

# MINGYUAN MEDICARE DEVELOPMENT COMPANY LIMITED

銘源醫療發展有限公司\*

(incorporated in Bermuda with limited liability)

(Stock Code: 0233)

## ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31ST DECEMBER, 2006

The Board of Directors (the “Directors”) of Mingyuan Medicare Development Company Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31st December, 2006, together with the comparative figures for year 2005 are as follows:

### CONSOLIDATED INCOME STATEMENT

For the Year Ended 31st December, 2006

	Notes	2006 HK\$'000	2005 HK\$'000 (restated)
<b>Continuing Operations</b>			
Revenue	4	160,835	126,985
Cost of sales		(19,525)	(11,758)
Gross profit		141,310	115,227
Other income	5	20,643	23,412
Selling and distribution costs		(9,164)	(5,818)
Administrative expenses		(43,606)	(41,974)
Loss on disposal of investment in securities held for trading		–	(4,895)
Finance costs	6	(16,740)	(13,828)
Gain on disposal/dissolution of subsidiaries		2,608	–
Profit before taxation	7	95,051	72,124
Taxation	8	(18,933)	–
Profit for the year from continuing operations		76,118	72,124
<b>Discontinued Operations</b>			
Loss for the year from discontinued operations	9	(3,156)	(2,089)
Profit for the year		72,962	70,035
Attributable to:			
Equity holders of the parent		73,559	70,096
Minority interests		(597)	(61)
		72,962	70,035
Dividends recognised as distribution during the year	10	26,881	–
Earnings per share			
From continuing and discontinued operations			
Basic	11	2.74 HK cents	2.61 HK cents
From continuing operations			
Basic	11	2.83 HK cents	2.65 HK cents

**CONSOLIDATED BALANCE SHEET**

At 31st December, 2006

	<i>Notes</i>	<b>2006</b> <b>HK\$'000</b>	2005 <i>HK\$'000</i>
<b>Non-Current Assets</b>			
Property, plant and equipment		229,512	118,487
Prepaid lease payments		67,635	38,198
Goodwill		104,240	47,115
Intangible asset	12	5,104	–
Available-for-sale investments	13	946	–
Deposits paid for the acquisition of property, plant and equipment		6,870	–
		<u>414,307</u>	<u>203,800</u>
<b>Current Assets</b>			
Prepaid lease payments		1,429	796
Inventories		7,460	13,971
Trade and other receivables, deposits and prepayments	14	50,445	73,070
Loans and interest receivables		–	269
Pledged bank deposits		10,000	190
Deposits placed with financial institutions		166,658	–
Bank balances and cash		274,903	489,085
		<u>510,895</u>	<u>577,381</u>
<b>Current Liabilities</b>			
Trade and other payables	15	34,447	13,400
Amount due to a related company		11,741	6,728
Bank borrowings – due within one year		70,500	47,962
Taxation payable		11,002	191
		<u>127,690</u>	<u>68,281</u>
<b>Net Current Assets</b>		<u>383,205</u>	509,100
		<u>797,512</u>	<u>712,900</u>
<b>Capital and Reserves</b>			
Share capital		134,405	134,405
Reserves		433,689	357,844
Equity attributable to equity holders of the parent		568,094	492,249
<b>Minority interests</b>		2,763	8,921
<b>Total Equity</b>		<u>570,857</u>	501,170
<b>Non-Current Liabilities</b>			
Bank borrowings – due after one year		24,625	28,577
Convertible bonds	16	193,428	183,153
Deferred tax liabilities		8,602	–
		<u>226,655</u>	<u>211,730</u>
		<u>797,512</u>	<u>712,900</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION

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

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 (“HKICPA”). 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.

### 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations (“new HKFRSs”) issued by the HKICPA, which are either effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. The adoption of the new HKFRSs has no material effect on how the results and financial position for the current and prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

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

HKAS 1 (Amendment)	Capital disclosures <sup>1</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HKFRS 8	Operating Segment <sup>7</sup>
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>2</sup>
HK(IFRIC) – INT 8	Scope of HKFRS 2 <sup>3</sup>
HK(IFRIC) – INT 9	Reassessment of embedded derivatives <sup>4</sup>
HK(IFRIC) – INT 10	Interim financial reporting and impairment <sup>5</sup>
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions <sup>6</sup>
HK(IFRIC) – INT 12	Service Concession Arrangements <sup>8</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 March, 2006.

<sup>3</sup> Effective for annual periods beginning on or after 1st May, 2006.

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

<sup>5</sup> Effective for annual periods beginning on or after 1st November, 2006.

<sup>6</sup> Effective for annual periods beginning on or after 1st March, 2007.

<sup>7</sup> Effective for annual periods beginning on or after 1st January, 2009.

<sup>8</sup> Effective for annual periods beginning on or after 1st January, 2008.

### 3. SEGMENT INFORMATION

#### Business segments

For management purposes, the Group is organised into the following two 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 division – Manufacturing and trading of protein chips and related equipments

Hospital operation – Operation of Shanghai Woman and Child Healthcare Hospital of Hong-Kou District, Shanghai, the PRC (上海市虹口區婦幼保健院)

In previous year, The Group also engaged in the (i) trading of information technology products and related accessories (information technology products and services segment) and (ii) trading of properties held for sale (property investment segment). These operations were discontinued on 30th September, 2006 and 1st January, 2006 respectively.

An analysis of the Group's revenue and contribution to operating results by business segments is as follows:

	Continuing operations			Discontinued operations			Consolidated HK\$'000
	Protein chips division HK\$'000	Hospital operation HK\$'000	Sub-total HK\$'000	Information technology products and services division HK\$'000	Property investment division HK\$'000	Sub-total HK\$'000	
<i>For the year ended 31st December, 2006</i>							
REVENUE							
External sales	<u>150,865</u>	<u>9,970</u>	<u>160,835</u>	<u>14,740</u>	<u>-</u>	<u>14,740</u>	<u>175,575</u>
RESULTS							
Segment results	<u>103,106</u>	<u>1,059</u>	104,165	<u>(738)</u>	<u>-</u>	(738)	103,427
Unallocated expenses			(14,752)			-	(14,752)
Interest income			7,703			8	7,711
Gain on disposal of property, plant and equipment	12,067	-	12,067			-	12,067
Finance costs			(16,740)			(489)	(17,229)
Gain on disposal/dissolution of subsidiaries			2,608			-	2,608
Profit before taxation			95,051			(1,219)	93,832
Taxation			(18,933)			-	(18,933)
			<u>76,118</u>			<u>(1,219)</u>	<u>74,899</u>
Loss on disposal of discontinued operations			-			(1,937)	(1,937)
Profit for the year			<u>76,118</u>			<u>(3,156)</u>	<u>72,962</u>

	Continuing operations		Discontinued operations			Consolidated HK\$'000
	Protein chips division HK\$'000	Sub-total HK\$'000	Information technology products and services division HK\$'000	Property investment division HK\$'000	Sub-total HK\$'000	
<i>For the year ended 31st December, 2005</i>						
REVENUE						
External sales	<u>126,985</u>	<u>126,985</u>	<u>144,322</u>	<u>10,828</u>	<u>155,150</u>	<u>282,135</u>
RESULTS						
Segment results	<u>86,954</u>	86,954	<u>(114)</u>	<u>439</u>	325	87,279
Unallocated expenses		(22,103)			-	(22,103)
Interest income		4,879			20	4,899
Gain on disposal of property, plant and equipment	16,222	16,222	179	-	179	16,401
Finance costs		(13,828)			(1,937)	(15,765)
Profit (loss) before taxation		72,124			(1,413)	70,711
Taxation		-			(676)	(676)
Profit (loss) for the year		<u>72,124</u>			<u>(2,089)</u>	<u>70,035</u>

## Geographical segments

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

	Revenue by geographical market	
	2006 HK\$'000	2005 HK\$'000
<b>Continuing operations</b>		
Hong Kong	637	7,640
PRC	160,198	119,345
	<u>160,835</u>	<u>126,985</u>
<b>Discontinued operations</b>		
Hong Kong	–	15,740
PRC	14,740	139,150
Canada	–	260
	<u>14,740</u>	<u>155,150</u>
	<u>175,575</u>	<u>282,135</u>

## 4. REVENUE

An analysis of the Group's revenue for the year, for both continuing and discontinued operations, is as follows:

	2006 HK\$'000	2005 HK\$'000
<b>Continuing operations</b>		
Sales of protein chips and related equipments	150,865	126,985
Hospital operation	9,970	–
	<u>160,835</u>	<u>126,985</u>
<b>Discontinued operations</b>		
Sale of information technology products	14,740	144,322
Sale of properties-held-for sale	–	10,828
	<u>14,740</u>	<u>155,150</u>
	<u>175,575</u>	<u>282,135</u>

## 5. OTHER INCOME

	Continuing operations		Discontinued operations		Consolidated	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Interest income	7,703	4,879	8	20	7,711	4,899
Gain on disposal of property, plant and equipment	12,067	16,222	–	179	12,067	16,401
Gain on disposal of investment properties	–	–	–	779	–	779
Others	873	2,311	897	523	1,770	2,834
	<u>20,643</u>	<u>23,412</u>	<u>905</u>	<u>1,501</u>	<u>21,548</u>	<u>24,913</u>

## 6. FINANCE COSTS

	Continuing operations		Discontinued operations		Consolidated	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Interest on bank borrowings wholly repayable within five years	5,103	2,356	489	1,937	5,592	4,293
Effective interest expenses on convertible bonds	12,275	11,472	–	–	12,275	11,472
Total borrowing costs	17,378	13,828	489	1,937	17,867	15,765
Less: amounts capitalised	(638)	–	–	–	(638)	–
	<u>16,740</u>	<u>13,828</u>	<u>489</u>	<u>1,937</u>	<u>17,229</u>	<u>15,765</u>

## 7. PROFIT BEFORE TAXATION

	Continuing operations		Discontinued operations		Consolidated	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Profit before taxation has been arrived at after charging:						
Depreciation	5,475	5,582	67	674	5,542	6,256
Amortisation of prepaid lease payment	335	797	–	–	335	797
Amortisation of intangible assets included in administrative expenses	86	–	–	–	86	–
Staff costs						
– directors' remuneration	4,329	6,667	–	–	4,329	6,667
– other staff costs	16,802	10,706	867	1,342	17,669	12,048
– share-based payments	3,558	7,064	–	–	3,558	7,064
– retirement benefits scheme contributions, excluding directors	120	20	–	29	120	49
Total staff costs	24,809	24,457	867	1,371	25,676	25,828
Auditors' remuneration	1,300	1,200	100	50	1,400	1,250
Loss on disposal of investments in securities held for trading	–	4,895	–	–	–	4,895
Allowances for bad and doubtful debts	–	–	–	702	–	702
Cost of inventories recognised as an expense	19,421	7,746	10,846	135,397	30,267	143,143
Research and development expenditure	1,118	1,076	–	–	1,118	1,076
and after crediting:						
Net rental income in respect of premises after outgoings of approximately Nil (2005: HK\$49,000)	–	–	–	69	–	69

## 8. TAXATION

	Continuing operations		Discontinued operations		Consolidated	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
The charge (credit) comprises:						
Hong Kong Profits Tax						
– Current year	–	–	–	(771)	–	(771)
Overprovision in prior years	671	–	–	–	671	–
Taxation in other jurisdictions						
– Overprovision in prior years	–	–	–	97	–	97
Taxation in other regions in the PRC	(19,604)	–	–	(2)	(19,604)	(2)
	<u>(18,933)</u>	<u>–</u>	<u>–</u>	<u>(676)</u>	<u>(18,933)</u>	<u>(676)</u>

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the year ended 31st December, 2005.

Taxation arising in other jurisdictions of the PRC 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.

## 9. DISCONTINUED OPERATIONS

On 1st January, 2006, the management of the Group resolved to discontinue its properties investment segment. No properties held for sales were held by the Group as at 31st December, 2005 and 31st December, 2006.

On 7th August, 2006, the Group entered into an agreement to dispose of a subsidiary, 上海龍祥電腦有限公司 (“上海龍祥”), which carried out all of the Group’s activities in its information technology products and services segment. The disposal was completed during the year and control of 上海龍祥 was passed to the acquirer on 30th September, 2006.

The loss for the year from the discontinued operations is analysed as follows:

	2006 HK\$'000	2005 HK\$'000
Loss of information technology products and services division for the year	(1,219)	(1,754)
Loss on disposal of subsidiaries engaged in information technology products and services division	(1,937)	–
Loss of property investment division for the year	–	(335)
	<u>(3,156)</u>	<u>(2,089)</u>

## 10. DIVIDENDS

	2006 HK\$'000	2005 HK\$'000
Dividends recognised as distribution during the year:		
Interim – HK\$0.01 per share (2005: Nil)	<u>26,881</u>	<u>–</u>
Dividends proposed:		
Final – HK\$0.01 per share (2005: Nil)	<u>26,881</u>	<u>–</u>

The final dividend of HK\$0.01 per share (2005: Nil) has been proposed by the directors and is subject to approval by shareholders in forthcoming general meeting.

## 11. EARNINGS PER SHARE

### From continuing and discontinued operations

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

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
<b>Earnings</b>		
Earnings for the purposes of basic earnings per share (profit for the year attributable to the equity holders of the parent)	<u>73,559</u>	<u>70,096</u>
	2006	2005
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>2,688,107,099</u>	<u>2,688,100,846</u>

The computation of diluted earnings per share does not assume the exercise of the share options since the exercise price of the Company's share options was higher than the average market price.

The computation of diluted earnings per share does not assume the conversion of the Company's outstanding convertible loan notes since their exercise would result in an increase in profit per share.

### From continuing operations

The calculation of the basic earnings per share from continuing operations attributable to the equity holders of the parent is based on the following data:

Earnings figures are calculated as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Profit for the year attributable to equity holders of the parent	73,559	70,096
Add: Loss for the year from discontinued operations attributable to the equity holders of the parent	<u>2,559</u>	<u>1,230</u>
Earnings for the purposes of basic earnings per share from continuing operations	<u>76,118</u>	<u>71,326</u>

The denominators used are the same as those detailed above for basic earnings per share.

### From discontinued operations

Basic loss per share for the discontinued operations is 0.09 HK cent per share (2005: 0.04 HK cent per share), based on the loss for the year from the discontinued operations attributable to the equity holders of the parent of HK\$2,559,000 (2005: HK\$1,230,000) and the denominators detailed above for basic earnings per share.

## 12. INTANGIBLE ASSET

	<b>Distribution right</b> <i>HK\$'000</i>
<b>COST</b>	
Acquired on acquisition of subsidiaries and at 31st December, 2006	<u>5,190</u>
<b>AMORTISATION</b>	
Provided for the period and at 31st December, 2006	<u>86</u>
<b>CARRYING VALUE</b>	
At 31st December, 2006	<u>5,104</u>
At 31st December, 2005	<u>—</u>

The above distribution right was purchased as part of a business combination during the year. The distribution right entitles the Group to distribute HPV Detection products (HPV DNA diagnostic kits for cervical cancer screening) in the Asia Pacific region for a period of 20 years.



The above intangible asset has a definite useful lives of 20 years and it is being amortised on a straight-line basis over 20 years.

### 13. AVAILABLE-FOR-SALE INVESTMENTS

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Equity securities listed outside Hong Kong	418	–
Unlisted investments	528	–
	<u>946</u>	<u>–</u>

The above unlisted investment represents a 5% interest in unlisted equity securities issued by a private entity incorporated in the PRC. The investment is measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so wide that the directors of the Company are of the opinion that their fair value cannot be measured reliably.

### 14. TRADE AND OTHER RECEIVABLES, AND PREPAYMENTS

Included in trade and other receivables, deposits and prepayments are trade receivables of HK\$43,624,000 (2005: HK\$53,903,000). 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:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
0 – 60 days	43,035	32,026
61 – 90 days	589	11,301
Over 90 days	–	10,576
	<u>43,624</u>	<u>53,903</u>

The carrying amount of the Group's trade and other receivables, at balance sheet date approximates the corresponding fair value.

### 15. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$3,137,000 (2005: HK\$3,201,000). An aged analysis of trade payables at the balance sheet date is as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
0 – 60 days	1,565	2,605
61 – 90 days	1,407	104
Over 90 days	165	492
	<u>3,137</u>	<u>3,201</u>

The carrying amount of the Group's trade and other payables at the balance sheet date approximates the corresponding fair value.

### 16. CONVERTIBLE BONDS

The Company issued HK\$200,000,000 1% convertible bonds due 2010 ("2010" Bonds") at a par value of HK\$200,000,000 on 6th January, 2005. The convertible bonds are denominated in Hong Kong dollars.

The 2010 Bonds bear interest at the rate of 1% per annum on the principal amount. Interest is payable 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 anti-dilutive adjustment.

The 2010 Bonds entitles the holders 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.

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 were converted into ordinary shares of HK\$0.05 each of the Company.

The convertible bonds contain two components, 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% per annum.

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

	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Carrying amount at the beginning of the year	<b>183,153</b>	–
Issue of convertible bonds	–	171,681
Interest charged	<b>12,275</b>	11,472
Interest paid	<b>(2,000)</b>	–
	<u><b>193,428</b></u>	<u>183,153</u>
Carrying amount at the end of the year	<u><b>193,428</b></u>	<u>183,153</u>

## 17. SHARE OPTIONS

### Equity-settled share option scheme

On 31st May, 2004 (the "Adoption Date"), the Company adopted a 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 contribute 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, 2006, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 133,400,000 (2005: 157,000,000) representing 4.96% (2005: 5.84%) 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. In each grant of options, the board of directors may at its discretion determine the specific vesting period and exercise period. Options may be exercised at any time from the date of grant (or after the expiry of the vesting period, if any) to the 10th anniversary of the date of grant. 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:

Category of participant	Date of grant	Exercise price	Vesting period	Exercisable period	Number of share options				
					Outstanding at 1.1.2006	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2006
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
				<u>46,500,000</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>46,500,000</u>	
Employees	8.4.2005	HK\$0.728	N/A	8.4.2005 – 7.4.2010	22,100,000	–	–	(4,000,000)	18,100,000
			8.4.2005 – 7.4.2006	8.4.2006 – 7.4.2010	22,100,000	–	–	(4,000,000)	18,100,000
			8.4.2005 – 7.4.2007	8.4.2007 – 7.4.2010	22,100,000	–	–	(5,200,000)	16,900,000
			8.4.2005 – 7.4.2008	8.4.2008 – 7.4.2010	22,100,000	–	–	(5,200,000)	16,900,000
			8.4.2005 – 7.4.2009	8.4.2009 – 7.4.2010	22,100,000	–	–	(5,200,000)	16,900,000
				<u>110,500,000</u>	<u>–</u>	<u>–</u>	<u>(23,600,000)</u>	<u>86,900,000</u>	
Total				<u>157,000,000</u>	<u>–</u>	<u>–</u>	<u>(23,600,000)</u>	<u>133,400,000</u>	
Exercisable at 31st December, 2006									<u>54,800,000</u>

Category of participant	Date of grant	Exercise price	Vesting period	Exercisable period	Number of share options			
					Outstanding at 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
				<u>–</u>	<u>46,500,000</u>	<u>–</u>	<u>46,500,000</u>	
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
				<u>–</u>	<u>110,500,000</u>	<u>–</u>	<u>110,500,000</u>	
Total				<u>–</u>	<u>157,000,000</u>	<u>–</u>	<u>157,000,000</u>	
Exercisable at 31st December, 2005								<u>31,400,000</u>

The Group amortises the fair value of the share options calculated above over the relevant vesting period. Accordingly, an amount of HK\$4,796,000 was charged as an equity-settled expense for the year ended 31st December, 2006 (2005: HK\$9,965,000).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Market Review

Despite the implementation macro-economic adjustment and control measures by the government, the economy in the PRC continued to grow robustly with a GDP growth of 10.7 percent in 2006. It is expected that the austere measures will continue in 2007 in the PRC but these will have minimal or no effect on the healthcare industry.

The PRC Government is committed to a sound and fast economic growth with emphasis on quality and efficiency of the growth. Most recently at the Fifth Session of the 10th National People's Congress, the PRC Government plans to reduce its GDP growth to approximately 8 percent in 2007 but at the same time announced a commitment to increase health budget for the rural medical system to RMB10.1 billion, an increase of over 74 percent over last year.

The PRC healthcare industry will continue to be modernized and has already become one of the fastest growing healthcare markets in the world over the last decade. Total health expenditure and per capita health expenditure have been growing at an annual average rate of over 16 percent. Underpinning such phenomenal growth are enhanced living standard, increase in per capita income, growth of the aging population, increasing healthcare consciousness, and the PRC Government's commitment to reform and to increase the healthcare budget for both the urban and rural medical systems as part of its committed effort to establish a harmonious society.

From 2001 to 2005, the per capita income of urban and rural residents in the PRC grew by annual averages of 9.2 percent and 5.2 percent respectively. Currently PRC's overall GDP ranks fourth in the world after decades of rapid economic development with GDP for 2006 at approximately US\$2.7 trillion. In 2006, the per capita income of urban and rural residents was approximately RMB11,759 and RMB3,587 respectively, representing a growth of 12.1 percent and 10.2 percent respectively over that of last year. The improved standard of living and the increase in healthcare consciousness have led to an increase on spending on healthcare products and services.

According to the World Health Report 2006 published by the World Health Organization, China lagged behind other developed countries on spending on healthcare services. Medical and healthcare services in the developed countries accounted for approximately 9.0 percent of GDP on average in 2003. Medical and healthcare services in the US represented 15.2 percent of GDP, while the figure for PRC was only 5.6 percent in 2003. It is widely expected that demand for medical and healthcare services will continue to grow as consumers become more affluent. The Group expects both the percentage and the GDP base to expand, making the healthcare industry to be a high growth sector in the economy.

Equally important is the increase in State Basic Medical Insurance population for urban residents. According to the China Statistical Yearbook 2006, the eligible participants have grown from 37.8 million in 2000 to 137 million in 2005, representing an increase of over 99 million participants with annual averages of 29 percent. In the same period, the State Basic Medical Insurance Funds have also increased over 7 times to a gross total of RMB137.8 billion in 2005. Under the 11th Five Year Plan, it is estimated that the urban population in China will increase from 43 percent of total population to 47 percent of total population between 2005 and 2010, and the continual increase in urban population will bring an increasing awareness of quality healthcare services that include early screening and detection of diseases.

### Business Review

Following the disposal of the remaining Information Technology business operation, the objectives of operation strategic prioritization of resources ("SPOR"), involving the shifting of resources allocation from information technology products and services and property investment divisions to the high growth protein chips division, have been successfully completed. Major corporate activities undertaken in 2006 were summarized as follows:

#### *Major Events and Issues in 2006*

19 Jun Announced the acquisition of 51 percent equity interest in Shanghai Weiyi Hospital Investment & Management Co., Ltd on 16 June at a cash consideration of RMB60,000,000.

The acquisition allowed the Group to achieve at least two specific objectives, namely (i) provides a medical infrastructure to provide better after sales service in Shanghai, and (ii) extends its cancer screening products to include a technologically advanced cervical cancer screening methods for women by way of an exclusive distribution arrangement in the Asia Pacific region for a period of 20 years.

3 Oct Announced the appointment of Mr. Iu Chung as Executive Director and Mr. Chien Hoe Yong, Henry, as Chief Executive Officer of the Company.

Mr. Iu Chung is the younger brother of Mr. Yao Yuan, Chairman of the Company and Mr. Iu has been a Director of the Company's wholly owned subsidiary, HD Global Limited since 2003. Mr. Iu's corporate responsibility is in the area of development and maintenance of new sales channel including the life insurance companies, and investments for the Group.

Mr. Chien Hoe Yong, Henry, has been an Executive Director of the Company since 2002 and has been responsible for the implementation of KM2003 Objectives and operation SPOR. Mr. Chien's corporate responsibility is coordinating all management functions for the implementation of business plans and objectives for the Company.

7 Nov Announced a major transaction involving the disposal of the 51 percent equity interest in Shanghai Longxiang Computer Company Limited, the remaining information technology business operation.

Following the disposal, the Company is entirely engaged in the business activities of biomedical products and services.

20 Dec Announced that SHMY HealthDigit Biochip Company Limited ("HD Biochip), a wholly-owned subsidiary of the Company, entered into a cooperation agreement with China Life Insurance Company Limited, Shanghai Branch ("CLS") on 19th December, 2006 whereby CLS will engage HD Biochip for the use of the Group's proprietary multi-tumor marker detection systems to evaluate interested applicants who intend to acquire insurance protection under a new Cancer Care Insurance Policy to be launched by CLS shortly in Shanghai, the PRC.

The cooperation agreement marked a further collaboration with China Life Insurance Company Limited ("CL"), the largest life insurance provider in the PRC and an milestone for the Company in a successful expansion of the products sales into one of the largest and most established retail sales network in the PRC with over 640,000 individual agents, 12,000 group sales staff and over 90,000 cooperating bank branches and post offices.

### ***Mission Statement – Innovative Medicare Solutions Partnership***

The Group is a leading supplier of biomedical solutions in China and has sold more than 3 million protein chips to date for cancer screening from its own proprietary intellectual property ("PIP") protein chip platform.

Founded in 2000, the Group is a pioneer that dedicates itself for the provision of low cost, non-invasive, and innovative medicare solutions in the areas of early detection and prevention of diseases, enhance human health and quality of life, and to provide a new approach to life insurance industries in the evaluation of health status and life span. It has been accepted that early detection of potential diseases including life threatening diseases would significantly improves the chances of successful medical therapy and treatment, raises the survival rate and improves the quality of life for patients.

Currently, the Group manufactures and distributes C12 protein chips and related systems ("C12 products") to hospitals and life insurance companies in China. The C12 products are capable of detecting up to twelve tumor markers simultaneously and assisting in early detection of ten prevalent cancer tumor types. During the year, the Group continued to experience an excellent growth in both order and sales of C12 products. As a proven and leading supplier of protein chips in China, the Group began to supply C12 products to life insurance companies based in China for the pre-screening and general health appraisal of life policy applicants. The Group expects the overall growth for the protein chips sales to be promising and sustainable in the future.

The Group continued to experience rapid growth in its protein chips business operations and sold a total of 1.5 million protein chips (2005: 1.19 million), representing an increase of 26.1 percent over that of last year.

The increase in the sale of chips was due mainly to a number of the following factors:

#### *Sales Strategy*

The Group's sales strategy involves the setting up of sales' channels, the establishment of a comprehensive pricing structure for the different sales' channels, the strengthening of technical support structures and the building up a sustainable distribution network.

The Group's sales strategy has been implemented successfully with increases in both turnover of number of chips sold. The Group will review its strategy continuously and is prepared to make revisions from time to time.

#### *Sales channels*

The Group continued to strengthen its sales platform and has expanded beyond the distributorship channel where historically most of the sales were generated. The Group has successfully established direct sales channels for life insurance industry and corporations in China. It is the long term strategy of the Group that the portfolios will be further developed to achieve a more balanced sales category platform and more importantly to reduce reliance on any particular sales channel.

#### Shanghai Weiyi Hospital Investment & Management Co., Ltd. ("Weiyi")

On 16th June, 2006, Shanghai HealthDigit Company Limited ("Shanghai HealthDigit"), a wholly-owned subsidiary of the Company, entered into an acquisition agreement to acquire 51 percent equity interest in Weiyi at a consideration of RMB60,000,000 (equivalent to approximately HK\$58,252,000).

Founded in July 2003, Weiyi is principally engaged in two major business activities, namely (1) the operation of Shanghai Woman and Child Healthcare Hospital of Hong-Kou District, an established woman and infants specialty hospital in Shanghai founded in November 1982, and (2) the distribution of HPV Detection Products (HPV DNA diagnostic kits for cervical cancer screening) in the Asia Pacific region.

Following completion of the acquisition agreement on 14th August, 2006, Shanghai HealthDigit holds 51 percent equity interest in Weiyi and is the sole distribution agent of HPV Products in the Asia Pacific region for a period of 20 year from 7th June, 2006 to 6th June, 2026 through an exclusive agency agreement with Genetel Pharmaceuticals (Shenzhen) Limited ("Genetel"). Under the strategic partnership with Genetel, Shanghai HealthDigit will also become the sole manufacturer of HPV Detection Products in China and collaborate closely with Genetel in research and development of biochips used for early detection of diseases.

The acquisition also provides an opportunity to the Group to transform part of the existing hospital facilities into a biomedical diagnostic laboratory for promotion and distribution of protein chips and HPV Detection Products. A strategic and synergistic opportunity is also generated to further strengthen the cancer screening product series into the area of cervical cancer screening and optimize its sales efforts in the established distribution network, particular in the China.

#### China Life Insurance Company Limited, Shanghai Branch ("CLS")

On 19th December 2006, the Group has successfully established a new sales channel that will contribute significantly to the future revenue, profitability and growth of the Group. HD Biochips, a wholly-owned subsidiary of the Company entered into a cooperation agreement with CLS whereby the latter agreed to engage HD Biochip for the use of its proprietary multi-tumor marker detection systems on a new insurance policy known as the "Cancer Care Insurance Policy" which will be launched shortly in Shanghai, the PRC. The cooperation agreement with CLS represents a major milestone for the corporate development of the Company and will significantly increase the sale of its proprietary protein chips and systems in coming years.

The "Cancer Care Insurance Policy" is a new health insurance policy developed by China Life Insurance Company Limited ("CL"), the largest life insurance provider in the PRC. Being a major branch of CL, CLS has over 4,000 exclusive agents and over seven million customers. CLS is the life insurance company in Shanghai principally engaged in the provision of insurance products for four main categories, namely life, retirement, health and accident insurance.

The Cancer Care Insurance Policy seeks to provide protection for people against cancer for one year after a successful cancer screening test. Within the insured period, the policy holder will receive the appropriate compensation for medical care whether the cancer tumor is benign or malignant. Under the cooperation agreement, the Company will use its proprietary multi-tumor protein chips and systems to provide cancer screening testing and risk evaluation procedures for every customer who purchases Cancer Care Insurance Policy from CLS. The cancer screening testing and risk evaluation procedures will include a protein chip testing together with other medical tests. Under the cooperation agreement, CLS will pay to HD Biochip RMB192 for each successful policy applicant who receives the cancer screening testing and risk evaluation procedures. The cooperation agreement will last for a period of three years.

The Directors believes that the launch of the Cancer Care Insurance Policy in a metropolitan city like Shanghai is the first step and that the cancer care programs will gradually be made available to other branches of CL in the PRC. The Directors believes that the cooperation agreement with CLS provides the potential of accessing the CL's extensive insurance distribution network in the PRC and further strengthening the Company's position as a leading supplier of biomedical chips and could significantly increase the Company's sales of its proprietary protein chips and systems in coming years.

#### *Chipreader optimization plan*

As at 31st December, 2006, the Group had 406 (2005: 323) chipreaders in the market. The Group understands that the chipreader for the C12 protein chips is a principal contributing factor for the sales volume and to this effect, the Group has been successful in increasing the utilization rate per chipreader per month by promoting the sharing of chipreaders among hospitals in the same location, reallocating some existing chipreaders to newly signed up hospitals and insurance companies, and increasing the production of chipreaders to meet new demands. During the year, the implementation of the optimization plan for chipreaders also contributed significantly to the increase in sales volume for the C12 protein chips. The utilization rate per chipreader will be further increased should sales on C12 products continue to experience growth in the future and other new products were introduced.

#### *Chipset packaging diversification*

The Group currently maintains three different sizes of packaging for its customers, namely 48 wells chipset for the simultaneous testing of 42 patients, 24 wells for the testing of 18 patients and 16 wells for the testing of 10 patients. The smaller packaging for 18 and 10 patients is more popular with regional hospitals and allows more regular processing of C12 protein chips for patients. Nevertheless, the Group maintains a flexible policy on packaging based on a reasonable demand from its customers and will review the packaging from time to time.

#### *After sales service*

The Group continues to strengthen after sales service to its customers and in house procedure has been developed to track down details of subsequent therapeutic treatments in hospitals for cancer patients being diagnosed. The after sales services not only indicate that our customers are actually being cared for. It also instills in our employees a sense of mission to assist our customers and their patients.

#### ***Information Technology Products and Services***

Due to operation SPOR, the Group has successfully sold all the remaining information technology business operation in 2006 and contribution from this operation is no longer expected.

### **FINANCIAL PERFORMANCE**

The consolidated turnover of the Group amounted to HK\$160.8 million (2005 (restated): HK\$127.0 million) for the year under review, representing an increase of approximately 26.6 percent over that of last year. The increase in turnover was mainly attributable to increase in sales of C12 products.

The net profit attributable to shareholders of the parent amounted to HK\$73.6 million (2005: HK\$70.0 million), representing an increase of 5.1 percent over that of last year. Earnings per share was HK\$2.74 cents (2005: HK2.61 cents), representing an increase of approximately 5.0 percent.

The net profit attributable to shareholders of the parent for the year was affected by the application of a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (herein 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 implementation of these new HKFRSs affected a number of accounting items and two areas are particularly affected, namely the convertible bonds and the employees share option scheme.

The Group applied new accounting and disclosure policies for its convertible bonds that was issued on 6th January, 2005 and employee share option scheme that was granted on 8th April, 2005. The net profit attributable to shareholders of the parent for the current year was reduced by approximately HK\$15.1 million (2005: HK\$19.4 million) upon application of new HKFRSs on these two areas.

### **Biomedical Products and Services**

Turnover contributed by the sale of C12 products amounted to HK\$150.9 million (2005: HK\$127.0 million), representing an increase of approximately 18.8 percent over that of last year. Segment profit amounted to HK\$103.1 million (2005: HK\$87.0 million), representing an increase of 18.5 percent over that of last year.

### **Hospital**

Turnover contributed by this new division amounted to HK\$10.0 million (2005: Nil). Segment profit amounted to HK\$1.1 million (2005: Nil). This new division was acquired in the latter part of 2006 and future contribution from this division will be more significant.

### **Information Technology Products and Services**

Turnover contributed by this division amounted to HK\$14.7 million (2005: HK\$144.3 million), representing a sharp decline of 89.8 percent over that of last year. Due to operation SPOR, the Group reduced its allocation of resources to this division and the division recorded a segment loss of HK\$738,000 (2005: HK\$114,000). The Group completed the disposal of the remaining information technology business operation in 2006. The Group does not expect any further contribution from this division in 2007.

## **PROSPECTS**

At the World Health Organization during the 58th World Health Assembly in 2005, member states adopted a number of resolutions that included a common understanding on early detection and prevention of diseases by way of promoting national health programs to control and prevent diseases including cancers.

Being a pioneer in this field of early screening, detection and prevention of diseases and a leading supplier of biomedical solutions, the Group has seized first mover advantage to service the increasing health conscious and affluent group of customers in China who demand higher standard of healthcare service and are looking for ways to improve quality of life including early medical therapy and treatment of diseases through early detection. The Group's biomedical chips are designed for early detection of diseases. With increasing health conscious worldwide and increasingly tight medical resources, the Group believes the dynamic development of biomedical solutions provides a new trend in healthcare industry that is moving decisively in the direction of early detection and prevention of diseases. The accumulation of market experiences enables the Group to appreciate the opportunities and challenges for biomedical products and services, and structure its unique distribution network for growth.

During 2003, the Group laid down key milestones for its protein chips business division (referred to as "KM2003 Objectives") and the Group has since been implementing business plans and strategies in the direction of KM2003 Objectives with an intention to strengthen its leading position as a protein chip supplier in China which is one of the largest, fastest growth and most promising healthcare markets in the world.

Despite many challenges ahead, the outlook for the Group is extremely promising and business plans are being implemented with impressive results. Most importantly the Group is implementing its business plans from which it has successfully raised through equity and debt issues, and through operation SPOR in 2005.

The Group continues to comply with a disciplined cost control philosophy and adopt a methodical approach towards the implementation of its business plan that includes strengthening distribution network and systems, strengthening after sales services, upgrading production and quality control processes, and reviewing of its research and development efforts and effectiveness, etc. The Group believes that early screening and diagnosis of potentially fatal diseases significantly improve the chances of successful treatment and raise the survival rate of patients. The Group intends to provide early screening of diseases that may be cured via proper dieting and drug therapy and thus raising the quality of life for patients.



## Key Milestones Progress

Based on KM2003 Objectives, the Group is committed to achieving key milestones and a summary of their respective progress are provided below:

- (1) Expand production capacity for the protein chips.

The Group is constructing a new factory to expand its production capacity in the Fengxian MA District of Shanghai. The progress of the construction is satisfactory, and is regularly inspected and approved by the relevant government departments in accordance with the construction schedule.

The new factory is built on a site area of approximately 81,764 sq.m. at an estimated total cost of HK\$200 million. Upon completion, the new plant will have a total production capacity of 8 million chips and will be a production base for a range of protein chips used for screening and diagnosis of different diseases.

Relevant applications have been made to the China State Food and Drug Administration (“SFDA”) for a Good Manufacturing Practice Certificate (commonly known as “GMP”) for the new plant. It is expected that Phase I of the new plant with 4 million production capacity will be operational by the end of April 2007.

- (2) Commence mass production of various protein chips and systems.

The existing GMP compliant plant at the Huzhou Economic & Technological Development Zone in the Zhejiang Province (the “Huzhou Plant”) is currently operating at a full production capacity of 1.5 million chips per annum. Prior to the full operation of the new factory in Shanghai and to meet an increasing demand for its C12 protein chips, the Group has temporarily expanded the production capacity at the Huzhou Plant from 1.5 million chips to 2.0 million chips at the beginning of 2007.

- (3) Build and strengthen the distribution channels and after sales support services.

The Group currently distributes its C12 products to over 45 health centers of major insurance companies and over 600 hospitals in China through regional distributorships and direct sales. The Group intends to expand the points of service to a total of 1000 hospitals and health centers of insurance companies. At the new plant site, the Group will build a composite training center to train medical and healthcare personnel on handling of protein chips and systems and provide after sales services for customers.

The arrangement with CLS to support the cancer evaluation process on the Cancer Care Insurance Policy in Shanghai will contribute significantly to the sale of the C12 products and the Group expects other branches of CL will start making the policy program available to their customers across China shortly. CL is the largest life insurance company in China and its distribution network, comprised of exclusive agents, direct sales representatives, and dedicated and non-dedicated agencies, is also the most extensive one in China. Being China’s premier life insurance company, CL’s products and services include life insurance, group life insurance, accident and health insurance. Leveraging on the existing distribution network of CL in China, the Directors are confident that the Group’s revenue base will increase significantly and the distribution points will grow in multiples in the coming years.

- (4) Commit resources in marketing and promotional activities.

The Group markets and promotes protein chips under the brand name “HealthDigit”. Currently, the Group is gaining increasing recognition for its product quality and corporate credibility. The Group intends to further leverage its first mover advantage and market leadership position by investing additional resources on the promotion and cultivation of the brand name “HealthDigit” and the Group’s biomedical products and services.

The Group plans to establish a Marketing Department in 2007 with a focus to set up marketing and promotional programs to further raise the corporate profile of the Company, and products in China and to bring together scientists, medical practitioners, and laboratory technicians to further promote the application of biomedical solutions for the early screening, detection and prevention of diseases including cancer.

- (5) Pursue new research, discovery and product innovations.

The Group continues to conduct research in-house on different applications of protein chips to be used for early detection of diseases based on the existing protein technology platform and the emphasis will be on product development of cancer or cardiac related screening products.

The Group understands the importance of technological leading edge in the biomedical industry and benefits of working with possible competitors by becoming strategic partners. In 2006, the Group has successfully diversified its revenue sources and its product platform by establishing a second revenue source, in addition to its own PIP protein chip platform, by way of a licensed intellectual property (“LIP”) product platform. The Group intends to work with established research based institutions as partners in commercialization of successfully researched and licensed products which are used for early screening of diseases and which are complimentary to the existing products of the Group. The Group places emphasis to develop its product platform into three major revenue sources, namely cancer, cardiac and other diseases series based on both PIP and LIP sources.

By engaging a new revenue source from LIP product platform, the Group has entered into a 20-year exclusive distribution and production agreement with Genetal whereby the Group will distribute the SNIPERTM HPV product series for cervical cancer screening in the Asia Pacific region. The Group is confident that the partnership will be mutually beneficial and provide a new direction in product development for new revenue source and a model for further cooperation. The Group will continue to seek opportunities to work with established scientific research institutions and laboratories on the discovery and research of new product and applications. The Group will over time increase its library of products and will launch them as and when the market condition is ready.

- (6) Establish global platform for the protein chips and systems.

While the major market for the Group is China, the Group has commenced feasibility studies on various markets outside China and intends to work with partners and regulators in their respective native countries for the distribution of “HealthDigit” protein chips and systems.

In 2006, Biomarkers Sdn Bhd. (“BIO”), the Group’s sole and exclusive distributor for C12 protein chips in Malaysia, Indonesia and Brunei has made progress in the promotion and sales of the products. BIO is an affiliation of HSC Medical Center (“HSC”) in Kuala Lumpur, HSC is one of the world’s leading one-stop medical, heart and diagnostic center specializing in early detection and treatment of heart, stroke and cancer with utilization of the latest medical technology.

The Group plans to work in partnership with established medical professionals and centers in their respective countries for a more orderly distribution of the both the C12 products and systems, and the SNIPERTM HPV product series. The Group plans to enter other Asian markets, including Singapore, Thailand, Hong Kong and Taiwan and to appoint suitable distributors in these respective countries or region.

### **New Line of Biomedical Testing Kits and Chips for the Early Detection of Diseases**

By way of both PIP and LIP sources, the Group intends to strengthen its leadership position in the biomedical industry by further diversifying its biomedical product series that contain the characteristics of both screening and diagnostic value and the Group plans to introduce the following biomedical products in the coming years:

- SNIPER™ HPV DNA Detection Kits for Cervical Cancer Screening

Cervical cancer is the second biggest cause of female mortality worldwide with over 288,000 deaths and 500,000 new cases every year. In the PRC, cervical cancer causes over 50,000 deaths and over 130,000 new infections every year. Currently, it is estimated that over 300 million women worldwide undergo some form of pap smear tests every year with much lower detection rate for cervical cancer.

According to the World Health Organization, cervical cancer is fully preventable and curable if pre-cancerous lesions are detected and treated early. Cervical cancer is caused by a common virus called human papillomavirus (“HPV”). High-risk, cancer-causing types of HPV can be detected using DNA technology. Women above age 18 are recommended to take annual examination to screen cervical disease or cancer.

The DNA-based diagnostic technology platform has been developed for the early screening and diagnosis of infectious and genetic diseases and involves a panel of techniques based on sensitive fluorescence detection, cost-effective microplate hybridization, and DNA microarray genotyping of amplified DNA products.

The proprietary technology platform is developed based on more than 12 years of applied research work carried out in the City University of Hong Kong and is protected by 10 patents/patent filings in China and USA.

The SNIPER™ HPV DNA Detection Kits for Cervical Cancer Screening includes a fluorescence PCR kit for 13 high-risk HPV DNA detection (FPCR Kit), a microplate hybridization kit for 13 high-risk HPV DNA detection (MHC Kit), and a DNA microarray genotyping kit for identification of 29 HPV subtypes (GENO Kit). The product series covers the broadest spectrum of service providers and customers ranging from large hospitals and centralized laboratories (FPCR Kit/GENO Kit) to small-to-medium size hospitals and clinics with low resource setting (MHC Kit), providing medical practitioners with the most comprehensive information on cervical cancer screening, diagnosis, prognosis, vaccination, and therapeutic intervention.

The HPV product series offers superior sensitivity (>95%) for early screening cervical cancer compared with conventional pap-smear test (50-60%), yet it does not require a large upfront capital investment on specialized equipment, and is only a fraction of the costs of other competitive products. The SNIPER™ FPCR Kit has successfully obtained approval from the SFDA in May 2006 and the kits are already being used by over 10 hospitals in China. It is also expected that the two other products including SNIPER™ MHC Kit and GENO Kit will obtained approval from the SFDA in 2007.

- Protein Chip for Rheumatoid Autoimmune Diseases (referred to as “RAD”)

Autoimmune diseases affect an estimated 3 to 5 percent of the total population with the highest prevalence in the elderly. Being a major category of the autoimmune diseases, rheumatoid disorders are difficult to recognize in the early stage, but in late stages, multiple organs can be affected and damages can be irreversible.

The word “auto” is the Greek word for self. The immune system is a complicated network of cells and cell components (called molecules) that normally defends the body and eliminates infections caused by bacteria, viruses, and other invading microbes. If a person has an autoimmune disease, the immune system mistakenly attacks itself, targeting the cells, tissues, and organs of the person’s own body. A collection of immune system cells and molecules at a target site is broadly referred as inflammation.

Rheumatoid disorders include systemic lupus erythematosus, rheumatoid arthritis, Sjogren’s syndrome, scleroderma, polymyositis/dermatomyositis and mixed connective tissue disease.

Clinical tests for RAD protein chip have been successfully completed and it is estimated that over 50 million people in China suffered from rheumatoid autoimmune diseases.

- Protein Chip for Infertility and Sterility Diseases (referred to as “ISD”)

The protein chip is used to diagnose certain autoimmune disorders that cause infertility and sterility. Such disorders include endometriosis, recurrent spontaneous miscarriage, and dysfunction of the ovary and sperms.

Clinical tests for ISD have already been successfully completed in 2005 and it is estimated that over 20 million people in China suffered from infertility and sterility diseases.

## Conclusion

The high growth rate in the Chinese economy has placed the Group in the most exciting part of the world to implement its business plans and operations and the Directors are pleased with the results on the implementation of the business objectives. As part of the PRC Government new effort to build a harmonious society, the Directors believe that a well funded and fair medical system is a vital contributor to building a lasting harmonious society and that the Company's early detection and prevention of diseases will save lives and promote the awareness of good healthcare.

Being a leading supplier of protein chips and solutions for early detection of diseases in the high growth healthcare industry in China, the Group appreciates the many challenges and risks that are associated with the high growth industry and believe that the Group is reasonably well placed to respond to the risks and challenges accordingly. The Group believes that the business plan for the revised KM2003 Objectives will be executed with precision and changes will only be made when there is a need to do so.

The Group also understands the constant evolution of biomedical science and its applications, and will continue to expedite its business growth by actively pursuing new medical related opportunities through alliances, licensing and acquisitions. The Group is optimistic about its future and is in a state of readiness to face the many new challenges in 2007.

## DIVIDEND

An interim dividend in respect of the year ended 31st December, 2006 of HK1 cent (2005: Nil) per share was paid on 25th October, 2006. The directors have recommended for adoption at the forthcoming annual general meeting of the Company the payment of a final dividend for the year ended 31st December, 2006 of HK1 cent (2005: Nil) per share.

## PLEDGE OF ASSETS

At the balance sheet date, following assets were pledged to secure general banking and credit facilities granted to the Group:

	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Buildings	<b>5,992</b>	6,101
Buildings under construction	<b>23,587</b>	–
Pledged bank deposit	<b>10,000</b>	190
	<b><u>39,579</u></b>	<b><u>6,291</u></b>

## LIQUIDITY AND FINANCING

The Group adopts a prudent approach in managing its liquidity and treasury function and sets out guidelines to achieve these objectives. These guidelines cover the Group's debt profile, financing horizon and interest rate risks management.

At 31st December, 2006 the Group had cash and bank balances of HK\$451.6 million (2005: HK\$489.1 million). The Group's gearing ratio as at 31st December, 2006 was 50.8 percent (2005: 52.8 percent), based on bank and other borrowings of HK\$288.6million (2005: HK\$259.7 million) and shareholders' fund of HK\$568.1 million (2005: HK\$492.3 million)

The Group's bank borrowings were denominated in Hong Kong Dollars and Renminbi. Bank borrowings totaling HK\$95.1 million were outstanding as at 31st December, 2006 (2005: HK\$76.5 million). The bank borrowings bear interest at prevailing market rates ranging from 4.92% to 6.04% per annum (2005: ranging from 4.45% to 6.89% per annum).

Revenue generated from protein chips operation, payment for purchases of materials, components, equipment and salaries are made in Renminbi. Use of financial instruments for hedging purposes is considered unnecessary and the exposure to exchange rate fluctuation is minimal.

## **CONTINGENT LIABILITIES**

As at 31st December, 2006 and 31st December, 2005, the Group did not have any significant contingent liabilities.

## **EMPLOYEES**

At 31st December, 2006, the Group had a total of 387 employees (2005: 277 employees) in Hong Kong and China. The increase in the number of employees of the Group was due to the fact that various sales and support teams were built to strengthen the distribution channels and after-sales support services of protein chips operation. Employee's remuneration, promotion and salary review are assessed based on job responsibilities, work performance, experience and prevailing industry practice.

## **DEALINGS IN THE COMPANY'S LISTED SECURITIES**

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries had purchased or sold the shares in the Company during the year.

## **CORPORATE GOVERNANCE**

The Stock Exchange of Hong Kong Limited ("Stock Exchange") introduced the Code on Corporate Governance Practices (the "GCP Code") as set out in Appendix 14 of the Listing Rules effective from 1st January, 2005. The Board took appropriate action to adopt the GCP Code as part of an ongoing exercise to strengthen corporate governance so as to ensure better transparency and protection of shareholder's interest in general.

None of the directors of the Company is aware of information that would reasonably indicate the Company is not or was not for any part of the year under review, in compliance with the CGP Code, except the followings:

Provision A.4.1 of the CGP Code requires that every director should be appointed for a specific term, and subject to retirement by rotation at least every three years. During the year, the non-executive directors have not been appointed for a specific term and they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Bye-laws.

Bye-law 109 of the Bye-laws of the Company provides that at each general meeting of the Company, with the exception of the executive chairman, one-third of the directors of the Company (or if their number is not three or a multiple of three, the then number nearest to but not exceeding one-third) who have been longest in office since their last election shall retire from office and the retiring directors shall be eligible for re-election.

Based on the number of directors as at 31st December, 2006, a non-executive director will serve on the board for a term of about two years until he/she becomes due to retire from the board by rotation. In the opinion of the directors, this arrangement meets the same objective as the CGP Code.

The Company adopts the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules as the code of conduct for Directors and Senior Management in their dealings in the Company's securities.

The Company made specific enquiries of each Director and member of the Senior Management, and each confirmed that he/she had fully complied with the Model Code during the year ended 31st December, 2006.

The Company has received, from each of the Independent Non-executive Directors, a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all the Independent Non-executive Directors are independent.

## **AUDIT COMMITTEE**

The audit committee is comprised of three independent non-executive directors who together have substantial experience in fields of auditing, legal matters, business, accounting, corporate internal control and regulatory affairs.

The audit committee meets regularly to review the completeness, accuracy and fairness of the Company's financial statement. They consider the nature and scope of internal and external audit reviews. They also assess the effectiveness of the systems of internal control the Company has established to allow the board of directors to monitor the Group's overall financial position and to protect its assets.

The audit committee has reviewed the Group's consolidated financial statements for the year ended 31st December, 2006 in conjunction with the Group's auditors.

## **INVESTOR RELATIONS AND COMMUNICATION**

The Group adopts a proactive policy of promoting investor relations and communication by maintaining regular meetings with institutional investors and analysts. In order to further effective communication, the Company maintains a website ([www.mymedicare.com.hk](http://www.mymedicare.com.hk)) to disseminate shareholder information electronically on a timely basis.

## **REVIEW OF THE PRELIMINARY ANNOUNCEMENT BY AUDITORS**

The figures in respect of the Group's consolidated balance sheet, consolidated income statement and the related notes thereto for the year ended 31st December, 2006 as set out in the Preliminary Announcement have been agreed by the Group's auditors, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

As at the date of this announcement, the Board of Directors of the Company comprises Mr. Yao Yuan, Mr. Iu Chung, Mr. Chien Hoe Yong, Henry, Mr. Hu Jun, Mr. Yu Ti Jun, Dr. Lam Lee G., Mr. Hu Jin Hua and Mr. Lee Sze Ho, Henry.

On behalf of the Board  
**Chien Hoe Yong, Henry**  
*Chief Executive Officer*

27th March, 2007

\* *For identification purposes only*

“Please also refer to the published version of this announcement in The Standard”