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 31 DECEMBER 2009

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 31 December 2009, together with the comparative figures for year 2008 are as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 31 December 2009

	Notes	**2009** *HK$'000*	2008 *HK$'000*
Revenue	*3*	**394,288**	326,066
Cost of sales		**(74,959)**	(62,070)
Gross Profit		**319,329**	263,996
Other income	*4a*	**12,343**	14,137
Other gains and losses	*4b*	**5,168**	(7,757)
Distribution and selling expenses		**(42,162)**	(23,250)
Administrative expenses		**(118,715)**	(53,735)
Other expenses		**(23,929)**	(4,212)
Share of results of jointly controlled entities		**(5,981)**	–
Finance costs	*5*	**(48,990)**	(12,894)
Profit before tax		**97,063**	176,285
Income tax expense	*6*	**(21,420)**	(25,440)
Profit for the year	*7*	**75,643**	150,845
Other comprehensive income for the year			
Exchange differences arising on translation		**5,085**	38,607
Revaluation surplus arising from business combination achieved in stages		**10,354**	–
Total comprehensive income for the year		**91,082**	189,452

* *For identification purposes only*

	Notes	**2009**	2008
		HK$'000	*HK$'000*
Profit for the year attributable to:			
Owners of the Company		**76,758**	150,102
Minority Interests		**(1,115)**	743
		75,643	150,845
Total comprehensive income attributable to:			
Owners of the Company		**92,198**	188,709
Minority Interests		**(1,116)**	743
		91,082	189,452
Earnings per share			
Basic	*9*	**2.49 HK cents**	5.13 HK cents
Diluted	*9*	**2.48 HK cents**	5.06 HK cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Non-Current Assets			
Property, plant and equipment		**435,863**	358,175
Prepaid lease payments		**69,950**	71,150
Goodwill		**420,982**	104,240
Other intangible assets		**326,918**	2,274
Interests in jointly controlled entities		**20,140**	–
Available-for-sale investments		**–**	528
Deposit paid for acquisition of subsidiaries		**–**	56,410
Deposits paid for acquisition of property, plant and equipment		**203**	21,670
		1,274,056	614,447
Current Assets			
Inventories		**13,751**	18,585
Prepaid lease payments		**1,577**	1,569
Trade and other receivables, deposits and prepayments	*10*	**165,955**	124,436
Amounts due from related companies		**3,096**	–
Amounts due from jointly controlled entities		**45,133**	–
Held for trading investments		**4,201**	2,467
Pledged bank deposits		**11,358**	16,923
Bank balances and cash		**457,406**	602,917
		702,477	766,897
Current Liabilities			
Trade and other payables	*11*	**81,338**	58,104
Amount due to a related company		**978**	29,217
Bank borrowings – due within one year		**139,444**	87,077
Convertible bonds		**79,627**	–
Taxation payable		**17,534**	10,135
		318,921	184,533
Net Current Assets		**383,556**	582,364
Total Assets less Current Liabilities		**1,657,612**	1,196,811

	2009	2008
	HK$'000	*HK$'000*
Capital and Reserves		
Share capital	**170,525**	146,731
Reserves	**1,248,535**	868,193
Equity attributable to owners of the Company	**1,419,060**	1,014,924
Minority Interests	**41,988**	5,106
Total Equity	**1,461,048**	1,020,030
Non-Current Liabilities		
Deferred tax liabilities	**116,490**	26,693
Bank borrowings – due after one year	**80,074**	112,820
Convertible bonds	**–**	37,268
	196,564	176,781
	1,657,612	1,196,811

NOTES TO THE CONSOLIDATED 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 (the "Listing Rules") 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 the following new and revised standards, amendments and interpretatons ("new and revised HKFRSs") issued by the HKICPA.

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) – Int 18	Transfers of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

New and revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised 2007) Presentation of Financial Statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the consolidated financial statements.

HKFRS 8 Operating Segments

HKFRS 8 is a disclosure standard that has not resulted in a redesignation of the Group's reportable segments (see Note 3).

Improving Disclosures about Financial Instruments
(Amendments to HKFRS 7 Financial Instruments: Disclosures)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related Party Disclosures[6]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Rights Issues[4]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[5]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[7]
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[6]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[5]

1 Effective for annual periods beginning on or after 1 July 2009.
2 Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.
3 Effective for annual periods beginning on or after 1 January 2010.
4 Effective for annual periods beginning on or after 1 February 2010.
5 Effective for annual periods beginning on or after 1 July 2010.
6 Effective for annual periods beginning on or after 1 January 2011.
7 Effective for annual periods beginning on or after 1 January 2013.

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary.

HKFRS 9 "Financial Instruments" introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

3. SEGMENT INFORMATION

The Group has adopted HKFRS 8 "Operating Segments" with effect from 1 January 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor standard (HKAS 14, "Segment Reporting") required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format under HKAS 14 was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

The Group's operating segments under HKFRS 8 are therefore as follows:

Protein chips division	–	Manufacturing and trading of protein chips and related equipments
Health care division	–	Operation of Shanghai Woman and Child Healthcare Hospital of Hong-Kou District, Shanghai, PRC (上海市虹口區婦幼保健院) ("Hospital Unit")
	–	Manufacturing and trading of Human Papilloma Virus ("HPV") detection products and related equipments ("Cervical Cancer Care Unit")
Medial centres management	–	Provision of medical diagnostic, health check and medical appraisal services (newly acquired in the current year)

Segment revenues and results

The following is an analysis of the Group's revenue and results by operating segment.

	Protein chips division *HK$'000*	**Health care division** *HK$'000*	**Medical centres management** *HK$'000*	**Consolidated** *HK$'000*
For the year ended 31 December 2009				
REVENUE				
External sales	319,241	44,835	30,212	394,288
Segment profit (loss)	217,555	(4,452)	3,623	216,726
Unallocated expenses				(71,460)
Interest income				5,025
Share of results of jointly controlled entities				(5,981)
Change in fair value of held for trading investments				1,743
Finance costs				(48,990)
Profit before tax				97,063
For the year ended 31 December 2008				
REVENUE				
External sales	290,512	35,554	–	326,066
Segment profit	207,478	2,722	–	210,200
Unallocated expenses				(13,237)
Interest income				6,538
Change in fair value of held for trading investments				(14,322)
Finance costs				(12,894)
Profit before tax				176,285

For the purpose of assessment by chief operating decision maker, the amortisation of other intangible assets were included in segment profit (loss) while the corresponding other intangible assets have not included in the segment assets.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating segment:

	2009	2008
	HK$'000	*HK$'000*
ASSETS		
Segment assets		
– protein chips division	**519,294**	479,663
– health care division	**140,748**	108,336
– medical centres management	**24,643**	–
	684,685	587,999
Goodwill	**420,982**	104,240
Other intangible assets	**326,918**	2,274
Unallocated assets	**543,948**	686,831
Consolidated total assets	**1,976,533**	1,381,344
LIABILITIES		
Segment liabilities		
– protein chips division	**41,320**	36,360
– health care division	**22,319**	18,127
– medical centres management	**5,323**	–
	68,962	54,487
Unallocated liabilities	**446,523**	306,827
Consolidated total liabilities	**515,485**	361,314

For the purposes of monitoring segment performances and allocating resources between segments:

– all assets are allocated to operating segments, other than goodwill, interests in jointly controlled entities, other intangible assets, held for trading investments, amounts due from related companies, amounts due from jointly controlled entities, pledged bank deposits, bank balances and cash and other unallocated corporate assets; and

– segment liabilities included trade and other payables attributable to segments.

Other segment information

Amounts included in the measure of segment profit or loss or segment assets:

	Protein chips division *HK$'000*	Health care division *HK$'000*	Medical centres management *HK$'000*	Segment Total *HK$'000*	Unallocated *HK$'000*	Consolidated *HK$'000*
For the year ended 31December 2009						
Additions to non-current assets *(Note)*	38,724	49,339	13,755	101,818	32	101,850
Depreciation of property, plant and equipment	19,081	1,735	2,887	23,703	27	23,730
Gain (loss) on disposal of property, plant and equipment	3,439	2	(16)	3,425	–	3,425
Amortisation of prepaid lease payment	939	–	–	939	–	939
Amortisation of other intangible assets	–	10,895	6,598	17,493	–	17,493
For the year ended 31 December 2008						
Additions to non-current assets *(Note)*	34,991	3,014	–	38,005	8	38,013
Depreciation of property, plant and equipment	17,544	1,117	–	18,661	55	18,716
Gain on disposal of property, plant and equipment	6,565	–	–	6,565	–	6,565
Amortisation of prepaid lease payment	930	634	–	1,564	–	1,564
Amortisation of other intangible assets	–	146	–	146	–	146

Note: Non-current assets excluded goodwills, other intangible assets and financial instruments.

Amounts not included in the measure of segment profit or loss or segment assets but regularly reviewed by chief operating decision maker:

	Protein chips division *HK$'000*	Health care division *HK$'000*	Medical centres management *HK$'000*	Segment Total *HK$'000*	Unallocated *HK$'000*	Consolidated *HK$'000*
For the year ended 31 December 2009						
Additions to other intangible assets	–	276,114	65,976	342,090	–	342,090
Additions to goodwill	–	79,910	236,832	316,742	–	316,742
Share-based payments	–	–	–	–	38,897	38,897
For the year ended 31 December 2008						
Share-based payments	–	–	–	–	1,815	1,815

Geographical information

Around 99% (2008: 99%) of the Group's turnover are derived from the operation in the PRC and around 99% (2008: 99%) of the Group's non-current assets excluded financial instruments are located in the PRC, therefore, no geographical information is presented.

4a. OTHER INCOME

	2009	2008
	HK$'000	*HK$'000*
Interest income	**5,025**	6,538
Government subsidy	**6,202**	4,970
Others	**1,116**	2,629
	12,343	14,137

4b. OTHER GAINS AND LOSSES

	2009	2008
	HK$'000	*HK$'000*
Gain on disposal of property, plant and equipment	**3,425**	6,565
Changes in fair value of held for trading investments	**1,743**	(14,322)
	5,168	(7,757)

5. FINANCE COSTS

	2009	2008
	HK$'000	*HK$'000*
Interest on bank borrowings wholly repayable within five years	**11,712**	10,494
Effective interest expenses on convertible bonds	**37,569**	2,400
Total borrowing costs	**49,281**	12,894
Less: amounts capitalised (capitalised in buildings under construction of property, plant and equipment at a capitalisation rate of 5.58% per annum)	**(291)**	–
	48,990	12,894

6. INCOME TAX EXPENSE

	2009	2008
	HK$'000	*HK$'000*
PRC Enterprise Income Tax		
– Current year	**19,759**	**13,312**
– Under (over) provision in prior year	**1,606**	**(8,287)**
	21,365	**5,025**
Deferred tax		
– Current year	**7,894**	**20,415**
– Overprovision in prior year	**(7,839)**	**–**
	55	**20,415**
	21,420	**25,440**

No provision for Hong Kong Profits Tax has been made since the group entities operating in Hong Kong had no assessable profit for both years.

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% of the assessable profit for both years.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards. Pursuant to the relevant laws and regulations in the PRC, the Group's two PRC subsidiaries 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 "Tax Holidays"). The Tax Holidays continue to be applicable for the two PRC subsidiaries after the EIT Law was implemented. The tax holiday of one of the PRC subsidiaries expired in 2009 and that of the other subsidiary will expire in 2012. The tax rates for 2009 and 2008 is 25%.

7. PROFIT FOR THE YEAR

	2009	2008
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging:		
Depreciation of property, plant and equipment	**23,730**	18,716
Amortisation of prepaid lease payment	**1,575**	1,564
Less: amount capitalised (included in buildings under construction of property, plant and equipment)	**(636)**	–
	939	1,564
Amortisation of other intangible assets (included in other expenses)	**17,493**	146
Staff costs		
– directors' emoluments	**5,173**	5,650
– other staff costs	**33,892**	28,204
– share-based payments, excluding directors	**38,805**	1,308
– retirement benefits scheme contributions, excluding directors	**298**	270
Total staff costs	**78,168**	35,432
Auditor's remuneration	**2,463**	1,800
Cost of inventories recognised as expenses	**74,959**	62,070
Research and development expenditure (included in other expenses)	**6,436**	4,066

8. DIVIDEND

	2009	2008
	HK$'000	*HK$'000*
Dividends recognised as distribution during the year:		
2007 Final dividend of HK$0.01 per share	**–**	29,346

The final dividend of HK$0.01 (2008: Nil) per share amounting to an aggregate amount of HK$34,960,000 has been proposed by the Directors and is subject to approval by the shareholders in general meeting.

9. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2009	**2008**
	HK$'000	*HK$'000*
Earnings		
Earnings for the purpose of basic earnings per share (profit for the year attributable to the owners of the Company)	**76,758**	**150,102**
Effect of dilutive potential ordinary shares:		
– Interest on convertible bonds	**–**	**2,400**
Earnings for the purpose of diluted earnings per share	**76,758**	**152,502**

	2009	**2008**
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**3,082,579,777**	**2,928,747,984**
Effect of dilutive potential ordinary shares:		
– Share options	**12,570,843**	**35,081,213**
– Convertible bonds	**–**	**51,406,886**
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**3,095,150,620**	**3,015,236,083**

No adjustment for convertible bonds and warrants was made in calculating diluted earnings per share for the year ended 31 December 2009 as the conversion of convertible bonds and exercise of warrants would result in increase in earnings per share.

10. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2009	2008
	HK$'000	*HK$'000*
Trade receivables	**153,576**	103,559
Less: allowance for doubtful debts	**(2,226)**	(2,211)
	151,350	101,348
Consideration receivable for disposal of property, plant and equipment	**2,590**	12,433
VAT recoverable	**–**	243
Prepayments	**2,427**	8,534
Others	**9,588**	1,878
	165,955	124,436

The Group normally allows a credit period of 30 to 270 days to its trade customers. The following is an aged analysis of the trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting date:

	2009	2008
	HK$'000	*HK$'000*
0 – 60 days	**110,964**	77,044
61 – 90 days	**31,151**	16,987
91 – 180 days	**6,477**	6,049
181 – 270 days	**2,758**	1,268
	151,350	101,348

At 31 December 2009 and 31 December 2008, all trade receivables were neither past due nor impaired. The Group has assessed the credit quality of the trade receivables by using the internal assessment taking into account of the repayment history and financial difficulties (if any) of the trade customers and has not identify any credit risk on these trade receivables.

11. TRADE AND OTHER PAYABLES

	2009	2008
	HK$'000	*HK$'000*
Trade payables	**8,936**	7,616
Receipts in advance	**7,444**	7,407
Accrued expenses	**25,442**	21,302
Payables for construction in progress	**13,603**	13,511
Other tax payable	**7,922**	4,263
Others	**17,991**	4,005
	81,338	58,104

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2009	2008
	HK$'000	*HK$'000*
0 – 60 days	**8,054**	6,831
61 – 90 days	**20**	295
Over 90 days	**862**	490
	8,936	7,616

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

The world financial crisis in September 2008 has shaped the year 2009 to be an extraordinary year globally, particularly for China. The unprecedented global response from the G-20 economies which put together substantial economic stimulus packages, monetary, financial and fiscal measures successfully halted the recessionary slide, stabilized financial markets and revived global economy. It is widely expected that full recovery will be gradual, and both macroeconomic and financial policies need to remain supportive internationally.

This extraordinary year was described by the China Government as the most difficult year in its economic development since the beginning of the new century. As a result of a hugely successful China's own stimulus package, proactive fiscal policy and moderately lose monetary policy, the country's economy ended the accelerating slide and began to recover as a whole to witness a historical V-shaped recover of the economy from the world economic downturn.

With the economic stimulus package in effect to drive investments and domestic spending, the gross domestic product in China rose 8.7 percent in 2009 from a year ago to Rmb33.53 trillion (US$4.91 trillion) and became the first few countries in the world to record a strong economic growth. Nevertheless, the National Bureau of Statistics most recently issued a note of caution that the China's economy will continue to face difficulties and challenges, and that the economy recovery has yet to achieve long term sustainability.

In the last five years, the China economy have grown over 84 percent with an average annual growth of 9.9 percent and the China economy is currently the third largest economy in the world, behind the US and Japan. Confronting economic complexity both at home and abroad, the China Government successfully engaged a flexible and prudent macro-economic policies to introduce more timely measures to expand domestic demand, speed up the construction of public facilities and improve living standards of the poor to achieve steady and relative fast economic growth.

Most recently at the Third Session of the 11th National People's Congress, the China Government has reaffirmed its commitment to a steady and fast economic growth with emphasis on quality and efficiency of the growth and the type of growth based on domestic demand and to maintain its GDP growth to at least 8 percent in 2010 while at the same time committed its efforts to reform the health care sector with an eventual goal of establishing a basic medical and health care system to provide safe, effective, convenient and affordable service for the society. While the global economy is slowly recovering, the China Government continue to engage on strategic and fundamental changes in the economic structure of the country and to place more emphasis on building a sustainable domestic economy based on heavy investments and strong domestic spending.

In pursuit of its landmark healthcare reform plan backed by a significant budget of RMB850 billion to be spent before 2011, the China Government is committed to provide basic medical security to all Chinese in both urban and rural areas, improve the quality of medical services, and make medical services more accessible and affordable for ordinary people and to pave the road for further medical reforms in the healthcare industry.

With the healthcare reform in full momentum, the healthcare industry in China will continue to be modernized and has already become one of the fastest growing healthcare markets in the world over the last decade. Total healthcare expenditure and per capita healthcare 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 China 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 and will invariably drive up strong demands for medical products and services in the coming decade.

From 2001 to 2009, the per capita income of urban and rural residents in China grew at annual averages of 9.9 percent and 6.6 percent respectively. In 2009 the per capita income of urban and rural residents per year was approximately RMB17,175 and RMB5,153 respectively, representing a growth of 9.8 percent and 8.5 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.

Equally important is the increase in State Basic Medical Insurance population for urban residents. According to the National Bureau of Statistics of China, the eligible participants have grown from 43.3 million in 2000 to 400.6 million in 2009, representing an increase of over 362.8 million participants with annual averages of 29 percent. 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 at the end of 2009, the urban population reached 46.6 percent of the total population. 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

During the year, the Group has maintained a prudent yet progressive approach towards its business agenda and financial management. While the Group has adopted a prudent credit policy with its customers to control sales growth, the Group took advantage of its strong balance sheet to complete two acquisitions below market valuation due to uncertain economic and worsening liquidity situations in the first half of the year.

In January, the Group completed the acquisition of a network of health screening centres and established a new Medical Centres Management business segment. In April, The Group successfully consolidated all the intellectual property rights related to the HPV DNA testing kits for cervical cancer testing by acquiring the remaining 95 percent equity interest in Genetel Biotech (BVI) Limited ("Genetel BVI").

The Protein Chips Division continues to be the principal contributor to the Group's revenue and profit and the Group is making good progress in establishing sustainable revenue sources from new product including the HPV DNA testing kits for cervical cancer. This year the Group continued to allocate its principal resources in the following major areas to further strengthen sales – including the continual implementation of its distribution arrangement with China Life Insurance Company Limited, Shanghai Branch ("CLS") on the cancer care insurance policy in Shanghai, the expansion of the cancer care insurance policy to other branches of China Life Insurance Company Limited ("China Life"), the registration of C-12 product under Basic Medical Insurance Scheme (the "BMIS") of individual provinces/cities, the promotion of C-12 to be used for clinical applications and the promotion and registration of the HPV DNA testing kits with hospitals nationwide.

Major corporate activities undertaken in 2009 were summarized as follows:

Major Events and Issues in 2009:

January	The Company completed the acquisition of 75 percent equity interest in Shanghai Kang Pei Bio-Medical Company Limited ("Shanghai Kang Pei"). Shanghai Kang Pei is principally engaged in the business of providing comprehensive medical diagnostic, health check, medical management and medical appraisal services to both private and corporate clients in China and is currently managing twelve medical centres.
March	The Company issued a two year convertible bonds, carrying 9 percent coupon rate with a maturity date on 8 April 2011, at an aggregate principal amount of HK232,572,000 together with warrants to provide additional funding for Genetel BVI.
April	The Company acquired 95 percent of equity interest in Genetel BVI at a consideration of HK$280,000,000. After the acquisition, the Group owns 100 percent of Genetel BVI and all the intellectual property rights related to the HPV DNA testing kits. The consolidation greatly enhances the Company's research and development capability to further develop testing kits for cervical cancer related diseases and promotes a more cost effective structure to drive its sales more directly and effectively.
June	The Company entered into a Co-operation Agreement with Chinese National Human Genome Center and Shanghai Biochip Co., Ltd. for the joint development and production of diagnostic kits for detecting Influenza A viruses and to establish an uniquely dynamic technology platform with rapid response capability to develop diagnostic kits for early detection of major or new infectious diseases on demand basis.
September	The Company was informed by World Health Organization ("WHO") that its wholly owned Genetel BVI's HPV DNA product scores 100% in the second HPV LABNET proficiency study. Under the comparative evaluation study, sixty-one laboratories from six WHO regions participated in the study in which the sensitivity and specificity of HPV DNA detection and typing products routinely used in the laboratories worldwide were evaluated.
October	The Company's flagship C-12 product is officially listed on the Shanghai municipal medical insurance catalogue as a reimbursable clinical test. Prior to the listing in Shanghai, the C-12 product has already been listed on the medical insurance catalogue in several other provinces in China. Given Shanghai's unique and prominent position in the Yangtze River Delta, the successful listing will provide milestone case study to promote listing in other nearby provinces and to strengthen the test to be considered at a national catalogue level.
December	In the second successive year, the Company was awarded "Hong Kong Outstanding Enterprises Parade 2009" by the Economic Digest, a popular business and economic magazine in Hong Kong, and the award was based on a number of criteria including financial performance growth, quality of corporate governance and popularity among retail investors.

Mission Statement – Innovative Medicare Solutions Partnership

The Group is a leading pioneer in commercializing new diagnostics technologies and is a leading supplier of biomedical solutions in China and has sold cumulatively more than 12 million protein chips for cancer screening.

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.

The Group will continue to expand its role as a promoter of affordable and effective IVD solutions in health screening and diagnosis by working closely with independent medical centres and health appraisal departments at hospitals nationwide.

Protein Chips Division

Currently, the Group manufactures and distributes its C-12 products to hospitals, medical centres and life insurance companies in China. The C-12 product is 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 healthy growth in sales of C-12 products. As a proven and leading supplier of protein chips in China, the Group has been supplying C-12 products to life insurance companies in China for the pre-screening and general health appraisal of life and cancer policy applicants. In recent years, C-12 products are listed on the BMIS as a reimbursable drug in several provinces of China and more recently on the drug catalogue of Shanghai Municipality in October 2009. The Group believes that more provinces and municipalities will include C-12 products on their BMIS. Despite a weak and unstable global economy and limited export sales, the Group expects the overall growth for the protein chips sales based on domestic demand to be promising and sustainable in the future.

The Group continued to experience fast growth in its protein chips business operations and sold a total of 3.1 million protein chips (2008: 2.8 million), representing an increase of approximately 10.7 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 includes the setting up of sales channels, the establishment of a comprehensive pricing structure for different sales channels, the strengthening of technical support structures, the building up a sustainable distribution network and the ongoing promotion of the effectiveness of IVD testing for life threatening diseases.

The Group's sales strategy has been implemented successfully with increases in both turnover and number of chips sold. The Group will review its strategy continuously and is prepared to make revisions from time to time. Recently the Group is promoting it protein chip as a potential clinical application kit which may further expand the commercial use in addition to its traditional screening role.

Following the successful licensing of C-6 product, the Group has actively conducting field studies at selected rural areas in China and intends to develop a new sales revenue source targeting the rural population that are most susceptible to cancer diseases. The Group intends to formulate affordable IVD products for both urban and rural population in China.

Sales channels

The Group continued to strengthen its sales network 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 large corporations, and more recently, has successfully be listed on the BMIS as a partially reimbursable IVD test in several provinces in China and more recently in October of 2009, the Shanghai Municipality. 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.

China Life – The Expectation

On 19 December 2006, the Group has successfully established a milestone sales channel that will invariably contribute progressively and sustainably to 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 Biochips for the use of its C-12 products on a new insurance policy known as the "Cancer Care Insurance Policy" which was later launched in Shanghai.

The "Cancer Care Insurance Policy" is an innovative health insurance policy developed by China Life, the largest life insurance provider in China. Being a major branch of China Life, CLS has over 4,000 exclusive agents and over seven million customers.

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 C-12 products 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.

Based on the feedback from China Life, the cancer policy is popular and easily understood by its customers because cancer diseases are the top natural diseases amongst the Chinese population and that cancer insurance coverage meets the insurable needs of the general insurance consumers.

Based on the successful Shanghai business model, the Group and China Life plans to work together to replicate the Shanghai business model into other China Life branches in various major cities in China. The progress originally made in 2008 was delayed by the global financial crisis and the Group has restarted the expansion programme with China Life in the fourth quarter of 2009.

In addition, the Group will continuously review the operational aspects to improve the quality of service provided to China Life's customers and the Group is prepared to make the necessary changes to establish a more customer oriented servicing model.

Being the top life insurer in the country, China Life has the most extensive distribution network with over 3,600 branches, over 638,000 exclusive individual insurance agents and 13,000 direct sales representatives in China. Having successfully established a sustainable sales revenue channel, the Group places this process of replication as its top priority and is committed to invest the resources to support the launching of cancer policy with other branches of China Life. While the momentum of the sales to China Life is in motion, the Group is patient in building a cooperation infrastructure for growth and providing education to the general employees regarding the advantages and reliability of IVD products.

Basic Medical Insurance System

The Group has successfully applied C-12 products as a partially reimbursable drug under the "BMIS" in several provinces of China and more recently in October 2009, the C-12 product is officially listed on the Shanghai municipal medical insurance catalogue as a reimbursable clinical test. Depending on the particular conditions of the participants and the hospitals, participants of the basic medical insurance program in the Shanghai Municipality will either enjoy free clinical test, or is only require to pay RMB28 or RMB56 of the approved price of RMB280 for each clinical application of the C-12 product at hospital.

According to the Shanghai Statistical Yearbook for 2009, there were a total of 301 registered hospitals servicing over 152 million patient consultation visits per annum in 2008. Cancer is the second highest mortality disease in Shanghai. It is estimated that cancer claimed more than 34,000 lives in the year 2008 in Shanghai. At present, approximately 8.2 million permanent registered residents in Shanghai are participants of the Shanghai basic medical insurance program.

The China government is currently investing a significant financial package of RMB850 billion in its healthcare reform which include improving the public health network for disease prevention and control. The Company believes that the successful listing of its C-12 product on the Shanghai medical insurance catalogue would further raise the public awareness of cancer disease prevention and control, and would lead to further sales growth of its C-12 product in Shanghai and, given Shanghai's unique and prominent position in the Yangtze River Delta, would provide an effective case study for the ongoing application progress of C-12 product to be listed in other nearby provincial catalogue.

Qualification process for reimbursement drug item is very stringent and difficult and is based on, amongst other factors, clinical need, safety and efficacy, reasonable pricing, and ease of use. The Group is currently applying to other provinces and cities for the inclusion of C-12 products as a reimbursable drug under the individual BMIS system and believes that the proven track record of C-12 utilization is a major prerequisite for the qualification.

The Group believes that its experience and the cost competitiveness of its other products such as C-6 Protein Chip, Tuberculosis Screening Chip ("TBS Chip") and HPV DNA testing kit are potential products for qualification for drug catalogue status.

Chipreader optimization plan

At 31 December 2009, the Group had 445 (2008: 435) chipreaders in the market. The Group has successfully increased 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 C-12 products. The utilization rate per chipreader will be further increased should sales on C-12 products continue to experience growth in the future.

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 C-12 products 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 Group places great emphasis on the after sales services and is hosting regular sales review with distributors and relevant hospital personnel to gather comments for further improvement in both products and services. The after sales services not only indicate that our customers are actually being cared for. It also embeds in our employees a sense of mission to assist our customers and their patients.

Healthcare Division

The division currently consists of two units, namely the Hospital Unit and the Cervical Cancer Care Unit.

Under the Hospital Unit, the Group continued to manage the Shanghai Woman and Child Healthcare Hospital of Hong-Kou District by way of a 51 percent equity interest in Shanghai Weiyi Hospital Investment & Management Co., Ltd. The hospital operation is demonstrating steady growth in patient's traffic and is fulfilling its functional role as a platform to introduce new diagnostic services to local women population.

Under the Cervical Cancer Unit, the Group launched a coordinated and nationwide sales and marketing campaign for its HPV DNA testing kits and making important progress to register its products for distribution to women's patients at hospitals nationwide.

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 HPV DNA testing kits offer superior sensitivity (>95%) for early screening of cervical cancer compared with conventional pap-smear test (50-60%). Besides, it does not require a large upfront capital investment on specialized equipment, and is only a fraction of the costs of other competitive products.

Cervical cancer is the second biggest cause of female mortality worldwide with over 288,000 deaths and 500,000 new cases every year. In China, cervical cancer causes over 50,000 deaths and over 130,000 new infections every year. Currently, it is estimated that over 300 million women nationwide undergo some form of cervical screening tests including the traditional methods 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 papilomavirus ("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.

Medical Centres Management

Over the years, the Group has successfully established valuable contacts at hospitals, medical centres and distributors in the healthcare industry and the Group intends to further leverage on its strength as a leading supplier of bio-medical products and its experience by establishing a national network of medical centres by mergers and acquisition of existing independent medical centres, and forming business alliances with regional medical centres in China.

The division will principally be engaged in the provision of healthcare services for residents living in cities that demand attentive and quality healthcare services, and is complimentary to the Company's existing business activities particularly in strengthening and expanding capability to launch health screening packages to residents living in major cities in China.

The establishment of the division will also provide greater flexibility for the Company to expand its existing operations in China, to introduce new screening and diagnostic kits more effectively and to provide a more comprehensive servicing coverage for customer loyalty orientation.

FINANCIAL PERFORMANCE

The net profit attributable to shareholders amounted to HK$75.6 million (2008: HK$150.8 million), representing a decrease of 49.9 percent over that of last corresponding year. The significant decrease in net profit was due to the increase of HK$36 million in interest expenses relating to the 2011 Bonds based on effective interest basis and amortization of the fair value of share options in the amount of HK$39 million. Earnings per share was 2.49 HK cents (2008: 5.13 HK cents), representing a decrease of approximately 51.5 percent.

Protein Chips Division

Turnover contributed by the sale of the proprietary C-12 products amounted to HK$319.2 million (2008: HK$290.5 million), representing an increase of approximately 9.9 percent over that of last year. Segment profit of this division amounted to HK$217.6 million (2008: HK$207.5 million), representing an increase of approximately 4.9 percent over that of last year.

Despite an unstable year of economic circumstances, the Group continued to record good reasonable growth and sold a total of 3.1 million protein chips (2008: 2.8 million), representing an increase of 10.7 percent over that of last year. During the year, the Group continued its commitment to implement its sales plan that includes the expansion of sales network, optimization of chipreader utilization rate and diversification of chipset packaging.

Healthcare Division

This division currently consists of two units, namely the Hospital Unit and the Cervical Cancer Care Unit. Turnover contributed by this division amounted to HK$44.8 million (2008: HK$35.6 million). The division incurred a loss of HK$4.5 million for the year (2008: profit of HK$2.7 million). The loss was due to the amortization of technical know-how arising on acquisition of Genetal BVI in the amount of HK$10.7 million.

Cervical Cancer Care Unit

The Group officially launched its new HPV DNA diagnostic kits in 2007 with the successful appointment of distributors in over nine provinces and two municipalities including Beijing and Shanghai. In 2009, the Group sold more than 155,000 kits (2008: 38,000 kits), representing an increase of 4.1 times over last corresponding year. The HPV DNA diagnostic kits are already approved to sell in over 160 hospitals in China.

Hospital Unit

The Group currently holds fifty one percent equity interest in Shanghai Woman and Child Healthcare Hospital of Hong-Kou District and continued to contribute positively to the Group.

Medical Centres Management

Turnover contributed by this new division amounted to HK$30.2 million (2008: Nil). Segment profit of this division amounted to HK$3.6 million (2008: Nil).

PROSPECTS

The international financial crisis created new challenges in 2009 and the year ahead is likely to be equally demanding and challenging. It is widely believed that the foundation for global economic recovery remains weak and the China Government is committed to maintain steady and rapid economic development in dealing with the domestic economic situation and to maintain the momentum of the economic turnaround.

While taking advantage of the improved economic environment domestically, the Group will continue to adopt a prudent approach towards the management of its business operations and will review its sales and credit policy with its customers from time to time. The Group will further strengthen its communication with its customers including distributors, hospitals, medical centres and life insurance companies to provide closer technical and customer support while establishing a better understanding of their needs.

The Group maintains its belief that early screening and diagnosis of potentially fatal diseases would significantly improve the chances of successful treatment and raises the survival rate of the patients. The Group is committed to develop internally by way of its proprietary protein chip platform and externally with established biomedical research institutions to bring effective screening and diagnostic tools for life threatening diseases that would be targeting both the urban and rural segment of the population.

In pursuit of its KM2003 Objectives, the Group is pleased with the progress on the implementation of its business plans that are largely focused on product series diversification, sales channel diversification, production expansion, technology partnerships, technology promotion, etc. This has led to the successful listing of C-12 products on the provincial drug catalogue of several provinces and the Shanghai municipality, the continual expansion in the distribution of the HPV DNA testing kits for cervical cancer in over 160 hospitals, and the set up of the unique sales arrangement with CLS for its Cancer Care Insurance Policy which will continue to be expanded to other cities gradually.

Being a leading biomedical company in the area of early screening and detection of diseases in China, the Group understands that there are many challenges and risks associated with the industry ahead. While China represents one of the largest and rapidly growing markets in healthcare products and services, it is a very unique market that requires a comprehensive understanding of the existing medical industry, regulations and operational mechanism.

The Group applies a methodical approach and a disciplined cost control philosophy towards the implementation of its business plans in the strengthening of distribution network and process, continuous improvement of production process and efficiency, and the on time delivery of a diversified new and upgraded range of biomedical products from both its proprietary and licensed platforms for the detection of diseases.

Facing a weaker economy and tighter national budgets, government globally is facing strained healthcare budgets and there is a strong belief that a reallocation of resources to a program of strong prevention and early detection would contribute to a healthier population and deliver considerable savings. During the 58th World Health Assembly of the WHO held 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. It is estimated by WHO that one third of all cancer cases and 80 percent of premature deaths from heart attacks and strokes are preventable. Earlier detection of diseases can lead to more effective treatment and prevention offers the most cost-effective and long term strategy for the control of cancer and other diseases.

Being a pioneer in this field of early screening, detection and prevention of diseases and a leading supplier of biomedical solutions in China, 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 over the last few years enables the Group to appreciate the opportunities and challenges for biomedical products and services, and structure its unique distribution network for growth.

Since 2003, the Group has been implementing business plans and strategies in accordance with the KM2003 Objectives with an intention to strengthen its leading position as a protein chip supplier in China which is one of the most promising healthcare markets in the world. Despite many challenges ahead, the outlook for the Group is promising and is optimistic about its future and role in the healthcare reform.

On 5 January 2010, the Group established a new business segment named Bio Drugs business segment or to be referred more commonly as BDS business segment by announcing that it will engaged in the development, production and commercialization of a new generation of non-specific nanotechnology immunomodulatory drugs known as non-cell corynebacterium pavum products (the "NCPP Drugs") following the acquisition of the relevant intellectual property rights relating to the NCPP Drugs from the National Institute for the Control of Pharmaceutical and Biological Products which is a an affiliated agency of the State Food and Drug Administration in China (or more commonly referred to as "SFDA"). The Group believes that there is a huge therapeutic market for major diseases and that this business segment is a natural progression of the existing business operations.

Key Milestones Progress

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

Product Manufacturing and Distribution ("PMD")

(1) Production management

Protein Chips

Phase I of the new production facility in the Fengxian MA District of Shanghai (the "Shanghai Plant") began operational since August 2007 with a production capacity of four million protein chips. Back in 2005, the Group anticipated a significant growth in demand for its C-12 products and commenced the construction of a new production facility in the Fengxian MA District of Shanghai on a site area of approximately 81,764 sq.m. with a planned production capacity of 8 million chips annually. The Shanghai Plant will be the Group's principal production base for a range of protein chips used for screening and diagnosis of different diseases.

The existing plant at the Huzhou Economic & Technological Development Zone in the Zhejiang Province is currently operating at its full production capacity of 1.5 million C-12 products per annum.

HPV DNA Testing Kits

The existing production line is located at the Shenzhen Hi-tech Industrial Park in the Nanshan District and has a production capacity of 600,000 testing kits per annum.

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

The Group currently distributes its C-12 products to over 1,300 hospitals and health centres in China through regional distributorships and direct sales. The Group intends to expand the points of service to over 3,000 hospitals and health centres.

The successful arrangement with CLS to support the cancer evaluation process on the Cancer Care Insurance Policy in Shanghai is contributing greatly to the sale of C-12 products and the Group expects more branches of China Life will start making the policy program available to their customers across China shortly. Leveraging on the existing distribution network of China Life in China, the Directors is confident that the Group's revenue base will grow rapidly following more China Life branches joining as distribution points for the cancer care policy.

Already qualified as a partially reimbursable test in several provinces and the Shanghai Municipality in China, the Group is confident that the successful listing will provide milestone case study to promote listing in other nearby provinces and to strengthen the test to be considered at a national catalogue level.

(3) 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 on 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.

(4) 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 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.

On 10 June 2009, the Group entered into a milestone co-operation agreement (the "Co-operation Agreement") with Chinese National Human Genome Center in Shanghai ("CHGC") and Shanghai Biochip Co., Ltd. ("SBC") for joint development and production of advanced diagnostic kits for detecting Influenza A viruses.

Under the Co-operation Agreement, CHGC and SBC had successfully developed two advanced diagnostic kits for detecting Influenza A viruses, the Influenza A Virus Genotyping Detection Kit (RNA FQ-PCR) and the Influenza A Virus Genotyping Detection Kit (Sequencing) (collectively the "Kits") and SHMY Healthdigit Biochips Company Limited ("Healthdigit Biochips"), a wholly owned subsidiary of the Company, will be responsible for the registration of the Kits with the SFDA. Healthdigit Biochips will share jointly with CHGC and SBC for the ownership of all intellectual property rights relating to the Kits. In addition to development of the Kits, all parties to the Co-operation Agreement has agreed to establish an uniquely dynamic technology platform with rapid response capability to develop diagnostic kits for early detection of major or new infectious diseases on demand basis.

Influenza A viruses (including the recent outbreak of Influenza A (H1N1) virus is a highly infectious disease which has long been regarded as a major health hazard to human. It is known that early detection of Influenza A (H1N1) virus is an effective measure to better prevent the spread of the infectious disease and to improve the chance of recovery for patients.

In May 2008, the Company announced that SHMY Healthdigit Biochips Company Limited ("Healthdigit"), a wholly owned subsidiary of the Company, has completed the development of a protein chip product (the "TBS Chip") for the rapid diagnosis of tuberculosis ("TB"). The TBS Chip is able to detect multiple TB specific antibodies in the blood serum of the patient without special laboratory settings rapidly and efficiently, and is capable of conducting TB screening for mass population. The Group believes that this kind of rapid test could contribute more positively towards an effective management of TB. The application process to the SFDA for the granting of drug license is underway with final approval expected in 2010.

The TBS Chip is the first product completed by Healthdigit with the technology developed at the Tuberculosis Research Laboratory of Second Affiliated Hospital of the PLA General Hospital in Beijing (the "PLA Hospital"). In August 2007, Healthdigit signed a long-term strategic partnership agreement with the PLA Hospital for the collaboration in scientific research and commercialization of technologies developed by the PLA Hospital, and participating in the various development programs of the PLA Hospital. In addition, the PLA Hospital has given Healthdigit exclusivity and priority to commercialize technologies developed by the PLA Hospital.

Formerly known as the PLA 309 Hospital, the Second Affiliated Hospital of the PLA General Hospital was founded in 1958. The PLA Hospital was affiliated to the PLA General Hospital and became its second affiliated hospital in May 2004. In its 50 years of development, the PLA Hospital has become one of the AAA ranked comprehensive hospital (the highest hospital ranking) in China and is highly reputable in treatment of respiratory infections and organ transplantation.

The Institute of Tuberculosis Research of the Hospital is the only PLA medical institution that is dedicated to the treatment, prevention, research, and education of TB. Throughout the years, the Institute is reputable in developing a series of treatment and diagnosis of TB which are being widely adopted by major hospitals in China.

(5) Establish global platform for the biomedical chips and testing kits.

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. The Group believes that the TBS Chip for tuberculosis and HPV DNA Testing Kits for cervical cancer have export potentials and could contribute effectively globally towards the management of the two diseases.

The Group is currently also exploring ways whereby overseas IVD products and healthcare services could be introduced in China and is working closely with international healthcare providers to further strengthen the Group's corporate branding and capability.

(6) New Line of Biomedical Testing Kits and Chips for the Early Detection of Diseases

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 increase its efforts and resources for the promotion and distribution of the following biomedical products:

- C-6 Protein Chip – Product for the rural population and the health screening packages

  The C-6 product is developed using the proprietary protein chip technology of the Group. C-6 quantitatively measures six different kinds of tumor markers including CA19-9, AFP, CEA, CA125, SCC and CK19 simultaneously and is suitable for clinical screening of major cancer types including liver cancer, gastric cancer, lung cancer, colorectal cancer.

The C-6 product has lower production cost and is suitable for the vast market in the rural regions in China. In recent years, the China government is striving to build a harmonious society and is investing heavily in healthcare including the treatment and prevention of cancers in those rural regions. For example, the China Primary Health Care Foundation had set up a special fund for the prevention and treatment of cancer in 2006, and the plan was to provide free tumor screening for one million people. This project is currently under way in China. The C-6 product has a low product cost, is effective for the screening of most devastating cancer types in China, and thus is in line with the trend of cancer prevention and management in China. The Company is confident about the market potential of the C-6 product.

The C-6 product has been successfully approved during the year by the SFDA.

- Tuberculosis Screening Chip (referred to as "TBS Chip") – Rapid Detection of Tuberculosis

  TB is the number one infectious disease both in incidence and in death rate, causing about 2 million deaths globally and over 200,000 deaths in China each year. The disease is also making a comeback in recent years because of the emergence of AIDS, the abuse uses of antibiotics that result in TB drug resistance, and the lack of progress in recent years on new diagnostic and therapeutic technology to overcome the disease. That is why institutions such as the WHO and the Bill & Melinda Gates Foundation have put up major efforts into fighting TB. The China government has also put high emphasis on the importance of the prevention of TB in its 11th Five Year Plan. According to WHO, the world market potential for TB diagnosis is over US$1.0 billion and the Chinese market potential for TB diagnosis is estimated to be over RMB1.0 billion.

  The Group has completed the development of a TBS Chip for the rapid detection of TB which is intended to be sold domestically and internationally. The TBS Chip is able to detect multiple TB specific antibodies in the bold serum of the patient without special laboratory settings rapidly and efficiently, and is capable of conducting TB screening for the mass population.

  The TBS Chip will contribute very effectively towards a better national management of tuberculosis leading to better control of the disease from spreading. Besides the TB Screening Chip, the Group will continue to develop the TB series including diagnostic chip, vaccine and drug. The TBS Chip is currently under review by the SFDA for certification as a medical device for in vitro diagnosis.

- Second Generation of C12 Protein Chip (referred to as "C12A")

  The C-12A quantitatively measures twelve different kinds of tumor markers and is an improved version of the flagship C-12 product of the Group. Four of the 12 markers in C-12 are replaced in C12A and, as a result, the C12A shows significant improvement in its sensitivity and specificity over C-12. The twelve markers will include AFP, CEA, CA19-9, CA125, CA242, CA15-3, HCG, NSE, SCC, CK19, CA72-4 and c-PSA. C-12A is useful for assisting cancer diagnosis and for clinical screening for cancers for people who are cancer suspects or at high risk for cancer.

  The C-12A is currently under review by the SFDA for certification.

- 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 and it is estimated that over 20 million people in China suffered from infertility and sterility diseases.

Medical Centres Management ("MCM")

Over the years, the Group has successfully established valuable contacts at hospitals, medical centres and distributors in the healthcare industry and the Group intends to further leverage on its strength as a leading supplier of bio-medical products and its experience by establishing a national network of medical centres (the "MCM") by mergers and acquisition of existing independent medical centres, and forming business alliances with regional medical centres in China.

The MCM will principally be engaged in the provision of healthcare services for residents living in cities that demand attentive and quality healthcare services, and is complimentary to the Group's existing business activities particularly in strengthening and expanding capability to launch health screening packages to residents living in major cities in China.

The establishment of the MCM will also provide greater flexibility for the Group to expand its existing operations in China, to introduce new screening and diagnostic kits more effectively and to provide a more comprehensive servicing coverage for customer loyalty orientation.

Bio Drugs ("BDS")

The Group believes that immunotherapy offers an innovative and attractive approach for treating life threatening diseases as the therapy often have fewer side effects, including less potential for creating resistance in microbial diseases and the new generation of non-specific nanotechnology immunmodulatory drugs provides a more effective and dynamic immunotherapeutic solution, than existing drugs.

On 5 January 2010, the Group announced that SHMY HealthDigit Biochips Company Limited ("HealthDigit Biochips"), a wholly-owned subsidiary of the Company, had entered into a milestone Technology Transfer Agreement (the "TT Agreement") with the National Institute for the Control of Pharmaceutical and Biological Products (the "NICPBP") for the development, production and commercialization of a new generation of non-specific nanotechnology immunomodulatory drugs known as non-cell corynebacterium pavum products (the "NCPP Drugs").

While vastly increasing the immunological ability of the corynebacterium pavum products (the "CPP") at clinical environment, the innovative NCPP drugs will enhance the immunotherapeutic efficacy of the CPP to its fullest potential and to treat patients with life threatening diseases including influenza A (H1N1), tuberculosis, human immunodeficiency virus (HIV) and certain types of cancer more safely and effectively.

Under the TT Agreement, the NICPBP transferred all intellectual property rights together with the production know how of the NCPP Drugs to HealthDigit Biochips. HealthDigit Biochips will be responsible for (i) the registration of the NCPP Drugs with the SFDA; and (ii) the production and commercialization of the NCPP Drugs. NICPBP will remain as a technical advisor to the development and production of the NCPP Drugs, and work jointly with HealthDigit Biochips to further develop the clinical applications of NCPP Drugs for various other diseases.

Established in the 1950s as an affiliated agency of the SFDA, NICPBP is the highest level institute for the safety and quality control of pharmaceutical and biological products in China. NICPBP is also the Center for Drug Quality Assurance for World Health Organization, the National Center for Medical Culture Collections and the National Research Center for the Standardization of Pharmaceutical and Biological Drugs in China.

Both the Company and the NICPBP believes the new generation of nonspecific nanotechnology immunomodulatory drugs will contribute greatly to the treatment of life threatening diseases to all mankind.

Conclusion

With an ultimate objective of providing healthcare insurance to all its citizens by 2020 and backed a steady and fast growth of its economy, China is already emerging as one of the fastest-growing healthcare markets in the world.

Unlike the developed countries where healthcare spending is more than ten percent of GDP, China's healthcare spending accounts for only approximately 4.6 percent of GDP, considered low when compares to international standards. While still expecting to register positive GDP growth rate, China is clearly committed to invest more of its GDP on its healthcare for its citizens and more recently has announced a huge cavalry budget of RMB850 billion to be spent on its healthcare reform in the next three years.

In the past five year, the high growth rate in the economy in China has placed the Group in the most exciting part of the world to implement its business plans and operations and the Directors is pleased with the results on the implementation of the business objectives. As part of the China Government's new effort to build a harmonious society and to reform the healthcare sector, the Directors believes 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 has successfully expanded its business segments to include medical centres management and bio drugs to enable the Group to be a more self contained and diversified medicare solutions provider. Nevertheless, 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 is working closely with an increasing number of healthcare institutions including hospitals, medical centres, clinical laboratory testing centres, etc. to understand better testing needs of the patients in order to introduce innovative and effective screening and diagnostics methods. 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 2010.

The Group is optimistic about its future and is in a state of readiness to face the many new challenges in 2010. The Group owes its success to its shareholders who have been truly supportive and patience during this challenging period and, having carefully considered its capital expenditure plans in the coming years, will establish a steady and progressive dividend policy to share its operational success with the shareholders based on past and existing dividend payout record. Besides engaging in a more direct way of rewarding the shareholders for their trust and loyalty, the Group also plans to cultivate a stronger base of shareholders who share the Group's corporate mission to be a leader in the biomedical industry in China.

PLEDGE OF ASSETS

At the end of the reporting period, the following assets were pledged to secure general banking and credit facilities granted to the Group:

	2009	2008
	HK$'000	*HK$'000*
Prepaid lease payments	**43,083**	43,728
Buildings	**161,539**	172,464
Buildings under construction	**209,405**	81,160
Held for trading investments	**4,011**	2,385
Pledged bank deposits	**11,358**	16,923
	429,396	316,660

At 31 December 2009, the Group's equity interests in certain subsidiaries have been pledged to secure the 2011 Bonds (on 8 April 2009, the Company issued HK$77,524,000 9% series A convertible bonds ("2011 Series A Bond") and HK$155,048,000 9% series B convertible bonds ("2011 Series B Bond") due 2011 both at par value of HK$232,572,000 in aggregate and issued in conjunction with warrants of face value amounting to HK$60,136,000 (the "Warrants", 2011 Series A Bond, 2011 Series B Bond and the Warrants are collectively known as "2011 Bonds").

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 31 December 2009 the Group had cash and bank balances of HK$468.8 million (2008: HK$619.8 million). The Group's gearing ratio as at 31 December 2009 was 21.1 percent (2008: 23.4 percent), based on bank and other borrowings of HK$299.1 million (2008: HK$237.2 million) and shareholders' fund of HK$1,419.1 million (2008: HK$1,014.9 million).

The Group's bank borrowings were denominated in Hong Kong Dollars and Renminbi. Bank borrowings totaling HK$219.5 million were outstanding as at 31 December 2009 (2008: HK$199.9 million). The range of effective interest rates on the bank borrowings as at 31 December 2009 was approximately 1.6 percent to 9.0 percent per annum.

Revenue generated from operation, payment for purchases of materials, components, equipment and salaries are mainly 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 31 December 2009 and 31 December 2008, the Group did not have any significant contingent liabilities.

EVENTS AFTER THE REPORTING PERIOD

On 12 February 2010, Shanghai Kang Pei Bio-Medical Company Limited ("Shanghai Kang Pei"), a subsidiary of the Company, entered into a conditional agreement with 上海愛康國賓健康體檢管理集團有限公司 ("上海愛康"), an independent third party, to dispose of its 71.15% equity interest in 上海文中門診部有限公司 ("上海文中"), a wholly owned subsidiary of Shanghai Kang Pei, at a consideration of RMB2,000,000 (equivalent to HK$2,272,000). 上海文中 is under segment of medical centres management. The disposal was completed on 12 February 2010. After completion of the disposal, 上海文中 became an associate with 28.85% equity interest owned by Shanghai Kang Pei. According to the conditional agreement, 上海愛康 will further inject capital of RMB6,000,000 (equivalent to HK$6,815,000) to 上海文中. After the capital injection, the interest in 上海文中 owned by Shanghai Kang Pei will be reduced to 15%. Up to the report date, RMB400,000 (equivalent to HK$454,000) out of the consideration of RMB2,000,000 was received.

FINAL DIVIDEND

The Directors have recommend the payment of a final dividend of 1 HK cent (2008: Nil per share) per share for 2009 to shareholders whose names appear on the Register of Members of the Company on Tuesday, 15 June 2010. The proposed final dividend will be paid on 23 July 2010 following the approval at the annual general meeting of the Company to be held on 22 June 2010.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 16 June 2010 to Friday, 18 June 2010, both days inclusive, during which period no transfer of shares of the Company will be effected. In order to qualify for the final dividend, all share certificates with completed transfer forms either overleaf or separately, must be lodged with the Company's Registrar, Computershares Hong Kong Investor Services Limited at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Tuesday, 15 June 2010.

EMPLOYEES

At 31 December 2009, the Group had a total of 951 employees (2008: 502 employees) in Hong Kong and China. The increase in the number of employees of the Group was due to the fact that the Group acquired two groups of companies, Shanghai Kang Pei and Genetel BVI, at the beginning of the year 2009. Employee's remuneration, promotion and salary review are assessed based on job responsibilities, work performance, experience and prevailing industry practice.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company, its subsidiaries nor its jointly controlled entities has purchased, sold or redeemed any of the Company's listed securities.

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 1 January 2005. The Board took appropriate action to adopt the GC 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 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 31 December 2009, director will serve on the board for a term of about three 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 listed 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 31 December 2009.

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 31 December 2009 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**) to disseminate shareholder information electronically on a timely basis.

REVIEW OF THE PRELIMINARY ANNOUNCEMENT BY AUDITORS

The figures in respect of the preliminary announcement of the Group's consolidated statement of comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2009 have been agreed by the Group's auditors, Messrs. Deloitte Touche Tohmatsu, to the amount 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 executive directors of the Company are Mr. Yao Yuan (Chairman), Mr. Chien Hoe Yong, Henry (CEO), Mr. Iu Chung, Mr. Hu Jun, and Mr. Yu Ti Jun; the non-executive directors are Mr. Yang Zhen Hua and Mr. Ma Yong Wei; the independent non-executive directors are Dr. Lam Lee G., Mr. Hu Jin Hua and Mr. Lee Sze Ho, Henry.

On behalf of the Board
Chien Hoe Yong, Henry
CEO and Executive Director

20 April 2010