

Chairman's Statement

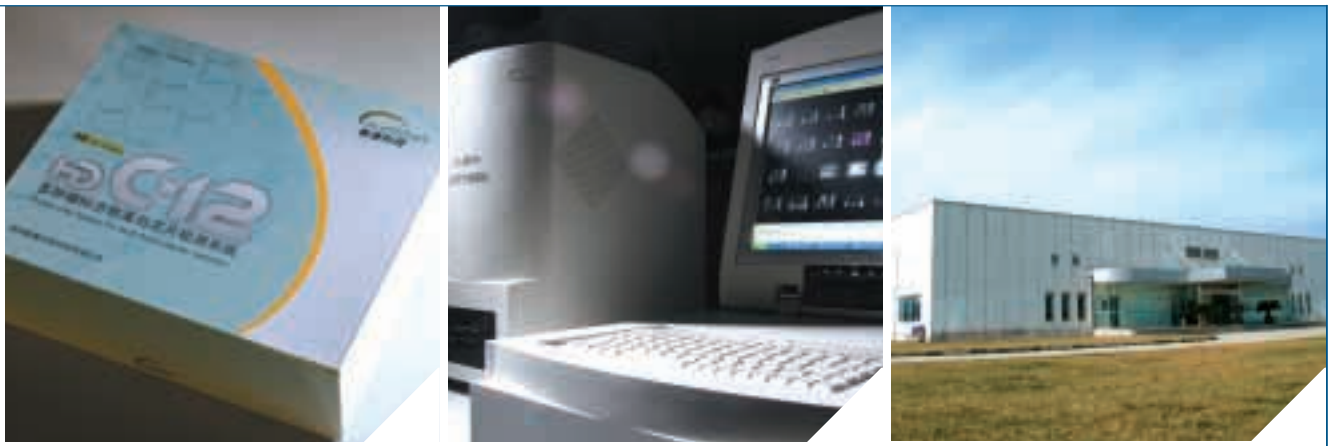
"Our corporate mission has effectively provided an alternative to people who understand the benefits of early screening of life threatening diseases such as cancer and has successfully raised the general awareness of the availability of early screening for cancer at affordable costs.

We are excited to witness the significant growth in the sale of our biomedical chips for cancer screening and that more people are routinely taking measures to protect their healthy lives and livelihood. We feel that the cooperation with China Life by way of a new Cancer Care Insurance Policy through its extensive retail distribution network will increasingly strengthen the concept of early screening amongst the Chinese population.

Being an early and leading pioneer of innovative biomedical solutions in China, we aspire to work alongside with established biomedical research institutions globally that share our corporate mission to bring a diversity of cost effective early screening products and solutions to our customers. Through this methodology of technology, production and distribution partnership, we aspire to build a more global product platform and to further raise the corporate profile of the company in the biomedical industry.

Lastly, the Board is committed to its corporate mission, and we believe that a successful implementation of the KM2003 objectives will contribute towards a harmonious society by way of enhancing human health and quality of life, and build a solid foundation for shareholders' value by way of a sustainable revenue generating capability and growth."

Mr. Yao Yuan, Chairman of the Board



INTRODUCTION

It is my great honor to report that Mingyuan Medicare Development Company Limited and its subsidiaries (the "Group") have achieved respectable growth in both turnover and profitability. Following the disposal of the remaining information technology business operation, we have successfully achieved the objectives of operation SPOR (i.e. Strategic Prioritization of Resources) and the Group will be principally engaged in the provision of innovative medicare solutions by way of biomedical expressions mainly and particularly in the area of early detection of life threatening diseases, including cancer and heart diseases.

More information about the operations of the Group is contained in a separate section referred as "Management Discussion and Analysis".

PERFORMANCE

In 2006, the Group's consolidated turnover amounted to HK\$160.8 million for the year (2005 (restated): HK\$127.0 million), representing an increase of approximately 26.6 percent over that of last year. The increase in turnover was mainly attributable to the increase in sales of its flagship C-12 products. The Group was subject to a taxation charge for the first time this year and net profit attributable to shareholders for the year was HK\$73.6 million, representing only a 5.1 percent increase over the HK\$70.0 million of 2005. Earnings per share was 2.74 HK cents, compared with 2.61 HK cents in 2005.

In the second year of implementation of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") which are effective for accounting periods on or after 1st January, 2005, the Group's overall profitability was reduced by two non cashflow items, namely the convertible bonds and employees share option scheme. The net profit attributable to shareholders for the current year was reduced by approximately HK\$15.1 million (2005: 19.4 million) upon application of new HKFRSs on these two areas. Details of the relevant adjustments are discussed in "Notes To The Financial Statements".

Although the turnover for protein chips was limited by the existing production capacity at the Huzhou Plant this year, the Group continues to experience a respectable double digit growth in the protein chips business operation with a turnover of HK\$150.9 million (2005: HK\$127.0 million), representing an increase of approximately 18.8 percent over that of last year. More significantly, segment profits of the operation amounted to HK\$103.1 million (2005: HK\$87.0 million), representing an increase of approximately 18.5 percent over that of last year.

At the new Hospital Division, the turnover and segment profit amounted to HK\$10.0 million (2005: Nil) and HK\$1.1 million (2005: Nil) respectively. The Group acquired this new division during the year and we are planning to establish a new medical diagnostic centre to provide cancer screening services in the Hong-Kou District in Shanghai as part of a pilot scheme to explore new sales channel and to further expand related gynecology services.

Chairman's Statement (Continued)

BUSINESS REVIEW

Strategic Prioritization of Resources ("SPOR") – A Mission Completed

Beginning back in 2004, the Group was principally engaged in three business divisions, namely, information technology products and services, protein chips (or thereafter referred to as the biomedical products and services) and property investment and in that year the Group commenced operation SPOR to shift resources allocation from other business divisions to the high-growth protein chips division.

In 2006, the Group successfully completed operation SPOR with the disposal of the last remaining information technology business operation, and the Group's business operation would be principally engaged in the provision of innovative medicare solutions for the early detection and prevention of diseases in the healthcare market in the Asia Pacific region, particularly in China.

While facing a production capacity issue that limited our supply to hospitals, the Group continued to have an excellent year for its biomedical products and services division, and sold a record total of 1.5 million protein chips, representing an increase of 26.1 percent over the 1.19 million protein chips of 2005. Between 2002 and 2006, the Group has sold more than 3.7 million protein chips for early cancer screening purposes.

Sales and Marketing – A New Paradigm of Performance

We remain committed to the efforts of broadening sales channels and developing a broader customer base while engaged in the continual process of fine tuning its sales and marketing strategies. The exercise so far has led to the establishment of a more comprehensive pricing and cooperation structure tailored for direct sales to life insurance companies, hospitals and corporations, indirect sales to hospitals by way of nation-wide distributorships. A combination of these methodical changes is producing strong growth in sales of protein chips and is expected to establish a more sustainable sales infrastructure for the Group.

Equally important has been the Group's successful efforts in optimizing the utilization of protein chips per chipreader that also contributed to the significant increase in the sales of protein chips and the Group will continue to deploy more chipreaders in the target points of sales in China. Sales and marketing for protein chips will continue to be a primary focus of the Group in the foreseeable future.

However, we have always been aware that the development of a specialized sales network for biomedical products and services would take more time and resources than usual. Our continuous pursuit for a closer commercial tie with China Life in the last few years have finally led to a landmark cooperation arrangement with China Life for the pre screening of cancer policy applicants using the Group's multi-tumor evaluation systems. The cooperation is a mutually beneficial arrangement whereby China Life could launch a new product and we could increase the demand for our protein chips. By working with a reputable and market leader such as China Life, this has given us an opportunity of accessing the highly successful and extensive retail distribution network of China Life. We believe that the demand for our biomedical products and services such as protein chips will be significantly increase in the coming years and we will be intensifying the investment in the necessary logistical infrastructure and support to the expected volume growth.

Production Base – The Engine of Growth

In 2006, the demand for our products has outstripped the supply capacity and our Huzhou production plant was operating at full capacity of 1.5 million chips. It has been one of our top priorities to build a new Shanghai production base at the Fengxian MA District since 2005 and the basic infrastructure of the plant was completed at the end of 2006.

The Group has submitted the relevant applications to the China State Food and Drug Administration for the final approval of a Good Manufacturing Practice Certificate to commence production of C-12 at the plant in July 2007. The new plant will have a planned production capacity of 8 million chips and under Phase I, there will be 4 million available capacity per annum. It is our plan that the Shanghai production base will be a biomedical production location for a range of biomedical products used for the screening and diagnosis of different diseases.

PROSPECTS

Cancer Prevention and Control – Our Corporate Mission Milestone

Our corporate mission of developing innovative medicare solutions for the early detection and prevention of diseases could be traced back to the founding of **HealthDigit**, a wholly-owned subsidiary, in 2000 and since then the Group has been leading pioneer to engage biomedical methodology for the early screening of cancer tumors with the sale of over 3.7 million biomedical chips in China to date. The Group was delighted to witness a historical moment in the history of The World Health Organization (WHO) in 2005 for the prevention and control of cancer when the World Health Assembly, the supreme decision-making body of WHO adopted a resolution to promote cancer prevention and control strategies for all Member states, including China.



While many countries have been developing cancer control programs there remains a significant gap between existing knowledge and current practices, especially in many developing countries. The resolution has called for improved cancer prevention measures, better early detection and treatment, and increased palliative care. WHO is currently developing a cancer prevention and control strategy that will help countries addressing this growing health crisis, and represent an important new initiative for WHO.

Cancer has for too long been a silent but deadly epidemic and is the second leading cause of death after cardiac related diseases, and is one of the most common causes of morbidity and mortality today. WHO estimates that more than 20 million people are living with cancer, more than 10 million new cases and 7 million people die each year worldwide. The incidence of cancer is on the rise in both developing and developed countries as a result of increased exposure to cancer risk factors such as tobacco use, unhealthy diet, physical inactivity, as well as some infections and carcinogen. A rapidly aging population in many countries is also a contributing factor to the increase of cancer patients.

WHO has also projected that by 2020 there will be 15 million new cancer cases and 10 million cancer patients will die each year. We believe that China, being the most populous country in the world, will be responsible for at least a quarter of these numbers. At the same time, it is also a fact that early detection, which comprises screening of asymptomatic populations and awareness of signs, greatly increases the probability of cure.

Chairman's Statement (Continued)

KM2003 objectives, adding revenue source and product series diversification

The Group continues to adopt a methodical and committed approach towards the implementation of its business plan and changes are only made when there is a need to do so. For example, the Group laid down key milestones for its biomedical business division in 2003 (referred to as "KM2003 Objectives") and the Group has made remarkable progress in the direction of achieving these objectives that include the expansion of production capacity, the strengthening of sales network and structure, the broadening of product types etc.

In the 2006 Annual Report, the Group has identified the need to further diversify its revenue sources and its product platform series, and the Group is strengthening its KM2003 Objectives with following improvements in its business model:

While the Group is continuing to launch different or upgraded products from its proprietary intellectual property ("PIP") protein chip platform, the Group is on schedule to establish a new revenue source by way of a licensed intellectual property ("LIP") product platform with the launch of a cervical cancer screening DNA kits in the Asia Pacific region, including China. The Group intends to work with established research based institutions globally as partners in commercialization of successfully researched products which are used for early screening of diseases and are complimentary to our product. The Group has set its goals to develop its product platform into three major revenue sources, namely cancer, cardiac and other diseases series based on both PIP and LIP sources. The Group is actively seeking appropriate partnership in the area of early screening for cardiac diseases and breast cancer.

Being a leading supplier of biomedical solutions in China, the Group appreciates the market challenges it faces and is constantly seeking established research based biotechnology or healthcare related investment opportunities to expedite its business growth and strengthen its market leadership. The Group believes that this may be achieved through alliances, licensing and acquisitions.

An LIP Alternative – Cervical Cancer HPV DNA Screening Kits

According to WHO, cervical cancer is the second biggest cause of female mortality worldwide with over 288,000 deaths and over 500,000 new cases every year. In the PRC, over 50,000 women are dying of cervical cancer each year and ironically, cervical cancer is the only preventable and curable life threatening disease.

We have entered into a 20-year exclusive production and distribution agreement with Genetel Pharmaceuticals (Shenzhen) Limited, a subsidiary of the City University of Hong Kong, for the HPV DNA product series for the use in the screening of cervical cancer related diseases based on real time polymerase chain reaction (PCR) method. PCR laboratory process is commonly used in medical laboratories in Asia Pacific region, including China and is also referred to as DNA amplification process. This method of cervical cancer screening has a high sensitivity rate of over 95 percent and is by far more sensitive than the traditional forms of pap smear testing for women.

CORPORATE GOVERNANCE AND INVESTORS RELATION STRATEGY

In a constantly changing but exciting business environment, the Group has a proven track record of making the necessary hard decisions to successfully implement its business model and to deliver a sustainable growth in profitability. As it is the Group's commitment to protect shareholders' interests, we will continue to make the necessary decisions based on managerial collective opinions to enhance shareholders' value and to maintain a good standard of corporate governance practice.

The Stock Exchange of Hong Kong Limited ("Stock Exchange") introduced the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules effective from 1st January, 2005. The Board took appropriate action to adopt the 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.

The Group's strong results were from the hard work of all staff and the year 2006 and may be remembered as the beginning of a new corporate era following the ongoing execution of KM2003 Objectives, the successful completion of operation SPOR, the sourcing of new cervical cancer screening products and the breakthrough in the China Life cooperation in cancer care insurance policy for the Group's corporate development.

We continue to place an increasing and specific emphasis on reaching out to shareholders and potential investors who have been so supportive and understanding of our business nature and development. Being an early pioneer in the commercialization of biomedical products and services, we are patient to elaborate our business potentials, philosophy and strategies to the investing community.

During the year, representatives from the Group had met with the investors and relevant parties for a total attendance of 214. By category, those who attended included fund managers (61%); analysts (14%); bankers (12%); media (5%); and others (8%). In addition, 10 roadshows and 7 investor forums were conducted with a total attendance of 232.

We have also participated in corporate briefings to financial institutions organized by various international securities houses, including Goldman Sachs (Asia) LLC, UBS Securities LLC, Deutsche Bank AG (Hong Kong Branch), J.P. Morgan Securities (Asia Pacific) Limited, Credit Suisse (Hong Kong) Limited, Citigroup Global Markets Asia Limited, BNP Paribas Peregrine Securities Limited and Kingsway Financial Services Group Limited, in New York, Tokyo, Hong Kong and Singapore. We have also attended the UBS 2006 Global Life Sciences Conference in New York in September 2006.

To better implement the corporate objectives professionally and effectively, we have announced two new appointments on the board.

On October 3, Mr. Lu Chung, who has been a Director of the Company's wholly owned subsidiary, HD Global Limited since 2003, was appointed as Executive Director of the Company. We believe that Mr. Lu will make an invaluable contribution in the area of development and maintenance of new sales channel including the life insurance companies, and investments for the Group.

Also on October 3, Mr. Chien Hoe Yong, Henry, who has been an Executive Director since 2002, was appointed as Chief Executive Officer of the Company. Mr. Chien has been working with the board closely and successfully for the implementation of KM2003 Objectives and operation SPOR. In addition to his managerial role, we believe that Mr. Chien legal and financial experience will further strengthen the Group's commitment in the areas of corporate governance, investors' relations and international corporate development opportunities.

APPRECIATION

Finally, I would like to express my greatest appreciation for members of the Board for their constant and valuable support and guidance, and we will continue to strengthen the managerial cohesiveness of the board members. At the same time, I am also very grateful and appreciative to the Group's management team and staff for their professionalism, enterprise, hard work, loyal support and dedication. I would also like to extend a special note of appreciation for the distributors, suppliers, shareholders, note holders, bankers and other business partners for their continuous support for our business operations and development.

Yao Yuan
Executive Chairman

27th March, 2007