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

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**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)**

### **MAJOR TRANSACTION**

### **DISPOSAL OF 51% EQUITY INTEREST IN LONGXIANG**

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A notice convening the special general meeting of Mingyuan Medicare Development Company Limited (the "Company") to be held at Room 1801-03, Hutchison House, 10 Harcourt Road, Central, Hong Kong on 19th December, 2006 at 2:30 p.m. is set out on pages 53 to 54 of this circular. Whether or not you intend to attend and vote at the special general meeting, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return it to the branch share registrars of the Company, Computershare Hong Kong Investor Services Limited, of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the special general meeting or any adjournment thereof (as the case may be). Completion and return of the proxy form will not preclude you from attending and voting in person at the special general meeting or any adjourned meeting(s) should you so wish.

\* *For identification purpose only*

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## DEFINITIONS

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

“Company”	Mingyuan Medicare Development Company Limited
“Completion”	completion of the Share Transfer Agreement in accordance with the terms and conditions of the Share Transfer Agreement
“Directors”	the directors of the Company
“Disposal”	the disposal by Sky Glory to the Purchaser the 51% equity interest in Longxiang pursuant to the Share Transfer Agreement
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region of the People’s Republic of China
“Latest Practicable Date”	1st December, 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
“Longxiang”	上海龍祥電腦有限公司 (Shanghai Longxiang Computer Company Limited), a company incorporated in the form of equity joint venture in Shanghai, the PRC
“PRC”	the People’s Republic of China
“Purchaser”	Cosmos Magic Profits Limited, an independent third party 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)
“RMB”	Renminbi, the lawful currency of the PRC
“SGM”	the special general meeting of the Company to be held for the purpose of approving the Disposal

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## DEFINITIONS

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“Share(s)”	ordinary share(s) of HK\$0.05 each in the share capital of the Company
“Shareholder(s)”	the shareholder(s) of the Company
“Share Transfer Agreement”	the agreement dated 7th November, 2006 entered into between Sky Glory as vendor and the Purchaser as the purchaser in relation to sale and purchase of the 51% equity interest in Longxiang
“Sky Glory”	Sky Glory Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

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## LETTER FROM THE BOARD

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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)

*Executive Directors:*

Mr. Yao Yuan (*Chairman*)

Mr. Chien Hoe Yong, Henry (*CEO*)

Mr. Iu Chung

Mr. Hu Jun

Mr. Yu Ti Jun

*Registered office:*

Cannon'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

1st December, 2006

*To the Shareholders*

Dear Sir/Madam,

### MAJOR TRANSACTION DISPOSAL OF 51% EQUITY INTEREST IN LONGXIANG

#### INTRODUCTION

On 8th November, 2006, The Company announced that Sky Glory, a wholly-owned subsidiary of the Company, as vendor, entered into the Share Transfer Agreement with the Purchaser in respect of the sale and purchase of 51% of the equity interest in Longxiang for a consideration of HK\$4,200,000. As at the Latest Practicable Date, the Share Transfer Agreement had not been completed.

The Disposal constitutes a major transaction of the Company pursuant to Rule 14.06(2) of the Listing Rules as revenue ratio of the Acquisition exceed 25% or more, but less than 75%. The Disposal is subject to the approval of the Shareholders at the SGM. No Shareholder will be required to abstain from voting in respect of the proposed resolution to approve the Disposal at the SGM.

The purpose of this circular is to provide Shareholders with further details of the Disposal, and to provide Shareholders with the notice of SGM and other information as required under the Listing Rules.

\* For identification purpose only

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## LETTER FROM THE BOARD

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### THE DISPOSAL

#### Date of the Share Transfer Agreement

7th November, 2006

#### Parties

Vendor: Sky Glory, a wholly-owned subsidiary of the Company

Purchaser: Cosmos Magic Profit Limited, whose shares are 100% owned by Mr. Ma Hong Wei. To the best of the Directors' knowledge, information and belief, the Purchaser and Mr. Ma Hong Wei 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 purchaser is an investment holding company.

#### Terms of the Share Transfer Agreement

Sky Glory agreed to sell and the Purchaser agreed to purchase its beneficially owned 51% equity interest in Longxiang pursuant to the terms and conditions of the Share Transfer Agreement.

Longxiang is a company incorporated in the form of equity joint venture in Shanghai, PRC, on 26th January, 1999. Sky Glory holds 51% equity interest in Longxiang, Mr. Wang Guo Long holds 29% equity interest in Longxiang, and the remaining 20% equity interest is held by Ms. Su Pei Yu. Mr. Wang Guo Long and Ms. Su Pei Yu are individual private investors. Longxiang is engaged in the trading of computer products and related accessories in Shanghai and nearby regions.

#### Consideration

The consideration for the Disposal is HK\$4,200,000, which is to be settled as follows:

- (a) a refundable deposit of HK\$1,000,000 at the time of signing of the Share Transfer Agreement; and
- (b) the balance of HK\$3,200,000 within 5 days after Completion.

The Consideration of HK\$4,200,000 was determined after arm's length negotiation between Sky Glory and the Purchaser by reference to the prevailing market condition. Currently, the computer trading business in the Shanghai region is experiencing increasing

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## LETTER FROM THE BOARD

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competition, increasing operating costs, and decreasing margin. As a result of reducing allocation of resources to the computer trading business, Longxiang had experienced operating losses in the year 2005 and for the six months ended 30th June, 2006. The consideration represents a discount of 42.2% over the Group's share of net asset of Longxiang based on audited figures as at 30th September, 2006. Taking into consideration of the savings on future losses that would be incurred by Longxiang, the Directors consider the amount of Consideration is fair and reasonable to the Company and its Shareholders.

Sky Glory has already obtained consents from Mr. Wang Guo Long and Ms. Su Pei Yu for the Disposal. Upon Completion, the Purchaser shall register himself as the new shareholder of Longxiang with relevant PRC authorities.

### **Completion**

Completion of the Disposal will take place after fulfillment of the following conditions:

- (i) completion of the due diligence exercise to be conducted on Longxiang by the Purchaser; and
- (ii) approval of the Disposal by the Shareholders at the forthcoming SGM.

Both parties to the Share Transfer Agreement agree to use their best endeavours to facilitate the fulfillment of all conditions set out above on or before 20th December, 2006. If any of the above conditions is not fulfilled on or before 20th December, 2006, the Share Transfer Agreement shall lapse automatically, without prejudice to the rights of the parties to claim against any breach of the Share Transfer Agreement. Sky Glory shall return the deposit without interest to the Purchaser within 5 days from the lapse of the Share Transfer Agreement.

### **INFORMATION OF LONGXIANG**

Longxiang is a company incorporated in the form of equity joint venture in Shanghai, the PRC, with limited liability. Longxiang is engaged in the trading of computer products and related accessories in Shanghai and nearby region. Sky Glory, a wholly-owned subsidiary of the Company holds 51% equity interest in Longxiang.

As at 30th September, 2006, the Group's share of net asset of Longxiang based on audited figures was RMB7,376,000 (equivalent to approximately HK\$7,267,000). The estimated unaudited net loss on disposal is approximately HK\$3,067,000. The estimated unaudited net loss on disposal is arrived by deducting the Group's share of net asset of Longxiang of RMB7,376,000 (equivalent to approximately HK\$7,267,000) from the consideration of HK\$4,200,000 received in respect of the Disposal.

Upon Completion, Longxiang will cease to be a subsidiary of Sky Glory.

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The financial figures of Longxiang for the six months ended 30th June, 2006 and the two years ended 31st December, 2005 are summarized as follows:

	<b>Six months ended 30th June, 2006</b>	<b>Year ended 31st December, 2005</b>	<b>Year ended 31st December, 2004</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	(Unaudited)	(Audited)	(Audited)
Net profit/(loss) before tax	(566,846)	(135,881)	907,130
Net Profit/(loss) after tax	(566,846)	(138,314)	574,755
 Net assets	 14,900,324	 15,467,170	 15,605,484

Due to the continuous decrease in gross margin and increase in operating costs, Longxiang experienced continuous decrease in net profit from 2004 to 2006. In fact, Longxiang recorded net losses in both the year 2005 and for the six months ended 30th June, 2006.

### REASONS FOR AND BENEFITS OF THE DISPOSAL

As disclosed in the annual report for the year 2003, the Group intends to shift the commitment of resources in the other business units, namely, computer trading business and property investment business to the high growth market for protein chips for early detection of diseases. The Directors believes that the strategic prioritization of resources based on market potential, profitability margin and risk management will further clarify and strengthen the Group's long term corporate strategy to develop into a global supplier of protein chips for the early detection of diseases. The Group believes that early diagnosis of potentially fatal diseases significantly improves the chances of successful treatment and raises the survival rate of the patients.

The Group disposed all its investment properties in the year 2004. The Disposal is a continuing effort of the Group to shift all the resources to the protein chips business. After the Completion, the Group will have completely disposed all the computer trading business. The Group will be entirely focused on the protein chip business which is enjoying rapid growth and high profit margin. The Group is optimistic that by continually implementing business plans and strategies in accordance with the objectives as discussed in the 2006 annual report, the Group will strengthen its leading position as a bio-medical solution provider and protein chip supplier in the PRC.

With the successful disposal of Longxiang, the Group will be able to allocate additional resources to further strengthen the Group's commitment in the protein chip business which are enjoying rapid growth and a higher margin of profitability. Accordingly, the Directors have decided to dispose of Longxiang for the long term benefit of the Group.



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## LETTER FROM THE BOARD

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The Directors consider that the terms of the Share Transfer 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.

### USE OF PROCEEDS

Proceed from the Disposal will be applied to further strengthen the Group's commitment in the protein chip business.

### SGM

The Disposal constitutes a major transaction of the Company pursuant to Rule 14.06(2) of the Listing Rules as the revenue ratio of the Disposal exceed 25% or more, but less than 75%. The Disposal is subject to the approval of the Shareholders at the SGM. No Shareholder will be required to abstain from voting in respect of the proposed resolution to approve the Disposal at the SGM.

Set out in pages 53 to 54 of this circular is a notice to convene the SGM to consider, if thought fit, approve the Disposal and the Share Transfer Agreement. The SGM will be held at Room 1801-03, Hutchison House, 10 Harcourt Road, Central, Hong Kong at 2:30 p.m. on 19th December, 2006.

A form of proxy for the SGM is enclosed. Whether or not you are able to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon, as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM to the branch share registrars of the Company, Computershare Hong Kong Investor Services Limited, of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. Completion and return of the proxy form will not preclude you from attending and voting in person at the special general meeting or any adjourned meeting(s) should you so wish.

### PROCEDURES BY WHICH A POLL MAY BE DEMANDED

Bye-laws 78 to 82 of the bye-laws of the Company set out the procedures under which a poll may be demanded.

At any general meeting, a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded by:

- (i) the chairman of the meeting; or
- (ii) not less than three members present in person or by proxy and entitled to vote; or

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## LETTER FROM THE BOARD

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- (iii) a member or members present in person or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or
- (iv) a member or members present in person or by proxy and holding Shares conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring the right.

A demand for a poll may be withdrawn only with the consent of the chairman before the close of the meeting or the taking of the poll, whichever is the earlier. Unless a poll is demanded and not withdrawn, a declaration by the chairman of the meeting that a resolution has been carried, or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the minute book, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded for or against such resolution. If a poll is demanded and not withdrawn, it shall be taken in such manner (including the use of ballot or voting papers or tickets) as the chairman of the meeting may direct, and the result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded.

In the case of a equality of votes, whether on a show of hands or on a poll, the chairman of the meeting at which the show of hands takes place or at which the poll is demanded shall be entitled to a second or casting vote. In case of any dispute, as to the admission or rejection of any vote, the chairman of the meeting shall determine the same, and such determination shall be final and conclusive.

A poll demanded on the election of a chairman or on question of adjournment shall be taken forthwith. A poll demanded on any other question shall be taken either immediately or at such subsequent time (not being more than thirty days from the date of the meeting) and place as the chairman may direct. No notice need to given of a poll not taken immediately. The demand for a poll shall not prevent the continuance of the meeting for the transaction of any business other than the question on which the poll has been demanded.

### **RECOMMENDATION**

In view of the aforesaid, and in particular considering the reasons for the Disposal as set out above, the Directors considers that the terms of the Disposal are fair and reasonable and that the transaction is in the interests of the Shareholders and the Company as a whole. Accordingly, the Directors recommends that the Shareholders to vote in favour of the resolutions to be proposed at the SGM.

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## LETTER FROM THE BOARD

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### 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  
**Mingyuan Medicare Development Company Limited**  
**Poon Kwong Wai, Kenny**  
*Company Secretary*

## I. SUMMARY OF AUDITED FINANCIAL STATEMENTS

The following is a summary of the audited consolidated financial statements of the Group for the three years ended 31st December, 2005 together with accompanying notes extracted from the annual report of the Company for the year ended 31st December, 2005.

**Consolidated Income Statements**

	<i>Notes</i>	<b>Year ended 31st December,</b>		
		<b>2005</b>	<b>2004</b>	<b>2003</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	7	282,135	523,568	456,048
Cost of sales		<u>(162,875)</u>	<u>(426,739)</u>	<u>(403,112)</u>
Gross profit		119,260	96,829	52,936
Other operating income	8	24,913	15,264	14,815
Selling and distribution expenses		(5,835)	(6,077)	(1,642)
Administrative expenses		(46,967)	(35,323)	(22,405)
Other operating expenses		<u>(4,895)</u>	<u>(5,490)</u>	<u>(2,598)</u>
Profit from operations		86,476	65,203	41,106
Profit on disposal of subsidiaries	34	–	9,673	–
Finance costs	9	<u>(15,765)</u>	<u>(2,853)</u>	<u>(1,812)</u>
Profit before taxation	10	70,711	72,023	39,294
Taxation	12	<u>(676)</u>	<u>(4,771)</u>	<u>(3,546)</u>
Profit for the year		<u>70,035</u>	<u>67,252</u>	<u>35,748</u>
Attributable to:				
Equity holders of the parent		70,096	67,020	33,693
Minority interests		<u>(61)</u>	<u>232</u>	<u>2,055</u>
		<u>70,035</u>	<u>67,252</u>	<u>35,748</u>
Earnings per share (cents)	13			
Basic		<u>2.61</u>	<u>2.50</u>	<u>1.41</u>
Diluted	13	<u>2.81</u>	<u>N/A</u>	<u>N/A</u>

## Consolidated Balance Sheet

	Notes	At 31st December,		
		2005 HK\$'000	2004 HK\$'000	2003 HK\$'000
<b>Non-current assets</b>				
Investment properties	14	–	2,850	114,700
Property, plant and equipment	15	118,487	27,740	41,425
Prepaid lease payment	16	38,198	–	–
Deposit paid for acquisition of land use right	17	–	22,991	22,991
Goodwill	18	47,115	47,115	47,115
Negative Goodwill	19	–	(661)	(661)
		<u>203,800</u>	<u>100,035</u>	<u>206,766</u>
<b>Current assets</b>				
Prepaid lease payment	16	796	–	–
Property held for resale		–	10,790	6,955
Inventories	20	13,971	12,525	14,139
Trade and other receivables, deposits and prepayment	21	73,070	192,499	84,430
Loan and interest receivables	22	269	18,829	70,285
Amount due from a minority shareholder		–	–	982
Investments in securities	23	–	14,630	7,920
Pledged bank deposit	24	190	–	–
Bank balances and cash		<u>489,085</u>	<u>123,491</u>	<u>28,027</u>
		<u>577,381</u>	<u>372,764</u>	<u>577,381</u>
<b>Current liabilities</b>				
Trade and other payables	25	13,400	21,093	50,127
Bills payable		–	18,164	–
Amount due to a minority shareholder	26	–	399	–
Amount due to related companies	27	6,728	4,509	470
Amount due to ultimate holding company	28	–	261	52
Bank borrowing				
– due within one year	29	47,962	31,102	61,943
Taxation payable		<u>191</u>	<u>2,386</u>	<u>3,450</u>
		<u>68,281</u>	<u>77,914</u>	<u>116,042</u>
<b>Net current assets</b>		<u>509,100</u>	<u>294,850</u>	<u>96,696</u>
		<u>712,900</u>	<u>394,885</u>	<u>303,462</u>

		At 31st December,		
		2005	2004	2003
	Notes	HK\$'000	HK\$'000	HK\$'000
<b>Capital and reserves</b>				
Share capital	30	134,405	134,405	129,405
Reserves		<u>357,844</u>	<u>249,463</u>	<u>16,243</u>
Equity attributable to equity holders of the parent		492,249	383,868	291,548
Minority Interests		<u>8,921</u>	<u>8,982</u>	<u>9,481</u>
Total equity		<u><u>501,170</u></u>	<u><u>392,850</u></u>	<u><u>301,029</u></u>
<b>Non-current liabilities</b>				
Bank borrowings				
– due after one year	29	28,577	2,035	2,035
Convertible bonds	31	<u>183,153</u>	<u>–</u>	<u>–</u>
		<u>211,730</u>	<u>2,035</u>	<u>2,035</u>
		<u><u>712,900</u></u>	<u><u>394,885</u></u>	<u><u>303,462</u></u>

## Consolidated Statement of Changes in Equity

	Attributable to equity holders of the parent											
	Share capital HK\$'000	Share premium HK\$'000	Convertible bonds equity reserve HK\$'000	Share option reserve HK\$'000	Contributed surplus HK\$'000 (Note b)	Translation reserve HK\$'000	Statutory reserve HK\$'000 (Note a)	Investment property revaluation reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000	Minority interest HK\$'000	Total HK\$'000
At 1st January, 2004	129,405	100,345	-	-	12,804	1,072	549	31,588	15,785	291,548	9,481	301,029
Acquisition of additional interest subsidiaries	-	-	-	-	-	-	-	-	-	-	(731)	(731)
Surplus arising from revaluation	-	-	-	-	-	-	-	750	-	750	-	750
Exchange realignment	-	-	-	-	-	1,138	-	-	-	1,138	-	1,138
Income recognized directly in equity	-	-	-	-	-	1,138	-	750	-	1,888	(731)	1,157
Profit for the year	-	-	-	-	-	-	-	-	67,020	67,020	232	67,252
Total recognized income and expenses for the year	-	-	-	-	-	1,138	-	750	67,020	68,908	(499)	68,409
Issue of shares	5,000	50,000	-	-	-	-	-	-	-	55,000	-	55,000
Appropriated from accumulated profits	-	-	-	-	-	-	95	-	(95)	-	-	-
Released upon disposal of subsidiaries	-	-	-	-	-	-	-	(29,538)	-	(29,538)	-	(29,538)
Released upon transfer to properties held for sale	-	-	-	-	-	-	-	(2,050)	-	(2,050)	-	(2,050)
At 31st December, 2004 as originally stated	134,405	150,345	-	-	12,804	2,210	644	750	82,710	383,868	8,982	392,850
Effect of changes in accounting policies (Note 2)	-	-	-	-	-	-	-	(750)	1,411	661	-	661
At 1st January, 2005 as restated	134,405	150,345	-	-	12,804	2,210	644	-	84,121	384,529	8,982	393,511
Exchange realignment	-	-	-	-	-	7,307	-	-	-	7,307	-	7,307
Income recognized directly in equity	-	-	-	-	-	7,307	-	-	-	7,307	-	7,307
Profit for the year	-	-	-	-	-	-	-	-	70,096	70,096	(61)	70,035
Total recognized income and expenses for the year	-	-	-	-	-	7,307	-	-	70,096	75,044	(61)	77,342
Issue of shares (note 30)	-	9	-	-	-	-	-	-	-	9	-	9
Recognition of equity components of convertible bonds	-	-	20,343	-	-	-	-	-	-	20,343	-	20,343
Recognition of equity – settled share base payments	-	-	-	9,965	-	-	-	-	-	9,965	-	9,965
At 31st December, 2005	134,405	150,354	20,343	9,965	12,804	9,517	644	-	154,217	492,249	8,921	501,170

## Notes:

- (a) The statutory reserve is required by the relevant laws applicable to the Company's subsidiaries in the People's Republic of China other than Hong Kong ("PRC").
- (b) The contributed surplus of the Group represents the amount due to former holding company waived during the change of the substantial shareholders in 2002.

**Consolidated Cash Flow Statement**

	<i>Note</i>	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
<b>OPERATING ACTIVITIES</b>			
Profit before taxation		70,711	72,023
Adjustments for:			
Finance cost		15,765	2,853
Profit on disposal of subsidiaries		–	(9,673)
Share-based payments		9,965	–
Interest income		(4,899)	(583)
Depreciation of property, plant and equipment		6,256	7,277
Amortisation of prepaid lease payment		797	–
Loss on disposal of investments in securities held for trading		4,895	–
Gain on disposal of investment properties		(779)	–
Gain on disposal of property, plant and equipment		(16,401)	(6,708)
Amortisation of goodwill		–	5,490
Release of negative goodwill		–	(230)
Unrealised gain on investments in securities		–	(6,710)
		<hr/>	<hr/>
Operating cash flows before movements in working capital		86,310	63,739
(Increase) decrease in inventories		(1,446)	1,614
Decrease in properties held for sale		10,790	4,715
Decrease (increase) in trade and other receivables, deposits and prepayments		46,788	(42,506)
Decrease in trade and other payables		(7,693)	(20,783)
(Decrease) increase in bills payable		(18,164)	18,164
		<hr/>	<hr/>
Net cash generated from operations		116,585	24,943
Interest paid		(4,293)	(2,853)
Taxation paid		(2,871)	(4,293)
		<hr/>	<hr/>
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>		<hr/> <b>109,421</b>	<hr/> <b>17,797</b>
<b>INVESTING ACTIVITIES</b>			
Interest received		2,540	583
Deposits paid for acquisition of land use right		–	(22,991)
Additions of property, plant and equipment		(102,913)	(3,675)
Payment of prepaid lease payment		(16,800)	–
Acquisition of additional interest in subsidiaries from minority shareholders		–	(471)
Proceeds from disposal of investments in securities		9,735	–
Proceeds from disposal of investment properties		3,629	–
Proceeds from disposal of property, plant and equipment		22,989	10,567
Proceeds from disposal of subsidiaries (net of cash and cash equivalent disposal of)	<i>34</i>	75,000	11,660
Advance of loans receivable		–	(18,828)
Decrease in amount due from a minority shareholder		–	982
Repayment from loans receivable		18,560	70,284
		<hr/>	<hr/>
<b>NET CASH GENERATED FROM INVESTING ACTIVITIES</b>		<hr/> <b>12,740</b>	<hr/> <b>48,111</b>



	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
<b>FINANCING ACTIVITIES</b>		
Proceed from issue of shares	–	55,000
Net proceeds on issue of convertible bonds	192,024	–
New bank loans	65,961	29,907
Repayment of bank borrowings	(23,422)	(61,146)
Increase in amounts due to related companies	2,219	4,049
Increase in amount due to ultimate holding company	(261)	209
(Decrease) increase in amount due to a minority shareholder	(399)	399
	<u>236,122</u>	<u>28,418</u>
<b>NET CASH GENERATED FROM FINANCING ACTIVITIES</b>		
	<u>236,122</u>	<u>28,418</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	358,283	94,326
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	123,491	28,027
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>	7,311	1,138
	<u>489,085</u>	<u>123,491</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>		
	<u>489,085</u>	<u>123,491</u>
<b>ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Bank balances and cash	<u>489,085</u>	<u>123,491</u>

## II. NOTES TO THE FINANCIAL INFORMATION

### 1. GENERAL

The Company is a public limited company incorporated in Bermuda with its shares listed on the Stock Exchange. Its ultimate holding company and immediate holding company is Ming Yuan Holdings Limited and Ming Yuan Investments Group Limited, respectively, which are incorporated in the British Virgin Islands with limited liability. The address of the registered office and principal place of business of the Company are disclosed in the section headed “Corporate Information” of the annual report.

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

The Company is an investment holding company. The principal activities of its subsidiaries at 31st December, 2005 are set out in note 41.

### 2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRS(s)”), Hong Kong Accounting Standards (“HKAS(s)”) and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1st January, 2005. The application of these new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests have been changed. The changes in presentation has been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group’s accounting policies in the following areas that have an effect on how the results for the current and prior accounting periods are prepared and presented:

#### **Business combinations**

In the current year, the Group has applied HKFRS 3 *Business Combinations* which is effective for business combinations for which the agreement date is on or after 1st January, 2005. For those goodwill arising from business combination prior to 31st December, 2004 and the related principal effects of the transitional provision in HKFRS 3 to the Group are summarised below:

#### *Goodwill*

In previous years, goodwill arising on acquisitions after 1st January, 2001 was capitalised and amortised over its estimated useful life. By applying the relevant transitional provisions in HKFRS 3, with respect to goodwill previously capitalised on the balance sheet, the Group on 1st January, 2005 eliminated the carrying amount of the related accumulated amortisation of HK\$7,777,000 with a corresponding decrease in the cost of goodwill (see Note 18). Furthermore, the Group has discontinued amortising goodwill from 1st January, 2005 onwards and such goodwill is to be tested for impairment at least annually. As a result of this change in accounting policy, no amortisation of goodwill was charged in the current year. Comparative figures for 2004 has not been restated.

#### *Excess of the Group’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over cost (previously known as “negative goodwill”)*

In accordance with HKFRS 3, any excess of the Group’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over the cost of acquisition (“discount on acquisition”) is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions after 1st January, 2001 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group derecognised all negative goodwill on 1st January, 2005 in the amount of HK\$661,000 that was previously presented as a reduction from assets. A corresponding adjustment to the Group’s accumulated profits of HK\$661,000 has been made.

### Financial instruments

In the current year, the Group has applied HKAS 32 *Financial Instruments: Disclosure and Presentation* and HKAS 39 *Financial Instruments: Recognition and Measurement*. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 have no material impact on how financial instruments of the Group are presented for current and prior accounting periods. The principal effects on the Group as a result of implementation of HKAS 39 are summarised below:

#### *Classification and measurement of financial assets and financial liabilities*

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

Prior to 31st December, 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 (“SSAP 24”). Under SSAP 24, investments in debt or equity securities are classified as “investment securities”, “other investments” or “held-to-maturity investments” as appropriate. “Investment securities” are carried at cost less impairment losses (if any) while “other investments” are measured at fair value, with unrealised gains or losses included in profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1st January, 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “loans and receivables”, or “held-to-maturity financial assets”. “Financial assets at fair value through profit or loss” and “available-for-sale financial assets” are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. “Loans and receivables” and “held-to-maturity financial assets” are measured at amortised cost using the effective interest method after initial recognition.

On 1st January, 2005, the Group classified and measured its equity securities in accordance with the transitional provisions of HKAS 39. Other investments classified under current assets with a carrying amount of HK\$14,630,000 as at 31st December, 2004 were reclassified to investment in securities held for trading on 1st January, 2005 (see Note 3 for financial impact).

### Investment properties

In the current year, the Group has, for the first time, applied HKAS 40 *Investment Property*. The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in profit or loss for the year in which they arise. In previous years, investment properties under the predecessor standard were measured at open market values, with revaluation surplus or deficit credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and a revaluation surplus subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1st January, 2005 onwards. The amount held in the investment properties revaluation reserve at 1st January, 2005 has been transferred to the Group’s accumulated profits (see Note 3 for financial impact).

### Deferred taxes related to investment properties

In previous years, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor Interpretation. In the current year, the Group has applied HK(SIC) Interpretation 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* which removes the presumption that the carrying amount of investment properties is to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. The application of HK(SIC) Interpretation 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* has no significant impact to the Group.

**Share-based payments**

In the current year, the Group has applied HKFRS 2 *Share-based Payment* which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares (“equity-settled transactions”), or in exchange for other assets equivalent in value to a given number of shares or rights over shares (“cash-settled transactions”). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Company, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1st January 2005. Since the Group did not grant any share options before 31st December, 2004 and therefore, the application of HKFRS 2 has no significant impact to the Group in prior years (see Note 3 for the financial impact in the current year).

**3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES**

The effects of the changes in the accounting policies described in Note 2 on the results for the current and prior years are as follows:

**(i) On results**

	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-amortisation of goodwill	5,490	–
Decrease in release of negative goodwill to income	(426)	–
Recognition of share-based payments as expenses	9,965	–
Increase in effective interest expense on the liability components of convertible bonds	9,499	–
	<u>24,528</u>	<u>–</u>
Decrease in profit for the year	<u>24,528</u>	<u>–</u>

**(ii) On income statement line items**

	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Increase in administrative expenses	15,029	–
Increase in finance costs	9,499	–
	<u>24,528</u>	<u>–</u>

The cumulative effect of the new HKFRSs, as at 31st December, 2004 and 1st January, 2005 are summarised below:

**(iii) Balance sheet items**

	As at 31st December, 2004 (originally stated) <i>HK\$'000</i>	Adjustment <i>HK\$'000</i>	As at 31st December, 2004 (Restated) <i>HK\$'000</i>	Adjustments <i>HK\$'000</i>	As at 1st January, 2005 (Restated) <i>HK\$'000</i>
<b>Impact of HKFRS 3</b>					
Negative goodwill	(661)	–	(661)	661	–
<b>Impact of HKAS 39</b>					
Investments in securities	14,630	–	14,630	(14,630)	–
Investments in security held for trading	–	–	–	14,630	14,630
Total effects on assets	<u>13,969</u>	<u>–</u>	<u>13,969</u>	<u>661</u>	<u>–</u>
Investment property revaluation reserve	(750)	–	(750)	750	–
Accumulated profits	(82,710)	–	(82,710)	(1,411)	(84,121)
Minority interest	–	8,982	8,982	–	8,982
Total effects on equity	<u>(83,460)</u>	<u>–</u>	<u>(74,478)</u>	<u>(661)</u>	<u>(75,139)</u>
Minority interest	<u>8,982</u>	<u>(8,982)</u>	<u>–</u>	<u>–</u>	<u>–</u>

The financial effects of the application of the new HKFRSs to the Group's equity on 1st January, 2004 are summarised below:

	As originally stated <i>HK\$'000</i>	Adjustments <i>HK\$'000</i>	As restated <i>HK\$'000</i>
Share capital and other reserves	291,548	–	291,548
Minority interest	–	9,481	9,481
Total effect on equity	<u>291,548</u>	<u>9,481</u>	<u>301,021</u>
Minority interests	<u>9,841</u>	<u>(9,841)</u>	<u>–</u>

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Group anticipate that the application of these standards or Interpretations will have no material impact on the financial statements of the Group.

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

<sup>1</sup> Effective for annual periods beginning on or after 1st January, 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1st January, 2006.

<sup>3</sup> Effective for annual periods beginning on or after 1st December, 2005.

<sup>4</sup> Effective for annual periods beginning on or after 1st March, 2006.

#### 4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost convention except for the investment properties and financial instruments which are measured at fair values, as explained in the accounting policies below. The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

##### Basis of consolidation

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

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

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

##### Goodwill

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

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet.

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

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

**Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions")**

A discount on acquisition arising on an acquisition of a subsidiary represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss.

**Investments in subsidiaries**

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

**Revenue recognition**

Turnover represents the net amounts received and receivable for goods sold by the Group less discount allowances, and goods returned.

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

Rental income, including rental invoiced in advance from properties let under operating leases, is recognised on a straight line basis over the period of the respective leases.

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

**Property, plant and equipment**

Property, plant and equipment (other than properties under development) are stated at cost less subsequent accumulated depreciation and accumulated impairment loss.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

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

***Leasehold land and buildings under development for future owner-occupied purpose***

When the leasehold land and buildings are in the course of development for production, rental or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and amortised over a straight-line basis over the lease term. During the construction period, the amortisation charge provided

for the leasehold land is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

### **Investment properties**

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

### **Research and development expenditure**

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

### **Properties held for sale**

Properties held for sale are stated at the lower of cost and net realisable value. Cost comprises all costs of purchase. Net realisable value is calculated at the actual or estimated selling price less related costs of marketing and selling.

### **Leasing**

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

#### *The Group as lessor*

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

#### *The Group as lessee*

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

### **Foreign currencies**

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such



exchange differences are recognised in equity in the consolidated financials statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

**Taxation**

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents 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.

**Impairment (other than goodwill)**

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. For intangible assets with indefinite useful lives and intangible assets not yet available for use, they are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

**Retirement benefits costs**

Payments to state-managed retirement benefit schemes and Mandatory Provident Fund Scheme are charged as expense as they fall due.

**Financial instruments**

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

***Financial assets***

The Group's financial assets are classified into financial assets at fair value through profit or loss and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The Group's major financial assets are trade and other receivables, deposits and prepayments, loans and interest receivable and investments in securities which fall within the category of loans and receivables and financial assets at fair value through profit or loss respectively and the accounting policies adopted are set out below.

***Loans and receivables***

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

***Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

***Financial liabilities and equity***

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The Group's major financial liabilities are other financial liabilities and the accounting policies adopted are set out below.

***Other financial liabilities***

Other financial liabilities include trade and other payables, bills payable, amount due to a minority shareholder, amounts due to related companies, amount due to ultimate holding company and bank borrowings which fall within the category of other financial liabilities. These financial liabilities are subsequently measured at amortised cost, using the effective interest rate method.

*Convertible bonds*

Convertible bonds issued by the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the embedded call option for the holder to convert the loan notes into equity, is included in equity (convertible bonds equity reserve).

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible bonds equity reserve until the embedded option is exercised (in which case the balance stated in convertible bonds equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible bonds equity reserve will be released to the accumulated profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

*Equity instrument*

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

**Share-based payment transactions***Equity-settled share-based payment transactions**Share options granted to employees of the Company*

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, or recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share option reserve).

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited or are unexercised at the expiry date, the amount previously recognised in equity (share option reserve) will be transferred to accumulated profits.

**5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the process of applying the Group's accounting policies which are described in Note 4, management has made the following judgment that have most significantly effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below).

**Estimated impairment of goodwill**

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. During the year ended 31st December, 2005, management of the Group determined that there were no impairment on goodwill. Details of the impairment testing on goodwill are disclosed in Note 18.

**6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

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

**Credit risk**

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2005 is the carrying amount of trade and other receivables as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

**Currency risk**

Several subsidiaries of the Company have foreign currency sales, which expose the Group to foreign currency risk. Also, certain trade receivables, trade payables, bank balances and bank borrowings of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

## 7. SEGMENT INFORMATION

**Business segments**

For management purposes, the Group is organised into the following three major operating divisions. These divisions are the basis on which the Group reports its primary segment information.

Principal operating divisions are as follows:

Protein chips operation	–	Manufacturing and trading of protein chips and related equipments
Information technology (“IT”) Products and service operation	–	Trading of computer products and related accessories
Property investment	–	Leasing of properties, properties holding and property trading

An analysis of the Group’s turnover and contribution to operating results and segmental assets and liabilities by business segments is as follows:

	<b>Protein chips operation</b> <i>HK\$'000</i>	<b>IT products and services operation</b> <i>HK\$'000</i>	<b>Property investment</b> <i>HK\$'000</i>	<b>Corporate and others</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
<b>For the year ended</b>					
<b>31st December, 2005</b>					
<b>TURNOVER</b>					
External sales	126,985	144,322	10,828	–	282,135
<b>RESULTS</b>					
Segment results	86,954	65	439	(22,282)	65,176
Interest income					4,899
Gain on disposal of property, plant and equipment	16,401	–	–	–	16,401
Finance costs					(15,765)
Profit before taxation					70,711
Taxation					(676)
Profit for the year					70,035

	Protein chips operation <i>HK\$'000</i>	IT products and services operation <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Corporate and others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>Assets and liabilities at 31st December, 2005</b>					
<b>ASSETS</b>					
Segment assets	601,076	23,971	1,801	107,218	734,066
Goodwill	47,115	–	–	–	47,115
Consolidated total assets					<u>781,181</u>
<b>LIABILITIES</b>					
Segment liabilities	9,457	2,885	371	196,567	203,280
Unallocated liabilities					76,730
Consolidated total liabilities					<u>280,010</u>
<b>Other information for the year ended 31st December, 2005</b>					
Capital expenditure	102,362	519	–	32	102,913
Depreciation on property, plant and equipment	5,015	674	–	567	6,256
Share based payment	–	–	–	9,655	9,655
Amortisation of prepaid lease payment	797	–	–	–	797
	<u>797</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>797</u>

	Protein chips operation HK\$'000	IT products and services operation HK\$'000	Property investment HK\$'000	Corporate and others HK\$'000	Consolidated HK\$'000
<b>For the year ended 31st December, 2004</b>					
<b>TURNOVER</b>					
External sales	78,798	429,696	15,074	–	523,568
<b>RESULTS</b>					
Segment results	48,278	6,641	7,523	(4,530)	57,912
Interest income					583
Gain on disposal of property, plant and equipment	6,708	–	–	–	6,708
Profit on disposal of subsidiaries			9,673		9,673
Finance costs					(2,853)
Profit before taxation					72,023
Taxation					(4,771)
Profit for the year					67,252
<b>Assets and liabilities at 31st December, 2005</b>					
<b>ASSETS</b>					
Segment assets	116,830	83,591	14,518	210,745	425,684
Goodwill	47,115	–	–	–	47,115
Consolidated total assets					472,799
<b>LIABILITIES</b>					
Segment liabilities	5,016	1,905	444	37,061	44,426
Unallocated liabilities					35,523
Consolidated total liabilities					79,949
<b>Other information for the year ended 31st December, 2004</b>					
Capital expenditure	2,997	24	–	654	3,675
Depreciation on property, plant and equipment	5,843	495	–	939	7,277
Amortisation of goodwill	5,490	–	–	–	5,490
Release of negative goodwill	26	50	154	–	230

**Geographical segments**

The following table provides an analysis of the Group's turnover by geographic markets, irrespective of the origin of the goods and services:

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Hong Kong	20,355	296,734
PRC	261,520	220,920
Canada	260	5,914
	<u>282,135</u>	<u>523,568</u>

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment analysed by the geographical area in which the assets are located:

	<b>Carrying amount of segment assets</b>		<b>Additions of property, plant and equipment</b>	
	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Hong Kong	5,124	202,357	546	654
PRC	728,942	222,749	102,367	3,021
Canada	–	578	–	–
	<u>734,066</u>	<u>425,684</u>	<u>102,913</u>	<u>3,675</u>

**8. OTHER OPERATING INCOME**

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Interest income	4,899	583
Unrealised gain on investments in securities	–	6,710
Gain on disposal of property, plant and equipment	16,401	6,708
Gain on disposal of investment properties	779	–
Others	2,834	1,263
	<u>24,913</u>	<u>15,264</u>

**9. FINANCE COSTS**

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Interest on bank borrowings wholly repayable within five years	4,293	2,853
Interest expenses on convertible bonds	11,472	–
	<u>15,765</u>	<u>2,853</u>



## 10. PROFIT BEFORE TAXATION

	2005 HK\$'000	2004 HK\$'000
Profit before taxation has been arrived at after charging:		
Depreciation	6,256	7,277
Staff costs		
– directors' remuneration ( <i>note 11(a)</i> )	6,667	2,477
– other staff costs	12,048	10,926
– share-based payments	7,064	–
– retirement benefits scheme contributions, excluding directors	49	109
	<u>25,828</u>	<u>13,512</u>
Total staff costs		
Auditors' remuneration	1,250	1,000
Loss on disposal of investments in securities held for trading included in other operating expenses	4,895	–
Amortisation of goodwill included in other operating expenses	–	5,490
Research and development expenses	–	1,227
Allowances for bad and doubtful debts	702	543
and after crediting:		
Net rental income in respect of premises after outgoings of approximately HK\$49,000 (2004: HK\$1,802,000)	69	7,364
Release of negative goodwill included in administrative expenses	–	230
	<u>–</u>	<u>230</u>

## 11. DIRECTORS AND EMPLOYEES' REMUNERATION

## (a) Directors' remuneration

	2005 HK\$'000	2004 HK\$'000
Directors' fees:		
(i) Executive		
– Yao Yuan	1,800	1,350
– Chien Hoo Yong, Henry	300	–
– Hu Jun	–	–
– Yu Ti Jun	120	60
– Hu Geng Xi	1,200	604
	<u>3,420</u>	<u>2,014</u>
(ii) Non-executive	<u>–</u>	<u>–</u>
(iii) Independent non-executive		
– Lam Lee. G	120	120
– Lee Jin Hua	–	–
– Lee Sze, Ho, Henny	120	31
– Xiao Chuan Guo	–	–
– Hu Jin Hua	70	–
	<u>310</u>	<u>151</u>
Total directors' fees	<u>3,730</u>	<u>2,165</u>

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Other emoluments of executive directors:		
(i) Salaries and other benefits		
– Yao Yuan	–	297
– Chien Hoo Yong, Henry	–	–
– Hu Jun	–	–
– Yu Ti Jun	–	–
– Hu Geng Xi	–	–
	<u>–</u>	<u>297</u>
(ii) Retirement benefits scheme contribution		
– Yao Yuan	12	9
– Chien Hoo Yong, Henry	12	–
– Hu Jun	–	–
– Yu Ti Jun	–	–
– Hu Geng Xi	12	6
	<u>36</u>	<u>15</u>
(iii) Share-based payments		
– Yao Yuan	–	–
– Chien Hoo Yong, Henry	1,156	–
– Hu Jun	436	–
– Yu Ti Jun	436	–
– Hu Geng Xi	873	–
	<u>2,901</u>	<u>–</u>
Total other emoluments of executive directors	<u>2,937</u>	<u>312</u>
Total	<u>6,667</u>	<u>2,477</u>

None of the directors has waived any emoluments during the year.

**(b) Employees' remuneration**

The five highest paid individuals in the Group include two directors of the Company (2004: Nil), details of whose remuneration are set out above. The aggregate remuneration of the remaining highest paid individuals, who are employees of the Group, is as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Salaries, allowances and benefits in kind	2,680	2,246
Retirement benefits scheme contributions	36	40
Share-based payments	1,327	–
	<u>4,403</u>	<u>2,286</u>

The number of employees whose remuneration falls within the bands set out below is as follows:

<i>HK\$</i>	2005 <i>Number of employees</i>	2004 <i>Number of employees</i>
Nil to 1,000,000	2	4
1,500,001 to 2,000,000	1	–
	<u>3</u>	<u>4</u>

## 12. TAXATION

	2005 HK\$'000	2004 HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
– Current year	(771)	(1,103)
Taxation in other jurisdictions		
– Current year	(2)	(1,054)
– Overprovision (underprovision) in prior years	97	(2,614)
Taxation attributable to the Company and its subsidiaries	<u>(676)</u>	<u>(4,771)</u>

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

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions. Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Company are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years.

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

	2005 HK\$'000	2004 HK\$'000
Profit before taxation	<u>70,711</u>	<u>72,023</u>
Tax at the domestic income tax rate at 33% (2004: 33%) (Note a)	23,335	23,767
Tax effect of income not taxable in determining taxable profit	(1,606)	(5,384)
Tax effect of expenses not deductible for tax purpose	7,102	5,347
Tax effect of tax losses not recognised	3,080	4,468
(Overprovision) underprovision in prior years	(97)	2,614
Effect of different tax rates of subsidiaries operating in other jurisdictions	6,158	(6,529)
Effect of tax exemptions granted to PRC subsidiaries	(38,071)	(20,060)
Others	775	548
Taxation for the year	<u>676</u>	<u>4,771</u>

*Notes:*

- (a) Being tax rate in PRC where the operation of the Group is substantially based.
- (b) As at 31st December, 2005, the Group had unused tax losses of approximately HK\$47,421,000 (2004: HK\$38,089,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profits streams. Such tax losses can be carried forward indefinitely.

## 13. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to the equity holders of the parent is based on the following data:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
<b>Earnings</b>		
Profit for the year attributable to the equity holders of the parent and earnings for the purpose of basic earnings per share	70,096	67,020
Effect of dilutive potential ordinary shares:		
– Interest on convertible bonds	11,472	–
	<u>81,568</u>	<u>67,020</u>
Earnings for the purpose of diluted earnings per share	<u>81,568</u>	<u>67,020</u>
	<b>2005</b>	<b>2004</b>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,688,100,846	2,685,082,531
Effect of dilutive potential ordinary shares:		
– share options	189,705	–
– convertible bonds	214,408,725	–
	<u>2,902,699,276</u>	<u>2,685,082,531</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>2,902,699,276</u>	<u>2,685,082,531</u>

## 14. INVESTMENT PROPERTIES

	<i>HK\$'000</i>
<b>VALUATION</b>	
At 1st January, 2004	114,700
Transfer to properties held for sale	(10,600)
Disposal of subsidiaries	(102,000)
Surplus arising on revaluation	750
	<u>–</u>
At 1st January, 2005	2,850
Disposals	(2,850)
	<u>–</u>
At 31st December, 2005	<u>–</u>

The carrying value of the investment properties as at 31st December, 2004 were properties held under medium-term land use rights in the PRC.

All of the Group's investment properties under operating leases as at 31st December, 2004 to earn rentals or for capital appreciation purposes were measured using the fair value model and were classified and accounted for as investment properties.

## 15. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$'000	Plant and equipment HK\$'000	Office equipment HK\$'000	Motor vehicles HK\$'000	Leasehold improve- ments HK\$'000	Furniture and fixtures HK\$'000	Buildings under develop- ment HK\$'000	Total HK\$'000
COST								
At 1st January, 2004	6,540	25,880	1,719	2,764	1,596	576	–	39,075
Additions	50	2,712	191	609	60	53	–	3,675
Disposals	–	(4,669)	–	–	–	–	–	(4,669)
At 31st December, 2004	6,590	23,923	1,910	3,373	1,656	629	–	38,081
Exchange adjustments	190	690	40	45	–	9	–	974
Additions	87	11,438	106	1,097	–	5	90,180	102,913
Disposals	–	(9,065)	(20)	(558)	(19)	–	–	(9,662)
At 31st December, 2005	6,867	26,986	2,036	3,957	1,637	643	90,180	132,306
DEPRECIATION								
At 1st January, 2004	111	2,203	364	432	642	122	–	3,874
Provided for the year	406	4,776	591	894	419	191	–	7,277
Eliminated on disposals	–	(810)	–	–	–	–	–	(810)
At 31st December, 2004	517	6,169	955	1,326	1,061	313	–	10,341
Exchange adjustments	18	235	21	17	–	5	–	296
Provided for the year	231	3,987	513	1,063	306	156	–	6,256
Eliminated on disposals	–	(2,654)	(11)	(409)	–	–	–	(3,074)
At 31st December, 2005	766	7,737	1,478	1,997	1,367	474	–	13,819
NET BOOK VALUE								
At 31st December, 2005	<u>6,101</u>	<u>19,249</u>	<u>558</u>	<u>1,960</u>	<u>270</u>	<u>169</u>	<u>90,180</u>	<u>118,487</u>
At 31st December, 2004	<u>6,073</u>	<u>17,754</u>	<u>955</u>	<u>2,047</u>	<u>595</u>	<u>316</u>	<u>–</u>	<u>27,740</u>

The above items of the property, plant and equipment are depreciated on a straight line method, at the following rates per annum:

Buildings	Over 2% or the term of the lease or land use rights, if shorter
Plant and equipment	10% to 30%
Office equipment	15% to 50%
Motor vehicles	15% to 33%
Leasehold improvements	10% to 33% or the term of the lease, if shorter
Furniture and fixtures	20% to 33%

The buildings held by the Group at the balance sheet date shown above were held under medium lease terms located in the PRC.

At 31st December, 2005, the Group's buildings with an aggregate net book value of HK\$6,101,000 (2004: Nil) were pledged to secure general banking facilities granted to the Group.

## 16. PREPAID LEASE PAYMENT

	<i>HK\$'000</i>
<b>COST</b>	
At 1st January, 2005	–
Additions	39,791
	<hr/>
At 31st December, 2005	39,791
	<hr/>
<b>AMORTISATION</b>	
At 1st January, 2005	–
Provided for the year	797
	<hr/>
At 31st December, 2005	797
	<hr/>
<b>CARRYING VALUE</b>	
At 31st December, 2005	38,994
	<hr/> <hr/>
At 31st December, 2004	–
	<hr/> <hr/>
	<b>2005</b>
	<i>HK\$'000</i>
Analysed for reporting purpose as:	
Current assets	796
Non-current asset	38,198
	<hr/>
	38,994
	<hr/> <hr/>

The Group's prepaid lease payments represent payment for land use right under medium-term lease located in the PRC.

## 17. DEPOSIT PAID FOR ACQUISITION OF LAND USE RIGHT

During the year ended 31st December, 2004, 上海數康生物科技有限公司, a wholly-owned subsidiary of the Company, entered into an agreement with 上海松江工業園區 (the “上海松江工業園區 Agreement”) to acquire a land use right relating to a piece of land located in the PRC for a consideration of US\$4,900,000 (equivalent to approximately HK\$37,551,000). Deposits of US\$3,000,000 (equivalent to approximately HK\$22,991,000) was paid by the Group as at 31st December, 2004. During the year, the 上海松江工業園區 Agreement was terminated and the deposit was transferred to acquire another piece of land located in 奉賢現代農業園區 at a consideration RMB41,388,000 (equivalent to approximately HK\$39,791,000) pursuant to the agreement entered into between the Group and 上海市奉賢現代農業園區. The remaining balance of HK\$16,800,000 was also paid and the total amount of HK\$39,791,000 were transferred to prepaid lease payment upon completion during the year.

## 18. GOODWILL

	<i>HK\$'000</i>
<b>COST</b>	
At 1st January, 2004, and 31st December, 2004	54,892
Elimination of accumulated amortisation upon the application of HKFRS 3	<u>(7,777)</u>
At 31st December, 2005	<u>47,115</u>
<b>AMORTISATION</b>	
At 1st January, 2004	2,287
Provided for the year	<u>5,490</u>
At 31st December, 2004	7,777
Elimination of accumulated amortisation upon the application of HKFRS 3	<u>(7,777)</u>
At 31st December, 2005	<u>–</u>
<b>CARRYING VALUE</b>	
At 31st December, 2005	<u><u>47,115</u></u>
At 31st December, 2004	<u><u>47,115</u></u>

Prior to 31st December, 2004, goodwill was amortised over its estimated useful life of 10 years.

Particulars regarding impairment testing on goodwill are disclosed below:

The entire goodwill is attributable to the acquisition of HD Global Limited and its subsidiaries (“HD Global Group”) which are engaged in the business segment of protein chips as set out in note 7.

During the year ended 31 December 2005, management of the Group determines that there is no impairment of goodwill of the Group to a cash generating unit.

The basis of the recoverable amounts of this cash generating unit and their major underlying assumptions are summarised below:

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period with zero growth rate, and discount rate of 6.77%. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the unit’s past performance and management’s expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of this cash generating unit to exceed the aggregate recoverable amount of this cash generating unit.

## 19. NEGATIVE GOODWILL

	<i>HK\$'000</i>
COST	
At 1st January, 2004	2,050
Arising on acquisition of additional interest in subsidiaries	260
Released upon disposal of subsidiaries	<u>(1,553)</u>
At 31st December, 2004	<u>757</u>
RELEASED TO INCOME	
At 1st January, 2004	86
Released to income	230
Released upon disposal of subsidiaries	<u>(220)</u>
At 31st December, 2004	<u>96</u>
NET BOOK VALUE	
At 31st December, 2004	661
Derecognised upon the application of HKFRS 3	<u>(661)</u>
At 1st January, 2005	<u><u>–</u></u>

As explained in Note 3, all negative goodwill arising on acquisitions prior to 1st January, 2005 was derecognised as a result of the application of HKFRS 3.

## 20. INVENTORIES

	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>At cost</b>		
Raw materials	4,005	3,758
Work in progress	3,535	2,150
Finished goods	<u>6,431</u>	<u>6,617</u>
	<u><u>13,971</u></u>	<u><u>12,525</u></u>

The cost of inventories recognised as expenses during the year was approximately HK\$143,143,000 (2004: HK\$416,880,000).

## 21. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables ( <i>note</i> )	53,903	90,257
Prepayments for purchases	15	14,561
Consideration receivable for disposal of subsidiaries	–	75,000
Deposits and other receivables	<u>19,152</u>	<u>12,681</u>
	<u><u>73,070</u></u>	<u><u>192,499</u></u>

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



*Note:*

The Group normally allows a credit period of 30 to 90 days to its trade customers. An aged analysis of the trade receivables at the balance sheet date is as follows:

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
0-60 days	32,026	56,643
61-90 days	11,301	5,098
Over 90 days	<u>13,238</u>	<u>30,476</u>
	56,565	92,217
Less: Allowances for bad and doubtful debts	<u>(2,662)</u>	<u>(1,960)</u>
	<u><u>53,903</u></u>	<u><u>90,257</u></u>

## 22. LOANS AND INTEREST RECEIVABLES

The amounts are unsecured, carry interest at fixed rate ranging from 2% to 8% per annum and are repayable within one year. The fair value of the Group's loans and interest receivables as at 31st December, 2005, determined based on the present value of the estimated future cash flows discounted using the prevailing market rate at the balance sheet date approximates to the carrying amount of the receivables.

## 23. INVESTMENTS IN SECURITIES

Other investments as at 31st December, 2004 represented listed equity investments in Hong Kong, which were stated at market value. Upon the application of HKAS 39 on 1st January, 2005, other investments were reclassified to investments in securities held for trading under HKAS 39 (see Note 3 for details).

## 24. PLEDGED BANK DEPOSITS

The amount represents bank deposits pledged to a bank to secure the corporate credit card facilities granted to the Group and therefore are classified as current asset.

## 25. TRADE AND OTHER PAYABLES

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Trade payables	3,201	8,891
Accruals and other payables	<u>10,199</u>	<u>12,202</u>
	<u><u>13,400</u></u>	<u><u>21,093</u></u>

An aged analysis of trade payables at the balance sheet date is as follows:

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
0-60 days	2,605	21
61-90 days	104	13
Over 90 days	<u>492</u>	<u>8,857</u>
	<u><u>3,201</u></u>	<u><u>8,891</u></u>

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

**26. AMOUNT DUE TO A MINORITY SHAREHOLDER**

The amount was secured, non-interest bearing and repayable on demand. The amount was fully repaid during the year.

**27. AMOUNTS DUE TO RELATED COMPANIES**

Details of amounts due to related companies are as follows:

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
上海銘源實業集團有限公司 (“上海銘源實業”)	6,728	2,934
上海銘源數碼股份有限公司 (“上海銘源數碼”)	–	1,575
	<u>6,728</u>	<u>4,509</u>

上海銘源實業 and 上海銘源數碼 are companies in which Mr. Yao Yuan has a beneficial interest.

The amounts are unsecured, non-interest bearing and are repayable on demand. The carrying amount of the Group's amounts due to related companies at 31st December, 2005 approximates to the corresponding fair value.

**28. AMOUNT DUE TO ULTIMATE HOLDING COMPANY**

The amount was secured, non-interest bearing and repayable on demand. The amount was fully repaid during the year.

**29. BANK BORROWINGS**

	<b>THE GROUP</b>	
	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Bank borrowings repayable:		
– On demand or within one year	47,962	31,102
– More than one year but not more than two years	28,577	1,195
– More than one year but not more than five years	–	840
	<u>76,539</u>	<u>33,137</u>
Less: Amount due within one year under current liabilities	<u>(47,962)</u>	<u>(31,102)</u>
Amount due after one year	<u>28,577</u>	<u>2,035</u>
Analysed as:		
Secured	76,539	3,230
Unsecured	–	29,907
	<u>76,539</u>	<u>33,137</u>

During the year, the Group obtained new bank loans in the amount of HK\$65,961,000. The loans bear interests at prevailing market rate and will be repayable by installment over a period of one to two years. The proceeds were used as general working capital of the Group.

The bank borrowings bear interest at prevailing market rates ranging from 4.45% to 6.89% per annum (2004: ranging from 2.45% to 6.37% per annum) and are repayable by installments within a period of two to three years. The bank borrowings are secured by land and buildings of the Group, corporate guarantee given by a related company and third parties and personal guarantee given by a director of the Company. Details of the personal guarantee given by a director of the Company are set out in note 40.

The Group's bank borrowings that are denominated in currencies other than Hong Kong dollars are set out below:

	<i>Renminbi</i>
As at 31st December, 2005	<u>38,000,000</u>
As at 31st December, 2004	<u>32,000,000</u>

The carrying amount of the Group's banking borrowings at 31st December, 2005 approximates to the corresponding fair value.

### 30. SHARE CAPITAL

	<b>Number of shares</b>	<b>Value HK\$'000</b>
Ordinary shares of HK\$0.05 each		
Authorised:		
At 1st January, 2004	3,000,000,000	150,000
Increase in authorised share capital	<u>1,000,000,000</u>	<u>50,000</u>
At 31st December, 2004 and 31st December, 2005	<u>4,000,000,000</u>	<u>200,000</u>
Issued and fully paid:		
At 1st January, 2004	2,588,096,230	129,405
Issue of shares	<u>100,000,000</u>	<u>5,000</u>
At 31st December, 2004	2,688,096,230	134,405
Conversion of convertible bonds	<u>10,869</u>	<u>–</u>
At 31st December, 2005	<u>2,688,107,099</u>	<u>134,405</u>

During the year, HK\$10,000 of the convertible bonds was converted into the ordinary shares of the Company.

### 31. CONVERTIBLE BONDS

On 22nd December, 2004, the Company entered into a placing agreement with Deutsche Bank AG, Hong Kong Branch ("Deutsche Bank"), whereby Deutsche Bank agreed to seek subscribers to subscribe for the Hong Kong dollar denominated 1% convertible bonds due 2010 ("2010 Bonds") issued at par by the Company in an initial aggregate principal amount of HK\$200,000,000. The transaction cost that related to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the proceeds.

In addition, the Company has granted to Deutsche Bank an option to require the Company to issue the additional 2010 Bonds with an aggregate principal amount up to HK\$100,000,000 at par, exercisable on one or more occasions (provided that such option shall not be exercised more than once on any one day), in whole or in part, at any time on or before 180th day following the date of the issue of 2010 Bonds. The option was not exercised by Deutsche Bank and lapsed during the year.

The issue date of 2010 Bonds was 6th January, 2005.

The 2010 Bonds bear interest from 6th January, 2005 at the rate of 1% per annum of the principal amount of the 2010 Bonds. Interest is payable annually in arrear on 6th January in each year commencing on 6th January, 2005. The initial conversion price is HK\$0.92 per share, subject to adjustment.

The holders of 2010 Bonds have the right to convert their 2010 Bonds into ordinary shares of HK\$0.05 each of the Company at any time on or after 15 days after 6th January, 2005 up to the close of business 15 days prior to 6th January, 2010.

The holder of 2010 Bonds will have the right at such holder's option to require the Company to redeem all or some only of the 2010 Bonds of such holders on 7th January, 2007 at 105.09% of their principal amount. On or at any time after 6th January, 2007, and prior to 6th January, 2010, the Company may, having given not less than 30 nor more than 60 days' notice to the holder of 2010 Bonds, redeem all and not some only of the 2010 Bonds at a redemption price equal to the principal amount of 2010 Bonds plus a premium calculated to give the holders of 2010 Bonds a fixed return of 3.5% per annum from 6th January, 2005 to the redemption date of 2010 Bonds, together with the accrued interest to but excluding the redemption date. No such redemption may be made unless (i) the closing price of the shares of the Company for each of the 30 consecutive trading day, the last day of such 30 trading day period falls within five trading days prior to the date upon which notice of such redemption is given was at least 130% of the conversion price or (ii) at least 90% in principal amount of 2010 Bonds has already converted, redeemed or purchased or cancelled.

Unless previously redeemed, purchase and cancelled or converted, the Company will redeem each of 2010 Bonds at 113.41% of its principal amount on 6th January, 2010.

During the year ended 31st December, 2005, HK\$10,000 of the 2010 Bonds had been converted into ordinary shares of HK\$0.05 each of the Company.

The convertible bonds contain two components, liability and equity elements. Upon the application of HKAS 32 "Financial Instruments: Disclosure and Presentation, the convertible bonds were split between the liability and equity elements. The equity element is presented in equity heading "Convertible bond equity reserve". The effective interest rate of the liability component is 6.77%.

The movement of the liability component of the convertible bonds for the year is set out below:

	<i>HK\$'000</i>
Liability component at 1st January, 2005	–
Issue of convertible bonds	171,681
Interest charged	11,472
Interest paid	–
	<hr/>
Liability component at 31st December, 2005	<u>183,153</u>

The carrying amount of the liability component of the convertible bonds as at 31st December, 2005 approximates to the corresponding fair value.

## 32. BALANCE SHEET OF THE COMPANY

The Company's balance sheet at the balance sheet date are as follows:

	2005 HK\$'000	2004 HK\$'000
<b>Non-current assets</b>		
Property, plant and equipment	171	373
Interests in subsidiaries	412,958	160,901
	<u>413,129</u>	<u>161,274</u>
<b>Current assets</b>		
Amounts due from subsidiaries	79,238	119,031
Other receivables, deposits and prepayments	2,374	517
Bank balances and cash	134	1,280
	<u>81,746</u>	<u>120,828</u>
<b>Current liabilities</b>		
Other payables and accruals	3,711	2,922
Amounts due to subsidiaries	46,451	17,696
Amount due to ultimate holding company	–	261
Amount due to a related company	3,703	–
	<u>53,865</u>	<u>20,879</u>
<b>Net current assets</b>	<u>27,881</u>	<u>99,949</u>
	<u>441,010</u>	<u>261,223</u>
<b>Capital and reserves</b>		
Share capital	134,405	134,405
Reserves ( <i>Note</i> )	123,452	126,818
	<u>257,857</u>	<u>261,223</u>
<b>Non current liabilities</b>		
Convertible bonds	183,153	–
	<u>441,010</u>	<u>261,223</u>

*Note:*

	Share premium HK\$'000	Convertible bonds equity reserve HK\$'000	Share option reserve HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st January, 2004	100,345	–	–	12,804	(25,506)	87,643
Issue of shares	50,000	–	–	–	–	50,000
Net loss for the year	–	–	–	–	(10,825)	(10,825)
	<u>150,345</u>	<u>–</u>	<u>–</u>	<u>12,804</u>	<u>(36,331)</u>	<u>126,818</u>
At 31st December, 2004	150,345	–	–	12,804	(36,331)	126,818
Issue of shares	9	–	–	–	–	9
Recognition of equity component of convertible bonds	–	20,343	–	–	–	20,343
Recognition of equity – settled share based payments	–	–	9,965	–	–	9,965
Net loss for the year	–	–	–	–	(33,683)	(33,683)
	<u>150,354</u>	<u>20,343</u>	<u>9,965</u>	<u>12,804</u>	<u>(70,014)</u>	<u>123,452</u>
At 31st December, 2005	<u>150,354</u>	<u>20,343</u>	<u>9,965</u>	<u>12,804</u>	<u>(70,014)</u>	<u>123,452</u>

## 33. SHARE OPTIONS

**Equity-settled share option scheme**

On 31st May, 2004 (the “Adoption Date”), the Company adopted a new share option scheme (the “Scheme”) for the primary purpose of providing incentives to any directors (including executive directors, non-executive directors and independent non-executive directors) and employees of the Company and its subsidiaries (the “Group”) and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers to the Group (“Participants”) who the board of directors considers, in its sole discretion, have contributed or shall have contributed to the Group. The Scheme shall be valid and effective for a period of 10 years commencing on the Adoption Date. Under the Scheme, the board of directors of the Company may grant options to the Participants, to subscribe for shares in the Company.

As at 31st December, 2005, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 157,000,000 (2004: Nil) representing 5.84% (2004: Nil) of the shares of the Company in share at that date.

The maximum number of shares which may be issued upon exercise of all outstanding options under the Scheme shall not exceed 10% of the shares in issue at the Adoption Date unless the Company obtains a fresh approval from its shareholders.

The maximum number of shares issued and to be issued upon exercise of all options granted and to be granted to a specifically identified single grantee under the Scheme shall not (when aggregated with any shares which are subject of options under any other share option scheme(s) of the Company) in any 12-month period exceed 1% of the shares in issue.

Option granted must be taken up within 28 days of the date of grant, upon payment of HK\$1 per grant. Options may be exercised at any time from the date of grant to the 10th anniversary of the date of grant. In each grant of options, the board of directors may at its discretion determines the specific exercise period. The exercise price is determined by the board of directors of the Company, and will not be less than the higher of (i) the closing price; (ii) the average closing price of the Company’s shares of the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company’s shares.

The following table discloses the movement of the Company’s share options during the year:

Directors	Date of grant	Exercise price	Vesting period	Exercisable period	Number of share options			
					Outstanding at 1.1.2004 and 1.1.2005	Granted during the year	Exercised during the year	Outstanding at 31.12.2005
Directors	8.4.2005	HK\$0.728	N/A	8.4.2005 – 7.4.2010	–	9,300,000	–	9,300,000
			8.4.2005 – 7.4.2006	8.4.2006 – 7.4.2010	–	9,300,000	–	9,300,000
			8.4.2005 – 7.4.2007	8.4.2007 – 7.4.2010	–	9,300,000	–	9,300,000
			8.4.2005 – 7.4.2008	8.4.2008 – 7.4.2010	–	9,300,000	–	9,300,000
			8.4.2005 – 7.4.2009	8.4.2009 – 7.4.2010	–	9,300,000	–	9,300,000
				–	46,500,000	–	46,500,000	
Employees	8.4.2005	HK\$0.728	N/A	8.4.2005 – 7.4.2010	–	22,100,000	–	22,100,000
			8.4.2005 – 7.4.2006	8.4.2006 – 7.4.2010	–	22,100,000	–	22,100,000
			8.4.2005 – 7.4.2007	8.4.2007 – 7.4.2010	–	22,100,000	–	22,100,000
			8.4.2005 – 7.4.2008	8.4.2008 – 7.4.2010	–	22,100,000	–	22,100,000
			8.4.2005 – 7.4.2009	8.4.2009 – 7.4.2010	–	22,100,000	–	22,100,000
				–	110,500,000	–	110,500,000	
Total					–	157,000,000	–	157,000,000
Exercisable at 31st December, 2005								31,400,000
Weighted average exercise price								HK\$0.728

The weighted average fair value of the option granted on 8th April, 2005 was HK\$0.113. The fair value were calculated using the market value basis. The inputs into the model were as follows:

Weighted average share price	HK\$0.728
Exercise price	HK\$0.728
Expected share volatility	40%
Expected life	2-5 years
Weighted average risk-free rate	3.834%
Expected dividend yield	3%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 3 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

The Group recognised the total expense of HK\$9,965,000 for the year ended 31st December, 2005 in relation to share options granted by the Company.

### 34. DISPOSAL OF SUBSIDIARIES

During the year ended 31st December, 2004, the Group disposed of its 100% interest in Giant Power International Limited, 上海漢中皇國際物業管理有限公司 and Fieldcrown Investments Limited for a total consideration of approximately HK\$92,443,000. These disposed subsidiaries were engaged in the business of property investment. Details of the assets and liabilities of the subsidiaries disposed of were as follows:

	<b>2004</b> <i>HK\$'000</i>
Net assets disposed of:	
Investment properties	102,000
Trade and other receivables	9,437
Bank balances and cash	5,783
Trade and other payables	(2,027)
Amount due to a related company	(10)
Taxation payable	(1,542)
Investment property revaluation reserve realised	(29,538)
Negative goodwill realised	(1,333)
	<u>82,770</u>
Gain on disposal of subsidiaries	<u>9,673</u>
Consideration	<u><u>92,443</u></u>
Satisfied by:	
Cash	17,443
Other receivables	<u>75,000</u>
	<u><u>92,443</u></u>

An analysis of the net cash inflow of cash and cash equivalents in connection with the disposal of subsidiaries is as follows:

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Cash consideration received	–	17,443
Bank balances and cash disposed of	–	(5,783)
	<u>–</u>	<u>(5,783)</u>
Net inflow of cash and cash equivalents in connection with the disposed of subsidiaries	<u>–</u>	<u>11,660</u>

The subsidiaries disposed of during the year ended 31st December, 2004 contributed approximately HK\$510,000 to the Group's net operating cash inflow and no significant contribution to the Group's cashflow in respect of investing and financing activities.

### 35. COMMITMENTS

At the balance sheet date, the Group had the following capital commitments:

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Authorised but not contracted for in respect of an investment project	–	210,600
	<u>–</u>	<u>210,600</u>
Contracted for but not provided for in the financial statements in respect of acquisition of property, plant and equipment (2004: land use right)	44,294	14,560
	<u>44,294</u>	<u>14,560</u>

### 36. OPERATING LEASE COMMITMENTS

#### The Group as lessor

During the year, the Group had property rental income of approximately HK\$118,000 (2004: HK\$9,166,000). Certain properties of the Group at 31st December, 2004 had committed tenants for the next 1 year.

At 31st December, 2005, the Group had no contracted tenants. At 31st December, 2004, the Group had contracted with tenants for the future minimum lease payments of HK\$177,000 fall within one year.

#### The Group as lessee

During the year, the Group made minimum lease payments under operating leases of approximately HK\$2,161,000 (2004: HK\$1,484,000) in respect of land and buildings, other equipment and staff quarter.

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which would fall due as follows:

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Within one year	1,171	1,773
In the second to fifth years inclusive	106	4,957
	<u>1,277</u>	<u>6,730</u>

Leases entered into by the Group were negotiated for an average term of two years.

### 37. CONTINGENT LIABILITIES

As at 31st December, 2005 and 31st December, 2004, the Group did not have any significant contingent liabilities.



**III. INDEBTEDNESS**

As at the close of business on 31st October, 2006, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group has outstanding borrowings of approximately HK\$249,000,000, comprising bank loan of approximately HK\$62,000,000 and convertible bonds of approximately HK\$187,000,000. Land and buildings with carrying value of HK\$5,800,000 were pledged in favour of the bank to secure general banking facilities granted to the Group.

Save as aforesaid and apart from intra-group liabilities, none of the companies in the Group has outstanding as the close of business on 31st October, 2006, any mortgages, charges or debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness or any hire purchase commitments, liabilities under acceptance or acceptance credits or any guarantees or other material contingent liabilities.

For the purpose of the above indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the approximate rates of exchange prevailing at the close of business of 31st October, 2006.

Except as disclosed above, the Directors are not aware of any material changes in the Group's indebtedness and contingent liabilities at the close of business on 31st October, 2006.

**IV. THE FINANCIAL AND TRADING PROSPECTS OF THE GROUP**

On Completion, the Group will cease to engage in the business of trading of computer products and related accessories. The Group will commit all its resources to the high growth market for protein chips for early detection of diseases.

The Group had experienced significant growth in the protein chips operation during the six months period ended 30th June, 2006. Sales of C12 protein chips and related systems for the six months ended 30th June, 2006 had reached a new record of HK\$77.5 million, representing an increase of approximately 17.1 percent over that of last corresponding period.

The Group is constructing a new factory to expand its production capacity in the Fengxian MA District in Shanghai. The progress of the construction is satisfactory, and is regularly inspect and approved by relevant government departments in accordance with the construction schedule. The new factory is on schedule to begin trial production before the end of the year and is expected that full production to begin in the first quarter of 2007.

The Directors is optimistic that by continually implementing business plans and strategies adopted over the years, the Group will be able to capitalize on its competitive edge and establish the Group as one of the leading biotechnology and healthcare service providers globally, particularly in the PRC.

**V. WORKING CAPITAL**

In the opinion of the Directors, based on the expected cash flows, the Group will, following the Completion of the Disposal, have sufficient working capital to meet its requirements in the next 12 months.

**VI. MATERIAL CHANGE**

The Directors are not aware as at the Latest Practicable Date of any material adverse change in the financial and trading position or prospect of the Group since 31st December, 2005, the date to which the latest published audited financial statements of the Group were made up.

**RESPONSIBILITY STATEMENT**

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

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
Mr. Iu Chung	21,220,000	–	1,272,969,075 (Note)	–	48.14

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

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

<b>Name of Director</b>	<b>Date of grant</b>	<b>Number of options held</b>	<b>Number of underlying shares</b>
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:

<b>Name of Shareholder</b>	<b>Attributable number of Shares</b>	<b>Percentage of issued Shares</b>
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) None of the Directors has, or has had, any direct or indirect interest in any assets which have been acquired, disposed of or leased to, or which are proposed to be acquired, disposed of or leased to, the Company or any of its subsidiaries since 31st December, 2005, the date to which the latest published audited financial statements of the Group were made up.
- (b) As at the Latest Practicable Date, none of the Directors has any interests in the business which is considered to be compete or is likely to complete, wither directly or indirectly, with the business of the Company.
- (c) The registered office of the Company is at Cannon's Court, 22 Victoria Street, Hamilton HM12, Bermuda. The share registrars of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) 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.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours (Saturdays and public holidays excepted) at the offices of the Company at Room 1801-03, Hutchison House, 10 Harcourt Road, Central, Hong Kong from the date of this circular up to and including the date of the SGM:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the Share Transfer Agreement dated 7th November, 2006 entered into between Sky Glory as vendor and the Purchaser as the purchaser in relation to sale and purchase of the 51% equity interest in Longxiang;
- (c) the audited financial statements of Longxiang for the nine months ended 30th September, 2006;
- (d) the annual reports of the Company for the two years ended 31st December, 2005;
- (e) the interim report of the Company for the six months ended 30th June, 2006; and
- (f) this circular.

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## NOTICE OF THE SPECIAL GENERAL MEETING

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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)**

#### NOTICE OF SPECIAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN THAT** a special general meeting (“SGM”) of the Shareholders of Mingyuan Medicare Development Company Limited (the “Company”) will be held at 2:30 p.m. at Room 1801-03, Hutchison House, 10 Harcourt Road, Central, Hong Kong, on 19th December, 2006 for the purpose of considering and, if thought fit, passing with or without amendment, the following resolutions:

#### ORDINARY RESOLUTIONS

1. **THAT** the share transfer agreement dated 8th November, 2006 entered into between Sky Glory Limited, a wholly-owned subsidiary of the Company, as vendor, and Cosmos Magic Profit Limited as purchaser (the “Share Transfer Agreement”) for the sales of 51% equity interest in Shanghai Longxiang Computer Company Limited and other transactions contemplated in the Share Transfer Agreement (the “Disposal”) be and are hereby approved, confirmed and ratified; and
2. **THAT** any one director or the company secretary of the Company be and is authorized on behalf of the Company to do all such acts or execute such other documents by hand or, in case of execution of documents under seal, to do so jointly with either the company secretary or a second director of the Company or a person appointed by the board of directors of the Company, which in his or their opinion may be necessary, desirable or expedient to carry out or to give effect to the Disposal pursuant to the Share Transfer Agreement.

By Order of the Board

**Mingyuan Medicare Development Company Limited**

**Poon Kwong Wai, Kenny**

*Company Secretary*

Hong Kong, 1st December, 2006

\* *For identification purpose only*

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## NOTICE OF THE SPECIAL GENERAL MEETING

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*Registered office:*

Cannon's Court  
22 Victoria Street  
Hamilton HM 12  
Bermuda

*Head office and*

*principal place of business:*  
Room 1801-03  
Hutchison House  
10 Harcourt Road  
Central  
Hong Kong

*Notes:*

- (1) A member entitled to attend and vote at the SGM is entitled to appoint another person as his proxy to attend and, on a poll, vote instead of him. A member may appoint a proxy in respect of part only of his holding of Shares. A proxy need not be a member of the Company.
- (2) In the case of the joint holders of the Shares, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the vote(s) of the other joint holder(s), seniority being determined by the order in which names stand in the register of members.
- (3) In order to be valid, the form of proxy must be in writing under the hand of the appointer or of his attorney duly authorized in writing, or, if the appointer is a corporation, either under seal, or under the hand of an officer or attorney or other person duly authorized, and must be deposited with the Company's branch share registrars in Hong Kong, Computershare Hong Kong Investor Services Limited, of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof) the time fixed for holding the SGM.
- (4) As at the date of this notice, the board of directors of the Company comprises Mr. Yao Yuan (Chairman), Mr. Chien Hoe Yong, Henry (CEO), Mr. Hu Jun, Mr. Iu Chung and Mr. Yu Ti Jun as executive Directors and Dr. Lam Lee G., Mr. Hu Jin Hua and Mr. Lee Sze Ho, Henry as Independent non-executive Directors.