
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in **MINGYUAN MEDICARE DEVELOPMENT COMPANY LIMITED**, you should at once hand this circular to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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MINGYUAN MEDICARE DEVELOPMENT COMPANY LIMITED

銘源醫療發展有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 0233)

DISCLOSEABLE TRANSACTION

ACQUISITION OF 51% EQUITY IN WEIYI

* For identification purpose only

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

“Acquisition”	the acquisition of a 51% equity interest in Weiyi by Shanghai HealthDigit under the Acquisition Agreement
“Acquisition Agreement”	the agreement for the sale and purchase of the 51% equity interest in Weiyi dated 16 June 2006, between the Vendors and Shanghai HealthDigit
“Asset”	51% of the equity interest in Weiyi
“Business Day”	a day (other than a Saturday) on which licensed banks are generally open for business in the Hong Kong throughout their normal business hours
“Completion”	completion of the sale and purchase of the Asset in accordance with the terms and conditions of the Acquisition Agreement
“Company”	Mingyuan Medicare Development Company Limited, a company incorporated in Bermuda with limited liability and whose shares are listed on the Main Board of the Stock Exchange
“Condition”	the condition precedent to Completion, as more particularly set out under the Section headed “Condition” of this circular
“Consideration”	the consideration payable by Shanghai HealthDigit to the Vendors under the Agreement in the amount of RMB60,000,000 (equivalent to approximately HK\$58,252,000)
“Directors”	directors of the Company
“DNA”	Deoxyribonucleic Acid, the basic constituent of the gene
“FDA”	the Food and Drug Administration of United States of America
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“HPV”	Human Papillomavirus
“HPV Detection Products”	PCR Fluorescence Detection Kit for Human Papillomavirus and PCR Micro-plate Hybrid Capture Detection Kit for Human Papillomavirus developed by Genetel
“Latest Practicable Date”	6 July, 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Tang”	唐洪明先生 (Mr. Tang Hong Ming)
“Mr. Yang”	楊興先生 (Mr. Yang Xing)
“PRC”	The People’s Republic of China, for the purpose of this circular excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Purchaser”	Shanghai HealthDigit
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shanghai HealthDigit”	上海數康生物科技有限公司 (Shanghai HealthDigit Company Limited), a wholly-owned subsidiary of the Company
“Shareholders”	the shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Weiyi”	上海唯依醫院投資管理有限公司 (Shanghai Weiyi Hospital Investment & Management Co., Ltd.)
“Vendors”	Mr. Tang and Mr. Yang, existing shareholders of Weiyi
“WHO”	World Health Organization
“%”	percentage

MINGYUAN MEDICARE DEVELOPMENT COMPANY LIMITED

銘源醫療發展有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 0233)

Executive Directors:

Mr. Yao Yuan (*Chairman*)

Mr. Chien Hoe Yong, Henry

Mr. Hu Jun

Mr. Yu Ti Jun

Registered office:

Canon's Court

22 Victoria Street

Hamilton HM12

Bermuda

Independent non-executive Directors:

Dr. Lam Lee G.

Mr. Hu Jin Hua

Mr. Lee Sze Ho, Henry

*Head office and principal place
of business:*

Room 1801-03,

Hutchison House

10 Harcourt Road, Central

Hong Kong

6 July 2006

To the Shareholders

Dear Sir/Madam,

DISCLOSEABLE TRANSACTION

ACQUISITION OF 51% EQUITY IN WEIYI

INTRODUCTION

On 19 June 2006, the Company announced that Shanghai HealthDigit, a wholly-owned subsidiary of the Company, as purchaser, entered into the Acquisition Agreement with the Vendors in respect of the sale and purchase of 51% of the equity interest in Weiyi.

The Acquisition constitutes a discloseable transaction of the Company pursuant to Rule 14.06(2) of the Listing Rules as the assets ratio, profits ratio and revenue ratio of the Acquisition exceed 5% or more, but less than 25%.

The purpose of this circular is to provide Shareholders with further details of the Acquisition.

* For identification purpose only

LETTER FROM THE BOARD

THE ACQUISITION

The Acquisition Agreement:

Date: 16 June 2006

Parties:

(i) The Vendors : Mr. Tang and Mr. Yang, who together holds 100% of the equity interest in Weiyi. To the best of the Directors' knowledge, information and belief and after making all reasonable enquiries, the Vendors are independent third parties not connected with the Directors, chief executive officer or substantial shareholders of the Company or any of its subsidiaries, or an associate of any of them (as defined in the Listing Rules).

According to the Directors' understanding, the Vendors are individual private investors.

(ii) the Purchaser : Shanghai HealthDigit, a wholly-owned subsidiary of the Company.

The Asset acquired:

51% of the equity interest in Weiyi.

Consideration:

The Consideration in the total amount of RMB60,000,000 (equivalent to approximately HK\$58,252,000) was arrived at after arm's length negotiation and references were made to (i) the business prospects of Weiyi and (ii) the valuation report of Weiyi prepared by Shanghai China Cheng Xin Enterprise Appraisals Co., Ltd., an independent asset appraisal company, dated 6 June 2006 which provides that the fair value of the net assets of Weiyi was RMB78,632,000 (equivalent to approximately HK\$76,342,000) as of 30 April 2006 (the book value of net assets of Weiyi as of 30 April 2006 was RMB14,768,000 (equivalent to approximately HK\$14,338,000)). The difference between the book value and the fair value of net asset of Weiyi as of 30 April 2006 is due to revaluation of property to the market value. The Consideration will be payable by the Purchaser to the Vendors in cash upon Completion as follows:

- (a) RMB36,470,585 (equivalent to approximately HK\$35,408,000) to Mr. Tang; and
- (b) RMB23,529,415 (equivalent to approximately HK\$22,844,000) to Mr. Yang.

LETTER FROM THE BOARD

The Consideration represents a premium of 49.6% over the fair value of the net asset of Weiyi as of 30 April 2006.

Condition:

The Acquisition Agreement is conditional upon due registration of the transfer of the Asset in the name of Shanghai HealthDigit with the relevant PRC government authorities.

Completion:

Completion will take place on the date falling 7 Business Days from the date of fulfillment of the Condition.

INFORMATION OF WEIYI

Founded in July 2003, Weiyi is a domestic company incorporated in the PRC. The existing shareholders of Weiyi are free to transfer their equity interests in Weiyi to any third parties.

Weiyi is principally engaged in two major business activities, namely (1) the operation of 上海市虹口區婦幼保健院 (Shanghai Woman and Child Healthcare Hospital of Hong-Kou District) (the “Hospital”), an established woman and infants specialty hospital in Shanghai founded in November 1982, and (2) the distribution of HPV Detection Products (HPV DNA diagnostic kits for cervical cancer screening) in the Asia Pacific region for a period of 20 year from 7 June 2006 to 6 June 2026 through an exclusive agency agreement (the “Agency Agreement”) with Genetel Pharmaceuticals Limited (“Genetel”). Founded in 2000, Genetel is a subsidiary of the City University of Hong Kong and it is principally engaged in the research, technology transfer and commercialization of innovative molecular diagnostics and therapeutics for early diagnosis, prevention and treatment of common diseases.

The Hospital provides up to 228 beds and operates 7 departments:

- Department of Obstetrics and Gynecology includes Obstetric, Gynecology, Subfertility and Family Planning Units.
- Department of Women Healthcare includes Adolescence and Climacteric Healthcare Units.
- Department of Pediatrics includes Neonatal Unit.
- Department of Children Healthcare includes Child Development, Nutrition and Psychological Units.
- Department of Laboratory Medicine includes Clinical Microbiology and Clinical Immunological Units.

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- Department of Medical Imaging provides X-ray, Ultrasound, Electrocardiogram and Radiological diagnosis.
- Department of Traditional Chinese Medicine provides obstetrics and gynecology Chinese medical services.

The Hospital is staffed with 88 specialized practitioners and 77 nurses and other medical staffs.

Shareholding structure of Weiyi immediately before the Acquisition is that Mr. Tang and Mr. Yang holds 51% and 49% of the equity interest in Weiyi respectively. Pursuant to the Acquisition Agreement, Mr. Tang will transfer 31% and Mr. Yang will transfer 20% of the shareholding interest in Weiyi respectively to Shanghai HealthDigit. In addition, Consent had been obtained from Genetel whereby Weiyi will assign its entire rights and interests in the Agency Agreement with Genetel to Shanghai HealthDigit. Following the Acquisition, Shanghai HealthDigit would hold a total of 51% of the equity interest in Weiyi and would assume all the rights and interests in the distribution of HPV Detection Products in the Asia Pacific region for the next 20 years.

Under the Agency Agreement, Shanghai HealthDigit would be required to achieve following minimum yearly sales quantities (“Targeted Quantity”) of HPV Detection Products:

Second year : 150,000 sets;
Third year : 200,000 sets, and
Fourth year : 250,000 sets.

Under the Agency Agreement, there is no minimum Targeted Quantity requirement for the first year and for the fifth year onwards. Should Shanghai HealthDigit fail to achieve the Targeted Quantity, Genetel has the option to terminate the Agency Agreement and Shanghai HealthDigit would be required to compensate Genetel for the financial losses incurred due to shortfall on sales of HPV Detection Products.

Following the execution of the assignment of the Agency Agreement on 21 June 2006, Genetel will transfer 5% of its equity interest in Genetel Pharmaceuticals (Shenzhen) Ltd (“Shenzhen Genetel”) at zero cost to Shanghai HealthDigit or its assignee. In addition, Shanghai HealthDigit or its assignee has the option to increase its shareholding in Shenzhen Genetel to a maximum of 15% at a total cost of HK\$6,000,000 within 5 years after the execution of the assignment of the Agency Agreement. At the present moment, neither the Company nor Shanghai HealthDigit has the intention to exercise the option. The assignment agreement that was executed on 21 June 2006 does not spell out the exact time when the 5% interest of Shenzhen Genetel should be transferred to Shanghai HealthDigit. The Company is currently discussing with Genetel on (i) the vehicle and (ii) mechanism that the 5% interest should be transferred to Shanghai HealthDigit. Shenzhen Genetel is the production base of HPV Detection Products in the PRC.

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Upon Completion, the Group will continue the existing operations of the Hospital. In addition, the Group will transform part of the existing hospital facilities into a bio-medical diagnostic laboratory for promotion and distribution of protein chips and HPV Detection Products. At the present stage, the Group does not foresee any significant capital commitment requirement for the operation of the Hospital. The additional cost for the setting up of the bio-medical diagnostic laboratory would be in the range of RMB3 million to RMB5 million and could be met by the internal resources of the Group. The board of directors of Weiyi will comprise 5 directors upon Completion. Shanghai HealthDigit is entitled to nominate three directors, including the chairman, while each of Mr. Tang and Mr. Yang is entitled to nominate one director.

According to the valuation report dated 6 June 2006, the fair value of net asset of Weiyi as of 30 April 2006 was RMB78,632,000 (equivalent to approximately HK\$76,342,000) (the book value of net assets of Weiyi as of 30 April 2006 was RMB14,768,000 (equivalent to approximately HK\$14,338,000)). Based on the unaudited management account of Weiyi, the unaudited net profit for the years (all generated from the operation of Shanghai Woman and Child Healthcare Hospital of Hong-Kou District) ended 31 December 2005 and 31 December 2004 were RMB4,746,000 (equivalent to approximately HK\$4,608,000) and RMB2,035,000 (equivalent to approximately HK\$1,975,000) respectively.

INFORMATION OF SHANGHAI HEALTHDIGIT

Shanghai HealthDigit is a the wholly-owned subsidiary of the Company and its principal business activities are in the areas of research, manufacture and sale of biochips, including the supply of protein chips for cancer screening, and related equipment for early screening, detection and prevention of diseases.

REASONS AND BENEFIT OF THE ACQUISITION

The Group's corporate mission of developing innovative bio-medical solutions for the early detection and prevention of diseases could be traced back to the founding of Shanghai HealthDigit in 2000 and since then the Group has become the leading supplier of protein chips for the early screening of cancerous tumors for asymptomatic population in China. In 2005, the Group sold more than 1.18 million protein chips in China.

The Group believes that its unique experience in China drives the Group to find cost effective and innovative bio-medical solutions to service the population at large in the areas of early screening and detection of diseases, particularly for life threatening diseases like cancers.

As part of the Group's KM2003 Objectives, the six key milestones resulting in sustainable and steady growth for the protein chips operation detailed in the Group's annual report for the year 2003, the Group continues to expand its nationwide distribution network particularly for corporate and institutional customers that provide higher profit margin per protein chip, to cooperate with established research institutions on new bio-medical technology and to diversify its product ranges both horizontally and vertically. The Acquisition meets these objectives perfectly within the Group's overall corporate strategy and the Group believes that this Acquisition will yield respectable returns to the shareholders of the Company both in the short and long term.

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The Acquisition provides an opportunity to the Group to transform part of the existing hospital facilities into a bio-medical diagnostic laboratory for promotion and distribution of protein chips and HPV Detection Products. The Directors believe that this strategy will greatly enhance the Group's marketing and sales efforts for corporate and institutional sales market and to provide better after sales service in Shanghai, and the Group intends to leverage on the experience of the existing medical staff to provide on site training for new laboratory personnel from other parts of the PRC.

At the same time, the Acquisition provides the Group with a strategic and a synergistic opportunity to further strengthen its cancer screening product series into the area of cervical cancer screening and to optimize its sales efforts in the established distribution network, particularly in the PRC.

Cervical cancer is the second biggest cause of female mortality worldwide and in the PRC, accounting for about 50,000 deaths each year. Cervical cancer is caused by HPV and early detection of high-risk HPV infection can provide early treatment and reduce cervical cancer development and death rate. Virtually all cervical cancer cases are preventable if detected early. WHO and FDA recommend use of advance DNA diagnostic tests for sensitive and specific detection of HPV infection as conventional Pap Smear test is generally believed to have large false negative rate. Following the Acquisition, Shanghai HealthDigit will become the sole distribution agent of HPV Detection Products in the Asia Pacific Region for next 20 years and the Directors believe that the Acquisition will allow the Group to expand its leadership in early detection and prevention of diseases in the Asia Pacific region, particularly in the PRC.

The Directors consider that the terms of the Acquisition Agreement are determined at arm's length and the terms are normal commercial terms and are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

EFFECT OF THE ACQUISITION ON THE EARNINGS AND ASSETS AND LIABILITIES OF THE GROUP

Upon Completion, Weiyi will become a subsidiary of the Group. Immediately after Completion, the Acquisition will lead to an increase of approximately HK\$16,342,000 in the net assets of the Group. Save as above, the Acquisition does not have any immediate effect on the earnings of the Group.

FURTHER INFORMATION

Your attention is also drawn to the additional information set out in the appendix of this circular.

Yours faithfully,
By Order of the Board
Poon Kwong Wai, Kenny
Company Secretary

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information relating to the Company contained in this circular and confirm, having made all reasonable enquiries that to the best of their knowledge and belief, there are no other matters the omission of which would make any statement in this circular relating to the Company misleading.

DIRECTORS' INTERESTS IN SECURITIES**(a) Directors' interests in the shares and underlying shares of the Company and its associated corporations**

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Director of Listed Companies contained in the Listing Rules, were as follows:

Name of Director	Number of Shares held				Percentage of total issued shares
	Personal interests	Family interests	Corporate interests	Other interests	
Mr. Yao Yuan	–	–	1,272,969,075 (Note)	–	47.36

Note: The shares are held by Ming Yuan Investments Group Limited, a wholly-owned subsidiary of Ming Yuan Holdings Limited, of which 50% is held by Mr. Yao Yuan.

(b) Directors' interests in the share options of the Company

Name of Director	Date of grant	Number of options held	Number of underlying shares
Mr. Chien Hoe Yong, Henry	08.04.2005	26,500,000	26,500,000
Mr. Hu Jun	08.04.2005	10,000,000	10,000,000
Mr. Yu Ti Jun	08.04.2005	10,000,000	10,000,000

Saved as disclosed herein, as at the Latest Practicable Date, none of the Directors or chief executive had any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Director of Listed Companies contained in the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, as far as known to the Directors and the chief executive, persons other than Directors or chief executive, who has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings if any member of the Group are as follows:

Name of Shareholder	Attributable number of shares	Percentage of issued shares
Ming Yuan Investments Group Limited (<i>Note 1</i>)	1,272,969,075	47.36%
Mr. Yao Yuan (<i>Note 2</i>)	1,272,969,075	47.36%
Mr. Iu Chung (<i>Note 3</i>)	1,272,969,075	47.36%

Notes:

1. The shares are held by Ming Yuan Investments Group Limited, a wholly-owned subsidiary of Ming Yuan Holdings Limited, which in turn is owned as to 50% and 50% by Mr. Yao Yuan and Mr. Iu Chung respectively.
2. These shares are attributable to Mr. Yao Yuan in respect of his 50% interests in Ming Yuan Holdings Limited.
3. These shares are attributable to Mr. Iu Chung in respect of his 50% interests in Ming Yuan Holdings Limited.

Saved as disclosed, as far as known to the Directors and the chief executive, there are no other persons other than Directors or chief executive, who has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings if any member of the Group.

SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered, or proposed to enter, into a service contract with any member of the Group which does not expire or is not determinable by the relevant member of the Group within one year without compensation, other than statutory compensation.

COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and his associates is interested directly or indirectly in a business, apart from his interest in the Company, which competes or is likely to compete with the business of the Group.

LITIGATION

As at the Latest Practicable Date, none of the members of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors or the Company to be pending or threatened by or against any member of the Group.

MISCELLANEOUS

- (a) The English text of this circular shall prevail over the Chinese text.
- (b) The registered office of the Company is at Cedar House, 41 Cedar Avenue, Hamilton HM12, Bermuda. The share registrars of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (c) Mr. Poon Kwong Wai, Kenny, fellow member of Hong Kong Society of Accountants and The Association of Chartered Certified Accounts, is the chief financial officer and secretary of the Company.