



China Mining Resources Group Limited 中國礦業資源集團有限公司*

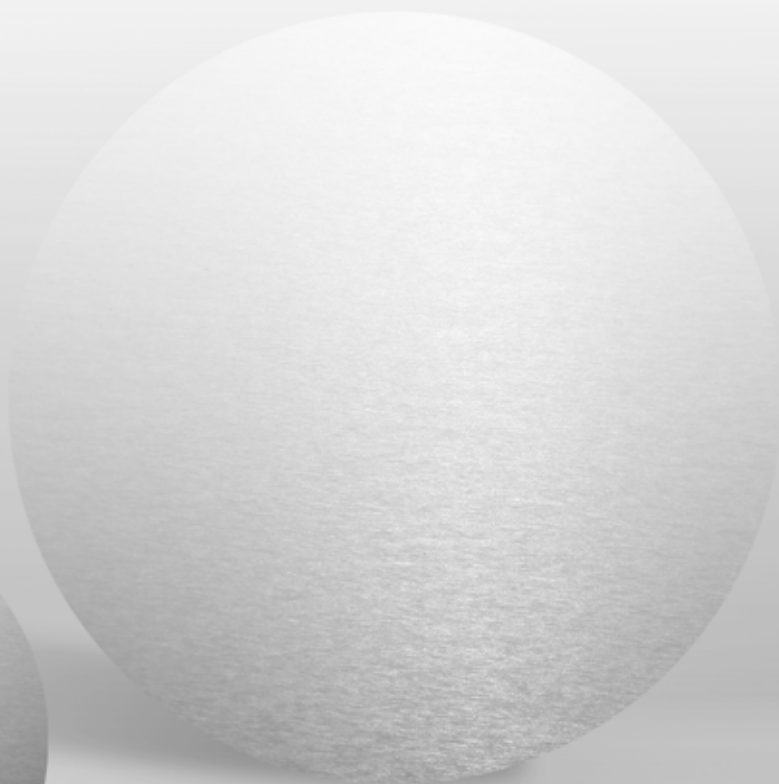
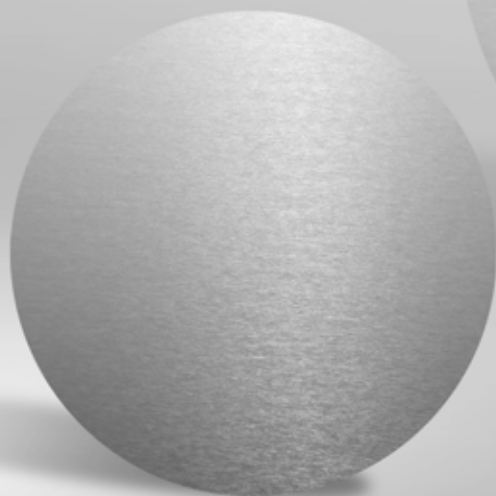
(formerly known as INNOMAXX Biotechnology Group Limited)
(Incorporated in Bermuda with limited liability) (Stock Code: 340)

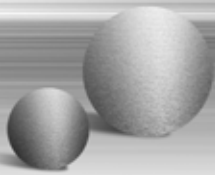
2006 Annual Report

*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*)

Yeung Kwok Kuen (*Chief Financial Officer*)

Non-Executive Director

Lam Ming Yung

Independent Non-Executive Directors

Tang Tin Sek

Chan Siu Tat

Wong Hon Sum

COMPANY SECRETARY

Cheng Sau Man

QUALIFIED ACCOUNTANT

Yeung Kwok Kuen

REGISTERED OFFICE

Clarendon House

Church Street

Hamilton HM11

Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suite 3206-3211, 32nd Floor

One International Finance Centre

1 Harbour View Street

Central

Hong Kong

AUDITORS

KPMG

8th Floor, Prince's Building

10 Chater Road

Central

Hong Kong

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

18th Floor, Hopewell Centre

183 Queen's Road East

Hong Kong

PRINCIPAL BANKERS

Industrial and Commercial Bank of

China (Asia) Limited

The Hongkong and Shanghai Banking

Corporation Limited

Hang Seng Bank

STOCK CODE

00340



REPORT FROM THE CHIEF EXECUTIVE OFFICER

REVIEW

For the year under review, the Group reported a consolidated turnover of HK\$17,366,000 (2005: HK\$15,634,000) and gross profit of HK\$9,306,000 (2005: HK\$8,587,000) from continuing operations, representing an increase of 11% and 8% respectively as compared with last year. In line with the redefined corporate strategy on high-value added products, the trading activities and property investment operation were discontinued during the year and the profit from discontinued operations attributable to the Group amounted to HK\$10,950,000 (2005: loss of HK\$29,991,000). The Group performed an impairment review for goodwill which is allocated to the processing and storage of cord blood business. Due to the fact that there were new competitors entered into the market in recent years, an impairment loss of HK\$7,400,000 was made during the year. The Group's loss attributable to shareholders was HK\$8,244,000 (2005: HK\$55,200,000).

Continuing Operations

Rutile Mining

The Group commenced its business in mining since November 2006 upon the acquisition of 57% of Lead Sun Investments Limited and its subsidiaries ("Lead Sun Group"). Lead Sun Group is principally engaged in exploration and exploitation of natural rutile and processing and trading of rutile and titanium related products. The rutile mine covering an area of two square kilometers with an estimated exploration potential of approximately 1.9 million tonnes and plans to develop an annual production capacity of 21,400 tonnes of rutile concentrate. The Group also plans to build a facility to produce titanium tetrachloride and titanium sponge from rutile concentrate. The rutile mine is under construction and did not generate revenue to the Group during the year.

Umbilical Cord Blood Storage

During the year, revenue from the umbilical cord blood storage service amounted to HK\$17,366,000 (2005: HK\$15,634,000), with an increase of 11%.

Discontinued Operations

Investment

The rental income generated from GITIC Plaza was HK\$7,796,000 for the ten months (2005: HK\$8,684,000). Upon the completion of the transfer of the entire issued share capital of a subsidiary which ultimately owns 100% interest of the GITIC Plaza as partial consideration for the acquisition of Lead Sun Group, the Group's property investment operation was discontinued in November 2006.

During the year under review, the Group invested in some listed securities. In line with the redefined corporate strategy, the trading of investment was discontinued during the year.

International Trade

Due to the low profit margin for the trading of pharmaceutical ingredients and chemicals and other miscellaneous products, the Group also discontinued the trading business during the year.

PROSPECTS

In view of the sustaining reliance on the sufficient sources of natural resources for the development of China over the couple of years. The Group had acquired 57% of equity interest in Lead Sun Group 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. Given the continuing increase in the demand and application of titanium, we are confident that the investment will produce considerable return to the Group in the future.

Apart from the aforesaid acquisition of Lead Sun Group, the rutile operation, the Group continue to strive for strategic acquisition and had entered into an acquisition agreement to acquire a 75.08% equity interest in Harbin Songjiang Copper (Group) Company Limited ("Harbin Songjiang"), a PRC-based company which specializes in mining and processing of molybdenum, copper and zinc, as announced on 11 March 2007.



REPORT FROM THE CHIEF EXECUTIVE OFFICER

PROSPECTS *(CONTINUED)*

The completion of the acquisition of Harbin Songjiang will provide the Group with an immediate stream of revenue and brings in a team of experts in the mining industry which will strengthen our operational capabilities in mining activities.

The Group will be continuously searching for other opportunity to build a portfolio of strong mining businesses with an emphasis on high value added products. This is crucial for the Group's transformation into a substantial participant and ultimately a leading player in the mining sector.

Liquidity, Financial Resources and Capital Structure

As at 31 December 2006, the Group had total assets and net assets amounted to HK\$2,172,179,000 (2005: HK\$297,041,000) and HK\$1,932,420,000 (2005: HK\$227,427,000) respectively. The current ratio was 2.2, as compared to 4.5 as of last year end. The Group had bank balances and cash, amounted to HK\$449,087,000 (2005: bank balance, cash and pledged deposits amounted to HK\$97,268,000), of which most of them were denominated in Hong Kong dollars. The Group had a total borrowing from minority shareholders of HK\$150,500,000 as at the balance sheet date and the total bank borrowing of HK\$32,910,000 as of last year end were fully repaid during the year. The gearing ratio, as a ratio of total borrowings to shareholders' fund was 13.4% (2005: 14.5%). As part of the Group's assets and liabilities are denominated in Renminbi, in order to minimize the foreign currency risk, the Group aims to utilize the fund for transactions that are denominated in the same currency.

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

Save as disclosed above for the acquisition of Lead Sun Group, disposal of a subsidiary which ultimately owns 100% of interests in GITIC Plaza as part of the consideration for acquiring Lead Sun Group which has been completed during the year, and other discontinued businesses, there were no material acquisitions or disposals of subsidiaries during the year.

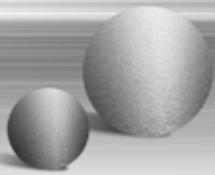
Human Resources

As at 31 December 2006, the Group had 33 and 28 employees in Hong Kong and 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 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.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its securities during the year ended 31 December 2006. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's securities during the year.



REPORT FROM THE CHIEF EXECUTIVE OFFICER

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES OF THE LISTING RULES

Throughout the year ended 31 December 2006, the Company has applied the principles of the Code on Corporate Governance Practices (the "Code") as set out in the Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and complied with all the applicable code provision of the Code, except for the deviation from the Code Provision A.4.1 as two of the independent non-executive directors were not appointed for a specific term but are subject to retirement by rotation in accordance with the Bye-laws of the Company.

AUDIT COMMITTEE

As at the date of this announcement, the audit committee of the Company comprises Dr. Tang Tin Sek, Mr. Chan Siu Tat and Mr. Wong Hon Sum, all of them are independent non-executive directors. The consolidated financial statements of the Group for the year ended 31 December 2006 have been reviewed by the audit committee.

APPRECIATION

On behalf of the Board, I would take this opportunity to express my appreciation to the continuous support of our shareholders and hard work and dedication of all our staff over the past year.

By Order of the Board
China Mining Resources Group Limited

Luk Kin Peter Joseph
Deputy Chairman & Chief Executive Officer

Hong Kong, 10 April 2007



BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

CAI Yuan

Mr. Cai, aged 42, was appointed as an executive director of the Company on 2 August 2005 and was elected as Chairman of the board of directors of the Company (the "Board") on 28 November 2005. Mr. Cai holds a Master Degree in Philosophy from the Xiamen University. Mr. Cai has worked in the provincial government of PRC on macro-economic management and also as senior management in some large enterprises in PRC.

Mr. Cai is the director and beneficial owner of Greater Increase Investments Limited, a substantial shareholder of the Company. As at the date hereof, pursuant to Part XV of the Securities and Futures Ordinance (Cap.571 of the Laws of Hong Kong) (The "SFO"), Mr. Cai is a substantial shareholder of the Company and is beneficially interested in 508,650,000 shares of the Company, representing approximately 10.77% of the issued share capital of the Company as at the date hereof.

Mr. Cai is also a director of the subsidiaries of the Company.

LUK Kin Peter Joseph

Mr. Luk, aged 36, was appointed as an executive director of the Company on 2 August 2005. Mr. Luk was also appointed as the Chief Executive Officer of the Company and Deputy Chairman of the Board on 28 November 2005. Mr. Luk holds a Master Degree in Business Administration and the professional qualification of Chartered Financial Analyst. Mr. Luk has worked in several international financial institutions and he is well-experienced in international financial and investment management.

Mr. Luk is the director and beneficial owner of Equity Valley Investments Limited, a shareholder of the Company. As at the date thereof and pursuant to Part XV of the SFO, Mr. Luk is beneficially interested in 235,234,000 shares of the Company, representing approximately 4.98% of the issued share capital of the Company as at the date hereof.

Mr. Luk is also a director of the subsidiaries of the Company.

YEUNG Kwok Kuen

Mr. Yeung, aged 34, has been appointed executive director and authorised representative of the Company under Rule 3.05 of the Listing Rules and for accepting service of process and notices on behalf of the Company under Part XI of the Companies Ordinance with effect from 17 January 2007. Mr. Yeung is also the qualified accountant of the Company. Mr. Yeung graduated from the Chinese University of Hong Kong with a bachelor degree in professional accountancy. He is a fellow of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. Mr. Yeung has over ten years of experience in handling accounting and finance matters. From 2004 to 2006, Mr. Yeung was the chief financial officer of a trading and manufacturing group and prior to this, Mr. Yeung was the manager of an international accounting firm.

NON-EXECUTIVE DIRECTOR

LAM Ming Yung

Mr. Lam, aged 42, has been appointed as an independent non-executive director of the Company effective on 8 January 2007 and has been re-designated to a non-executive director of the Company on 8 February 2007. Mr. Lam graduated from the School of Law of Shanghai Eastern Chinese College of Politics and Jurisprudence in 1986 and was awarded the degree in Bachelor of Law. Mr. Lam started practicing law in 1987 in Fujian Province in the PRC, and moved to Hong Kong in mid-1993. He was registered as a foreign lawyer with the Law Society of Hong Kong in 1995, and is now practicing as a Chief PRC Consultant Corporate Finance in the Hong Kong office of Sidley Austin. Mr. Lam is also an independent non-executive director of China Agrotech Holdings Limited and Hualing Holdings Limited, both being companies listed on the Stock Exchange.



BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

TANG Tin Sek

Dr. Tang, aged 48, was appointed as an independent non-executive director of the Company in May 2000. Dr. Tang is a Certified Public Accountant and a partner of Terence Tang & Partners. He is a member of the Institute of Chartered Accountants in Australia, the Chinese Institute of Certified Public Accountants in China and the Association of Chartered Certified Accountants in the United Kingdom. Dr. Tang holds a Bachelor of Science Degree from the University of Hong Kong, a Master of Business Administration Degree from the University of Sydney, Australia and a Doctor of Accountancy Degree from the Hong Kong Polytechnic University. Dr. Tang is also an independent non-executive director of CEC International Holdings Ltd., Frankie Dominion International Ltd., New Smart Energy Group Ltd., Sinofert Holdings Ltd. and Interchina Holdings Company Limited, all of them are public listed companies in Hong Kong.

Dr. Tang is beneficially interested in 100,000 shares of the Company, representing approximately 0.01% of the issued share capital of the Company as at the date hereof.

CHAN Siu Tat

Mr. Chan, aged 36, graduated from The Hong Kong University of Science and Technology with a major in Accounting. He is an associate member of Hong Kong Institute of Certified Public Accountants and a fellow member of The Association Chartered of Certified Accountants. Mr. Chan was an executive director and chief financial officer of the China Fire Safety Enterprise Group Limited and responsible for treasury and financial planning from April 2002 to August 2006. Mr. Chan was the financial controller of a trading and manufacturing group, in which he was also a deputy general manager of its manufacturing base in the People's Republic of China. Prior to working in corporations, Mr. Chan had around five years of auditing experience with an international accountants firm.

WONG Hon Sum

Mr. Wong, aged 48. He is a Certified Public Accountant in Hong Kong. He has over twenty years of experience in the field of audit, accountancy, finance, taxation and business advisory. Mr. Wong is a fellow member of the Association of Chartered Certified Accountants, Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong. He is also a member of the Hong Kong Securities Institute. Mr. Wong is an independent non-executive director of Interchina Holdings Company Limited, a company listed on the Stock Exchange, since May 2000.

SENIOR MANAGEMENT

CHENG Sau Man

Ms. Cheng has been appointed the company secretary of the Company with effect from 17 January 2007. Ms. Cheng, aged 33, graduated from the Hong Kong University of Science & Technology with a bachelor degree in Business Administration in Accounting. Ms. Cheng is an associate of Hong Kong Institute of Certified Public Accountants and a fellow of Association of the Chartered Certified Accountants. She has nine years of experience in handling auditing and accounting matters and she has been working for an international accounting firm before joining the Company.



CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company has a policy of seeking to comply with established best practice in corporate governance. The Board believes that good corporate governance is crucial to improve the efficiency and performance of the Group and to safeguard the interests of the shareholders. For the year ended 31 December 2006, the Company has applied the principles of the Code as set out in Appendix 14 of the Listing Rules and complied with all the applicable code provisions of the Code, except for the deviation from the Code Provision A.4.1 as two of the independent non-executive directors were not appointed for a specific term, the reason being that such directors are subject to 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 the Company has good corporate governance practices.

DIRECTORS' 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. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the year ended 31 December 2006, and they all confirmed that they had fully complied with the required standard set out in the Model Code.

BOARD OF DIRECTORS

Composition

Directors of the Company (the "Directors") during the year and up to the date of this report are as follows:

Executive Directors:

Cai Yuan, *Chairman*

Luk Kin Peter Joseph,

Deputy Chairman and Chief Executive Officer

Yeung Kwok Kuen

(appointed on 17 January 2007)

Chief Financial Officer

Non-executive director:

Lam Ming Yung

(appointed on 8 January 2007 as independent non-executive Director and re-designated as non-executive Director on 8 February 2007)

Independent Non-executive Directors:

Tang Tin Sek

Lee Kwan Hung

(resigned on 7 February 2007)

Poon Chiu Kwok

(appointed on 24 February 2006 and resigned on 8 November 2006)

Chan Siu Tat

(appointed on 17 November 2006)

Wong Hon Sum

(appointed on 8 January 2007)

There is no relationship between members of the Board.

BOARD OF DIRECTORS *(CONTINUED)*

During the year, Mr. Poon Chiu Kwok resigned as an independent non-executive Director and members of both of the audit committee and remuneration committee of the Board on 8 November 2006. The casual vacancies were filled on 17 November 2006. Accordingly, for the period from 8 November 2006 to 16 November 2006, there were only two independent non-executive Directors appointed to the Board and therefore the Company could not strictly comply with Rules 3.10(1) and 3.21 of the Listing Rules. However, such non-compliance was remedied by the appointment of Mr. Chan Siu Tat as an independent non-executive Director and as members of both of the audit committee and remuneration committee of the Board on 17 November 2006 to fill the said casual vacancies. During the year ended 31 December 2006, the Board had at all times at least one independent non-executive director who has appropriate professional qualifications or accounting or related financial management expertise.

The principal roles of the Board are to oversee the strategic development, to determine the objectives, strategies and policies of the Group, to monitor and control the financial performance and to ensure effective internal controls and risk management. 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 Board and management, the Company has adopted written terms of reference specifying a schedule of matters which should be reserved to the Board and which should be delegated to management.

During the year, a total of nine full board meetings were held and the attendance records are as follows:

Name of Director	Number of Board Meetings Attended	Attendance Rate
Cai Yuan	9/9	100%
Luk Kin Peter Joseph	9/9	100%
Tang Tin Sek	9/9	100%
Lee Kwan Hung	8/9	89%
Chan Siu Tat	4/4	100%
Poon Chiu Kwok	4/4	100%

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Cai Yuan and Mr. Luk Kin Peter Joseph were appointed as the Chairman and Chief Executive Officer of the Company respectively on 28 November 2005.

The roles of Chairman and Chief Executive Officer are clearly defined by written terms of reference adopted by the Company in order to ensure a balance of power and authority, so that power is not concentrated in any one individual.

NON-EXECUTIVE DIRECTORS

All the independent non-executive Directors were appointed for an initial term of one year, except Dr. Tang Tin Sek and Mr. Lee Kwan Hung, the reason being that such directors are subject to 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. All Directors appointed during the year are subject to re-election by shareholders at the next annual general meeting after their appointment and every Director (including those appointed for a specific term) is subject to retirement by rotation at least once every three years in accordance with the Bye-laws of the Company.

REMUNERATION OF DIRECTORS

The Company established the Remuneration Committee in 2005. The current members of the Remuneration Committee are:

Tang Tin Sek, *Independent Non-executive Director*

Luk Kin Peter Joseph, *Executive Director*

Chan Siu Tat, *Independent Non-executive Director, Chairman of the Remuneration Committee*

Wong Hon Sum, *Independent Non-executive Director*

The Remuneration Committee has adopted terms of reference which are in line with the Code. A copy of the terms of reference is posted on the Company's website.

The Remuneration Committee is primarily responsible for the following duties:

1. To make recommendations to the board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;
2. To consult the chairman of the Board and/or the chief executive officer about their proposals relating to the remuneration of other executive directors and senior management;
3. To have the delegated responsibility to determine the specific remuneration packages of all executive directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive directors;
4. To review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;
5. To review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;
6. To review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;
7. To ensure that no director or any of his associates is involved in deciding his own remuneration; and
8. To deal with any other matters delegated by the Board.

REMUNERATION OF DIRECTORS (CONTINUED)

The Remuneration Committee met three times during the year to review the remuneration policy and remuneration packages of the executive Directors and members of the senior management, and approve the service contracts of the executive Directors.

Individual attendance of each member of the Committee is set out below:

Name of Member	Number of Remuneration Committee Meetings Attended	Attendance Rate
Lee Kwan Hung (Resigned as member of the Remuneration Committee on 7 February 2007)	3/3	100%
Tang Tin Sek	3/3	100%
Luk Kin Peter Joseph	3/3	100%
Poon Chiu Kwok (Appointed as member of the Remuneration Committee on 28 March 2006 and resigned as member of the Remuneration Committee on 8 November 2006)	1/1	100%
Chan Siu Tat (Appointed as member of the Remuneration Committee on 17 November 2006 and the Chairman of the Remuneration Committee on 8 February 2007)	1/1	100%
Wong Hon Sum (Appointed as member of the Remuneration Committee on 8 January 2007)	N/A	N/A
Lam Ming Yung (Appointed as member of the Remuneration Committee on 8 January 2007 and resigned as member of the Remuneration Committee on 8 February 2007)	N/A	N/A

NOMINATION OF DIRECTORS

Directors were nominated by members of the Board during the year to fill casual vacancies. The nominations were submitted to the Board for decision with reference to criteria which include the candidates' experience, qualifications, professional knowledge, personal ethics and integrity. During the year, one Board meeting was held for approving the nomination and appointment of Director. Each Director appointed during the year is subject to re-election by shareholders at the next annual general meeting after his appointment and every Director (including those appointed for a specific term) is subject to retirement by rotation at least once every three years in accordance with the Bye-laws of the Company.

NOMINATION OF DIRECTORS *(CONTINUED)*

Individual attendance of each member of the Board of Board meetings in relation to the nomination of Directors is set out below:

Name of Directors	Number of Board Meetings Attended	Attendance Rate
Cai Yuan	1/1	100%
Luk Kin Peter Joseph	1/1	100%
Tang Tin Sek	1/1	100%
Lee Kwan Hung	1/1	100%
Chan Siu Tat	N/A	N/A
Poon Chiu Kwok	N/A	N/A

AUDITORS' REMUNERATION

For the year ended 31 December 2006, the Group engaged KPMG, auditors of the Company, to perform audit service. The fees were as follows:

Nature of services	Amount
	\$'000
Audit services	1,380
Audit services in relation to a very substantial acquisition	4,560
	5,940

AUDIT COMMITTEE

The Company established the Audit Committee in 1998. The current members of the Audit Committee are:

Tang Tin Sek, *Independent Non-executive Director, Chairman of the Audit Committee*

Chan Siu Tat, *Independent Non-executive Director*

(Appointed as member of the Audit Committee on 17 November 2006)

Wong Hon Sum, *Independent Non-executive Director*

(Appointed as member of the Audit Committee on 8 January 2007)

The Audit Committee has adopted terms of reference which are in line with the Code. A copy of the terms of reference is posted on the Company's website.

The Audit Committee is primarily responsible for the following duties:

1. To consider the appointment of the external auditors, the audit fee and any questions of resignation or dismissal;
2. To discuss with the external auditors before the audit commences, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved;
3. To review the interim and annual financial statements before submission to the Board;



CORPORATE GOVERNANCE REPORT

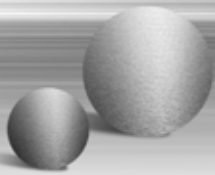
AUDIT COMMITTEE *(CONTINUED)*

4. To discuss problems and reservations arising from the interim and final audits, and any matters the auditors may wish to discuss (in the absence of management where necessary);
5. To review the external auditors management letter and management's response;
6. To review the Company's statement on internal control systems (where one is included in the annual report) prior to endorsement by the Board;
7. (Where an internal audit function exists) to review the internal audit programme, ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and appropriate standing within the Company;
8. To consider the major findings of internal investigations and management's response; and
9. To consider other topics, as defined by the Board.

The Audit Committee reviewed the external auditor's plan for the audit of the Group's accounts, the internal control procedures and the financial reporting systems of the Group during the year. The Audit Committee also made recommendations with respect to the appointment and reappointment of the auditors. The Audit Committee met four times during the year to review, discuss the Group's annual and interim financial statements and appointment of the auditors before the same were presented to the Board for approval. Individual attendance of each member of the Committee is set out below:

Name of Member	Number of Audit Committee Meetings Attended	Attendance Rate
Tang Tin Sek	4/4	100%
Lee Kwan Hung (Resigned as member of Audit Committee on 11 January 2007)	4/4	100%
Poon Chiu Kwok (Appointed as member of Audit Committee on 24 February 2006 and resigned as member of Audit Committee on 8 November 2006)	2/2	100%
Chan Siu Tat (Appointed as member of Audit Committee on 17 November 2006)	2/2	100%
Wong Hon Sum (Appointed as member of Audit Committee on 8 January 2007)	N/A	N/A
Lam Ming Yung (Appointed as member of Audit Committee on 8 January 2007 and resigned as member of Audit Committee 8 February 2007)	N/A	N/A

The financial statements for the year ended 31 December 2006 have been reviewed by the Audit Committee.



CORPORATE GOVERNANCE REPORT

INTERNAL CONTROLS

The Board should maintain a sound and effective internal control system to safeguard the shareholders' investment and the Group's assets. The Directors have reviewed the effectiveness of the internal control system of the Group for the year ended 31 December 2006, which covered financial, operational and compliance controls and risk management functions of the Group.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors acknowledge that it is their responsibility to prepare the accounts for each financial period which give a true and fair view of the state of affairs of the Group and to present a balanced, clear and understandable assessment of the financial results and disclosures of the Group under the Listing Rules and any other rules and statutory requirements.

On behalf of the Board
China Mining Resources Group Limited

Luk Kin Peter Joseph

Deputy Chairman and Chief Executive Officer

Hong Kong, 10 April 2007



DIRECTORS' REPORT

The Directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 15 to the financial statements.

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries (the "Group") during the financial year are set out in note 11 to the financial statements.

CHANGE OF COMPANY'S NAME

By a special resolution passed by the shareholders of the Company on 8 January 2007, the name of the Company was changed from "INNOMAXX Biotechnology Group Limited" to "China Mining Resources Group Limited" and the Company adopted the Chinese name "中國礦業資源集團有限公司" for identification purpose.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2006 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 23 to 86.

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2006.

RESERVES

Movement in the reserves of the Company and the Group during the year are set out in note 30 to the financial statements and the consolidated statement of changes in equity on page 27 of the annual report respectively.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 30(c) to the financial statements.

CONTRIBUTED SURPLUS

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

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is also available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.



DIRECTORS' REPORT

FIXED ASSETS

During the year, the Group spent approximately HK\$1,836,000 in the acquisition of leasehold improvements and furniture, fixtures and equipment.

Upon the completion of the transfer of the entire issued share capital of a subsidiary which ultimately owns 100% interest of the investment property of the Group, GITIC Plaza, as partial consideration for the acquisition of Lead Sun Group, the Group's property investment operation was discontinued in November 2006. The investment properties disposed of were revalued as at 31 July 2006, resulting in a net increase in fair value of HK\$15,794,000 which has been recognised in the profit for the year from discontinued operations.

Details of these and other movements in fixed assets of the Group and Company for the year ended 31 December 2006 are set out in note 12 to the financial statements.

DIRECTORS

The Directors who were in office during the financial year and up to the date of this report were:

Executive Directors

Cai Yuan (*Chairman*)

Luk Kin Peter Joseph (*Chief Executive Officer*)

Yeung Kwok Kuen (*Chief Financial Officer*) (appointed on 17 January 2007)

Non-executive Director

Lam Ming Yung (appointed on 8 January 2007 as independent non-executive Director and re-designated as non-executive Director on 8 February 2007)

Independent non-executive directors

Tang Tin Sek

Lee Kwan Hung (resigned on 7 February 2007)

Poon Chiu Kwok (appointed on 24 February 2006 and resigned on 8 November 2006)

Chan Siu Tat (appointed on 17 November 2006)

Wong Hon Sum (appointed on 8 January 2007)

Pursuant to Bye-law 87(1) of the Bye-laws of the Company, at each annual general meeting one third of the Directors for the time being shall retire from office by rotation. Accordingly, Mr. Cai Yuan, Mr. Luk Kin Peter Joseph and Dr. Tang Tin Sek will retire by rotation at the forthcoming annual general meeting.

Each of Mr. Cai Yuan and Mr. Luk Kin Peter Joseph, being eligible, have offered themselves for re-election. Dr. Tang Tin Sek has indicated that he will not offer himself for re-election due to personal reasons. Dr. Tang has confirmed that he has no disagreement with the Board and there is no matter relating to his retirement that will need to be brought to the attention of the Shareholders.



DIRECTORS' REPORT

DIRECTORS (CONTINUED)

In addition, pursuant to Bye-Law 86(2) of the Bye-Laws of the Company, any Director appointed to fill an addition to the Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at the meeting. Thus, Mr. Yeung Kwok Kuen who was appointed as Director pursuant to Bye-Law 86(2) shall retire and, being eligible, has offered himself for re-election as Director.

No Director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2006, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares of equity derivatives and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO which were recorded in the register required to be kept under Section 352 of the SFO, or which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code adopted by the Company were as follows:

Interests in issued shares of the Company (long position)

	Capacity	Ordinary shares of HK\$0.1 each			% of total issued shares
		Personal interests	Corporate interests	Total number of shares held	
Cai Yuan	Beneficial owner and interest in controlled corporation	8,650,000	500,000,000 (note 1)	508,650,000	10.77%
Luk Kin Peter Joseph	Beneficial owner and interest in controlled corporation	8,650,000	226,584,000 (note 2)	235,234,000	4.98%
Tang Tin Sek	Beneficial owner	100,000	–	100,000	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.
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.

Save as disclosed above, as at 31 December 2006, none of the Company's directors, chief executives or their respective associates had any other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed in "Share options schemes" below, at no time during the year was the Company or any of its subsidiaries, a party to any arrangement 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.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to any Director or chief executive of the Company, as at 31 December 2006, persons (other than Directors or chief executive of the Company as disclosed herein) who had interests or short positions in the shares or underlying shares of equity derivatives of the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept under Section 336 of the SFO were as follows:

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
Kwok Man	Interest in controlled corporation	368,686,000 (Note 1)	7.81%
Yeh Tung-Ming	Interest in controlled corporation	368,686,000 (Note 2)	7.81%
Ng Hiu King	Interest in controlled corporation	344,108,000 (Note 3)	7.29%
Kwok Ho	Interest in controlled corporation	300,000,000 (Note 4)	6.35%
Investec Plc	Interest in controlled corporation	250,000,000 (Note 5)	5.30%

Notes:

1. These shares are held by Long Cheer Group Limited which is 100% beneficially owned by Mr. Kwok Man.
2. These shares are held by Fit Plus Limited which is 100% beneficially owned by Mr. Yeh Tung-Ming.
3. These shares are held by See Good Group Limited which is 100% beneficially owned by Mr. Ng Hiu King.
4. 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.
5. These shares are held by Investec Bank (UK) Limited, a corporation which is 100% controlled by Investec Plc.

SHARE OPTIONS SCHEMES

Pursuant to ordinary resolutions of the shareholders of the Company passed on 11 March 1997, the Company adopted a share options scheme (the "Old Share Options Scheme"). The Old Share Options Scheme was terminated on 26 June 2002 such that no further options shall be granted under the Old Share Options 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. Pursuant to ordinary resolutions of the shareholders of the Company passed on 26 June 2002, the Company adopted another share options scheme (the "New Share Options Scheme").

Particulars of each share options scheme are set out in note 27 to the financial statements. Details of movements in the share options held by directors under the New Share Options Scheme for the year ended 31 December 2006 are as follows:

New Share Options Scheme

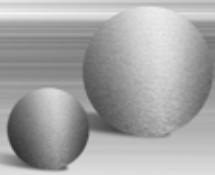
The details of share options granted by the Company under the New Share Options Scheme on 20 December 2005 to the Directors and the employees of the Company which were exercisable from 3 January 2006 to 2 January 2009 at the exercise price of HK\$0.16 per share are as follows:

	No. of options outstanding at the beginning of the year	No. of shares acquired on exercise of options during the year	No. of options outstanding at the year end	* Market value per share at date of grant of options	* Market value per share on exercise of options
<i>Directors</i>					
Cai Yuan	8,650,000	(8,650,000)	–	HK\$0.16	HK\$1.83
Luk Kin Peter Joseph	8,650,000	(8,650,000)	–	HK\$0.16	HK\$1.83
<i>Employees</i>	7,188,000	(7,188,000)	–	HK\$0.16	HK\$0.30

The options granted to the Directors are registered under the names of the Directors who are also the beneficial owners.

* Being the weighted average closing price of the company's ordinary shares immediately before the dates on which the options were granted or exercised, as applicable.

Apart from the foregoing, at no time during the year was the Company, or any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangement 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.



DIRECTORS' REPORT

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its securities during the year ended 31 December 2006. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's securities during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the group's total	
	Sales	Purchases
The largest customer	9%	
Five largest customers in aggregate	13%	
The largest supplier		9%
Five largest suppliers in aggregate		11%

At no time during the year have the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

COMPETING INTEREST

None of the directors of the Company or their respective associates had any interest in a business which competes with or may compete with the business of the Group.

PRE-EMPTIVE RIGHTS

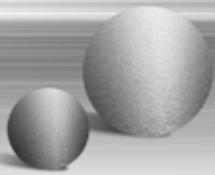
There are no provisions for pre-emptive rights under the Bye-laws of the Company or the laws of Bermuda requiring the Company to offer new shares to the existing shareholders in proportion to their shareholdings if new shares are issued.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the company as at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules.

FIVE YEARS SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 87 and 88 of the annual report.



DIRECTORS' REPORT

RETIREMENT SCHEME

Details of the retirement benefit schemes operated by the Group are set out in note 26 to the financial statements.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange and considers all the independent non-executive Directors to be independent.

AUDITORS

KPMG were first appointed as auditors of the Company in January 2007 for the financial year ended 31 December 2006 upon the retirement of Deloitte Touche Tohmatsu, who have acted as auditors of the Company for the preceding two financial years. PricewaterhouseCoopers acted as auditors of the Company for the financial year ended 31 December 2003.

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board
China Mining Resources Group Limited

Luk Kin Peter Joseph
Deputy Chairman and Chief Executive Officer

Hong Kong, 10 April 2007



INDEPENDENT AUDITOR'S REPORT



**Independent auditor's report to the shareholders of
China Mining Resources Group Limited**
(Formerly known as INNOMAXX Biotechnology Group Limited)
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of China Mining Resources Group Limited (formerly known as INNOMAXX Biotechnology Group Limited) (the "company") set out on pages 23 to 86, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 December 2006 and of the group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

10 April 2007



CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006
(EXPRESSED IN HONG KONG DOLLARS)

	Note	2006 \$'000	2005 \$'000 (restated)
Continuing operations			
Turnover	2, 11	17,366	15,634
Cost of sales		(8,060)	(7,047)
Gross profit		9,306	8,587
Other revenue	3	4,250	1,231
Selling expenses		(4,276)	(3,149)
Administrative expenses		(21,269)	(29,657)
Impairment loss of goodwill		(7,400)	(2,126)
Loss from operations		(19,389)	(25,114)
Finance costs	4(a)	(1,169)	(20)
Share of profits less losses of an associate		–	1,373
Loss on disposal of an associate		–	(1,373)
Loss before taxation	4	(20,558)	(25,134)
Income tax	5	366	(75)
Loss for the year from continuing operations		(20,192)	(25,209)
Discontinued operations			
Profit/(loss) for the year from discontinued operations	8	10,950	(29,991)
Loss for the year		(9,242)	(55,200)
Attributable to:			
Equity shareholders of the company	9, 30	(8,244)	(55,200)
Minority interests	30	(998)	–
Loss for the year	30	(9,242)	(55,200)
(Loss)/earnings per share – basic			
From continuing and discontinued operations		(0.29) cents	(2.24) cents
From continuing operations		(0.67) cents	(1.02) cents
From discontinued operations		0.38 cents	(1.22) cents

The notes on pages 30 to 86 form part of these financial statements.



CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2006
(EXPRESSED IN HONG KONG DOLLARS)

	Note	2006 \$'000	2005 \$'000
Non-current assets			
Fixed assets	12(a)		
– Investment properties		–	124,800
– Other property, plant and equipment		4,432	3,399
		4,432	128,199
Intangible assets	13	1,694,615	–
Goodwill	14	8,200	15,600
Interest in associates	16	–	–
Available-for-sale equity investments	17	–	–
Deferred tax assets	28(b)	366	–
		1,707,613	143,799
Current assets			
Trading securities	18	–	2,268
Inventories		430	375
Trade and other receivables	19	15,049	53,331
Pledged bank deposits		–	5,099
Pledged deposits in financial institutions		–	8,412
Cash and cash equivalents	20	449,087	83,757
		464,566	153,242
Current liabilities			
Trade and other payables	21	22,517	7,751
Deferred income	22	34,839	21,983
Secured bank loan	23	–	4,000
Loans from minority shareholders	24	150,500	–
Obligations under a finance lease	25	–	117
Current taxation	28(a)	–	488
		207,856	34,339



CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2006
(EXPRESSED IN HONG KONG DOLLARS)

	Note	2006 \$'000	2005 \$'000
Net current assets		256,710	118,903
Total assets less current liabilities		1,964,323	262,702
Non-current liabilities			
Other payables	29	31,903	–
Secured bank loan	23	–	28,910
Deferred tax liabilities	28(b)	–	6,365
		31,903	35,275
NET ASSETS		1,932,420	227,427
CAPITAL AND RESERVES	30(a)		
Share capital		472,078	246,481
Reserves		649,494	(19,054)
Total equity attributable to equity shareholders of the company		1,121,572	227,427
Minority interests		810,848	–
TOTAL EQUITY		1,932,420	227,427

Approved and authorised for issue by the board of directors on 10 April 2007

Luk Kin Peter Joseph
Director

Yeung Kwok Kuen
Director

The notes on pages 30 to 86 form part of these financial statements.



BALANCE SHEET

AT 31 DECEMBER 2006
(EXPRESSED IN HONG KONG DOLLARS)

	Note	2006 \$'000	2005 \$'000
Non-current assets			
Property, plant and equipment	12(b)	426	–
Investments in subsidiaries	15	823,231	179,900
		823,657	179,900
Current assets			
Trade and other receivables	19	15,129	69,653
Cash and cash equivalents	20	266,813	62,193
		281,942	131,846
Current liabilities			
Trade and other payables	21	5,898	57,884
		276,044	73,962
NET ASSETS		1,099,701	253,862
CAPITAL AND RESERVES			
	30(b)		
Share capital		472,078	246,481
Reserves		627,623	7,381
TOTAL EQUITY		1,099,701	253,862

Approved and authorised for issue by the board of directors on 10 April 2007

Luk Kin Peter Joseph
Director

Yeung Kwok Kuen
Director

The notes on pages 30 to 86 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2006
(EXPRESSED IN HONG KONG DOLLARS)

	Attributable to equity shareholders of the company							Minority interests	Total	
	Share capital	Share premium	Contributed surplus	Share options reserve	Exchange reserve	Accumulated losses	Subtotal			
	(Note 30(c)(i)) Note	(Note 30(d)(i)) \$'000	(Note 30(d)(ii)) \$'000	(Note 30(c)(v)) \$'000	(Note 30(d)(iii)) \$'000	\$'000	\$'000			\$'000
At 1 January 2005		246,481	177,179	152,150	-	-	(295,556)	280,254	-	280,254
Net loss for the year		-	-	-	-	-	(55,200)	(55,200)	-	(55,200)
Equity settled share-based transactions		-	-	-	2,373	-	-	2,373	-	2,373
At 31 December 2005		246,481	177,179	152,150	2,373	-	(350,756)	227,427	-	227,427
At 1 January 2006		246,481	177,179	152,150	2,373	-	(350,756)	227,427	-	227,427
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong		-	-	-	-	9,631	-	9,631	8,036	17,667
Net loss for the year		-	-	-	-	-	(8,244)	(8,244)	(998)	(9,242)
Shares issued in respect of:										
- purchase of net assets	31	108,148	324,444	-	-	-	-	432,592	-	432,592
- share placing		115,000	345,000	-	-	-	-	460,000	-	460,000
- share options scheme		2,449	3,842	-	(2,373)	-	-	3,918	-	3,918
Share issue expenses		-	(3,752)	-	-	-	-	(3,752)	-	(3,752)
Purchase of net assets	31	-	-	-	-	-	-	-	795,414	795,414
Capital contribution from a minority shareholder		-	-	-	-	-	-	-	8,396	8,396
At 31 December 2006		472,078	846,713	152,150	-	9,631	(359,000)	1,121,572	810,848	1,932,420

The notes on pages 30 to 86 form part of these financial statements.



CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006
(EXPRESSED IN HONG KONG DOLLARS)

<i>Note</i>	2006	2005
	\$'000	\$'000
Operating activities		
Profit/(loss) before taxation		
– From continuing operations	(20,558)	(25,134)
– From discontinued operations	12,267	(30,725)
	(8,291)	(55,859)
Adjustments for:		
– Valuation (gain)/loss on investment properties	(15,794)	31,000
– Depreciation	1,369	1,568
– Impairment loss on trade and other receivables	877	3,866
– Impairment of goodwill	7,400	2,126
– Finance costs	3,645	1,919
– Dividend income from trading securities	(182)	(150)
– Interest income	(4,502)	(1,282)
– Share of profits less losses of an associate	–	(1,373)
– Loss on disposal of an associate	–	1,373
– Loss on disposal of property, plant and equipment	18	–
– Equity-settled share-based payment expenses	–	2,373
Operating loss before changes in working capital	(15,460)	(14,439)
Increase in inventories	(55)	(13)
Decrease in trade and other receivables	7,601	7,253
Decrease in trading securities	2,268	5,371
Decrease in trade and other payables	(26,831)	(29,531)
Increase in deferred income	13,330	9,568
Cash used in operations	(19,147)	(21,791)
Tax paid		
– PRC tax paid	(568)	(524)
Net cash used in operating activities	(19,715)	(22,315)

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006
(EXPRESSED IN HONG KONG DOLLARS)

	Note	2006 \$'000	2005 \$'000
Investing activities			
Purchase of net assets, net of cash acquired	31	(215,559)	–
Payment for the purchase of property, plant and equipment		(1,836)	(345)
Proceeds from sale of an associate		–	46,698
Interest received		4,502	1,282
Dividends received from trading securities		182	150
Net cash (used in)/generated from investing activities		(212,711)	47,785
Financing activities			
Repayment of amount due from a minority shareholder		14,204	–
Proceeds from loans from minority shareholders		150,500	–
Capital injection from a minority shareholder		8,396	–
Proceeds from shares issued under placing		460,000	–
Proceeds from shares issued under share options scheme		3,918	–
Payment of transaction costs on issue of shares		(3,752)	–
Repayment of obligations under a finance lease		(117)	(249)
Repayment of bank loan		(32,910)	(4,000)
(Increase)/decrease in pledged bank deposits		(9,317)	5,243
Decrease/(increase) in pledged deposits in financial institutions		8,412	(2,204)
Interest paid		(2,479)	(1,919)
Net cash generated from/(used in) financing activities		596,855	(3,129)
Net increase in cash and cash equivalents		364,429	22,341
Cash and cash equivalents at 1 January		83,757	61,416
Effect of foreign exchange rate changes		901	–
Cash and cash equivalents at 31 December	20	449,087	83,757

The notes on pages 30 to 86 form part of these financial statements.



NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the group and the company. The adoption of these new and revised HKFRSs did not result in significant changes to the company’s accounting policies applied in these financial statements and has no significant impact on the group’s financial statements for the current and prior accounting periods.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2006 comprise the company and its subsidiaries (together referred to as the “group”) and the group’s interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- investment properties (see note 1(h));
- financial instruments classified as available-for-sale or as trading securities (see note 1(f)); and
- derivative financial instruments (see note 1(g)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.



NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of preparation of the financial statements (CONTINUED)

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 36.

(c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the group. Control exists when the group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the company, whether directly or indirectly through subsidiaries, and in respect of which the group has not agreed any additional terms with the holders of those interests which would result in the group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the company. Minority interests in the results of the group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the group's interest is allocated all such profits until the minority's share of losses previously absorbed by the group has been recovered.

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with notes 1(o) or (p) depending on the nature of the liability.

In the company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(l)).



NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Associates

An associate is an entity in which the group or company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the group's share of the associate's net assets. The consolidated income statement includes the group's share of the post-acquisition, post-tax results of the associates for the year (see note 1(l)).

When the group's share of losses exceeds its interest in the associate, the group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the group's interest in the associate is the carrying amount of the investment under the equity method together with the group's long-term interests that in substance form part of the group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the group and its associates are eliminated to the extent of the group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In the company's balance sheet, its investments in associates are stated at cost less impairment losses (see note 1(l)).

(e) Goodwill

Goodwill represents the excess of the cost of a business combination over the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1(l)).

Any excess of the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate is recognised immediately in profit or loss.

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.



NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Other investments in equity securities

The group's and the company's policies for investments in equity securities, other than investments in subsidiaries and associates, are as follows:

Investments in equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification.

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 1(l)).

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity. When these investments are derecognised or impaired (see note 1(l)), the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

Investments are recognised/derecognised on the date the group commits to purchase/sell the investments or they expire.

(g) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to profit or loss.

(h) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(k)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 1(u)(iii).

When the group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 1(k)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 1(k).



NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Property, plant and equipment

Property, plant and equipment, other than investment property (see note 1(h)) are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(l)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Leasehold improvements	5 years or over the unexpired terms of the lease, whichever is shorter
– Furniture, fixtures and equipment	5–10 years
– Motor vehicles	5–10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost or the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(j) Intangible assets (other than goodwill)

Mining rights

Mining rights are stated at cost less accumulated amortisation and impairment losses (see note 1(l)). The mining rights are amortised using the units of production method based on the proven and probable mineral reserves.

(k) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) *Classification of assets leased to the group*

Assets that are held by group under leases which transfer to the group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the group are classified as operating leases.



NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Leased assets (CONTINUED)

(ii) Assets acquired under finance leases

Where the group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the group will obtain ownership of the asset, the life of the asset, as set out in note 1(i). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(l). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Operating lease charges

Where the group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 1(h)).

(l) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities and other current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.



NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(I) Impairment of assets (CONTINUED)

(i) Impairment of investments in equity securities and other receivables (CONTINUED)

- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is immaterial.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

- For available-for-sale securities, the cumulative loss that has been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- intangible assets;
- investments in subsidiaries and associates; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.



NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Impairment of assets (CONTINUED)

(ii) Impairment of other assets (CONTINUED)

- Calculation of recoverable amount
The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).
- Recognition of impairment losses
An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.
- Reversals of impairment losses
In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(m) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the first-in, first-out method and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.



NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Inventories (CONTINUED)

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(n) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(l)), except where the effect of discounting would be immaterial.

(o) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(p) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(r) Employee benefits

(i) *Short term employee benefits and contributions to defined contribution retirement plans*
Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) *Share based payments*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a share options reserve within equity. The fair value is measured at the grant date using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.



NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Employee benefits (CONTINUED)

(ii) Share based payments (CONTINUED)

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On the vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount is recognised in the share options reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(s) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

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

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.



NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Income tax (CONTINUED)

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the company or the group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the company or the group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.



NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the group or the company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(u) Revenue recognition

Provided it is probable that the economic benefits will flow to the group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) *Sale of goods*

Revenue is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) *Processing, storage and enrolment fees*

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

(iii) *Rental income from operating leases*

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iv) *Dividends*

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(v) *Interest income*

Interest income is recognised as it accrues using the effective interest method.



NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of operations outside Hong Kong are translated into Hong Kong dollars at the exchange rates approximating the exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of operations outside Hong Kong are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of an operation outside Hong Kong, the cumulative amount of the exchange differences recognised in equity which relate to that operation is included in the calculation of the profit or loss on disposal.

(w) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(x) Discontinued operations

A discontinued operation is a component of the group's business, the operations and cash flows of which can be clearly distinguished from the rest of the group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs when the operation is abandoned.



NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Discontinued operations (CONTINUED)

Where an operation is classified as discontinued, a single amount is presented on the face of the income statement, which comprises:

- the post-tax profit or loss of the discontinued operation; and
- the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

(y) Related parties

For the purposes of these financial statements, a party is considered to be related to the group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the group or exercise significant influence over the group in making financial and operating policy decisions, or has joint control over the group;
- (ii) the group and the party are subject to common control;
- (iii) the party is an associate of the group or a joint venture in which the group is a venturer;
- (iv) the party is a member of key management personnel of the group or the group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the group or of any entity that is a related party of the group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(z) Segment reporting

A segment is a distinguishable component of the group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the group's internal financial reporting system, the group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.



NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

1. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(z) Segment reporting *(CONTINUED)*

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

(aa) Deferred income

Deferred income represents the receipt in advance for the provision of storage services. The amount is amortised over the remaining service period.

(ab) Equity-settled share-based payment transactions

For equity-settled share-based payment transactions, the goods or services received are recognised at fair value with a corresponding increase in equity, unless fair value cannot be estimated reliably. If the fair value of the goods or services received cannot be estimated reliably, their values are indirectly measured by reference to the fair value of the equity instruments granted.

Share-based payment in respect of employee benefits is dealt with in accordance with the accounting policy set out in note 1(r)(ii).



NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

2. TURNOVER

The principal activities of the group are processing and storage of cord blood, mining, property investment, trading of investments and trading of pharmaceutical ingredients, chemicals and other miscellaneous products.

Turnover recognised during the year is as follows:

	2006 \$'000	2005 \$'000
Continuing operations:		
Processing and storage of cord blood	17,366	15,634
Discontinued operations: (note 8)		
Sales of trading securities	116,234	36,108
Dividend income from trading securities	182	150
Sales of products	13,995	130,262
Rental income	7,796	8,684
	138,207	175,204
	155,573	190,838

NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

3. OTHER REVENUE

	2006 \$'000	2005 \$'000
Continuing operations:		
Bad debt recovery	49	49
Interest income on bank deposits	4,128	1,012
Sundry revenue	73	170
	4,250	1,231
Discontinued operations: (note 8)		
Bad debt recovery	167	90
Interest income on bank deposits	240	161
Interest income from securities accounts	134	109
	541	360
	4,791	1,591

4. PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation is arrived at after charging/(crediting):

	2006 \$'000	2005 \$'000
(a) Finance costs:		
Continuing operations:		
– Finance charges on obligations under a finance lease	3	20
– Interest expense on financial liabilities measured at amortised cost	1,166	–
	1,169	20
Discontinued operations: (note 8)		
– Interest on bank loan wholly repayable within five years	1,978	1,740
– Interest paid for margin financing	498	159
	2,476	1,899
	3,645	1,919

NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

4. PROFIT/(LOSS) BEFORE TAXATION (CONTINUED)

Profit/(loss) before taxation is arrived at after charging/(crediting): (CONTINUED)

	2006 \$'000	2005 \$'000
(b) Staff costs (excluding directors):		
Continuing operations:		
– Salaries, wages and other benefits	8,001	8,429
– Contributions to defined contribution retirement plan	208	325
– Equity-settled share-based payment expenses	–	697
	8,209	9,451
Discontinued operations: (note 8)		
– Salaries, wages and other benefits	299	155
– Contributions to defined contribution retirement plan	18	6
	317	161
	8,526	9,612
(c) Other items:		
Continuing operations:		
– Auditors' remuneration	1,436	637
– Depreciation on property, plant and equipment		
– owned by the group	1,255	1,001
– held under a finance lease	–	430
– Net foreign exchange loss	449	49
– Operating lease charges		
– land and buildings	3,084	2,656
– office equipment	17	17
– Loss on disposal of property, plant and equipment	18	–
– Impairment loss on trade and other receivables	877	–
Discontinued operations:		
– Auditors' remuneration	42	113
– Depreciation on property, plant and equipment		
owned by the group	114	137
– Net foreign exchange loss	(28)	10
– Operating lease charges for land and buildings	–	94
– Rentals receivable from investment properties		
less direct outgoings of \$2,812,000		
(2005: \$3,305,000)	(4,984)	(5,379)
– Impairment loss on trade and other receivables	–	3,866

NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

5. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Continuing operations:

(i) Taxation in the consolidated income statement represents:

	2006 \$'000	2005 \$'000
Current tax – PRC Income Tax		
Provision for the year	–	75
Deferred tax		
Origination and reversal of temporary differences	(366)	–
Tax (credit)/charge	(366)	75

The provision for PRC Income Tax has been calculated based on the estimated taxable income at the appropriate current rates of taxation ruling in the PRC.

No provision for Hong Kong Profits Tax has been made as the companies comprising the continuing operations have no assessable profit during the year.

(ii) Reconciliation between tax (credit)/charge and accounting loss at applicable tax rates:

	2006 \$'000	2005 \$'000
Loss before taxation	(20,558)	(25,134)
Notional tax credit on loss before taxation, calculated at Hong Kong Profits Tax rate of 17.5%	(3,598)	(4,398)
Tax effect of non-taxable income	(728)	(418)
Tax effect of non-deductible expenses	3,935	1,568
Tax effect of tax losses not recognised	–	3,509
Tax effect of prior year's unrecognised tax losses recognised in current year	(364)	–
Tax effect of prior year's unrecognised tax losses utilised in current year	–	(304)
Effect of different taxation rate used in other jurisdictions	389	–
Others	–	118
Actual tax (credit)/charge	(366)	75

NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

5. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (CONTINUED)

(b) Discontinued operations: (note 8)

(i) Taxation in the consolidated income statement represents:

	2006 \$'000	2005 \$'000
Current tax – PRC Income Tax		
Provision for the year	512	847
Deferred tax		
Origination and reversal of temporary differences	805	(1,581)
Tax charge/(credit)	1,317	(734)

The provision for PRC Income Tax has been calculated based on the estimated taxable income at the appropriate current rates of taxation ruling in the PRC.

No provision for Hong Kong Profits Tax has been made as the companies comprising the discontinued operations either have no assessable profit during the year or have sufficient tax losses brought forward from previous years to fully set off the assessable profits.

(ii) Reconciliation between tax charge/(credit) and accounting profit/(loss) at applicable tax rates:

	2006 \$'000	2005 \$'000
Profit/(loss) before taxation	12,267	(30,725)
Notional tax charge/(credit) on profit/(loss) before taxation, calculated at Hong Kong Profits Tax rate of 17.5%	2,147	(5,377)
Tax effect of non-taxable income	(526)	(89)
Tax effect of non-deductible expenses	892	736
Tax effect of tax losses not recognised	1,159	408
Tax effect of prior year's unrecognised tax losses utilised in current year	(13)	(189)
Effect of different taxation rate used in other jurisdictions	(2,342)	4,042
Others	-	(265)
Actual tax charge/(credit)	1,317	(734)

NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

6. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	Directors' fees	Salaries, allowances and benefits in kind	Retirement scheme contributions	Sub-total	Share-based payments (note)	2006 Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Chairman						
Cai Yuan	–	1,140	46	1,186	–	1,186
Executive directors						
Luk Kin Peter Joseph	–	1,100	57	1,157	–	1,157
Yeung Kwok Kuen	–	–	–	–	–	–
Non-executive director						
Lam Ming Yung	–	–	–	–	–	–
Independent non- executive directors						
Tang Tin Sek	240	–	–	240	–	240
Lee Kwan Hung	240	–	–	240	–	240
Poon Chiu Kwok (resigned on 8 November 2006)	165	–	–	165	–	165
Chan Siu Tat	7	–	–	7	–	7
Wong Hon Sum	–	–	–	–	–	–
	652	2,240	103	2,995	–	2,995

NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

6. DIRECTORS' REMUNERATION (CONTINUED)

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	Directors' fees	Salaries, allowances and benefits in kind	Retirement scheme contributions	Sub-total	Share-based payments (note)	2005 Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Chairman						
Cai Yuan	–	–	–	–	838	838
Executive directors						
Luk Kin Peter Joseph	–	540	25	565	838	1,403
Fu Weimin	–	237	–	237	–	237
Zhao Linye	–	237	5	242	–	242
Qi Xianchao	–	1,423	49	1,472	–	1,472
Zhou Yucheng	–	1,620	–	1,620	–	1,620
Independent non-executive directors						
Tang Tin Sek	211	–	–	211	–	211
Lee Kwan Hung	129	–	–	129	–	129
Julia Frances Charlton-Stevens	32	–	–	32	–	32
Wang Yiming	180	–	–	180	–	180
	552	4,057	79	4,688	1,676	6,364

Note: These represent the estimated value of share options granted to the directors under the company's share options scheme. The value of these share options is measured according to the group's accounting policies for share-based payment transactions as set out in note 1(r)(ii) and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

Details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share options scheme" in the directors' report and note 27.



NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

7. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2005: three) are directors whose emoluments are disclosed in note 6. The aggregate of the emoluments in respect of the other three (2005: two) individuals are as follows:

	2006 \$'000	2005 \$'000
Salaries and other emoluments	1,357	1,261
Share-based payments	–	291
Retirement scheme contributions	61	38
	1,418	1,590

The emoluments of the three (2005: two) individuals with the highest emoluments fall within the band of less than \$1,000,000.

During the year, no emoluments (2005: Nil) were paid by the group to any of 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.

For the year ended 31 December 2006, Mr. Cai Yuan and Mr. Luk Kin Peter Joseph agreed to waive their discretionary bonus, which they were entitled to in accordance with their service contracts with the company.

By an ordinary resolution passed at the meeting of the remuneration committee held on 6 December 2006, Mr. Cai Yuan agreed to reduce his basic salary by \$40,000 to \$40,000 and his housing allowance by \$20,000 to nil per month respectively with effect from 1 December 2006. Mr. Luk Kin Peter Joseph agreed to waive his basic salary to nil per month with effect from 1 December 2006.

8. DISCONTINUED OPERATIONS

The group's trading of investment and trading of pharmaceutical ingredients and chemicals operations were discontinued during the year.

Following the cessation of the trading activities, the group commenced the de-registration process with the Companies Registry in Hong Kong of the two subsidiaries, namely Fullgain International Investment Limited and INNOMAXX International Trading Company Limited.

In November 2006, the group's property investment operation was discontinued following the disposal of two subsidiaries, namely INNOMAXX Property (BVI) Limited and GITIC Properties Limited, as part of the considerations in connection with the acquisition of 57% equity interest in Lead Sun Investments Limited (see note 31).

NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

8. DISCONTINUED OPERATIONS (CONTINUED)

(a) The results of the discontinued operations for the years ended 31 December 2006 and 2005 are as follows:

	<i>Note</i>	2006 \$'000	2005 \$'000
Turnover	2, 11	138,207	175,204
Cost of sales		(138,580)	(163,513)
Gross (loss)/profit		(373)	11,691
Valuation gain/(loss) on investment properties	12(a)	15,794	(31,000)
Other revenue	3	541	360
Impairment loss of trade and other receivables		–	(3,866)
Selling expenses		–	(4,042)
Administrative expenses		(1,219)	(1,969)
Profit/(loss) from operations		14,743	(28,826)
Finance costs	4(a)	(2,476)	(1,899)
Profit/(loss) before taxation	4	12,267	(30,725)
Income tax	5	(1,317)	734
Profit/(loss) for the year		10,950	(29,991)

NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

8. DISCONTINUED OPERATIONS (CONTINUED)

(b) The net cash flows of the discontinued operations for the years ended 31 December 2006 and 2005 are as follows:

	2006 \$'000	2005 \$'000
Net cash (outflow)/inflow from operating activities	(6,874)	4,749
Net cash outflow from investing activities	(1,832)	(1,683)
Net cash outflow from financing activities	(32,910)	(4,000)
Net cash outflow incurred by the discontinued operations	(41,616)	(934)

9. LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated loss attributable to equity shareholders of the company includes a loss of \$46,919,000 (2005: a loss of \$36,546,000) which has been dealt with in the financial statements of the company.

10. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the profit/(loss) attributable to ordinary equity shareholders of the company and the weighted average number of ordinary shares in issue during the year, calculated as follows:

(i) Loss attributable to ordinary equity shareholders of the company

	2006 \$'000	2005 \$'000
Continuing operations	(19,194)	(25,209)
Discontinued operations	10,950	(29,991)
	(8,244)	(55,200)

(ii) Weighted average number of ordinary shares

	2006 '000	2005 '000
Issued ordinary shares at 1 January	2,464,813	2,464,813
Effect of shares issued (note 30(c))	373,120	–
Effect of share options exercised (note 30(c))	7,310	–
Weighted average number of ordinary shares at 31 December	2,845,243	2,464,813

NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

10. (LOSS)/EARNINGS PER SHARE (CONTINUED)

(b) Diluted loss per share

The diluted loss per share for both years is not presented as the company's potential ordinary shares outstanding during the year had an anti-dilutive effect on the basic loss per share from continuing operations.

11. SEGMENT REPORTING

Segment information is presented in respect of the group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the group's internal financial reporting.

Business segments

The group is currently engaged in processing and storage of cord blood and mining operations. The group was also involved in the trading of investments, sales of products and property investment which were discontinued as set out in note 8. 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 is set out as follows:

For the year ended 31 December 2006

	Continuing operations			Discontinued operations				Total \$'000
	Processing and storage of cord blood \$'000	Mining \$'000	Sub-total \$'000	Property investment \$'000	Trading of investments \$'000	Sales of products \$'000	Sub-total \$'000	
Segment revenue:								
Turnover from external customers	17,366	-	17,366	7,796	116,416	13,995	138,207	155,573
Other revenue	-	-	-	-	-	77	77	77
Total	17,366	-	17,366	7,796	116,416	14,072	138,284	155,650
Segment result	(7,409)	(1,130)	(8,539)	20,245	(5,809)	68	14,504	5,965
Unallocated operating income and expenses			(10,850)				239	(10,611)
(Loss)/profit from operations			(19,389)				14,743	(4,646)
Finance costs			(1,169)				(2,476)	(3,645)
Taxation			366				(1,317)	(951)
(Loss)/profit after taxation			(20,192)				10,950	(9,242)

NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

11. SEGMENT REPORTING (CONTINUED)

Business segments (CONTINUED)

	Continuing operations			Discontinued operations			Sub-total	Total
	Processing and storage of cord blood \$'000	Mining \$'000	Sub-total \$'000	Property investment \$'000	Trading of investments \$'000	Sales of products \$'000		
Assets and liabilities								
Segment assets	24,344	1,695,875	1,720,219	-	-	-	-	1,720,219
Unallocated assets								451,960
Total assets								2,172,179
Segment liabilities	36,334	46,953	83,287	-	18	10	28	83,315
Unallocated liabilities								156,444
Total liabilities								239,759

NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

11. SEGMENT REPORTING (CONTINUED)

Business segments (CONTINUED)

	Continuing operations			Discontinued operations					
	Processing and storage of cord blood \$'000	Mining \$'000	Sub-total \$'000	Property investment \$'000	Trading of investments \$'000	Sales of products \$'000	Sub-total \$'000	Un- allocated \$'000	Total \$'000
Other segment information									
Depreciation	647	17	664	114	-	-	114	591	1,369
Loss on disposal of property, plant and equipment	-	18	18	-	-	-	-	-	18
Valuation gain on investment properties	-	-	-	(15,794)	-	-	(15,794)	-	(15,794)
Impairment loss of goodwill	7,400	-	7,400	-	-	-	-	-	7,400
Capital expenditure incurred during the year	1,813	1,678,623	1,680,436	7	-	-	7	3	1,680,446
Recovery of bad debt	-	-	-	(90)	-	(77)	(167)	(49)	(216)

NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

11. SEGMENT REPORTING (CONTINUED)

Business segments (CONTINUED)

For the year ended 31 December 2005

	Continuing operations			Discontinued operations			Total	
	Processing and storage of cord blood \$'000	Mining \$'000	Sub-total \$'000	Property investment \$'000	Trading of investments \$'000	Sales of products \$'000		Sub-total \$'000
Segment revenue:								
Turnover from external customers	15,634	-	15,634	8,684	36,258	130,262	175,204	190,838
Segment result	(95)	-	(95)	(29,934)	1,101	(381)	(29,214)	(29,309)
Unallocated operating income and expenses			(25,019)				388	(24,631)
Loss from operations			(25,114)				(28,826)	(53,940)
Finance costs			(20)				(1,899)	(1,919)
Share of profits less losses of an associate			1,373				-	1,373
Loss on disposal of an associate			(1,373)				-	(1,373)
Taxation			(75)				734	659
Loss after taxation			(25,209)				(29,991)	(55,200)

NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

11. SEGMENT REPORTING (CONTINUED)

Business segments (CONTINUED)

	Continuing operations			Discontinued operations			Sub-total	Total
	Processing and storage of cord blood \$'000	Mining \$'000	Sub-total \$'000	Property investment \$'000	Trading of investments \$'000	Sales of products \$'000		
Assets and liabilities								
Segment assets	25,675	-	25,675	153,385	3,334	-	156,719	182,394
Unallocated assets								114,647
Total assets								297,041
Segment liabilities	23,280	-	23,280	3,069	-	-	3,069	26,349
Unallocated liabilities								43,265
Total liabilities								69,614

NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

11. SEGMENT REPORTING (CONTINUED)

Business segments (CONTINUED)

	Continuing operations			Discontinued operations					Total \$'000
	Processing and storage of cord blood \$'000	Mining \$'000	Sub-total \$'000	Property investment \$'000	Trading of investments \$'000	Sales of products \$'000	Sub-total \$'000	Un- allocated \$'000	
Other segment information									
Depreciation	509	-	509	137	-	-	137	922	1,568
Valuation loss on investment properties	-	-	-	31,000	-	-	31,000	-	31,000
Impairment loss of trade and other receivables	-	-	-	3,866	-	-	3,866	-	3,866
Impairment loss of goodwill	2,126	-	2,126	-	-	-	-	-	2,126
Capital expenditure incurred during the year	328	-	328	5	-	-	5	12	345
Recovery of bad debt	-	-	-	(90)	-	-	(90)	(49)	(139)

NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

11. SEGMENT REPORTING (CONTINUED)

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

For the year ended 31 December 2006

	Hong Kong \$'000	The PRC \$'000	New Zealand \$'000	Total \$'000
Segment revenue				
Revenue from external customers	147,777	7,796	–	155,573
Attributable to discontinued operations	(130,411)	(7,796)	–	(138,207)
Revenue from continuing operations	17,366	–	–	17,366
Segment assets				
– Continuing operations	24,344	1,695,875	–	1,720,219
– Discontinued operations	–	–	–	–
– Unallocated assets	24,344	1,695,875	–	1,720,219
	295,198	156,762	–	451,960
	319,542	1,852,637	–	2,172,179
Capital expenditure incurred during the year				
– Continuing operations	1,813	1,678,623	–	1,680,436
– Discontinued operations	–	7	–	7
– Unallocated	1,813	1,678,630	–	1,680,443
	3	–	–	3
	1,816	1,678,630	–	1,680,446

NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

11. SEGMENT REPORTING (CONTINUED)

Geographical segments (CONTINUED)

For the year ended 31 December 2005

	Hong Kong \$'000	The PRC \$'000	New Zealand \$'000	Total \$'000
Segment revenue				
Revenue from external customers	106,593	8,684	75,561	190,838
Attributable to discontinued operations	(90,959)	(8,684)	(75,561)	(175,204)
Revenue from continuing operations	15,634	–	–	15,634
Segment assets				
– Continuing operations	25,675	–	–	25,675
– Discontinued operations	3,334	153,385	–	156,719
– Unallocated assets	29,009	153,385	–	182,394
	114,647	–	–	114,647
	143,656	153,385	–	297,041
Capital expenditure incurred during the year				
– Continuing operations	328	–	–	328
– Discontinued operations	–	5	–	5
– Unallocated	328	5	–	333
	12	–	–	12
	340	5	–	345

NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

12. FIXED ASSETS

(a) The group

	Leasehold improvements \$'000	Furniture, fixtures and equipment \$'000	Motor vehicles \$'000	Sub-total \$'000	Investment properties \$'000	Total \$'000
Cost or valuation:						
At 1 January 2005	1,339	4,828	2,711	8,878	155,800	164,678
Additions	–	345	–	345	–	345
Fair value adjustment	–	–	–	–	(31,000)	(31,000)
At 31 December 2005	1,339	5,173	2,711	9,223	124,800	134,023
Representing:						
Cost	1,339	5,173	2,711	9,223	–	9,223
Valuation – 2005	–	–	–	–	124,800	124,800
	1,339	5,173	2,711	9,223	124,800	134,023
At 31 December 2006						
At 1 January 2006	1,339	5,173	2,711	9,223	124,800	134,023
Exchange adjustments	–	3	5	8	–	8
Purchase of net assets (note 31)	–	259	494	753	–	753
Additions	307	1,529	–	1,836	–	1,836
Disposals	–	(167)	–	(167)	–	(167)
Fair value adjustment	–	–	–	–	15,794	15,794
Disposal of subsidiaries	(549)	(147)	–	(696)	(140,594)	(141,290)
At 31 December 2006	1,097	6,650	3,210	10,957	–	10,957
Representing:						
Cost	1,097	6,650	3,210	10,957	–	10,957
Valuation – 2006	–	–	–	–	–	–
	1,097	6,650	3,210	10,957	–	10,957

NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

12. FIXED ASSETS (CONTINUED)

(a) The group (CONTINUED)

	Leasehold improvements \$'000	Furniture, fixtures and equipment \$'000	Motor vehicles \$'000	Sub-total \$'000	Investment properties \$'000	Total \$'000
Accumulated depreciation:						
At 1 January 2005	416	2,154	1,686	4,256	–	4,256
Charge for the year	325	739	504	1,568	–	1,568
At 31 December 2005	741	2,893	2,190	5,824	–	5,824
At 1 January 2006	741	2,893	2,190	5,824	–	5,824
Charge for the year	409	720	240	1,369	–	1,369
Disposals	–	(149)	–	(149)	–	(149)
Disposal of subsidiaries	(384)	(135)	–	(519)	–	(519)
At 31 December 2006	766	3,329	2,430	6,525	–	6,525
Net book value:						
At 31 December 2006	331	3,321	780	4,432	–	4,432
At 31 December 2005	598	2,280	521	3,399	124,800	128,199



NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

12. FIXED ASSETS (CONTINUED)

(b) The company

	Leasehold improvements \$'000	Furniture, fixtures and equipment \$'000	Total \$'000
Cost:			
At 1 January 2005, 31 December 2005 and 1 January 2006	–	–	–
Additions	180	338	518
At 31 December 2006	180	338	518
Accumulated depreciation:			
At 1 January 2005, 31 December 2005 and 1 January 2006	–	–	–
Charge for the year	54	38	92
At 31 December 2006	54	38	92
Net book value:			
At 31 December 2006	126	300	426
At 31 December 2005	–	–	–



NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

13. INTANGIBLE ASSETS

The group

	Mining right
	\$'000
<hr/>	
Cost:	
At 1 January 2005, 31 December 2005 and 1 January 2006	–
Purchase of net assets (<i>note 31</i>)	1,675,784
Additions	2,073
Exchange adjustments	16,758
At 31 December 2006	1,694,615
Accumulated amortisation and impairment:	
At 1 January 2005, 31 December 2005 and 31 December 2006	–
Net book value:	
At 31 December 2006	1,694,615
At 31 December 2005	–

The mining assets and liabilities of the group were acquired in October 2006 following the purchase of net assets as discussed in note 31.

The mining right represents the fair value of the right for mining, in a natural rutile mine known as 山西代縣金紅石礦 (the "Mine") located at Dai County, Shanxi Province of the PRC, which is expiring in September 2009.

As the mining of the Mine has not commenced at the year end, no amortisation was charged to profit and loss for the year ended 31 December 2006 in accordance with the accounting policy set out in note 1(j).



NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

14. GOODWILL

The group

	\$'000
Cost:	
At 1 January 2005, 31 December 2005 and 31 December 2006	17,726
Accumulated impairment losses:	
At 1 January 2005	–
Impairment loss	2,126
At 31 December 2005	2,126
At 1 January 2006	2,126
Impairment loss	7,400
At 31 December 2006	9,526
Carrying amount:	
At 31 December 2006	8,200
At 31 December 2005	15,600

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the group's processing and storage of cord blood cash-generating-units (CGU).

The recoverable amounts of the processing and storage of cord blood 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 processing and storage of cord blood 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 an 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 extrapolated cash flows for the following ten years based on an estimated growth rate of 5% to 25% plus a terminal value. The rate used to discount the forecast cash flow is 10.56%. Due to the fact that there were new competitors entered into the market in recent years, 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 \$7,400,000 was considered necessary.

NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

15. INVESTMENTS IN SUBSIDIARIES

The company

	2006 \$'000	2005 \$'000
Unlisted shares, at cost	823,231	180,357
Less: impairment loss	–	(457)
	823,231	179,900

The following list contains only the particulars of subsidiaries which principally affect the results, assets and liabilities of the group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation/ operation	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activity
			Group's effective interest	Held by the company	Held by a subsidiary	
Biogrowth Assets Limited	British Virgin Islands/ Hong Kong	1 share of US\$1	100%	100%	–	Investment holding
Cell Therapy Technologies Centre Limited	Hong Kong/ Hong Kong	20,000,000 shares of \$0.01 each	100%	–	100%	Provision of cord blood bank and its relevant laboratory service
China Kent Development Limited	Hong Kong/ Hong Kong	2 ordinary shares and 10,000 non-voting deferred shares of \$1 each	100%	–	100%	Provision of administrative support to group companies
Fullgain International Investment Limited	Hong Kong/ Hong Kong	2 shares of \$1 each	100%	–	100%	Securities investment holding and trading of securities investment
GITIC Properties Limited #	Hong Kong/ PRC	10,000 shares of \$1 each	100%	–	100%	Property investment

NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

15. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

The company (CONTINUED)

Name of company	Place of incorporation/ operation	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activity
			Group's effective interest	Held by the company	Held by a subsidiary	
INNOMAXX International Trading Company Limited	Hong Kong/ Hong Kong	1 share of \$1	100%	–	100%	Trading of pharmaceutical ingredients and chemicals
INNOMAXX Investment Holdings Limited	Hong Kong/ Hong Kong	2 shares of \$1 each	100%	100%	–	Investment holding
INNOMAXX Property (BV) Limited #	British Virgin Islands/ Hong Kong	2 shares of US\$1 each	100%	100%	–	Investment holding
Lead Sun Investments Limited	British Virgin Islands/ Hong Kong	1,000 shares of US\$1 each	57%	57%	–	Investment holding
Longship Limited	British Virgin Islands/ Hong Kong	1 share of US\$1	100%	–	100%	Investment holding
New Legend International Group Limited	Hong Kong/ Hong Kong	1 share of \$1	100%	100%	–	Provision of administrative support to group companies
Offspring Investments Limited	British Virgin Islands/ Hong Kong	1 share of US\$1	100%	100%	–	Inactive
Shanxi Shenli Aerospace Titanium Company Limited ("Shanxi Shenli")	PRC/PRC	Registered capital RMB184,800,000	51.3%	–	90%	Rutile mining
Sinorich Technology Development Limited	Hong Kong/ Hong Kong	2 shares of \$1 each	100%	–	100%	Inactive
Titanspeed Investments Limited	British Virgin Islands/ Hong Kong	1 share of US\$1	100%	100%	–	Inactive

NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

15. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

The company (CONTINUED)

Name of company	Place of incorporation/operation	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activity
			Group's effective interest	Held by the company	Held by a subsidiary	
Top Rank International Group Limited	British Virgin Islands/Hong Kong	50,000 shares of US\$1 each	57%	–	100%	Investment holding
United Profit Investments Limited	British Virgin Islands/Hong Kong	1 share of US\$1	100%	100%	–	Investment holding

Disposed of during the year

16. INTEREST IN ASSOCIATES

The group

	2006 \$'000	2005 \$'000
Unlisted shares, at cost	–	40,285
Share of net assets	–	(40,285)
	–	–

Details of the group's associates as at 31 December 2005 stated in prior year's audited consolidated financial statements were as follows:

Name of associate	Form of business structure	Place of incorporation and operation	Proportion of ownership interest			Principal activity
			Group's effective interest	Held by the company	Held by a subsidiary	
Happy Bright Holdings Limited ("Happy Bright")	Incorporated	Hong Kong	20%	–	20%	Investment holding
Guangzhou Huakang Dikong Development Company Limited ("GHDDCL")	Incorporated	PRC	17%	–	17%	Property, development and investments

The group acquired the equity interest of Happy Bright in 2002, which held an 85% equity interest in GHDDCL. In prior years, the carrying value had been written down to nil through the share of their losses. After considering the poor operating performance, the directors are of the view that these associates would not have any value to the group and the investment is fully written off.



NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

17. OTHER NON-CURRENT FINANCIAL ASSETS

The group

	2006 \$'000	2005 \$'000
Available-for-sale equity securities:		
Unlisted shares, at cost	–	30,000
Less: impairment loss	–	(30,000)
	–	–

As stated in the audited consolidated financial statements for the year ended 31 December 2005, the available-for-sale investments represent the Group's 10% shareholding in Universal Biotech Company Limited which was incorporated in Taiwan and engaged in the provision of research and development, production and sales of Chinese medical health food and Chinese pharmaceutical products.

The group acquired the equity investments in 2003. In prior years, the carrying value had been written down to nil through the recognition of impairment loss. After considering the poor operating performance, the directors are of the view that this investment would not have any value to the group and the investment is fully written off.

18. TRADING SECURITIES

The group

	2006 \$'000	2005 \$'000
Listed equity securities in Hong Kong (at market value)	–	2,268

NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

19. TRADE AND OTHER RECEIVABLES

	The group		The company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Amounts due from subsidiaries	–	–	12,704	67,541
Trade receivables	11,128	35,360	–	–
Other receivables	354	2,079	846	602
Deposits and prepayments	3,567	15,892	1,579	1,510
	15,049	53,331	15,129	69,653

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Included in trade and other receivables are trade receivables (net of impairment losses for bad and doubtful debts) with the following ageing analysis as of the balance sheet date:

	The group		The company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
0 to 30 days	2,309	3,033	–	–
31 to 60 days	1,469	962	–	–
61 to 90 days	1,435	817	–	–
Over 90 days	5,915	30,548	–	–
	11,128	35,360	–	–

20. CASH AND CASH EQUIVALENTS

	The group		The company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Fixed deposits with banks	414,934	71,488	265,812	57,469
Cash at bank and in hand	34,153	12,269	1,001	4,724
Cash and cash equivalents	449,087	83,757	266,813	62,193

Included in cash and cash equivalents in the balance sheet are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The group		The company	
	2006 '000	2005 '000	2006 '000	2005 '000
Hong Kong Dollars	\$132,757	\$ 5,099	\$ –	\$ –
Renminbi	RMB –	RMB 648	RMB –	RMB 648
United States Dollars	USD 2	USD 134	USD 2	USD 134

NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

21. TRADE AND OTHER PAYABLES

	The group		The company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Amount due to a minority shareholder	170	–	–	–
Amounts due to subsidiaries	–	–	20	55,940
Trade payables	754	583	–	–
Receipts in advance	160	397	–	–
Accrued charges	8,958	6,771	5,878	1,944
Current portion of mining right payables (note 29)	12,475	–	–	–
	22,517	7,751	5,898	57,884

The amount due to a minority shareholder and the amounts due to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Included in trade and other payables are trade payables with the following ageing analysis as of the balance sheet date:

	The group		The company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
0 to 30 days	467	543	–	–
31 to 60 days	270	16	–	–
Over 60 days	17	24	–	–
	754	583	–	–

22. DEFERRED INCOME

Deferred income represents fees received in advance for the provision of storage services. The amount is amortised over the remaining service period.



NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

23. SECURED BANK LOAN

The secured bank loan was repayable as follows:

The group

	2006 \$'000	2005 \$'000
Within one year or on demand	–	4,000
After 1 year but within 2 years	–	4,200
After 2 years but within 5 years	–	14,400
After 5 years	–	10,310
	–	28,910
	–	32,910

The bank loan was denominated in Hong Kong dollars and carried interest rate at HIBOR plus 2.65% per annum. The secured bank loan was fully repaid during the year.

24. LOANS FROM MINORITY SHAREHOLDERS

The loans are unsecured, interest-free and have no fixed terms of repayment.

25. OBLIGATION UNDER A FINANCE LEASE

The finance lease was fully repaid during the year.

26. EMPLOYEE RETIREMENT BENEFITS

(a) The group operates a Mandatory Provident Fund Scheme (“the MPF scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees’ relevant income, subject to a cap of monthly relevant income of \$20,000. Contributions to the plan vest immediately.

In addition, the group makes voluntary contributions for certain eligible directors and employees. The amount of voluntary contributions is calculated at 5% of their relevant monthly income in excess of \$20,000.

(b) Pursuant to the relevant labour rules and regulations in the PRC, the group participates in defined contribution retirement benefit schemes (the “Schemes”) organised by the relevant local government authorities, whereby the group is required to make contributions to the Schemes at a rate ranging from 18% to 22% of the eligible employees’ salaries. The local government authorities are responsible for the entire pension obligations payable to retired employees.

NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

27. EQUITY SETTLED SHARE-BASED TRANSACTIONS

The company has a share options scheme which was adopted on 26 June 2002 whereby the directors of the company may, at their discretion, invite directors and employees of the company or its subsidiaries to subscribe for shares in the company subject to terms and conditions stipulated therein. The options which were granted on 20 December 2005 were vested immediately at the date of grant and were exercisable within a period of three years. Each option gives the holder the right to subscribe for one ordinary share in the company.

- (a) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares:

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to directors			
– on 20 December 2005	17,300,000	Immediately	3 years
Options granted to employees			
– on 20 December 2005	7,188,000	Immediately	3 years
Total share options	24,488,000		

- (b) The number and exercise price of share options are as follows:

	2006		2005	
	Exercise price	Number of options '000	Exercise price	Number of options '000
Outstanding at the beginning of the period	\$0.160	24,488	\$ 0.145	17,500
Exercised during the period	\$0.160	(24,488)	–	–
Lapsed during the period	–	–	\$ 0.145	(17,500)
Granted during the period	–	–	\$ 0.160	24,488
Outstanding at the end of the period	–	–	\$0.160	24,488
Exercisable at the end of the period	–	–	–	–

The weighted average share price at the date of exercise for share options exercised during the year was \$1.3 (2005: not applicable).

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 share and the corresponding share options reserve are recorded by the company in the share premium account.

NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

28. INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheets represents:

	The group		The company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Provision for PRC Income Tax for the year	–	432	–	–
Balance of Hong Kong Profits Tax provision relating to prior years	–	56	–	–
Current taxation payable	–	488	–	–

(b) Deferred tax assets and liabilities recognised:

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

The group

Deferred tax arising from:	Depreciation allowances in excess of the related depreciation \$'000	Revaluation of investment properties \$'000	Accumulated losses \$'000	Total \$'000
At 1 January 2005	–	7,946	–	7,946
Credited to profit or loss	–	(1,581)	–	(1,581)
At 31 December 2005	–	6,365	–	6,365
At 1 January 2006	–	6,365	–	6,365
Charged/(credited) to profit or loss	312	805	(678)	439
Disposal of subsidiaries (note 32)	–	(7,170)	–	(7,170)
At 31 December 2006	312	–	(678)	(366)

	2006 \$'000	2005 \$'000
Net deferred tax assets recognised on the balance sheet	(366)	–
Net deferred tax liabilities recognised on the balance sheet	–	6,365
	(366)	6,365

NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

28. INCOME TAX IN THE BALANCE SHEET (CONTINUED)

(c) Deferred tax assets not recognised:

In accordance with the accounting policy set out in note 1(s), the group has not recognised deferred tax assets in respect of cumulative tax losses of approximately \$36,776,000 (2005: \$110,019,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under the current tax legislation.

29. OTHER PAYABLES

The group

	2006 \$'000	2005 \$'000
Mining right payables	44,378	–
Less: amount included under “current liabilities” (note 21)	(12,475)	–
	31,903	–

Pursuant to a mining rights premium agreement entered into between the group and Xinzhou Bureau of Land and Resources of the PRC, the mining rights premium in respect of the mining rights of the Mine amounted to approximately \$65,510,000. During the year, partial payment was made in accordance with the payment schedule. As at 31 December 2006, the remaining balance of the mining rights premium of \$44,378,000 shall be settled in five instalments. The final instalment is payable on or before 30 June 2012.

30. CAPITAL AND RESERVES

(a) The group

The amounts of the group's capital and reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of these financial statements.

(b) The company

	Share capital \$'000	Share premium \$'000	Contributed surplus \$'000	Share options reserve \$'000	Accumul- ated losses \$'000	Total \$'000
At 1 January 2005	246,481	177,179	234,944	–	(370,569)	288,035
Loss for the year	–	–	–	–	(36,546)	(36,546)
Equity settled share-based transactions	–	–	–	2,373	–	2,373
At 31 December 2005	246,481	177,179	234,944	2,373	(407,115)	253,862
At 1 January 2006	246,481	177,179	234,944	2,373	(407,115)	253,862
Loss for the year	–	–	–	–	(46,919)	(46,919)
Shares issued under:						
– purchase of net assets	31	108,148	324,444	–	–	432,592
– share placing		115,000	345,000	–	–	460,000
– share options scheme		2,449	3,842	(2,373)	–	3,918
Share issue expenses		–	(3,752)	–	–	(3,752)
At 31 December 2006	472,078	846,713	234,944	–	(454,034)	1,099,701

NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

30. CAPITAL AND RESERVES (CONTINUED)

(c) Share capital

(i) Authorised and issued share capital

	2006		2005	
	Number of shares ('000)	\$'000	Number of shares ('000)	\$'000
<i>Authorised:</i>				
Ordinary shares of \$0.1 each	10,000,000	1,000,000	4,000,000	400,000
<i>Ordinary shares issued and fully paid:</i>				
At 1 January	2,464,813	246,481	2,464,813	246,481
Shares issued under:				
– purchase of net assets	1,081,480	108,148	–	–
– share placing	1,150,000	115,000	–	–
– share options scheme	24,488	2,449	–	–
At 31 December	4,720,781	472,078	2,464,813	246,481

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. All ordinary shares rank equally with regard to the company's residual assets.

(ii) Increase in authorised share capital

By an ordinary resolution passed at the special general meeting held on 25 October 2006, the company's authorised ordinary share capital was increased to \$1,000,000,000 by the creation of an additional 6,000,000,000 ordinary shares of \$0.1 each, ranking *pari passu* with the existing ordinary shares of the company in all respects.

(iii) Shares issued under purchase of net assets

On 2 November 2006, the company issued 1,081,480,000 new shares as part of the consideration payable for the purchase of net assets as set out in note 31.

(iv) Shares issued under placing

On 31 October 2006, the company issued 1,150,000,000 new shares pursuant to a placing agreement entered into with and an over-allotment option granted to a placing agent on 7 July 2006 at \$0.4 per share to finance the purchase of net assets and further development of the mining operations as set out in note 31.

(v) Shares issued under share options scheme

On 1 June 2006, 26 October 2006 and 3 November 2006, options were exercised to subscribe for 24,488,000 ordinary shares in the company at a consideration of \$3,918,000 of which \$2,449,000 was credited to share capital and the balance of \$1,469,000 was credited to the share premium account. \$2,373,000 has been transferred from the share options reserve to the share premium account in accordance with policy set out in note 1(r)(ii).



NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

30. CAPITAL AND RESERVES (CONTINUED)

(c) Share capital (CONTINUED)

(vi) *Terms of unexpired and unexercised share options at the balance sheet date*

Exercise period	Exercise price	2006 Number	2005 Number
3 January 2006 to 2 January 2009	HK\$0.160	–	24,488,000

Each option entitles the holder to subscribe for one ordinary share in the company. Further details of these options are set out in note 27 to the financial statements.

(d) Nature and purpose of reserves

(i) *Share premium*

The application of the share premium account is governed by Section 40 of the Bermuda Companies Act 1981.

(ii) *Contributed surplus*

The group's contributed surplus represents the special reserve arising upon the group reorganisation in March 1997.

(iii) *Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 1(v).

(e) Distributability of reserves

The company had no reserve available for distribution to equity shareholders of the company as at 31 December 2006 and 2005.

NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

31. PURCHASE OF NET ASSETS

During the year, the group acquired a 57% equity interest in Lead Sun Investments Limited and its subsidiaries ("Lead Sun Group") from independent third parties.

Lead Sun Group holds primarily a mining right of an unexploited natural rutile mine with no established infrastructure and no significant mining equipment at the date of acquisition. The underlying set of assets acquired was not integrated in forming a business to generate revenues. As such, the directors are of the opinion that the acquisition of Lead Sun Group is a purchase of net assets which does not constitute a business combination for accounting purposes.

The aggregate purchase consideration of \$811,625,000 was in the form of (i) 1,081,480,000 new shares of the company at \$0.4 per share amounted to \$432,592,000; (ii) disposal of subsidiaries at their carrying values of \$174,033,000; and (iii) a cash consideration of \$205,000,000.

The directors considered that the total purchase consideration paid represented the fair value of net assets acquired and the fair value of mining rights, which is presented as intangible assets below, is considered as the excess of fair value of net assets acquired over the fair value of net tangible assets acquired.

The purchase had the following effect on the group's assets and liabilities:

	Carrying values prior to purchase \$'000	Fair value adjustments \$'000	Carrying values upon purchase \$'000
Acquiree's net assets at the date of acquisition			
Property, plant and equipment	753	–	753
Intangible assets	69,122	1,606,662	1,675,784
Trade and other receivables	217	–	217
Cash and cash equivalents	1,047	–	1,047
Amount due from a minority shareholder	14,204	–	14,204
Trade and other payables	(73,360)	–	(73,360)
Minority interests	(13,226)	(782,188)	(795,414)
Net assets acquired	(1,243)	824,474	823,231
Satisfied by:			
– Shares issued			432,592
– Carrying values of subsidiaries disposed (note 32)			174,033
– Cash paid			205,000
– Costs directly attributable to the purchase			11,606
Total purchase consideration			823,231
Cash and cash equivalents acquired			1,047
Purchase consideration settled in cash			(216,606)
Net outflow of cash and cash equivalents in respect of the purchase of net assets			(215,559)



NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

32. DISPOSAL OF SUBSIDIARIES

During the year, the group disposed of two subsidiaries at their carrying values of \$174,033,000 upon purchase of net assets of Lead Sun Group as set out in note 31. There is no gain or loss on disposal.

Net assets disposed of at the date of disposal:

	\$'000
Property, plant and equipment	177
Investment properties	140,594
Trade and other receivables	29,548
Pledged bank deposits	14,416
Trade and other payables	(3,100)
Current taxation	(432)
Deferred tax liabilities	(7,170)
Net assets disposed	174,033

The investment properties were revalued as at 31 July 2006 on an open market value basis. The valuation was carried out by an independent firm of surveyors, Greater China Appraisal Limited, who has among their staff Registered Professional Surveyors in Hong Kong with substantial experience in valuation of property interest in the PRC since 1992. Accordingly, a valuation gain of \$15,794,000 was recognised in the profit for the year from discontinued operations.

33. FINANCIAL INSTRUMENTS

Exposure to credit, liquidity and currency risks arises in the normal course of the group's business. These risks are limited by the group's financial management policies and practices described below.

(a) 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 2006 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 to irrecoverable amounts. In this regard, the directors of the company consider that the group's credit risk is significantly reduced.

The group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

(b) Liquidity risk

The group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

(c) Foreign currency risk

The group is exposed to foreign currency risk primarily through cash and cash equivalents held in currencies other than the functional currency of the operations to which they relate. To manage the foreign currency risk, the group aims to utilise the fund for transactions that are denominated in the same currency.

NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

33. FINANCIAL INSTRUMENTS (CONTINUED)

(d) Interest rate risk

In respect of income-earning financial assets, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or the maturity dates, if earlier.

The group

	2006			2005		
	Effective interest rate %	Total \$'000	One year or less \$'000	Effective interest rate %	Total \$'000	One year or less \$'000
Repricing dates for assets which reprice before maturity						
Cash and cash equivalents	3.22	449,087	449,087	3.95	83,757	83,757

The company

	2006			2005		
	Effective interest rate %	Total \$'000	One year or less \$'000	Effective interest rate %	Total \$'000	One year or less \$'000
Repricing dates for assets which reprice before maturity						
Cash and cash equivalents	3.90	266,813	266,813	3.98	62,193	62,193

(e) Fair values

The fair values of all financial assets and liabilities are not materially different from their carrying amounts.

NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

34. COMMITMENTS

- (a) Capital commitments outstanding at 31 December 2006 not provided for in the financial statements were as follows:

	The group		The company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Contracted for	4,872	–	–	–
Authorised but not contracted for	788,801	–	–	–
	793,673	–	–	–

- (b) **Operating lease commitments**

As lessee

At 31 December 2006, the total future minimum lease payments under non-cancellable operating leases in respect of rented premises are payable as follows:

	The group		The company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Within 1 year	2,847	2,250	1,247	2,045
After 1 year but within 5 years	194	1,221	–	1,108
	3,041	3,471	1,247	3,153

As lessor

At 31 December 2006, the total future minimum lease payments contracted with tenants are as follows:

	The group		The company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Within 1 year	300	8,151	300	300
After 1 year but within 5 years	–	23,016	–	–
After 5 years	–	47,910	–	–
	300	79,077	300	300



NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

35. MATERIAL RELATED PARTY TRANSACTIONS

The group has entered into the following related party transactions:

	2006 \$'000	2005 \$'000
Sales of goods to a former associate	–	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 6.

In addition, at 31 December 2005, 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. The personal guarantee was released in October 2006.

36. ACCOUNTING ESTIMATES AND JUDGEMENTS

Key sources of estimation uncertainty

Notes 14, 32 and 33 contain information about the assumptions and their risk factors relating to valuation of investment properties, goodwill impairment and fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

(i) *Impairments*

In considering the impairment losses that may be required for certain of the group's assets which include property, plant and equipment, intangible assets, available-for-sale equity investments and investments in its subsidiaries and associates, recoverable amount of the asset needs to be determined. The recoverable amount is the greater of the net selling prices and the value in use. It is difficult to precisely estimate selling prices because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the assets are discounted to their present value, which requires significant judgement relating to items such as level of sale volume, selling price and amount of operating costs. The group uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as sale volume, selling price and amount of operating costs.

In considering the impairment losses that may be required for current receivables, future cash flows need to be determined. One of the key assumptions that has to be applied is about the ability of the debtors to settle the receivables. Despite that the group has used all available information to make this estimation, inherent uncertainty exists and actual write-offs may be higher than the amount estimated.



NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

36. ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Key sources of estimation uncertainty (CONTINUED)

(ii) *Depreciation*

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The group reviews annually the useful life of an asset and its residual value, if any. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(iii) *Impairment losses for goodwill*

Internal and external sources of information are reviewed by the group at each balance sheet date to assess whether there is any indication that goodwill may be impaired. If any such indication exists, the recoverable amount of the goodwill is estimated. Changes in facts and circumstances may result in revisions to the conclusion of whether an indication of impairment exists and revised estimates of recoverable amounts, which would affect profit or loss in future years.

(iv) *Recognition of deferred tax assets*

Deferred tax assets in respect of tax losses carried forward are recognised and measured based on the expected manner of realisation or settlement of the carrying amount of the assets, using tax rates enacted or substantively enacted at the balance sheet date. In determining the carrying amounts of deferred tax assets, expected taxable profits are estimated which involves a number of assumptions relating to the operating environment of the Group and requires significant level of judgement exercised by the directors. Any change in such assumptions and judgement would affect the carrying amounts of deferred tax assets to be recognised and hence the net profit in future years.

37. NON-ADJUSTING POST BALANCE SHEET EVENTS

- (a) On 11 March 2007, the company announced that it entered into a sale and purchase agreement with independent parties to acquire 75.08% equity interests in Harbin Songjiang Copper (Group) Company Limited, a company incorporated in the PRC with limited liability, which principally engaged in mining and processing of molybdenum, copper and zinc operation, for a total consideration of RMB1,807,881,000 (subject to downward adjustments). The completion of the acquisition is conditional upon the fulfilment of a number of conditions precedent.
- (b) On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China ("new tax law") which will take effect on 1 January 2008. On 22 March 2007, Shanxi Shenli has been granted the two-year exemption and subsequent three-year 50 percent reduction of applicable tax rate ("five-year tax holiday") from the tax authorities in the PRC. As a result of the new tax law, it is expected that the income tax rate applicable to Shanxi Shenli will be reduced from 33% to 25% after the five-year tax holiday. The expected financial effect of the new tax law, if any, will be reflected in the company's 2007 financial statements. The enactment of the new tax law is not expected to have any financial effect on the amounts accrued in the balance sheet in respect of current tax payable.



NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN HONG KONG DOLLARS)

38. COMPARATIVE FIGURES

Certain comparative figures have been re-classified due to the following:

- (i) additions of "selling expenses" on the face of the consolidated income statement which management of the group considers that it would better reflect the substance of the underlying transactions; and
- (ii) compliance with the disclosure requirements of HKFRS 3, Non-current assets held for sale and discontinued operations.

39. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2006

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2006 and which have not been adopted in these financial statements.

The group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the company's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the financial statements:

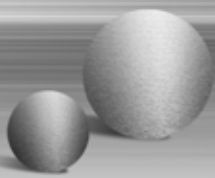
	Effective for accounting periods beginning on or after
HKFRS 7, Financial instruments: disclosures	1 January 2007
Amendments to HKAS 1, Presentation of financial statements: capital disclosures	1 January 2007



FIVE YEARS FINANCIAL SUMMARY

YEAR ENDED 31 DECEMBER

	Year Ended 31 December				2006 \$'000
	2002 \$'000	2003 \$'000	2004 \$'000	2005 \$'000	
RESULTS					
Turnover					
Continuing operations	27,591	9,287	11,724	15,634	17,366
Discontinued operations	8,872	8,822	230,735	175,204	138,207
	36,463	18,109	242,459	190,838	155,573
Profit/(loss) before taxation					
Continuing operations	(37,144)	(36,234)	(86,385)	(25,134)	(20,558)
Discontinued operations	310	2,221	345	(30,725)	12,267
	(36,834)	(34,013)	(86,040)	(55,859)	(8,291)
Taxation credit/(charge)					
Continuing operations	–	–	–	(75)	366
Discontinued operations	167	(1,277)	(175)	734	(1,317)
	167	(1,277)	(175)	659	(951)
Profit/(loss) for the year					
Continuing operations	(37,144)	(36,234)	(86,385)	(25,209)	(20,192)
Discontinued operations	477	944	170	(29,991)	10,950
	(36,667)	(35,290)	(86,215)	(55,200)	(9,242)
Attributable to:					
Equity shareholders of the company	(36,667)	(35,290)	(86,215)	(55,200)	(8,244)
Minority interests	–	–	–	–	(998)
	(36,667)	(35,290)	(86,215)	(55,200)	(9,242)



FIVE YEARS FINANCIAL SUMMARY

YEAR ENDED 31 DECEMBER

	Year Ended 31 December				2006 \$'000
	2002 \$'000	2003 \$'000	2004 \$'000	2005 \$'000	
Total assets	319,875	427,860	484,225	297,041	2,172,179
Total liabilities	(46,227)	(97,435)	(203,971)	(69,614)	(239,759)
NET ASSETS	273,648	330,425	280,254	227,427	1,932,420
REPRESENTED BY:					
Equity attributable to shareholders of the company	273,648	330,425	280,254	227,427	1,121,572
Minority interests	–	–	–	–	810,848
TOTAL EQUITY	273,648	330,425	280,254	227,427	1,932,420