



INNOMAXX

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

Interim Report 2006

** For identification purpose only*

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Cai Yuan (*Chairman*)

Luk Kin Peter Joseph (*Deputy
Chairman & Chief Executive Officer*)

Independent Non-Executive Directors

Tang Tin Sek

Lee Kwan Hung

Poon Chiu Kwok

AUDIT COMMITTEE

Tang Tin Sek (*Chairman*)

Lee Kwan Hung

Poon Chiu Kwok

REMUNERATION COMMITTEE

Lee Kwan Hung (*Chairman*)

Tang Tin Sek

Poon Chiu Kwok

Luk Kin Peter Joseph

COMPANY SECRETARY/ QUALIFIED ACCOUNTANT

Yu Oi Kee

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suite 3206-3211, 32nd Floor

One International Finance Centre

1 Harbour View Street

Central

Hong Kong

REGISTERED OFFICE

Clarendon House

Church Street

Hamilton HM11

Bermuda

PRINCIPAL SHARE REGISTRAR

Butterfield Fund Services (Bermuda)
Limited

Rosebank Centre

11 Bermudiana Road

Pembroke

Bermuda

HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor
Services Limited

46th Floor, Hopewell Centre

183 Queen's Road East

Hong Kong

AUDITORS

Deloitte Touche Tohmatsu

PRINCIPAL BANKERS

Bank of Communications,

Hong Kong Branch

CITIC Ka Wah Bank Limited

Industrial and Commercial Bank of

China (Asia) Limited

The Hongkong and Shanghai Banking

Corporation Limited

STOCK CODE

00340

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS REVIEW

During the period under review, the Group reported a consolidated turnover of HK\$129,603,000 (2005: HK\$154,288,000) for the six months ended 30 June 2006, representing a decrease of 16% over the corresponding period in 2005. The Group's unaudited profit attributable to shareholders amounted to HK\$3,217,000 (2005: loss of HK\$6,466,000).

BUSINESS REVIEW

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. During the period under review, 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. In line with the redefined corporate strategy, the Group had resolved to discontinue the businesses of the international trade and trading of investments in the second half of the year.

Umbilical Cord Blood Storage

With the continuation of dynamic economic growth and the increased competitiveness of the business, the turnover for the umbilical cord blood storage services amounted to HK\$8,692,000 (2005: HK\$7,401,000), an increase of 17% in comparison with the corresponding period last year. Currently, we have more than 6,000 clients and the business is in the process of expansion.

CryoLIFE is a registered trade mark of the cord blood banking operation of the business. It offers expectant parents an once-in-a-lifetime opportunity to collect and store their newborn's umbilical cord blood for potential life-saving use in the future.

Due to the increasing awareness of biological insurance in the ever-improving technology and medical environment, the business is expected to grow time by time. Regardless of the intense competition, the business has its competitive advantages. It was established in 1996 and has more than ten year's experience in cord blood banking. It is the first and the largest cord blood banking centre as well as the largest market share of the industry in Hong Kong and Macau. In order for a better business development, we joined "Asian Cord Blood Bank Consortium" to share the business experiences within the Asian market. The professional consultants and clinical professional consultants ensure the quality and application of cord blood to perform regulatory function. Likewise, the

group has recently spent couple of millions in the project of improving Storage Laboratory which includes adopting the latest and the first ever in Hong Kong – “Planner Assure 24 seven Monitoring System”, a system that monitors the laboratory from all ends to ensure the umbilical cord blood is in quality. With the above factors, we are considered to be the leader in this market.

Investment

The Group holds an investment property, being Level 2, GITIC Plaza, 339 Huanshi Road East, Guangzhou, Guangdong Province, PRC (the “GITIC Plaza”). During the period, the rental income generated from GITIC Plaza and the occupation rate remained satisfactory, a total income of HK\$4,496,000 was recorded for the period (2005: HK\$4,364,000).

Subject to the completion of the formal sale and purchase agreement (“Formal Acquisition Agreement”) to acquire 57% equity interests (the “Acquisition”) in Lead Sun Investments Limited (“Lead Sun”), partial consideration of which will be satisfied by the transfer of the entire issued share capital of a subsidiary which ultimately owns 100% interests of the GITIC Plaza. According to an independent valuation by the independent valuer, the valuation of the property as at 30 June 2006 amounted to RMB142,000,000 (equivalent to about HK\$137,864,000), which represents an increase in fair value of investment properties.

During the period under review, the Group invested in some listed securities. In line with the redefined corporate strategy, the Group had decided to discontinue this business in the second half of the year.

International Trade

Due to low profit margin for the trading of pharmaceutical ingredients and chemicals, the Group had decided to discontinue the trading business in the second half of the year.

PROSPECT

Looking ahead, the Group continues to be dynamic and strive for strategic acquisitions, which can enhance the performance of the Group.

In view of the sustainable economic growth in China over the couple of years, the development is heavily dependent on sufficient source of natural resource and energy. To capture the opportunities and the unprecedented growth in China, the Group entered into the Formal Acquisition Agreement on 12 July 2006 to acquire 57% equity interests in Lead Sun which is principally engaged in rutile related business. Rutile is the raw material for titanium tetrachloride and titanium sponge. Titanium has a wide range of applications including aerospace, military, and industrial and consumer products such as eye glasses, golf club and ski equipments. Given the continued increase in the demand and applications of titanium, upon the completion of the Acquisition, we are confident that we can expect a reasonable return to shareholders in the future.

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

As at 30 June 2006, the Group had total assets and net assets amounted to HK\$301,876,000 (31 December 2005: HK\$297,041,000) and HK\$231,764,000 (31 December 2005: HK\$227,427,000) respectively. The current ratio remained at 4. The bank balances, cash and pledged deposits amounted to approximately HK\$99,824,000 (31 December 2005: bank balances and cash, pledged deposits and investments held for trading amounted to HK\$99,536,000), of which most of them were denominated in Hong Kong dollars. The Group had total borrowings of HK\$30,910,000 (31 December 2005: HK\$33,027,000) which were all interest bearing loans. The gearing ratio, as a ratio of total borrowings to shareholders' fund was 13.3% (31 December 2005: 14.5%). Pursuant to the terms of the Formal Acquisition Agreement, the Group shall procure that the principal amount with interests accrued thereon pursuant to a term loan facility, shall be repaid in full. Upon the completion of the Acquisition, the Group will be released from all its obligations in respect of any mortgages or guarantees of the bank borrowing.

Exposure of Foreign Exchange Fluctuations

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.

Charges on Assets

At the balance sheet date, the Group had pledged the investment properties, the receivable in amount of approximately HK\$29,425,000 (31 December 2005: HK\$28,299,000) from Guangdong International Building Enterprises Company Limited, bank deposits of HK\$16,644,000 (31 December 2005: HK\$13,511,000 of deposits in bank and financial institutions) and certain unlisted securities for secured bank loan, which was denominated in Hong Kong dollars and carried interest rate at 2.65% above HIBOR, amounted to HK\$30,910,000 (31 December 2005: HK\$33,027,000) and credit facilities granted to the Group. Subject to the completion of the Acquisition, the Group will be released from all the above obligations.

Contingent Liabilities

The Group did not have any material contingent liabilities as at 30 June 2006.

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

There were no material acquisitions or disposals of subsidiaries and associated companies during the period.

Human Resources

As at 30 June 2006, the Group had 30 and 7 employees in Hong Kong and the Mainland China 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, performance bonus and share option scheme.

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2006

		Six months ended 30 June	
		2006 (Unaudited) <i>HK\$'000</i>	2005 (Unaudited) <i>HK\$'000</i>
	<i>Notes</i>		
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)
		<i>HK cents</i>	<i>HK cents</i>
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
		<u>157,041</u>	<u>143,799</u>
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
		<u>144,835</u>	<u>153,242</u>
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
		<u>36,837</u>	<u>34,339</u>
Net current assets		<u>107,998</u>	<u>118,903</u>
Total assets less current liabilities		<u>265,039</u>	<u>262,702</u>
Non-current liabilities			
Secured bank borrowings – amount due after one year	12	26,910	28,910
Deferred taxation		6,365	6,365
		<u>33,275</u>	<u>35,275</u>
Net assets		<u>231,764</u>	<u>227,427</u>
Capital and reserves			
Share capital	13	247,181	246,481
Reserves		(15,417)	(19,054)
Total equity attributable to equity holders of the parent		<u>231,764</u>	<u>227,427</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2006

	Attributable to equity holders of the parent					Total HK\$'000
	Share Capital HK\$'000	Share Premium HK\$'000	Contributed Surplus HK\$'000	Share Option Reserve HK\$'000	Accumulated losses 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	<u>246,481</u>	<u>177,179</u>	<u>152,150</u>	<u>-</u>	<u>(302,022)</u>	<u>273,788</u>
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	<u>247,181</u>	<u>177,599</u>	<u>152,150</u>	<u>2,373</u>	<u>(347,539)</u>	<u>231,764</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2006

	Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) 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)
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(577)	(4,377)
Cash and cash equivalents at 1 January	83,757	61,416
	<hr/>	<hr/>
Cash and cash equivalents at 30 June	83,180	57,039
	<hr/>	<hr/>
Analysis of the balances of cash and cash equivalents	83,180	57,039
	<hr/>	<hr/>

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 HK\$'000	Processing and storage of cord blood HK\$'000	Trading of Investments HK\$'000	Trading of pharmaceutical ingredients and chemicals HK\$'000	Total 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 HK\$'000	Processing and storage of cord blood HK\$'000	Trading of investments HK\$'000	Trading of pharmaceutical ingredients and chemicals HK\$'000	Total 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 HK\$'000	Operating Results HK\$'000
<i>For the period ended 30 June 2006</i>		
Hong Kong	125,107	(4,492)
The PRC	4,496	15,764
	<u>129,603</u>	<u>11,272</u>
<i>For the period ended 30 June 2005</i>		
Hong Kong	149,924	1,233
The PRC	4,364	2,373
	<u>154,288</u>	<u>3,606</u>

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
	<u>1,582</u>	<u>736</u>

5. TAXATION

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
PRC Enterprise Income Tax	<u>300</u>	<u>290</u>

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)
	<u>3,086</u>	<u>2,796</u>
Interest income	1,291	361
Net gain from disposal of investments held for trading	–	345
	<u>–</u>	<u>345</u>

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
	<u>44,482</u>	<u>53,331</u>

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
	<u>10,689</u>	<u>7,551</u>

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
	<u>4,656</u>	<u>7,751</u>

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
	<u>365</u>	<u>980</u>

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	<u>4,000,000,000</u>	<u>400,000</u>
Issued and fully paid:		
At 1 January 2006	2,464,812,853	246,481
Issue of new shares on exercise of share options	<u>7,000,000</u>	<u>700</u>
At 30 June 2006	<u>2,471,812,853</u>	<u>247,181</u>

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	<u>29,425</u>	<u>28,299</u>

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.

CORPORATE GOVERNANCE

The Company is committed to comply with established best practice in corporate governance and is in line with those practices as set out in the Company's 2005 Annual Report. The Board believes that good corporate governance is crucial to enhance the performance of the Group and to safeguard the interests of the shareholders.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2006, except for the deviation from the Code Provision A.4.1 in respect of the service term of Directors. Under the code provision A.4.1, non-executive Directors should be appointed for a specific term, subject to re-election. Two of the independent non-executive directors were not appointed for a specific term. However, all the Directors (executive and non-executive) are subject to the retirement by rotation at each annual general meeting under the Bye-laws of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company has good corporate governance practices.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. Upon specific enquiries, all Directors confirmed they have complied with the required standard set out in the Model Code during the six months ended 30 June 2006.

BOARD OF DIRECTORS

The Board is responsible for the formulation of the Group's business strategies and management objective, supervision of the management and evaluation of the effectiveness of management strategies. Implementation of strategies and day-to-day operations are delegated to the management. In order to better understand the respective accountabilities and contributions of the Executive Committee and management, the Company has adopted a written terms of reference specifying a schedule of matters which should be reserved to the Board and which should be delegated to management.

AUDIT COMMITTEE

The Audit Committee is composed of three Independent Non-executive Directors. They are responsible for ensuring the quality and integrity of internal control, conducting review of the Group's accounting principles and practices, risk management and the Group's interim and annual accounts.

REMUNERATION COMMITTEE

The Remuneration Committee is composed of one Executive Director and three independent Non-executive Directors. The principal responsibilities of the Remuneration Committee are to make recommendations to the Board on the overall remuneration policy, remuneration packages for the Directors and members of the senior management and on the establishment of a formal and transparent process for approving such remuneration policy.

DISCLOSURE OF INTERESTS

Directors Interests in Shares and Underlying Shares

As at 30 June 2006, the interests and short positions of the directors in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)), as recorded in the register maintained by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Interest in shares of the Company (long position):

Name of director	Capacity	Number of shares	Approximate percentage of issued share capital
Cai Yuan	Beneficial owner and interest in controlled corporation	500,000,000 ⁽¹⁾ 8,650,000 ⁽³⁾	20.23% 0.35%
Luk Kin Peter Joseph	Beneficial owner and interest in controlled corporation	226,584,000 ⁽²⁾ 8,650,000 ⁽³⁾	9.17% 0.35%
Tang Tin Sek	Beneficial owner	300,000	0.01%

Other than as disclosed above, none of the directors and their associates had any interests or short positions in any shares, underlying shares of the Company or any of its associated corporations as at 30 June 2006.

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 Group.
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 Group.
3. These are options granted under the Share Option Scheme of the Company adopted on 26 June 2002. Details are set out in “Share Option Schemes” below.

Arrangements to Purchase Shares or Debentures

Other than as disclosed in "Share Option Schemes" below, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Substantial Shareholders' Interest

As at 30 June 2006, the register of substantial shareholders required to be kept under Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

Name of shareholder	Capacity	Number of shares	Approximate percentage of issued share capital
Greater Increase Investments Limited ("Greater Increase") (Note 1)	Corporate interest	500,000,000 ⁽¹⁾	20.23%
Equity Valley Investments Limited ("Equity Valley") (Note 2)	Corporate interest	226,584,000 ⁽²⁾	9.17%

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 Group.
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 Group.

Save as disclosed above, the register required to be kept under Section 336 of the SFO showed that the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company as at 30 June 2006.

Share Options Schemes

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.

At the beginning of the period, there were no outstanding share options under the Old Share Option Scheme.

New Share Option Scheme

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

Type of participant	Date of grant	Exercisable period	Exercise price per share HK\$	Number of Share Options		
				Outstanding at 1.1.2006	Exercised during the period	Outstanding as at 30.06.2006
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	7,000,000	188,000
				<u>24,488,000</u>	<u>7,000,000</u>	<u>17,488,000</u>

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its securities during the six months ended 30 June 2006. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's securities during the period.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and policies adopted by the Group and the unaudited interim financial statements for the six months ended 30 June 2006.

By Order of the Board
Cai Yuan
Chairman

Hong Kong, 26 September 2006