the mine site, with 30-40 households in each of the scattered villages, and agriculture is the major form of livelihood. Major crops are oats, potatoes and corn and water supply comes from wells and springs. Some 20 households dot the area that will be required for the mine development. Affected people will be compensated by Dai County for loss of home and livelihood, according to compensation provisions laid down by the National Government. The County Government will assist with new housing locations and alternative livelihoods, as required. It is anticipated by the Company that many of the current local residents will take up employment opportunities available from the proposed mine development, which will employ more than 1,000 individuals in a wide variety of capacities.

Employees will largely be drawn from the district, and trained as required. New and expanded townships will be developed at various locations close to the concentrating plant, the open pit and underground operations to accommodate the workforce.

## 13.0 OCCUPATIONAL HEATH AND SAFETY

The Safety Bureau of Dai County and Xizhou City will require details of proposed Occupational Health and Safety ("OH&S") provisions proposed for the mine, concentrating plant and titanium chloride/sponge plant to adequately protect the workforce, and compliance with national OH&S standards will be required. A detailed plan will be submitted to the Safety Bureau and regular inspections will be conducted by Safety Bureau officers.

## 14.0 RISK ANALYSIS

When compared with many industrial and commercial operations, mining is a relatively high risk business. Each orebody is unique. The nature of the orebody, the occurrence and grade of the ore, and its behavior during mining and processing can never be wholly predicted.

Estimations of the tonnes, grade and overall metal content of a deposit are not precise calculations but are based on interpretation and on samples from drilling or channel sampling which, even at close sample spacing, remain very small samples of the whole orebody. There is always a potential error in the projection of sampling data when estimating the tonnes and grade of the surrounding rock and significant variations may occur. Reconciliations of past production and ore reserves can confirm the reasonableness of past estimates, but cannot categorically confirm the accuracy of future predictions.

Estimations of project capital and operating costs are rarely more accurate than ±10 percent and will be at least ±15 percent for projects in the planning stages or 20-25% at the pre-feasibility study stage. Mining project revenues are subject to variations in product prices, though some of this uncertainty can be removed with long term contracts.

In reviewing the Project, BDASIA has considered areas where there is perceived technical risk to the proposed development and operation, particularly where the risk component could materially impact the projected production and resulting cashflows. The assessment is necessarily subjective and qualitative. Risk has been classified from low, moderate to high.

| Risk Component | Comments |
|---|---|
| Mineral Resources<br>*Low to Moderate Risk* | The deposit geology and control of the rutile mineralization is well understood for the Project. The primary orebody is a massive tabular metamorphosed ultramafic intrusive sill. Rutile is disseminated in the host rock with a grade of 1 to 3% rutile $TiO_2$. However, the current mineral resource is mostly defined by core holes drilled in the 1970s, which generally have low core recoveries due to limitation of the drilling technology at that time in China. The mineral resource is classified as Indicated and Inferred. In BDASIA's opinion, more drilling and sampling are required to upgrade the mineral resource confidence level before production. Shanxi Shenli has already started a new ore reserve definition drilling program as of 31 August 2006 for the project. The new drilling data should, subject to results, reduce the mineral resource risk level to low. |
| Ore Reserves<br>*Moderate Risk* | Only a Probable open-pit ore reserve has been defined for the project at present due to the relatively low mineral resource confidence level. The current infill drilling program for the project should significantly increase the mineral resource confidence level and allow a more accurate and confident estimate of ore reserves. |
| Open Pit Mining<br>*Moderate Risk* | The orebody outcrops at surface in the planned open pit mining area. It averages over 40m thick and dips at 35-40° to the south and southwest. The current mine plan is considered preliminary and more detailed mine planning will be required before the operation.<br><br>Some of the rock in the open pit area is strongly fractured and has a RQD as low as 25; a relatively shallow overall slope angle will be required to maintain slope stability. |
| Processing<br>*Low Risk* | The selected flow sheet is conventional, simple and time tested. The selected equipment is simple and robust. The risk involving the process and equipment is considered low. |
| Product Quality<br>*Low to Moderate Risk* | Metallurgical testwork has indicated that a concentrate can be produced that should be commercially saleable or that is directly acceptable as feed-stock for titanium chloride/titanium sponge/titanium metal production. |

| Risk Component | Comments |
|---|---|
| Infrastructure<br>*Low to Moderate Risk* | There is an existing road to the project site, but the last segment of the road will need to be upgraded before production. Electricity supply in the area is generally sufficient but a new power line and substation will need to be constructed from the local power grid to the mine site. Water sources for the production have been located. A location for the initial tailings storage facility has been selected but a geotechnical study will be needed before the design and construction of the tailings dam can be completed. |
| Production Targets<br>*Low to Moderate Risk* | The mining operation will be conducted by a contractor. The mining contract will specify that the contractor will only be paid for the tonnage that contains the correct grade. In addition, the mine will have a grade control geologist working on site every shift.<br><br>Meeting the concentrating plant production targets will depend considerably on the representativeness of the samples used in the laboratory test and also on the laboratory methods and their applicability on an industrial scale. BDASIA considers, at this time, that the risk is low to moderate. |
| Operating Cost<br>*Moderate Risk* | Mining will be conducted by a contractor and mining cost is based on a contractor bid. However, there is always some uncertainty until a final contract is signed. The milling cost will largely depend on the cost to obtain water and power. The operating cost estimates should be accurate within ±20% at this stage. |
| Product Price<br>*Moderate Risk* | Rutile is an industrial mineral that has a value-in-use not necessarily reflected in publicly quoted prices. For final feasibility the acceptability and pricing of the rutile product should be established by contractual arrangements. |
| Capital Expenditure<br>*Moderate Risk* | The capital expenditure estimates for the project were based on actual quotes from equipment/construction vendors or actual costs for recent cost of similar projects. A contingency of 20% has been added to the estimated capital expenditure.<br><br>BDASIA has noted that capital expenditure estimate is probably deficient in some areas. For example, a fifth blast hole drill will be needed to maintain uninterrupted production. Working capital is not included. The capital cost estimate should be accurate within ±20% at this stage. |

| Risk Component | Comments |
|---|---|
| Environment<br>*Low to Moderate Risk* | Complete environmental approvals have not yet been granted for the project; environmental studies are just commencing for the titanium chloride/sponge plant site. However, it appears at this stage that the Government will grant development approval, particularly as a mining license has already been issued.<br><br>BDASIA has been advised by the Company that it does not expect to have any difficulty complying with the specific national standards for the construction and operation of the plant. BDASIA understands that these standards will be incorporated into the detailed engineering designs as they are developed, which will be submitted to the government for approval prior to construction. Neither the ore nor the waste streams are classified as radioactive material according to the Chinese standards. |
| Occupational Health and Safety<br>*Low to Moderate Risk* | Shenli Shanxi proposes to develop and implement an OH&S Management System in line with relevant national standards. |

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

## 2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date were, and immediately following the increase in authorised share capital, the issue of the Consideration Shares, the Placing Shares and the Over-allotment Shares will be, as follows:

**As at the Latest Practicable Date**

| | | |
|---|---|---|
| *Authorised share capital:* | | *HK$* |
| 4,000,000,000 | Shares | 400,000,000.00 |
| *Issued and fully paid share capital or credited as fully paid:* | | |
| 2,471,812,853 | Shares | 247,181,285.30 |

**Upon completion of the Formal Acquisition Agreement and the Placing (assuming the Over-allotment Option is not exercised)**

| | | |
|---|---|---|
| *Authorised share capital:* | | *HK$* |
| 10,000,000,000 | Shares | 1,000,000,000 |
| *Issued and fully paid share capital or credited as fully paid:* | | |
| 2,471,812,853 | Shares | 247,181,285.30 |
| 1,081,480,000 | Consideration Shares | 108,148,000.00 |
| 1,000,000,000 | Placing Shares | 100,000,000.00 |
| 4,553,292,853 | Shares | 455,329,285.30 |

**Upon completion of the Formal Acquisition Agreement and the Placing (assuming full exercise of the Over-allotment Option)**

| *Authorised share capital:* | | *HK$* |
|---|---|---|
| 10,000,000,000 | Shares | 1,000,000,000 |

*Issued and fully paid share capital or credited as fully paid:*

| | | |
|---|---|---|
| 2,471,812,853 | Shares | 247,181,285.30 |
| 1,081,480,000 | Consideration Shares | 108,148,000.00 |
| 1,150,000,000 | Placing Shares and the Over-allotment Shares | 115,000,000.00 |
| 4,703,292,853 | Shares | 470,329,285.30 |

All the issued shares in the capital of the Company rank pari passu with each other in all respects including the rights as to voting, dividends and return of capital. The Consideration Shares, the Placing Shares and the Over-allotment Shares to be allotted and issued will, when issued and fully paid, rank pari passu in all respects with the then existing Shares in issue on the date of allotment of the Consideration Shares, the Placing Shares and the Over-allotment Shares in fully-paid form. None of the members of the Enlarged Group had any debt securities in issue as at the Latest Practicable Date.

Save for the share options granted under the share option scheme of the Company adopted on 26 June 2002, the Company did not have any other options, warrants and other convertible securities or rights affecting the Shares and no capital of any member of the Group is under option, or agreed conditionally or unconditionally to be put under option as at the Latest Practicable Date.

## 3. DIRECTORS' INTERESTS

(a) As at the Latest Practicable Date, the interests and short positions of each Director in the shares or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which he was deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

**Long position in the shares in the capital of the Company**

| Name of Director | Capacity | Number of shares in the capital of the Company | Total interests in underlying shares pursuant to share options | Approximate % of shareholding in the Company |
|---|---|---|---|---|
| Cai Yuan | Beneficial owner and interest in controlled corporation | 500,000,000 *(Note 1)* | 8,650,000 | 20.58% |
| Luk Kin Peter Joseph | Beneficial owner and interest in controlled corporation | 226,584,000 *(Note 2)* | 8,650,000 | 9.52% |
| Tang Tin Sek | Beneficial owner | 300,000 | – | 0.01% |

*Notes:*

1. These shares are held by Greater Increase Investments Limited which is 100% beneficially owned by Mr. Cai Yuan, the chairman and executive director of the Company.

2. These shares are held by Equity Valley Investments Limited which is 100% beneficially owned by Mr. Luk Kin Peter Joseph, the chief executive officer and executive director of the Company.

(b) Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest and short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions in which they were deemed or taken to have under such provisions of the SFO), or which are required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

(c) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Enlarged Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Enlarged Group since 31 December 2005, the date to which the latest published audited financial statements of the Group were made up.

(d) As at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Enlarged Group subsisting as at date of this circular.

(e) As at the Latest Practicable Date, none of the Directors or their respective associates was interested in any business apart from the business of the Group, which competed or was likely to compete, either directly or indirectly, with that of the Group.

## 4. SUBSTANTIAL SHAREHOLDERS' INTEREST

As at the Latest Practicable Date, so far as is known to the Directors, the following persons, other than a director or chief executive of the Company, had an interest or short position in the shares and underlying shares 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, or were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Enlarged Group:

**Long position in shares in the capital of the Company**

| Name of Shareholder | Capacity | Number of shares in the capital of the Company | Approximate % of shareholding in the Company |
|---|---|---|---|
| Greater Increase Investments Limited | Beneficial owner | 500,000,000 *(Note 1)* | 20.23% |
| Equity Valley Investments Limited | Beneficial owner | 226,584,000 *(Note 2)* | 9.17% |
| Kwok Ho | Interest in controlled corporation | 300,000,000 *(Note 3)* | 12.14% |
| Kailey Investment Ltd. | Interest in controlled corporation | 300,000,000 *(Note 3)* | 12.14% |
| Chaoda Modern Agriculture (Holdings) Limited | Interest in controlled corporation | 300,000,000 *(Note 3)* | 12.14% |
| Investec Plc | Interest in controlled corporation | 250,000,000 *(Note 4)* | 10.11% |

*Notes:*

1. These shares are held by Greater Increase Investments Limited which is 100% beneficially owned by Mr. Cai Yuan, the chairman and executive director of the Company.

2. These shares are held by Equity Valley Investments Limited which is 100% beneficially owned by Mr. Luk Kin Peter Joseph, the chief executive officer and executive director of the Company.

3. These shares are held by Great Challenge Developments Limited which is 100% beneficially owned by Chaoda Modern Agriculture (Holdings) Limited. Chaoda Modern Agriculture (Holdings) Limited is held as to 30.77% by Kailey Investment Ltd. which is in turn 100% beneficially owned by Mr. Kwok Ho.

4. These shares are held by Investec Bank (UK) Limited, a corporation which is 100% controlled by Investec Plc.

**Long position in the shares of other members of the Enlarged Group**

| Name of shareholder | Name of the company | Capacity | Number of shares in the capital of the Company | Approximate % of shareholding |
|---|---|---|---|---|
| Xinzhou Tianyang | Shanxi Shenli | Beneficial owner | Not applicable | 10% |

Save as disclosed in this circular, so far as is known to the Directors, there is no other person who had an interest or short position in the shares and underlying shares of the Company which could fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, had a direct or indirect interests amounting to 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Enlarged Group.

## 5. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Enlarged Group, within the two years preceding the Latest Practicable Date and are or may be material:

(a) the warrant placing agreement dated 26 November 2004 entered into between the Company and ICEA Capital Limited in relation to the private placing of 300,000,000 unlisted warrants to be issued by the Company at an issue price of HK$0.01 per warrant, each entitling the holder thereof to subscribe in cash for Share at an initial subscription price of HK$0.285, subject to adjustment, at any time for a period of two years commencing from the date of issue of warrants, which has lapsed according to its terms on 31 January 2005;

(b) the recission agreement dated 1 April 2005 entered into between Offspring Investments Limited, a wholly-owned subsidiary of the Company, and China Worldbest Life Industries Company Limited in relation to a conditional agreement dated 5 March 2004 entered into between Offspring Investments

Limited and China Worldbest Life Industries Company Limited in relation to the acquisition of 30% equity interest in Shanghai Worldbest Treeful Pharmaceuticals (Group) Company Limited;

(c) an agreement dated 26 May 2005 entered into between Shanxi Shenli and the Dai County People's Government of Shanxi Province in relation to the transfer of mining rights and assets in relation to the Mine to Shanxi Shenli;

(d) a mining rights premium agreement dated 30 June 2006 entered into between Shanxi Shenli and Xinzhou Bureau of Land and Resources pursuant to which Shanxi Shenli agrees to pay to Xinzhou Bureau Land and Resources the mining rights premium in relation to the Mine in the total sum of RMB67,464,724.8, which will be payable in six instalments;

(e) the Placing Agreement; and

(f) the Formal Acquisition Agreement.

**6. LITIGATION**

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Enlarged Group. As at the Latest Practicable Date, there was no claim in relation to exploration rights made or notified either by third parties against any member of the Enlarged Group or vice versa.

**7. DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

**8. EXPERT AND CONSENT**

(a) The following are the qualifications of the experts who have given opinions and advice which are included in this circular:

| **Name** | **Qualification** |
|---|---|
| Goldbond | a corporation licensed to carry on 1 (dealings in securities), and 6 (advising on corporate finance) regulated activities under SFO |
| Baker Tilly | Certified Public Accountants |
| Behre Dolbear Asia, Inc. | independent technical advisor |
| Greater China Appraisal Limited | professional valuers |
| Guantao Law Firm | PRC legal advisor |

(b) None of Goldbond, Baker Tilly, Behre Dolbear Asia, Inc., Greater China Appraisal Limited and Guantao Law Firm has any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(c) Each of Goldbond, Baker Tilly, Behre Dolbear Asia, Inc., Greater China Appraisal Limited and Guantao Law Firm has given and has not withdrawn its written consent to the issue of this circular, with the inclusion of the references to its name and/or its opinion in the form and context in which they are included.

(d) None of Goldbond, Baker Tilly, Behre Dolbear Asia, Inc., Greater China Appraisal Limited and Guantao Law Firm had any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Enlarged Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Enlarged Group since 31 December 2005, the date to which the latest published audited financial statements of the Group were made up.

## 9. MISCELLANEOUS

(a) The registered office of the Company is located at Clarendon House, Church Street, Hamilton, HM11, Bermuda.

(b) The head office and principal place of business of the Company in Hong Kong is at Suites 3206-3211, 32/F, One International Finance Centre, 1 Harbour View Street, Hong Kong.

(c) The company secretary of the Company is Ms. Olivia Yu. Ms. Olivia Yu is a Certified Public Accountant and a member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants in the United Kingdom.

(d) The branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited, at 46/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(e) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

## 10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the head office and principal place of business of the Company in Hong Kong, Suites 3206-3211, 32/F, One International Finance Centre, 1 Harbour View Street, Hong Kong, up to and including the date of the SGM:

(a) the memorandum of association and bye-laws of the Company;

(b) the consolidated audited financial statements of the Group for the two years ended 31 December 2005;

(c) the auditors' report on the Group for the year ended 31 December 2005, the text of which is set out in Appendix I to this circular;

(d) the accountants' report on Lead Sun, the text of which is set out in Appendix II to this circular;

(e) the accountants' report on Top Rank, the text of which is set out in Appendix III to this circular;

(f) the accountants' report on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix IV to this circular;

(g) the letter and valuation certificate prepared by Greater China Appraisal Limited, the text of which is set out in Appendix V to this circular;

(h) the technical assessment report prepared by Behre Dolbear Asia, Inc., the text of which is set out in Appendix VI to this circular;

(i) the letters of consent referred to under the paragraph headed "Expert and consent" in this appendix;

(j) a copy of the material contract(s) referred to in the paragraph headed "Material contracts" in this appendix; and

(k) the report prepared by Greater China Appraisal Limited referred to in the letter from the Board in this circular.

**INNOMAXX BIOTECHNOLOGY GROUP LIMITED**
**創富生物科技集團有限公司***
*(Incorporated in Bermuda with limited liability)*
**(Stock Code: 00340)**

**NOTICE IS HEREBY GIVEN** that the special general meeting of INNOMAXX Biotechnology Group Limited (the "**Company**") will be held on Wednesday, 25 October 2006 at 3:00 p.m. at The Ballroom, B3, The Ritz Carlton Hong Kong, No. 3 Connaught Road, Central, Hong Kong for the purpose of considering and, if thought fit, passing each of the following resolutions as an ordinary resolution of the Company:

## ORDINARY RESOLUTIONS

1. "**THAT**, conditional upon the passing of the resolution numbered 2 as set out in the notice convening this meeting, the authorised share capital of the Company be and is hereby increased from HK$400,000,000.00 to HK$1,000,000,000.00 by the creation of 6,000,000,000 shares of HK$0.10 each in the capital of the Company."

2. "**THAT**

   (a) the conditional agreement dated 12 July 2006 (the "**Formal Acquisition Agreement**") entered into between, amongst others, AIM Elite Limited, Long Cheer Group Limited, Fit Plus Limited and See Good Group Limited (collectively the "**Vendors**") and the Company in relation to the acquisition of 57% of the issued share capital of and outstanding debts due from Lead Sun Investments Limited to the Vendors (a copy of which has been produced to the meeting and marked "A" and initialed by the Chairman of the meeting for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed;

   (b) the transfer of the entire issued share capital of INNOMAXX Property (B.V.I.) Limited to AIM Elite Limited by the Company as part payment of the consideration under the Formal Acquisition Agreement be and is hereby approved;

   (c) the issue of the Consideration Shares (as defined in the circular of the Company dated 9 October 2006, a copy of which has been produced to the meeting and marked "B" and initialed by the Chairman of the meeting for the purpose of identification) on and subject to the terms of the Formal Acquisition Agreement as part payment of the consideration under the Formal Acquisition Agreement be and is hereby approved; and

* *For identification purpose only*

(d) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is/are hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him to be incidental to, ancillary to or in connection with the matters contemplated in the Formal Acquisition Agreement and completion thereof."

3. "**THAT**

(a) the conditional agreement dated 7 July 2006 (the "**Placing Agreement**") entered into between the Company and Goldbond Securities Limited in relation to the placing of shares in the capital of the Company (a copy of which has been produced to the meeting and marked "C" and initialed by the Chairman of the meeting for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed;

(b) the issue of the Placing Shares and the Over-allotment Shares (both as defined in the circular of the Company dated 9 October 2006) on and subject to the terms of the Placing Agreement be and is hereby approved; and

(c) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is/are hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him to be incidental to, ancillary to or in connection with the matters contemplated in the Placing Agreement and completion thereof."

By Order of the Board of
**INNOMAXX Biotechnology Group Limited**
**Olivia Yu**
*Company Secretary*

Hong Kong, 9 October 2006

*Registered Office:*
Clarendon House
Church Street
Hamilton HM 11
Bermuda

*Notes:*

(1) A member entitled to attend and vote at the above meeting may appoint a proxy to attend and, on a poll vote on his behalf and such proxy need not be a member of the Company. A form of proxy for use at the meeting is enclosed.

(2) A form of proxy in respect of the meeting is enclosed. If you are not able to attend the meeting in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon.

(3) In order to be valid, the form of proxy, together with any power of attorney or authority under which it is signed or a notarially certified copy of that power of attorney or authority, must be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, 46/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

(4) Where there are joint holders of a share of the Company, any one of such holders may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitle thereto, but if more than one of such holders are present at the meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose, seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding. Several executors or administrators of a deceased member in whose name any share stands shall for this purpose be deemed joint holders thereof.

(5) Resolutions numbered 1, 2 and 3 shall be voted by way of poll by the Independent Shareholders (as defined in the circular of the Company dated 9 October 2006).

*As at the date hereof, the Board of the Company comprises Mr. Cai Yuan and Mr. Luk Kin Peter Joseph as executive Directors and Dr. Tang Tin Sek, Mr. Lee Kwan Hung and Mr. Poon Chiu Kwok as independent non-executive Directors.*