

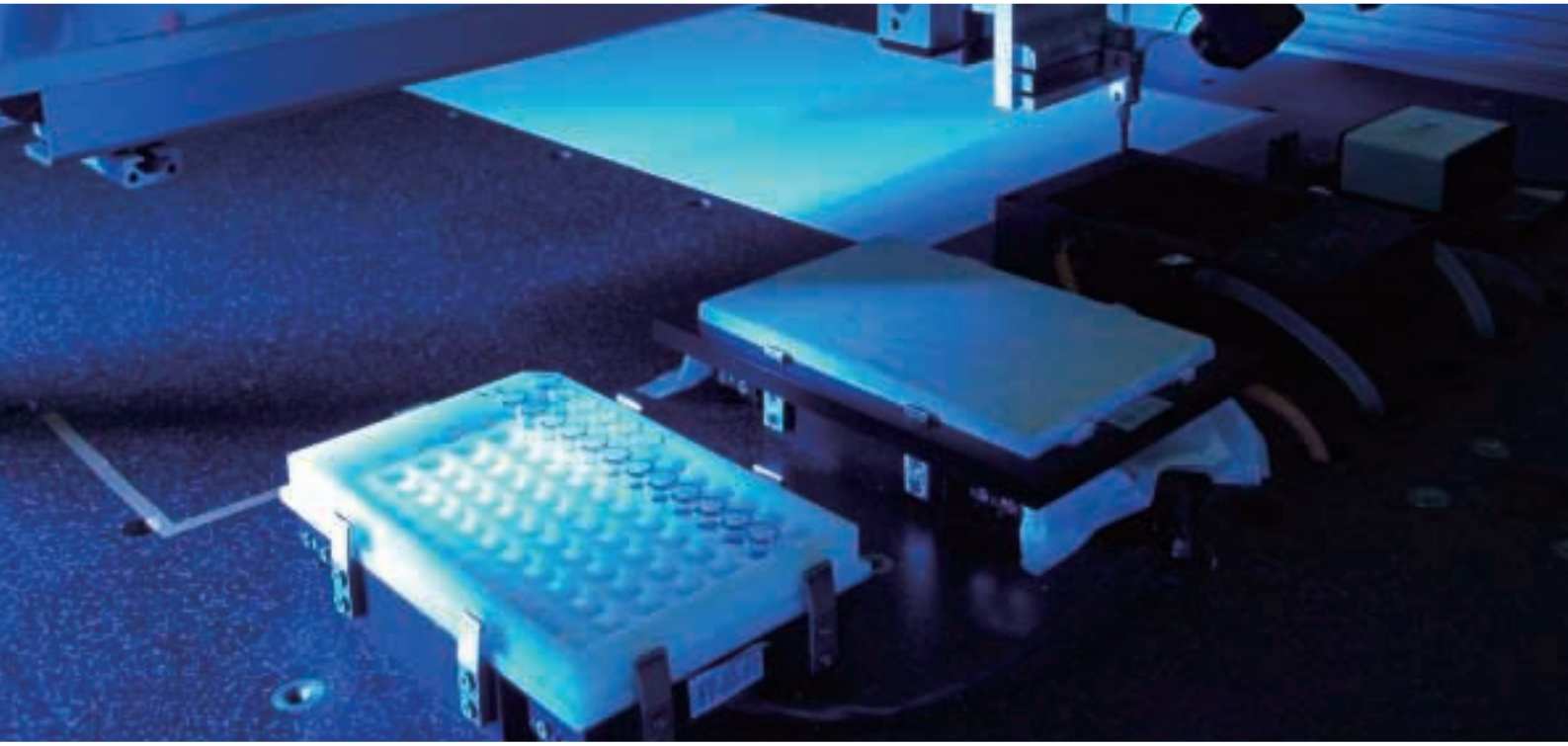
INNOVATIVE MEDICARE **OUR VISION**



**MINGYUAN MEDICARE**  
**DEVELOPMENT COMPANY LIMITED**

(INCORPORATED IN BERMUDA WITH LIMITED LIABILITY)  
STOCK CODE : 00233

# C-12 PROTEIN CHIP



The production process of the C-12 protein chip: A robotic microarrayer machine is precisely printing tumor marker antibodies onto a sheet of nitrocellulose.

# CONTENTS

Mission **2** Product Introduction **3** Corporate Information **6** Chairman's Statement **10**  
Management Discussion and Analysis **15** Profiles of Directors **24** Profiles of Senior Man-  
agement **26** Corporate Governance Report **27** Directors' Report **31** Independent Audi-  
tor's Report **37** Consolidated Income Statement **38** Consolidated Balance Sheet **39**  
Consolidated Statement of Changes in Equity **41** Consolidated Cash Flow Statement **42**  
Notes to the Consolidated Financial Statements **44** Financial Summary **97** The Mingyuan  
Network **98**



Cover Story :

The production process of C-12 protein chip: the microarraying of the tumor marker antibodies onto nitrocellulose paper is monitored in real-time with a camera to assure the quality of the protein chip fabrication.



## MISSION

# MINGYUAN MEDICARE DEVELOPMENT COMPANY LIMITED

Early Detection  
and Prevention  
of Diseases

## MINGYUAN MEDICARE

Development Company Limited (the "Company") principally engages in provision of innovative medicare solutions for the early detection and prevention of diseases particularly in China. With "Care for Health, Passion for Life" as our motto, the Company dedicates to the development and application of advanced biotech

screening and diagnostic solutions for early detection and prevention of diseases including cancer. The Company is aiming to be a leading and comprehensive biotech screening and diagnostic solutions provider in Asia Pacific region, particularly China.



### CANCERS IN THE WORLD...

- Approximately 20 million people suffer from cancer.
- From a total of 58 million deaths worldwide in 2005, cancer accounts for 7.6 million (or 13%) of all deaths. (China: 1.7 million)
- Estimated number of new cases annually is expected to rise from 10 million in 2000 to 15 million by 2020.
- Projected number of cancer deaths will be 10 million per year by 2020. (China: 3 million, accounts almost one-third of the world's figure.)

**Source:**

1. WHO Fact Sheet, Feb 2006
2. WHO Fifty-eighth World Health Assembly provisional agenda item 13.12
3. WHO Cancer Fact Sheet, 2003

### FACTS ABOUT CANCER

#### WHAT IS CANCER?

Cancer is a generic term for a group of more than 100 diseases that can affect any part of the body. Other terms used are malignant tumors and neoplasms. One defining feature of cancer is the rapid creation of abnormal cells which grow beyond their usual boundaries, and which can invade adjoining parts of the body and spread to other organs, a process referred to as metastasis. Metastases are the major cause of death from cancer.

#### FACTS ABOUT CANCER

Cancer is a leading cause of death worldwide. From a total of 58 million deaths worldwide in 2005, cancer accounts for 7.6 million (or 13%) of all deaths. The main types of cancer leading to overall cancer mortality are:

- Lung (1.3 million deaths/year);
- Stomach (almost 1 million deaths/year);
- Liver (662,000 deaths/year);
- Colon (655,000 deaths/year) and
- Breast (502,000 deaths/year).

More than 70% of all cancer deaths in 2005 occurred in low and middle income countries. Deaths from cancer in the world are projected to continue rising, with an estimated 9 million people dying from cancer in 2015 and 11.4 million dying in 2030.

The most frequent cancer types worldwide are:

- Among men (in order of number of global deaths): lung, stomach, liver, colorectal, oesophagus and prostate.
- Among women (in order of number of global deaths): breast, lung, stomach, colorectal and cervical.

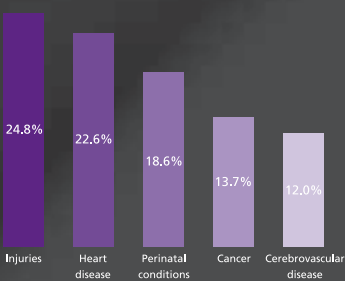
#### QUICK CANCER FACTS

- 40% of cancer can be prevented (by a healthy diet, physical activity and not using tobacco).
- Tobacco use is the single largest preventable cause of cancer in the world. Tobacco use causes cancer of the lung, throat, mouth, pancreas, bladder, stomach, liver, kidney and other types; Environmental tobacco smoke (passive smoking) causes lung cancer.
- One-fifth of cancers worldwide are due to chronic infections, mainly from hepatitis B viruses HBV (causing liver), human papilloma viruses HPV (causing cervix), Helicobacter pylori (causing stomach), schistosomes (causing bladder), the liver fluke (bile duct) and human immunodeficiency virus HIV (Kaposi sarcoma and lymphomas).

## DEATHS BY CAUSE IN WHO REGIONS, 2002

### AFRICA

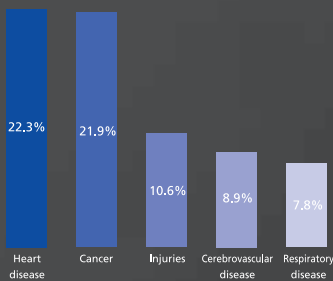
ALGERIA, CAPE VERDE, CENTRAL AFRICAN REPUBLIC, CONGO, KENYA & LIBERIA ETC.



TOTAL DEATHS EXCLUDING INFECTIOUS DISEASES: 2,993 (28% OF TOTAL DEATHS)

### AMERICA

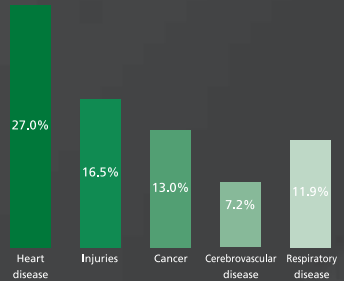
ARGENTINA, CANADA, CHILE, COLOMBIA, CUBA, MEXICO, PERU, USA & VENEZUELA ETC.



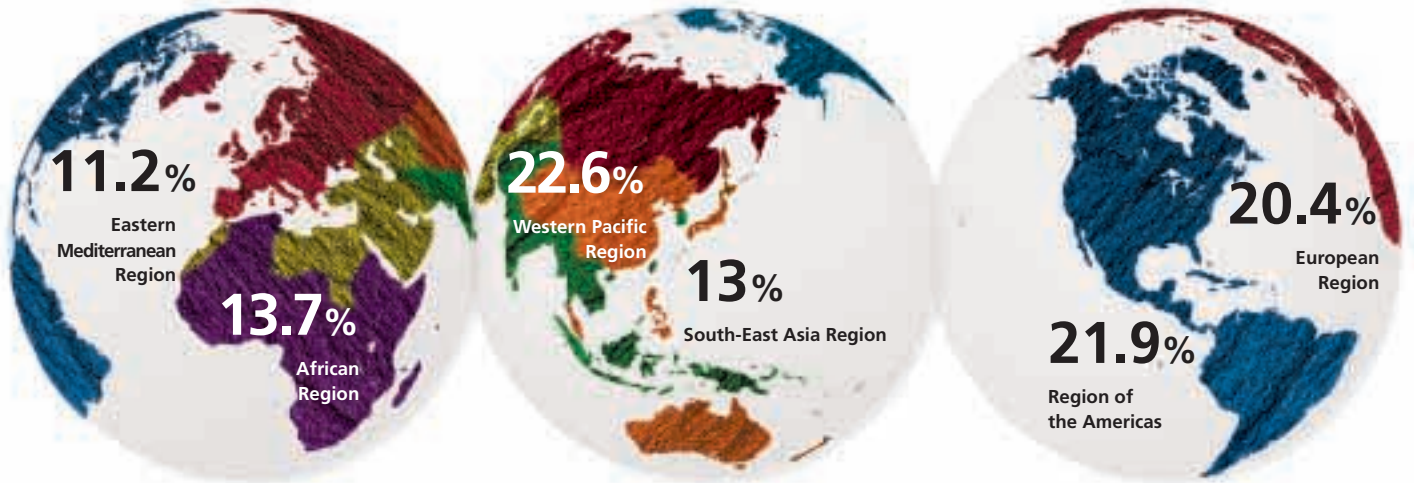
TOTAL DEATHS EXCLUDING INFECTIOUS DISEASES: 5,086 (85% OF TOTAL DEATHS)

### SOUTH-EAST ASIA

BANGLADESH, INDIA, INDONESIA, MALDIVES, MYANMAR, NEPAL, SRI LANKA & THAILAND ETC.



TOTAL DEATHS EXCLUDING INFECTIOUS DISEASES: 8,890 (61% OF TOTAL DEATHS)



### WHAT CAUSES CANCER?

Cancer occurs because of changes of the genes responsible for cell growth and repair. These changes are the result of the interaction between genetic host factors and external agents which can be categorized as:

- physical carcinogens such as ultraviolet (UV) and ionizing radiation
- chemical carcinogens such as asbestos and tobacco smoke
- biological carcinogens such as –
  - infections by virus (Hepatitis B Virus and liver cancer, Human Papilloma Virus (HPV) and cervical cancer) and bacteria (Helicobater pylori and gastric cancer) and parasites (schistosomiasis and bladder cancer)
  - contamination of food by mycotoxins such as aflatoxins (products of Aspergillus fungi) causing liver cancer.

Tobacco use is the single most important risk factor for cancer and causes a large variety of cancer types such as lung, larynx, oesophagus, stomach, bladder, oral cavity and others. Although there are still some open questions, there is sufficient evidence that dietary factors also play an important role in causing cancer. This applies to obesity as a compound risk factor per se as well as to the composition of the diet such as lack of fruit and vegetables and high salt intake. Lack of physical activity has a distinct role as risk factor for cancer. There is solid evidence about alcohol causing several cancer types such as oesophagus, pharynx, larynx, liver, breast, and other cancer types.

### HOW DOES CANCER SPREAD?

Cancer is a generic term for a group of more than 100 diseases that can affect any part of the body. Other terms used are malignant tumors and neoplasms. One defining feature of cancer is the rapid creation of abnormal cells which grow beyond their usual boundaries, and which can invade adjoining parts of the body and spread to other organs, a process referred to as metastasis. Metastases are the major cause of death from cancer.

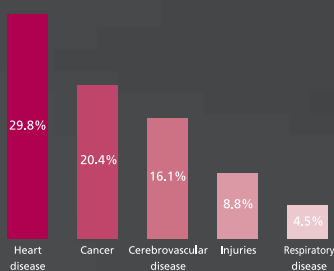
A malignant tumor (cancer) can invade surrounding tissue and destroy it. Cancer cells can also break away from a malignant tumor and enter the bloodstream or the lymphatic system. This is how cancer spreads within the body. When breast cancer spreads outside the breast, cancer cells often are found in the lymph nodes under the arm. Cancer cells may spread beyond the breast such as to other lymph nodes, the bones, liver, or lungs. Although it is not common, some patients whose underarm lymph nodes are clear of breast cancer may still have cancer cells which have spread to other parts of the body.

Source:

1. WHO, 2006
2. <http://www.health-alliance.com/cancer/cancer.html>

### EUROPE

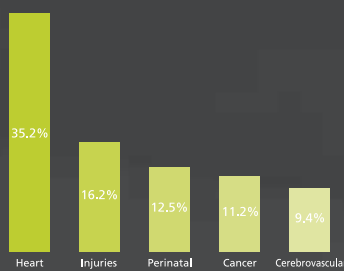
ALBANIA, ARMENIA, AUSTRIA, BELGIUM, BULGARIA, CZECH REPUBLIC, DENMARK, GERMANY & HUNGARY ETC.



TOTAL DEATHS EXCLUDING INFECTIOUS DISEASES: 9,002 (94% OF TOTAL DEATHS)

### EASTERN MEDITERRANEAN

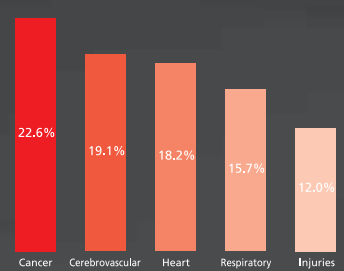
AFGHANISTAN, BAHRAIN, EGYPT, IRAN, IRAQ, KUWAIT, MOROCCO, PAKISTAN, SAUDI ARABIA & SUDAN ETC.



TOTAL DEATHS EXCLUDING INFECTIOUS DISEASES: 2,422 (58% OF TOTAL DEATHS)

### WESTERN PACIFIC

AUSTRALIA, CAMBODIA, CHINA, MALAYSIA, MONGOLIA, NEW ZEALAND, KOREA & VIETNAM ETC.



TOTAL DEATHS EXCLUDING INFECTIOUS DISEASES: 10,242 (86% OF TOTAL DEATHS)

## PRODUCT INTRODUCTION



### Multi-Tumor Markers Detection and Evaluation System (C-12) – Early Warning Radar for Cancer Intruders

#### WHAT ARE TUMOR MARKERS?

A host of blood tests can assess the health of different organs and systems in our body. Some doctors use tumor markers to detect possible cancer activity in the body. If cancer is present, it will usually produce a specific protein in the blood that can serve as a "marker" for the cancer. Biochemical method such as C-12 measures tumor markers and predicts the development of tumors based on marker concentration.

Bio-chemically no single tumor marker is sensitive or specific enough for tumor detection. Combined measurement of multiple tumor markers is being adopted for more accurate detection of tumors in recent years.

#### WHAT IS C-12?

Protein Chip System for Multi-Tumor Marker Detection (C-12) is a parallel analysis of 12 different types of tumor markers together for cancer screening with greater cost efficiency and result accuracy. It can diagnose simultaneously several types of tumor including liver cancer, breast cancer, stomach cancer, prostate cancer, esophagus cancer, colon/rectum cancer, lung cancer, ovarian cancer, pancreas cancer, and endometrial cancer.

C-12 has the characteristics of high sensitivity and specificity. It is fast and cost-efficient in detecting tumor markers. It measures 12 common tumor markers and is most efficient for cancer screening in large population.

#### C-12: AN ECONOMICAL AND EFFECTIVE WAY FOR CANCER SCREENING

Tumor markers can be used for one of four purposes:

- (1) screening a healthy population or a high risk population for the presence of cancer;
- (2) making a diagnosis of cancer or of a specific type of cancer;
- (3) determining the prognosis in a patient;
- (4) monitoring the recovery of a patient or while receiving surgery, radiation, or chemotherapy.

#### Common Diagnosis Methods of Cancer :

- CT scan
- Ultrasound Scan
- Biopsies
- Magnetic Resonance Imaging (MRI)
- PET scan
- Tumor Marker Dosages
- Endoscopy

#### Common Treatments of Cancer :

- Surgery
- Hormonal Therapy
- Radiotherapy
- Immunotherapy
- Chemotherapy

## PRODUCT INTRODUCTION

# HPV DNA CERVICAL CANCER SCREENING TECHNOLOGY TO SAVE LIVES

### WHAT IS HPV?

HPV stands for human papilloma virus and is the most common sexually transmitted infection. More than 80 percent of the women will have an HPV infection in their lifetime. The infection normally occurs after sexual debut and often is asymptomatic and clears spontaneously – approximately 70 percent of infections clear in one year and approximately 91 percent within two years.

Virtually all cases of cervical cancer begin with HPV infection, and more than 100 known HPV types have been identified and are labeled in numbers. HPV may cause skin warts, genital warts, head and neck cancers, genital cancers and cervical cancers. It has been identified that 13 high risk HPV viruses (Type 16/18/31/33/35/39/45/51/52/56/58/59/68), if left undetected and untreated, would lead to the development of cervical cancer.

### WHAT IS CERVIX?

The cervix is a very strong muscle that connects a woman's womb and her vagina. It forms a small opening which lets out menstrual blood and sperm. During the childbirth the cervix opens up to let the baby out.

### WHAT IS CERVICAL CANCER?

Cervical cancer is the second most common disease in women worldwide and it is estimated that more than 80 percent of the cervical cancer mortality occurred in developing countries including China and India. This cancer type usually starts in the cell on the surface of the cervix and becomes cancerous when the cell begins to grow and divide out of control. These cells gradually spread into the tissue of the cervix. From there they may move to other parts of the body such as vagina, womb or bowel.







## WHY OUR HPV DNA TESTING IS THE TEST FOR EARLY DETECTION FOR CERVICAL CANCER?

In the past 60 years, cervical cancer screening has been based on the pap test which has an effectiveness of between 50 and 70 percent for detecting pre-cancerous cervical lesions. Recently, liquid-based pap technologies and computer enhanced screening methods have improved the effective rate but not entirely.

Despite the fact that high risk HPV types would cause cervical cancer, traditional methods of cervical cancer screening could not detect HPV specifically. Medical research shows that it takes years for the cells to develop into cancer after HPV infection. If HPV infection can be detected early and the infected women are monitored closely, most cervical cancer can be found early and treated successfully.

The HPV DNA Detection Kits are far more sensitive than traditional methods of cervical cancer screening because it is 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. The entire process of DNA extraction and amplification is easy to administer at low costing and high level of efficiency. This method of cervical cancer screening has a high sensitivity rate of over 95 percent.

## WHAT IS THE SIGNIFICANCE OF HPV VACCINATION?

Currently, the market available HPV vaccine protects against HPV strains 6, 11, 16 and 18. Almost 70 percent of cervical cancer cases (Type 16 and 18) and 90 percent of genital warts cases (Type 6 and 11) are linked to these four strains of HPV but the HPV vaccine will not protect against diseases caused by other high risk HPV types. The vaccination is most effective in seronegative and HPV negative women - in young women before sexual debut. The vaccine is only effective only when given prior to infection exposure to that type.

The vaccine is only applicable to women without any previous exposure to HPV Types 6, 11, 16 and 18. HPV DNA testings will reveal current and not past infections, and the vaccine will not have therapeutic effect for HPV infections. For infected population, the vaccine does not have any preventive effect. Although the vaccination has the potential of eliminating 70 percent of cervical cancers, it is important to remember that the other 30 percent of cervical cancers must continue. It is generally accepted that cervical cancers could only be reduced over time worldwide when a number of measures are taken, namely, offer vaccination to appropriate candidates, continue to educate women about HPV risks and other effective means to prevent HPV-related diseases (e.g. abstinence, monogamy, condom use, limited partners), screen and treat patients.

## COMMON DIAGNOSIS METHODS OF CERVICAL CANCER:

- Medical history (reviews the past and present medical conditions of the patients and relatives)
- Pelvic examination (involves palpation of the woman's uterus, cervix and other pelvic organs)
- Pap smear (involves the scraping of cell for examination under a microscope)
- Colposcopic biopsy (involves the removal of a sample of tissue from the cervix or vagina during the colposcopy)
- Imaging tests such as CAT Scan, Pet Scan and MRI (screens of a possibility of cancer spread).

## COMMON TREATMENTS OF CERVICAL CANCER:

- Surgery (remove cancer cells)
- Radiotherapy (which uses high-energy radiation to destroy cancer cells)
- Chemotherapy (medications that kill cancer cells)

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## CORPORATE INFORMATION

### BOARD OF DIRECTORS

Mr. Yao Yuan  
Mr. Iu Chung  
Mr. Chien Hoe Yong, Henry  
Mr. Hu Jun  
Mr. Yu Ti Jun  
Dr. Lam Lee G. \*  
Mr. Hu Jin Hua \*  
Mr. Lee Sze Ho, Henry \*  
\*Independent Non-Executive Directors

### AUDIT COMMITTEE

Dr. Lam Lee G.  
Mr. Hu Jin Hua  
Mr. Lee Sze Ho, Henry

### AUTHORISED REPRESENTATIVES

Mr. Chien Hoe Yong, Henry  
Mr. Poon Kwong Wai, Kenny

### COMPANY SECRETARY

Mr. Poon Kwong Wai, Kenny

### AUDITORS

Deloitte Touche Tohmatsu

### LEGAL ADVISERS

Freshfields Bruckhaus Deringer  
Stephenson Harwood & Lo  
Chan & Tsu, Solicitors

### PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited  
Citic Ka Wah Bank Limited  
The Hongkong and Shanghai Banking Corporation Limited  
Bank of China (Hong Kong) Limited

### PRINCIPAL SHARE REGISTRARS

Butterfield Corporate Services Limited  
65 Front Street, Hamilton, Bermuda

### BRANCH SHARE REGISTRARS IN HONG KONG

Central Registration Hong Kong Limited  
46th Floor, Hopewell Centre,  
183 Queen's Road East,  
Wanchai, Hong Kong

### REGISTERED OFFICE

Canon's Court, 22 Victoria Street,  
Hamilton HM 12, Bermuda

### PRINCIPAL PLACE OF BUSINESS

Room 1801-03, Hutchison House, 10 Harcourt Road, Central, Hong Kong  
Tel: (852) 3102 3201  
Fax: (852) 3102 0905  
Email: mingyuan@mingyuan-hk.com  
Website: www.mymedicare.com.hk

### PLACE OF SHARE LISTING

The Stock Exchange of Hong Kong Limited

### STOCK CODES

The Stock Exchange of Hong Kong Limited: 233  
Reuters: 233.HK  
Bloomberg: 233 HK

# MINGYUAN MEDICARE DEVELOPMENT COMPANY LIMITED



C-12 protein chip

## C-12 protein chip

The Quality Control process of the C-12 protein chip: A technician is adding chemical substrates to the C-12 protein chip for detecting tumor markers effectiveness.



HD-2001A ChipReader

## HD-2001A ChipReader

The HD-2001A ChipReader system developed by Shanghai HealthDigit. On the left is an optical system for the capture of signals from the protein chip. On the right is a computer system for data analysis.

## microarray inkjet printer

A microarray inkjet printer which is used for the fabrication of the C-12 protein chip. The system is being cleansed before arraying proteins. A lamp and a camera (upper left) are used to monitor the quality of the printing process.



microarray inkjet printer

A group of people, including a man and several women, are huddled together in a circle, looking up at the camera. They are wearing swimwear, suggesting a beach or pool setting. The background is a clear, bright blue sky. The overall mood is joyful and energetic.

# EARLY DETECTION CAN SAVE LIVES



## CANCER...

spares no one. It touches the rich and poor, young and old, men, women and children.

In addition to the financial cost of disease, cancer has important psychosocial repercussions for patients and their families and remains, in many parts of the world, a stigmatizing disease.

Source:

WHO 'The 58th World Health Assembly adopts resolution on cancer prevention and control.' dated 25 May 2005

## EARLY DETECTION CAN SAVE LIVES...

One third of the cancer burden could be cured if detected early and treated adequately.

Early detection of cancer is based on the observation that treatment is more effective when cancer is detected earlier. The aim is to detect the cancer when it is localized. There are two components of early detection programmes for cancer:

- Education to promote early diagnosis by recognizing early signs of cancer such as: lumps, sores, persistent indigestion, persistent coughing, and bleeding from the body's orifices; and the importance of seeking prompt medical attention for these symptoms.
- Screening is the identification by means of tests of people with early cancer or pre-cancer before signs are detectable. Screening tests are available for breast cancer (Mammography) and cervical cancer (Cytology tests).

Source:

WHO Cancer Fact Sheet 2005

## GLOBAL ACTION AGAINST CANCER

Many countries have already recognized the urgency to respond to the cancer epidemic with national cancer policies and programmes. However, there are still important gaps between knowledge and practice in both developing and developed countries.

In response to the urgency of the rising incidence of cancer, WHO Member States have approved a resolution on Cancer Prevention and Control at the 58th World Health Assembly on 25 May 2005 in Geneva. This resolution calls on all Member States to develop national cancer programmes, which include increased prevention measures, early detection and screening, as well as improved treatment and palliative care.

Source:

WHO 'The 58th World Health Assembly adopts resolution on cancer prevention and control.' dated 25 May 2005

## 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 gives me great pleasure to report that Mingyuan Medicare Development Company Limited and its subsidiaries (the “Group”) have achieved significant growth in both turnover and profitability. With an increasingly and broader acceptance of early screening and detection of life threatening diseases amongst the Chinese population, the Group's pioneering and proven record of being a leading promoter in this field in evidently paying off with a significant and sustainable growth in the sales of its protein chips.

In addition to its flagship biomedical product of the C-12 protein chips, the Group introduced a new HPV DNA diagnostic kit for cervical cancer and the Group believes that the introduction of this product paves the way of a new range of screening and diagnostic products for different life threatening diseases to be launched regularly and continuously.

More information about the operations of the Group is elaborated in a separate section referred as “Management Discussion and Analysis”.

## PERFORMANCE

In 2007, the Group's consolidated turnover amounted to HK\$256.4 million for the year (2006: HK\$160.8 million), representing a significant increase of approximately 59.4 percent over that of last year. The increase in turnover was mainly attributable to the significant increase in sales of its flagship C-12 products following both the organic expansion of its nationwide sales network and the milestone contribution from the supply of C-12 protein chips for use in the cancer care insurance policy. The net profit attributable to shareholders for the year was HK\$125.2 million, representing a significant increase of 70.1 percent increase over the HK\$73.6 million of 2006. Earnings per share were 4.48 HK cents, compared with 2.74 HK cents in 2006.

## CHAIRMAN'S STATEMENT (CONTINUED)

In the third 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\$8.9 million (2006: HK\$15.1 million) upon application of new HKFRSs on these two areas. Details of the relevant adjustments are discussed in "Notes To The Consolidated Financial Statements".

In 2006, the turnover for protein chips was limited by the existing production capacity at the Huzhou Plant in the Zhejiang Province but following of the commencement of operations at the new production facility at the Fengxiang Plant in Shanghai in August this year, the Group could supply the customers with a new 4 million capacity thereby increasing the production output capacity by more than 3.6 times. This year the Group recorded a turnover of HK\$219.0 million (2006: HK\$150.9 million), representing a significant increase of approximately 45.1 percent over that of last year. More significantly, segment profits of the operation amounted to HK\$183.4 million (2006: HK\$115.1 million), representing a significant increase of approximately 59.3 percent over that of last year.

At the newly established Healthcare Division which consists of two business units, namely the Hospital Unit and the Cervical Care Unit, the combined turnover and segment profit amounted to HK\$37.4 million (2006: 10.0 million) and HK\$581,000 (2006: HK\$1.1 million) respectively.

The Hospital Unit continued to contribute positively to the Group's turnover and profitability but more importantly this unit allowed the Group to understand better the operational aspects of hospital services including laboratory management and to exchange operational ideas with other hospitals in Shanghai.

Also in the same year, the Group launched its new HPV DNA diagnostic kits nationwide with an emphasis on registering the testing kits for sale at hospitals and at the end of the year a total of 57 hospitals are approved to offer the testing kits to its customers.

### BUSINESS REVIEW

This year has been an exceptional growth year for the C-12 protein chips and the Group believes that following the successful launch of the cancer care insurance policy in Shanghai by China Life, the policy will gradually be sold by other branches of China Life thereby will contribute significantly and sustainably to the Group's turnover and profitability. While C-12 protein chips dominates the Group's turnover and profitability, the Group continues to cultivate the potentials of other biomedical products including the HPV DNA diagnostic kits that will eventually provide a more revenue contribution from a diversified product portfolios.

#### Sales and Marketing – The Ultimate Frontline

In the past few years, we have successfully developed a niche market for cancer screening to be included as part of the annual health appraisal programs for patients in China and more than 5.9 million people have benefited from our protein chips for cancer screening. Having built a sustainable momentum for the demand of our C-12 products, 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.

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.



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## CHAIRMAN'S STATEMENT (CONTINUED)

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 in 2006 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. The pilot project was first commercially launched in March 2007 in Shanghai with very encouraging results and we believe that the demand for our biomedical products and services will increase strongly 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 Supply Logistics**

The new production facility at the Fengxian MA District in Shanghai has been successfully completed and has been fully operational since August 2007. Under the Phase I, the new production facility capacity is four million protein chips per annum and with the original production facility of 1.5 million protein chips, the Group has a total production capacity of 5.5 million protein chips. The Group believes that the expanded production capacity will be able to supply the market for the next 24 months minimum and there is a flexibility to install a further 4.0 million chips production line under Phase II within a twelve month operational time span.

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. At Shanghai production base, the Group is also currently building a centralised training, servicing and conference complex for early screening and detection of life threatening diseases and for technology exchanges both domestically and internationally.

## 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. 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.



In addition to its flagship biomedical product of the C-12 protein chips, the Group introduced a new HPV DNA diagnostic kit for cervical cancer and the Group believes that the introduction of this product paves the way of a new range of screening and diagnostic products for different life threatening diseases to be launched regularly and continuously.



### **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. 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 in 2006, 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.

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## CHAIRMAN'S STATEMENT (CONTINUED)

### 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 2007 and may be remembered as the beginning of a new corporate era following the ongoing execution of KM2003 Objectives, 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 268. By category, those who attended included fund managers (61%); analysts (15%); bankers (9%); media (2%); and others (14%). In addition, 4 roadshows and 13 investor forums were conducted with a total attendance of 363.

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, CLSA, Merrill Lynch (Asia Pacific) Limited, DBS Vickers (Hong Kong) Limited and BNP Paribas Peregrine Securities Limited, in New York, Tokyo, Singapore, Hong Kong and China. We have also attended the UBS 2007 Global Life Sciences Conference in New York in September 2007.

### CONCLUSION

We are excited about the future of the Group and its business development opportunities. More recently, the Group announced that clinical trials for its tuberculosis rapid screening test will commence shortly and we expect the application process for a drug licence will take approximately 18 months. Also recently announced is that C12 product has been approved in three provinces to be a medically reimbursable item under the State Medical Insurance System and we are witnessing strong growth in sales in these provinces.

#### **Yao Yuan**

*Executive Chairman*

31st March, 2008

## MANAGEMENT DISCUSSION AND ANALYSIS

### MARKET REVIEW

In the last five years, the PRC economy have grown over 81.6 percent with an average annual increase of 10.6 percent and the PRC economy is currently the fourth largest economy in the world. During the year, the PRC Government continued to adopt a prudent fiscal policy and a tight monetary policy while committed to a sustainable and healthy economic development objective, and successfully achieved a GDP growth rate of 11.4 percent in 2007. While it is widely expected that the macroeconomic regulations will continue to affect the economy in the PRC in 2008, the healthcare sector is the very few bright spots where the PRC Government is committed to increase significantly its public expenditure on healthcare reform.

Nevertheless, the PRC Government is committed to a sound and fast economic growth with emphasis on quality and efficiency of the growth. Most recently at the First Session of the 11th National People's Congress, the PRC Government announced its plan to reduce its GDP growth to approximately 8 percent in 2008 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.

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

Since the introduction of the new rural cooperative medical care system, a total of 2,448 counties have already launched the program and that over 730 million farmers, which represented a participation rate of 85.7 percent, have participated. The PRC Government believes that this system will be fully implemented in all rural areas in 2008 and will allocate approximately RMB83.2 billion to the system, representing an increase of approximately 25 percent over that of last year.

From 2001 to 2007, the per capita income of urban and rural residents in the PRC grew at annual averages of 10.1 percent and 6.2 percent respectively. In 2007 the per capita income of urban and rural residents was approximately RMB13,786 and RMB4,140 respectively, representing a growth of 12.2 percent and 9.5 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.

According to the World Health Report 2007 published by the World Health Organization, China lagged behind other developed countries on spending on healthcare services. Medical and healthcare services in the developed countries accounted for approximately 11.0 percent of the GDP on average in 2004. Medical and healthcare services in the US represented 15.4 percent of the GDP, while the figure for PRC was only 4.7 percent in 2004. It is widely expected that demand for medical and healthcare services will continue to grow as consumers become more affluent. The Group expects both the percentage and the GDP base to expand, making the healthcare industry to be a high growth sector in the economy.

Equally important is the increase in State Basic Medical Insurance population for urban residents. According to the National Bureau of Statistics of the PRC, the eligible participants have grown from 37.8 million in 2000 to 220.5 million in 2007, representing an increase of over 182.7 million participants with annual averages of 28 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 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

Being the first year that the Group is principally and entirely engaging in biomedical business activities, the Group continued to implement the KM2003 Objectives with impressive results of sustainable and high growth in sales in its Protein Chips Division. This year the Group allocated most of its resources in three major areas – including the implementation of its distribution arrangement with China Life Insurance Company Limited, Shanghai Branch ("CLS") following the introduction of a new cancer care insurance policy in Shanghai, the promotion and registration of the HPV DNA testing kits with the hospitals nationwide, and the launch of the new production facility in Shanghai to expand its production capacity significantly.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Major corporate activities undertaken in 2007 were summarized as follows:

### Major Events and Issues in 2007

**February** Established the Strategic Marketing Department to consolidate all promotional and marketing efforts with the fundamental objectives of strengthening the Group's corporate and product profile in the bio-medical market, promoting the application of bio-medical products in the medical industry, establishing a market risk management systems and contributing to the Group's sales plan for the different products and services.

**March** Commenced the implementation of the milestone arrangement with CLS whereby CLS will use the Group's proprietary multi-tumor marker detection systems to principally and mandatory evaluating interested applicants who intend to acquire insurance protection under a new Cancer Care Insurance Policy. The cooperation agreement with CLS represents a major milestone for the corporate development of the Group and will significantly increase the sale of its proprietary protein chips and systems in coming years.

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

**April** Officially established a new business unit within its Healthcare Division to engage in the promotion, registration and distribution of the HPV DNA detection kits nationwide. The Group has successfully appointed distributors in nine provinces and two municipalities including Beijing and Shanghai, and over 57 hospitals have been successfully approved to offer the products to its patients in the PRC.

**August** Completed successfully the trial run of its production lines at the new Fengxian facility in Shanghai and began its production operation to contribute to the overall production capacity of its C-12 protein chips and related systems ("C-12 products").

### 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 the PRC and has sold more than 5.9 million protein chips to date for cancer screening from its own proprietary intellectual property ("PIP") protein chip platform.

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

### Protein Chips Division

Currently, the Group manufactures and distributes C-12 products to hospitals and life insurance companies in the PRC. The C-12 products are capable of detecting up to twelve tumor markers simultaneously and assisting in early detection of ten prevalent cancer tumor types. During the year, the Group continued to experience an excellent growth in both order and sales of 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 based in the PRC for the pre-screening and general health appraisal of life and cancer policy applicants. The Group expects the overall growth for the protein chips sales to be promising and sustainable in the future.

The Group continued to experience rapid growth in its protein chips business operations and sold a total of 2.2 million protein chips (2006: 1.5 million), representing an increase of approximately 46.7 percent over that of last year.

## MANAGEMENT DISCUSSION AND ANALYSIS

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

### Sales Strategy

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

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

### Sales channels

The Group continued to strengthen its sales 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 in the PRC. 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.

### CLS

On 19th December, 2006, the Group has successfully established a new sales channel that will contribute significantly 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 has been launched in Shanghai, the PRC.

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

The Cancer Care Insurance Policy seeks to provide protection for people against cancer for one year after a successful cancer screening test. Within the insured period, the policy holder will receive the appropriate compensation for medical care whether the cancer tumor is benign or malignant. Under the cooperation agreement, the Company will use its 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. The cooperation agreement will last for a period of three years.

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

### Chipreader optimization plan

As at 31st December, 2007, the Group had 406 (2006: 406) chipreaders in the market. The Group understands that the chipreader for the C-12 protein chips is a principal contributing factor for the sales volume and to this effect, the Group has been successful in increasing the utilization rate per chipreader per month by promoting the sharing of chipreaders among hospitals in the same location, reallocating some existing chipreaders to newly signed up hospitals and insurance companies, and increasing the production of chipreaders to meet new demands. During the year, the implementation of the optimization plan for chipreaders also contributed significantly to the increase in sales volume for the 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 and other new products were introduced.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 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 after sales services not only indicate that our customers are actually being cared for. It also instills in our employees a sense of mission to assist our customers and their patients.

### 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 cervical cancer compared with conventional pap-smear test (50-60%), yet it does not require a large upfront capital investment on specialized equipment, and is only a fraction of the costs of other competitive products. The SNIPERTM FPCR Kit obtained approval from the SFDA in May 2006.

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

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

## FINANCIAL PERFORMANCE

The net profit attributable to shareholders amounted to HK\$125.3 million (2006: HK\$73.6 million), representing an increase of 70.2 percent over that of last corresponding year. The significant digit increase was due to the increase in sales from principally the existing distributors' network and the CLS. Earnings per share was 4.48 HK cents (2006: 2.74 HK cents), representing a significant increase of approximately 63.5 percent.

The Group's medical related services consist of the Protein Chips Division and the Healthcare Division.

### Protein Chips Division

Turnover contributed by the sale of the proprietary C-12 products amounted to HK\$219.0 million (2006: HK\$150.9 million), representing an increase of approximately 45.1 percent over that of last year. More importantly, segment profits of this division amounted to HK\$183.4 million (2006: HK\$115.2 million), representing an increase of approximately 59.2 percent over that of last year.

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## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The Group continued to experience strong growths and sold a total of 2.2 million protein chips (2006: 1.5 million), representing an increase of 46.7 percent over that of last year. The Group continued to enlarge its sales and related after sales support to life insurance companies, particularly the CL group of branches in the PRC. Based on the proven Shanghai servicing and logistical model, the Group plans to support the launch of the relevant China Life's Cancer Care Insurance Policy in other major cities of the PRC.

On other hand, 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 cervical cancer care and medical care units. Turnover contributed by this division amounted to HK\$37.4 million (2006: HK\$10.0 million). The segment profits of this division amounted to HK\$581,000 (2006: HK\$1.0 million).

#### *Cervical Cancer Care Unit*

In 2007, the Group officially launched its new HPV DNA diagnostic kits with the successful appointment of distributors in nine provinces and two municipalities including Beijing and Shanghai. and have sold more than 25,000 kits in 2007. To date, the HPV DNA diagnostic kits are already approved to sell in over 57 hospitals in China.

#### *Medical Care 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.

### PROSPECTS

Following the successful disposal of the remaining non core asset in 2006, this is the first year that the Group is principally focused on biomedical activities relating to screening and diagnostics for diseases. 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. Therefore, 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 launch of the HPV DNA testing kits for cervical cancer, the set up of the unique sales arrangement with CLS for its Cancer Care Insurance Policy, the completion of its new production facility in Shanghai and the establishment of the Strategic Marketing Department.

Being the leading biomedical company in the area of early screening and detection of diseases in the PRC, the Group understands the many challenges and risks associated with the industry, and is constantly reviewing and responding accordingly when implementing its business plans. While the PRC 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 continues to apply 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.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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. Therefore recently at the World Health Organization ("WHO") during the 58th World Health Assembly in 2005, member states adopted a number of resolutions that included a common understanding on early detection and prevention of diseases by way of promoting national health programs to control and prevent diseases including cancers. 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 the PRC, the Group has seized first mover advantage to service the increasing health conscious and affluent group of customers in the PRC 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 since 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 the PRC which is one of the largest, fastest growth and most promising healthcare markets in the world. Despite many challenges ahead, the outlook for the Group is extremely promising and business plans are being implemented with impressive results.

### Key Milestones Progress

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

(1) *Production management for the protein chips.*

Phase I of the new production facility in the Fengxian MA District of Shanghai (the "Shanghai Plant") began operational in August 2007 and production lines for 4 million chips were installed. Back in 2005, the Group anticipated a significant growth in demand for its C-12 Protein Chips 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 (the "Huzhou Plant") is currently operating at its full production capacity of 1.5 million chips per annum.

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

The Group currently distributes its C-12 products to over 45 health centers of major insurance companies and over 700 hospitals in the PRC through regional distributorships and direct sales. The Group intends to expand the points of service to a total of 1,000 hospitals and health centers of insurance companies. At the new plant site, the Group will build a composite training center to train medical and healthcare personnel on handling of protein chips and systems and provide after sales services for customers.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The successful arrangement with CLS to support the cancer evaluation process on the Cancer Care Insurance Policy in Shanghai is contributing significantly to the sale of C-12 products and the Group expects other branches of CL will start making the policy program available to their customers across the PRC shortly. CL is the largest life insurance company in the PRC and its distribution network, comprised of exclusive agents, direct sales representatives, and dedicated and non-dedicated agencies, is also the most extensive one in China. Being the premier life insurance company in the PRC, CL's products and services include life insurance, group life insurance, accident and health insurance. Leveraging on the existing distribution network of CL in the PRC, the Directors are confident that the Group's revenue base will increase significantly and the distribution points will grow in multiples in the coming years.

(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.

The Group established a Strategic Marketing Department in February 2007, for the setting up of marketing and promotional programs to enhance the corporate profile of the Company, and to bring together scientists, medical practitioners, and laboratory technicians to further promote the application of biomedical solutions for the early screening, detection and prevention of diseases including cancer.

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

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

(5) *Establish global platform for the protein chips and systems.*

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

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## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

By way of both PIP and LIP sources, the Group intends to strengthen its leadership position in the biomedical industry by further diversifying its biomedical product series that contain the characteristics of both screening and diagnostic value and the Group plans to increase its efforts and resources for the promotion and distribution of the following biomedical products:

- *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 the PRC suffered from rheumatoid autoimmune diseases.

- *Protein Chip for Infertility and Sterility Diseases (referred to as "ISD")*

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

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

### **Conclusion**

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

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

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 2008.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### FINAL DIVIDEND

The Directors have recommend the payment of a final dividend of 1 HK cent (2006: 1 HK cent) per share for 2007 to shareholders whose names appear on the Register of Members of the Company on Tuesday, 27 May 2008. This together with the interim dividend of 1 HK cent per share give a total of 2 HK cents per share for the year (2006: 2 HK cents). The proposed final dividend will be paid on 27 June 2008 following the approval at the annual general meeting of the Company to be held on 2 June 2008.

### PLEDGE OF ASSETS

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

	2007 HK\$'000	2006 HK\$'000
Prepaid lease payments	42,500	–
Buildings	169,721	5,992
Buildings under construction	–	23,587
Investments held for trading	14,429	–
Pledged bank deposit	–	10,000
	<b>226,650</b>	<b>39,579</b>

### LIQUIDITY AND FINANCING

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

At 31 December 2007 the Group had cash and bank balances of HK\$453.5 million (2006: HK\$441.6 million). The Group's gearing ratio as at 31 December 2007 was 23.3 percent (2006: 50.8 percent), based on bank and other borrowings of HK\$192.9 million (2006: HK\$288.6 million) and shareholders' fund of HK\$827.4 million (2006: HK\$568.1 million).

The Group's bank borrowings were denominated in Hong Kong Dollars and Renminbi. Bank borrowings totaling HK\$138.1 million were outstanding as at 31 December 2007 (2006: HK\$95.1 million). The range of effective interest rates on the bank borrowings as at 31 December 2007 was approximately 4.86 percent to 8.42 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 2007 and 31 December 2006, the Group did not have any significant contingent liabilities.

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## PROFILES OF DIRECTORS

### MR. YAO YUAN

**Mr. YAO Yuan**, aged 52, is currently the Chairman of the Company. Mr. Yao has been admitted as a practicing solicitor in the PRC since 1985. Currently being the Chairman of Shanghai Mingyuan Enterprise Group Company Limited, Mr. Yao has been leading the group for over 10 years and contributing to its success as one of the top 100 corporations in Shanghai. Mr. Yao is also the Vice-Chairman of Shanghai Private Enterprise Association (上海私营企业协会) and a committee member of Shanghai Federation of Industry and Commerce (上海工商联).

### MR. IU CHUNG

**Mr. IU Chung**, aged 50, is currently the Executive Director of the Company and he has been a Director of the Company's wholly owned subsidiary, HD Global Limited ("HD Global") since 2003. HD Global together with its subsidiaries is engaged in the business of providing innovative medical solutions for early screening and detection of diseases. During the years, Mr. Iu has been successful in expanding direct sales channels for the Company's protein chip products and services from the traditional hospital market to life insurance industry and corporations in China. Mr. Iu is also the Vice Chairman and Executive President of Shanghai Mingyuan Enterprise Group Company Limited, which is one of the most successful corporations in Shanghai for many years.

### MR. CHIEN HOE YONG, HENRY

**Mr. CHIEN Hoe Yong, Henry**, aged 44, is currently the Chief Executive Officer of the Company. Mr. Chien holds a bachelor of laws degree with honors from United Kingdom and has been admitted as a Barrister-at-Law in England and Wales since 1988. He is a qualified Chartered Accountant and a member of the Institute of Chartered Accountants in England and Wales, and he is also a Fellow of the Hong Kong Institute of Certified Public Accountants. Mr. Chien has over 20 years of professional experience in international investment banking, corporate advisory, financial accounting and auditing with internationally reputable companies and banks. Mr. Chien had held senior managerial positions in several major investment banking firms in Hong Kong.

### MR. HU JUN

**Mr. HU Jun**, aged 66, is currently the Executive Director of the Company. Mr. Hu has over 38 years of administration and management experience, and had held senior positions in several state owned enterprises in China. With his extensive networking experience in both the public and private sector, Mr. Hu plays a pivotal role in the formulation and execution of corporate structure and internal control policies for the Group's business operations within China. He is also responsible for corporate relations in China.

### MR. YU TI JUN

**Mr. YU Ti Jun**, aged 56, is currently the Executive Director of the Company. Mr. Yu is also the Director and Vice President of Shanghai Mingyuan Enterprise Group Company Limited. He was Director of Shanghai Municipal Government Planning and Developing Research Institute, Visiting Professor of the Shanghai Fudan University, Chiao Tung University, East China Normal University, Distinguished Professor of Seminar Center of the Shanghai Library and the Shanghai Cadre Training Center. Mr. Yu is also the "National Health Education Specialist" of Ministry of Health, the Executive Director of China Association of Health Education, the Vice President of the Corporate Division of China Association of Health Education, the Vice Chairman of Eastern China Health Education Research Society, and the Vice President of Shanghai Corporate Health Management Promotion Committee. Mr. Yu was the author of various publications on enterprise management and strategic development. He also served as consultant to many Chinese and international enterprises on corporate planning and development. Mr. Yu has in-depth knowledge and rich experience in macroeconomic and corporate development in China.

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## PROFILES OF DIRECTORS (CONTINUED)

### DR. LAM LEE G.

**Dr. Lee G. LAM**, aged 48, is currently an Independent Non-Executive Director of the Company. Dr. Lam holds a Bachelor of Science in Mathematics and Sciences, a Master of Science in Systems Science, and a Master of Business Administration, all from the University of Ottawa in Canada, a Post-graduate Diploma in Public Administration from Carleton University in Canada, a Post-graduate Diploma in English and Hong Kong Law and a Bachelor of Law (Hons) from Manchester Metropolitan University in the UK, and a Doctor of Philosophy from the University of Hong Kong. Dr. Lam has over 25 years of multinational general management, strategy consulting, corporate governance, investment banking, and direct investment experience in the telecommunications, media and technology (TMT), retail, property and financial services sectors. He is Chairman of Monte Jade Science and Technology Association of Hong Kong, and serves as a non-executive director of several publicly-listed companies in the Asia Pacific region. He is a Member of the Hong Kong Institute of Bankers, a Member of the Young Presidents' Organization, a Fellow of the Hong Kong Institute of Directors and the China Institute of Directors, a Member of the General Council of the Chamber of Hong Kong Listed Companies, and a Part-time Member of the Central Policy Unit of the Government of the Hong Kong Special Administrative Region.

### MR. HU JIN HUA

**Mr. HU Jin Hua**, aged 65, is currently an Independent Non-Executive Director of the Company. Mr Hu is also the Counselor of Shanghai Municipal People's Government and the Honorary Director of World Health Organization Shanghai Health Education Collaborating Centre. Mr. Hu has devoted his career to health education and public health development in China. He holds various positions related to public health education including the Vice Chairman of China Association of Health Education. He is also an Associate Chief Physician and the former Director of Shanghai Health Education Centre. Mr. Hu has over 40 years of experience in health education in China.

### MR. LEE SZE HO

**Mr. LEE Sze Ho, Henry**, aged 39, is currently the Independent Non-Executive Director of the Company. Mr. Lee holds a Bachelor Degree of Business Administration (Honours) and a Master Degree in International Accounting from the City University of Hong Kong. He is an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Lee is also the Director of Lam, Lee & So C.P.A. Company Limited and has over 19 years of experience in international accounting and financial planning.

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## PROFILES OF SENIOR MANAGEMENT

### MR. LAU YUEN SUN, ADRIAN

**Mr. LAU Yuen Sun**, Adrian, aged 53, studied Economics and Finance in Canada in the 70s. Mr. Lau holds a Bachelor Degree in Commerce from the University of Windsor, Canada. Mr. Lau has over 26 years of experience in banking and investment. Mr. Lau had worked for the National Bank of Canada as the Vice President of Asia Region and the Hong Kong Branch Manager. Mr. Lau had also served directorships in various listed companies in Hong Kong. Mr. Lau is the Vice President of the Company.

### MR. LU XIQIANG

**Mr. LU Xiqiang**, 46 years old, holds a MBA Degree from Asia International Open University. Mr. Lu is the Senior Vice President of the Company and CEO of the Shanghai HealthDigit Company Limited. Formerly Deputy General Manager of Shanghai Oriental Pearl Radio & TV Towers Co. Ltd. and General Manager of Shanghai Chantilly Foodstuff Industry Co. Ltd. Mr. Lu has accumulated extensive experience in corporate management and marketing.

### MR. WANG BIN

**Mr. Wang Bin**, aged 40, is a graduate of the Tsinghua University in Beijing. Mr. Wang started his career as a lecturer at Tsinghua University from 1990 to 1995. Mr. Wang began his commercial career in 1995 and he was the General Manager of Business Development Department and Shanghai Office at Tsinghua Unisplendour Group until 1999. Mr. Wang was the Managing Director of Shanghai MYTEC digital Company Limited since 1999. Mr. Wang has held senior position in corporate management for a long period and has extensive experience business managerial experience with speciality in business development and sales operation. Mr. Wang is the Vice President of the Company.

### MR. POON KWONG WAI

**Mr. POON Kwong Wai**, aged 51, is a graduate of the Hong Kong Polytechnic University in accounting. Mr. Poon had held senior positions at various branch offices of Deloitte Touche Tohmatsu in Canada, Hong Kong and China and was head of finance department of Cheung Kong (Holdings) Limited. Mr. Poon has rich experience in international financial conference, asset management and financial market and is a matured financial planning expert. Mr. Poon is a fellow of the Hong Kong Institute of Certified Public Accountants and Association of Chartered Certified Accountants. Mr. Poon is the Company Secretary and the Financial Controller of the Company.

### DR. LIU FEI ZHOU

**Dr. LIU Fei Zhou**, aged 46, received his PhD from Baylor College of Medicine, Houston, Texas, USA. Dr. Liu was Assistant Professor at the Department of Neurology, Baylor College of Medicine. Dr. Liu's key research interests include development of medical products using biotechnology such as biochips, molecular mechanism of human diseases, and the development of model organisms. Dr. Liu is the Vice President for business and technology development of Shanghai HealthDigit Company Limited.

### MR. LIM SAY KIAN, STEPHEN

**Mr. LIM Say Kian, Stephen**, aged 40, holds a Bachelor Degree in Economics (Honours) from National University of Singapore. Mr. Lim has over 16 years of experience in general management, sales strategy planning, operations, sales and marketing. Mr. Lim has also held several senior managerial positions in both International and Chinese companies. Mr. Lim is the Vice President of business development for the Company.

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the "Board") firmly believes that corporate governance is essential to the success of the Company and has adopted various measures to ensure that a high standard of corporate governance is maintained. The corporate governance principles of the Company emphasize a quality Board, sound internal controls, transparency and accountability to all shareholders.

Throughout the year ended 31st December, 2007, the Company has applied the principles and complied with the requirements of the Code on Corporate Governance Practices (the "Code") listed out in Appendix 14 of the Rules Governing the listing of securities on The Stock Exchange of Hong Kong Limited (the "Listing Rule"), except for deviation regarding the terms of service of the Non-Executive Directors and the Chairman which is set out in the section under Appointment and Re-election of Directors. The current practices will be reviewed and updated regularly to follow the latest practices in corporate governance.

The Company believes that good corporate governance provides a framework that is essential for effective management, a healthy corporate culture, successful business operation and enhancing shareholders' value.

## THE BOARD

The Board assumes responsibility for leadership and control of the Company, and is collectively responsible for directing and supervising the Company's affairs. Every Director ensures that he carries out his duty in good faith and in compliance with the standards of applicable laws and regulations, and acts in the best interests of the Company and its shareholders at all times.

The Board and Senior Management have clearly defined responsibilities under various internal control and check-and-balance mechanism. The day-to-day operations of the Company are delegated to the Senior Management while the Board provides leadership and approves strategic policies and plan with a view to enhance shareholders' interests. The Board reserves for its decisions on all major matters, including: senior officer appointments, annual budget and financial matters, equity related transactions such as issuance of shares/options, repurchase of shares, dividend, raising of capital loan; determination of major business strategy, merger and acquisition; disposal of business unit; major investment; annual financial budget; and matters as required by laws and ordinance.

When the Board delegates aspects of its management and administration functions to the Senior Management, it has given clear directions, in particular, with respect to the circumstances where the Senior Management shall report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

### Board Meetings

The Board is currently composed of five Executive Directors and three Independent Non-Executive Directors. During the year, six full board meetings were held and attendance (either in person or through other electronic means of communication) record of each Director at the meetings of the Board together with the meetings of the audit and remuneration committee during the year ended 31st December, 2007 is set out below:

Directors	Attendance/Number of Meetings		
	Board	Audit Committee	Remuneration Committee
<b>Executive Directors</b>			
Mr. Yao Yuan ( <i>Chairman</i> )	6/6	N/A	N/A
Mr. Chien Hoe Yong, Henry ( <i>Chief Executive Officer</i> )	6/6	N/A	2/2
Mr. Hu Jun	6/6	N/A	N/A
Mr. Yu Tin Jun	6/6	N/A	N/A
Mr. Lu Chung	6/6	N/A	N/A
<b>Independent Non-Executive Directors</b>			
Dr. Lam Lee G.	2/6	2/2	2/2
Mr. Hu Jin Hua	2/6	2/2	N/A
Mr. Lee Sze Ho, Henry	2/6	2/2	2/2

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## CORPORATE GOVERNANCE REPORT (CONTINUED)

Regular board meetings are scheduled in advance to facilitate fullest possible attendance. At least 14 days notice of all board meetings is given to all Directors and they can include matters for discussion in the agenda if the need arises. For Committee Meetings, notices are served in accordance with the required notice period stated in the relevant terms of reference. Minutes of all Board Meetings and Committee Meetings are kept by the Company Secretary. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final version is opened for Directors' inspection.

Every Board member is entitled to have access to board papers and related materials and has unrestricted access to the advice and services of the Company Secretary, and has the liberty to seek external professional advice if so required. The Company Secretary continuously updates all Directors on the latest development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practice.

According to the Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a Director, will be considered and dealt with by the Board at a duly convened Board meeting.

### CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the Chairman and Chief Executive Officer of the Company are segregated and assumed by separate individuals who have no relationship with each other, in order to maintain a balance of power and authority so that major job responsibilities are not concentrated on any one individual, Mr. Chien Hoe Yong, Henry, with his appointment as the Chief Executive Officer in October, 2006, is responsible for the implementation of the Company's overall strategies, and coordination of overall business operation. The Chairman, Mr. Yao Yuan, will continue to provide leadership in formulating overall strategies and policies of the Company, ensures the effective performance by the Board of its functions including compliance with good corporate governance practices. The Chairman also ensures effective communication with shareholders of the Company and receipt by the Directors of adequate and complete information.

## DIRECTORS

### Appointment and Re-election of Directors

Provision A.4.1 of the Code provides that non-executive directors should be appointed for a specific term, subject to re-election. The existing Independent Non-executive Directors are not appointed for a specific term, but subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provision of the Company's Bye-laws. The Board does not believe that arbitrary term limits on the Directors' services are appropriate given that Directors ought to be committed at all time in serving the Company and to representing the long-term interests of the shareholders. Based on the number of Directors as at 31st December, 2007, an Independent Non-executive Director will serve on the Board for a term of about two years until he becomes due to retire from the Board by rotation.

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. Exemption on the Chairman from retirement by rotation constitutes a deviation with the provision A.4.2 of the Code.

### Independence

During the year ended 31st December, 2007, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-Executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each Independent Non-Executive Director of his independence pursuant to the requirements of the Listing Rules. The Company considers all Independent Non-Executive Directors to be independent in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules.

Each Director, upon reasonable request, is given access to independent professional advice in circumstances he may deem appropriate and necessary for the discharge of his duties to the Company, at the expense of the Company.



## CORPORATE GOVERNANCE REPORT (CONTINUED)

### Nomination of Directors

The Board has not set up a nomination committee. The nomination of new directors has been delegated to the Chairman and other Executive Directors. They review regularly the need for appointment of new directors with appropriate professional knowledge and industry experience. The Board will then consider and nominate the candidates as directors of the Company for election by shareholders at the annual general meeting, either to fill a casual vacancy or as an addition to the existing Directors. During the year, no new members have been appointed to the Board.

### Training for Directors

The Company provides every newly appointed Director with comprehensive induction program on the first occasion of his appointment, where such Directors are provided with information on the Company's organization and business; the membership, duties and responsibilities of the Board, Board Committee and Senior Management; corporate governance practices and procedures; and latest financial information on the operation of the Company and with visits to the Company's key plant sites.

There are also arrangements in place for providing continuing briefing of the latest development of the Listing Rules, other applicable legal and regulatory requirements, and professional development to Directors on a regular basis.

### Accountability and Audit

The Directors are responsible for overseeing the preparation of accounts of each financial period, which give a true and fair view of the state of affairs of the Company and of the results and cash flow for that period. In preparing the accounts for the year ended 31st December, 2007, the Directors have selected suitable accounting policies and have applied them consistently, adopted appropriate Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards which are pertinent to its operation and relevant to the financial statements, made judgements and estimates that are prudent and reasonable, and have prepared the accounts on the going concern basis.

## THE BOARD COMMITTEES

### Audit Committee

The Audit Committee of the Company comprises the three Independent Non-Executive Directors (including two

Independent Non-Executive Directors who possess the appropriate professional qualifications or accounting or related financial management expertise) and Dr. Lam Lee G. is the Chairman of the committee. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

- (a) To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant or external auditors before submission to the Board.
- (b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.
- (c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee had two meetings with the Financial Controller during the year ended 31st December, 2007 to review the financial results and reports; financial controls, internal controls and risk management systems; and the re-appointment of the external auditors. The Company's annual results for the year ended 31st December, 2007 has been reviewed by the Audit Committee.

There is no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

There is no disagreement between the Board and the Audit Committee regarding the selection, and appointment of the external auditors.

### Remuneration Committee

The Remuneration Committee is duly formed on 27th March, 2006 and is comprised of two Independent Non-Executive Directors, namely: Dr. Lam Lee G (Chairman) and Mr. Lee Sze Ho and the Chief Executive Officer, Mr. Chien Hoe Yong, Henry.

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## CORPORATE GOVERNANCE REPORT (CONTINUED)

The primary objectives of the Remuneration Committee include establishing a formal and transparent procedure for setting policy on the remuneration of Directors and Senior Management. The Remuneration Committee is also responsible for ensuring the remuneration packages are sufficient to attract and retain top caliber executives and Directors; to fairly and responsibly reward executives based on their performance and the performance of the Company, and the general pay environment.

The Remuneration Committee normally meets twice a year for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the Directors and Senior Management. The Remuneration Committee has the right to seek any information it considers necessary to fulfill its duties, which includes the right to obtain appropriate external advice at the Company's expense.

### INTERNAL CONTROL

The Board and Senior Management are responsible for establishing, maintaining and operating an effective system of internal control. The internal control system of the Company comprises a well-established organizational structure and comprehensive policies and standards. The Board has clearly defined the authorities and key responsibilities of each business and operational unit to ensure adequate checks and balances.

The Board is of the view that the system of internal controls is in place for the year under review and up to the date of issuance of the annual report is sound and sufficient to safeguard the interests of shareholders, customers and employees, as well as the assets of the Company.

### CODE OF CONDUCT ON SECURITIES TRANSACTION

The Company has adopted a code of conduct for securities transactions and dealings (the "Code of Conduct") based on the Model Code for Securities Transaction by Directors of Listed Issuers set out in Appendix 10 of the Listing Rule. The Code of Conduct applies to all Directors and members of the Senior Management who, because of such office or employment, are likely to be in possession of unpublished price sensitive information in relation to the Company or its securities.

Specific enquiry has been made of all Directors and members of the Senior Management who have confirmed their compliance with the required standards set out in the Code of Conduct during the year under review.

### AUDITOR'S REMUNERATION

Messrs. Deloitte Touche Tohmatsu ("Deloitte") has been appointed as the External Auditor of the Company for the year under review. An amount of HK\$1,600,000 (2006: HK\$1,400,000) was charged to the 2007 financial statements of the Group for Deloitte's audit services. The amount paid by the Company for other non-audit services provided by Deloitte for the Company and its subsidiaries during the year under review (i.e. taxation assessment and computation) was HK\$192,600 (2006: HK\$67,000).

The responsibilities of the external auditor with respect to financial reporting are set out in the section of "Auditor's Report".

### SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

The Company regards the Annual General Meeting as an important event as it provides an opportunity for direct communications between the Board and its shareholders. The Chairman, all Directors, Senior Management and external auditors will make effort to attend such meetings to address shareholders' queries.

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Bye-laws. Details of such rights and procedures are included in all circulars to shareholders and will be explained during the proceeding of the meetings.

At the Company's 2007 Annual General Meeting held on 6th June, 2007, all the resolutions were dealt with on a show of hands. All resolutions were unanimously passed.

The Company adopts a proactive policy of promoting investor relations and communication by maintaining regular meetings with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner. The Company provides information relating to its operating and financial performance in its interim and annual report, and also disseminates such information electronically through its website at [www.mymedicare.com.hk](http://www.mymedicare.com.hk) on a timely basis.

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## DIRECTORS' REPORT

The directors present their annual report and the audited consolidated financial statements for the year ended 31st December, 2007.

### PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 42 to the consolidated financial statements.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2007 are set out in the consolidated income statement on page 38.

An interim dividend of HK\$0.01 per share amounting to HK\$29,090,000 was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of HK\$0.01 cent per share to the shareholders on the register of members on 27th May, 2008, amounting to HK\$29,258,000, and the retention of the remaining profit for the year of HK\$243,204,000.

### PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 17 to the consolidated financial statements.

### SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 29 to the consolidated financial statements.

During the year, the Company repurchased certain of its own shares through The Stock Exchange of Hong Kong Limited, details of which are set out in note 29 to the consolidated financial statements. The directors considered that, as the Company's shares were trading at a discount to the net asset value per share, the repurchases would increase the net asset value per share of the Company.

### DISTRIBUTABLE RESERVE OF THE COMPANY

In addition to accumulated profits, under the Companies Act 1981 of Bermuda (as amended), contributed surplus is also available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

- (i) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

As at 31st December, 2007 and 31st December, 2006, the Company had no reserves available for distribution to its shareholders.

### MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 49% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 17% of the Group's total sales. The aggregate purchases attributable to the Group's five largest suppliers comprised approximately 46% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 20% of the Group's total purchases.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors, owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers or customers.

## DIRECTORS' REPORT (CONTINUED)

### DIRECTORS

The directors of the Company during the year and up to the date of this report were:

#### Executive directors:

Mr. Yao Yuan – Executive Chairman  
Mr. Chien Hoe Yong, Henry – Chief Executive Officer  
Mr. Hu Jun  
Mr. Yu Ti Jun  
Mr. lu Chung

#### Independent non-executive directors:

Dr. Lam Lee G.  
Mr. Hu Jin Hua  
Mr. Lee Sze Ho, Henny

In accordance with Bye-law 109 of the Company, Mr. Hu Jun and Mr. Hu Jin Hua will retire from the office by rotation and,

being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

### DIRECTORS' SERVICE CONTRACTS

No directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

### DIRECTORS' INTERESTS IN SHARES

As at 31st December, 2007, the interests of the directors of the Company and their associates in the shares and share option of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and to the Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

#### (a) Ordinary shares of HK\$0.05 each of the Company

Name of director	Capacity	Number of ordinary shares held	Position	Percentage of the issued share capital of the Company
Mr. Yao Yuan	Held by controlled corporation	1,053,889,075 (Note (i))	Long	36.36%
		123,355,263 (Note (i))	Short	4.26%
Mr. lu Chung	Held by controlled corporation and beneficial owner	1,077,569,075 (Note (ii))	Long	37.18%
		123,355,263 (Note (ii))	Short	4.26%

Notes:

- (i) The shares were held by Ming Yuan Investments Group Limited, a wholly-owned subsidiary of Ming Yuan Holdings Limited, which in turn is owned as to 50% and 50% by Mr. Yao Yuan and Mr. lu Chung respectively.
- (ii) Being the aggregate personal interest of 23,680,000 shares and the corporate interest held by Ming Yuan Investments Group Limited of 1,053,899,075 shares.

#### (b) Share options

Name of director	Capacity	Number of options held	Number of underlying shares
Mr. Chien Hoe Yong, Henry	Beneficial owner	26,500,000	26,500,000
Mr. Hu Jun	Beneficial owner	10,000,000	10,000,000
Mr. Yu Ti Jun	Beneficial owner	12,400,000	12,400,000
Mr. Lam Lee G.	Beneficial owner	2,400,000	2,400,000

Details of the share options held by the directors are set out in the section headed "Share Options".

Other than as disclosed above, as at 31st December, 2007, none of the Company's directors nor their associates had any interests or short positions in any shares and underlying shares of the Company or any of its associated corporations.

## DIRECTORS' REPORT (CONTINUED)

### SHARE OPTIONS

Particulars of the share option scheme of the Company are set out in note 33 to the consolidated financial statements.

The following table discloses the movements of the Company's share options during the year:

Directors	Date of grant	Exercise price	Vesting period	Exercisable period	Number of share options				
					Outstanding at 1.1.2007	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2007
Mr. Chien Hoe Yong, Henry	8.4.2005	HK\$0.728	N/A	8.4.2005 – 7.4.2010	5,300,000	–	–	–	5,300,000
			8.4.2005 – 7.4.2006	8.4.2006 – 7.4.2010	5,300,000	–	–	–	5,300,000
			8.4.2005 – 7.4.2007	8.4.2007 – 7.4.2010	5,300,000	–	–	–	5,300,000
			8.4.2005 – 7.4.2008	8.4.2008 – 7.4.2010	5,300,000	–	–	–	5,300,000
			8.4.2005 – 7.4.2009	8.4.2009 – 7.4.2010	5,300,000	–	–	–	5,300,000
					26,500,000	–	–	–	26,500,000
Mr. Hu Jun	8.4.2005	HK\$0.728	N/A	8.4.2005 – 7.4.2010	2,000,000	–	–	–	2,000,000
			8.4.2005 – 7.4.2006	8.4.2006 – 7.4.2010	2,000,000	–	–	–	2,000,000
			8.4.2005 – 7.4.2007	8.4.2007 – 7.4.2010	2,000,000	–	–	–	2,000,000
			8.4.2005 – 7.4.2008	8.4.2008 – 7.4.2010	2,000,000	–	–	–	2,000,000
			8.4.2005 – 7.4.2009	8.4.2009 – 7.4.2010	2,000,000	–	–	–	2,000,000
					10,000,000	–	–	–	10,000,000
Mr. Yu Ti Jun	8.4.2005	HK\$0.728	N/A	8.4.2005 – 7.4.2010	2,000,000	–	–	–	2,000,000
			8.4.2005 – 7.4.2006	8.4.2006 – 7.4.2010	2,000,000	–	–	–	2,000,000
			8.4.2005 – 7.4.2007	8.4.2007 – 7.4.2010	2,000,000	–	–	–	2,000,000
			8.4.2005 – 7.4.2008	8.4.2008 – 7.4.2010	2,000,000	–	–	–	2,000,000
			8.4.2005 – 7.4.2009	8.4.2009 – 7.4.2010	2,000,000	–	–	–	2,000,000
	27.4.2007	HK\$0.78	N/A	27.4.2007 – 7.4.2010	–	800,000	–	–	800,000
			27.4.2007 – 26.4.2008	27.4.2008 – 7.4.2010	–	800,000	–	–	800,000
			27.4.2007 – 26.4.2009	27.4.2009 – 7.4.2010	–	800,000	–	–	800,000
					10,000,000	2,400,000	–	–	12,400,000
Mr. Lam Lee G.	27.4.2007	HK\$0.78	N/A	27.4.2007 – 7.4.2010	–	800,000	–	–	800,000
			27.4.2007 – 26.4.2008	27.4.2008 – 7.4.2010	–	800,000	–	–	800,000
			27.4.2007 – 26.4.2009	27.4.2009 – 7.4.2010	–	800,000	–	–	800,000
					–	2,400,000	–	–	2,400,000
Total for directors					46,500,000	4,800,000	–	–	51,300,000
Employees	8.4.2005	HK\$0.728	N/A	8.4.2005 – 7.4.2010	18,100,000	–	(15,700,000)	(1,200,000)	1,200,000
			8.4.2005 – 7.4.2006	8.4.2006 – 7.4.2010	18,100,000	–	(13,500,000)	(1,200,000)	3,400,000
			8.4.2005 – 7.4.2007	8.4.2007 – 7.4.2010	16,900,000	–	(5,400,000)	–	11,500,000
			8.4.2005 – 7.4.2008	8.4.2008 – 7.4.2010	16,900,000	–	–	–	16,900,000
			8.4.2005 – 7.4.2009	8.4.2009 – 7.4.2010	16,900,000	–	–	–	16,900,000
	27.4.2007	HK\$0.78	N/A	27.4.2007 – 7.4.2010	–	7,060,000	(3,260,000)	–	3,800,000
			27.4.2007 – 26.4.2008	27.4.2008 – 7.4.2010	–	7,060,000	–	–	7,060,000
			27.4.2007 – 26.4.2009	27.4.2009 – 7.4.2010	–	7,060,000	–	–	7,060,000
Total for employees					86,900,000	21,180,000	(37,860,000)	(2,400,000)	67,820,000
Total for directors and employees					133,400,000	25,980,000	(37,860,000)	(2,400,000)	119,120,000

## DIRECTORS' REPORT (CONTINUED)

The closing price of the Company's share immediately before 27th April, 2007, the date of grant of the option, was HK\$0.78.

The weighted average closing price of the Company's share immediately before the dates on which the share options were exercised was HK\$1.32.

### ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share option holdings disclosed above, at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate.

### DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

No contract of significance to which the Company, its holding company, subsidiaries or fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2007, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Future Ordinance shows that the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Name	Capacity	Number of shares	Notes	Shareholding percentage
<b>Long positions</b>				
Ming Yuan Investments Group Limited	Beneficial owner	1,053,889,075	(i)	36.36%
Ming Yuan Holdings Limited	Held by controlled corporation	1,053,889,075	(i)	36.36%
Mr. Yao Yuan	Held by controlled corporation	1,053,889,075	(i)	36.36%
Mr. Lu Chung	Beneficial owner and held by controlled corporation	1,077,569,075	(i) & (ii)	37.18%
IFS Capital Limited (formerly known as "International Factors (Singapore) Limited"), First Capital Insurance Limited and India International Insurance Pte Ltd	Joint beneficial owners	550,000,000	(iii)	18.98%
Philip Assets Pte. Ltd.	Held by controlled corporation	550,000,000	(iii)	18.98%
Lim Hua Min	Held by controlled corporation	550,001,000	(iv)	18.98%
Highbridge International LLC	Beneficial owner	153,513,513	(v)	5.30%
Highbridge Master L.P.	Held by controlled corporation	153,513,513	(v)	5.30%
Highbridge Asia Opportunities Master L.P.	Held by controlled corporation	153,513,513	(v)	5.30%
Highbridge G.P., Ltd.	Held by controlled corporation	153,513,513	(v)	5.30%
Clive Harris	Held by controlled corporation	153,513,513	(v)	5.30%
Richard Crawshaw	Held by controlled corporation	153,513,513	(v)	5.30%
Citigroup Inc.	Held by controlled corporation	195,232,425	(vi)	6.74%
<b>Short positions</b>				
Ming Yuan Investment Group Limited	Beneficial owner	123,355,263	(i)	4.26%
Ming Yuan Holdings Limited	Held by controlled corporation	123,355,263	(i)	4.26%
Mr. Yao Yuan	Held by controlled corporation	123,355,263	(i)	4.26%
Mr. Lu Chung	Held by controlled corporation	123,355,263	(i) & (ii)	4.26%

## DIRECTORS' REPORT (CONTINUED)

### Notes:

- (i) The shares were held by Ming Yuan Investments Group Limited, a wholly-owned subsidiary of Ming Yuan Holdings Limited, which in turn is owned as to 50% and 50% by Mr. Yao Yuan and Mr. Lu Chung respectively.
- (ii) Being the aggregate of personal interest held by Mr. Lu Chung of 23,680,000 shares and the corporate interest held by Ming Yuan Investments Group Limited of 1,053,889,075 shares.
- (iii) The 550,000,000 shares were jointly held by IFS Capital Limited (formerly known as "International Factors (Singapore) Limited"), First Capital Insurance Limited and India International Insurance Pte Ltd. Phillip Assets Pte. Ltd. held 40.4% interest in IFC Capital Limited and accordingly, Phillip Assets Pte. Ltd. were deemed to be interested in 550,000,000 shares. Lim Hua Min owned 85% interest in Phillip Assets Pte. Ltd.
- (iv) Being the aggregate corporate interest of 550,000,000 shares held by Phillip Assets Pte. Ltd. and 1,000 shares held by Phillip Securities (Hong Kong) Limited which is a company Lim Hua Min owns 85% interest. Accordingly, Lim Hua Min were deemed to be interested in 550,001,000 shares.
- (v) The 153,513,513 shares were held by Highbridge International LLC, a wholly owned subsidiary of Highbridge Master L.P. which in turn a wholly-owned subsidiary of Highbridge Asia Opportunities Master L.P. Highbridge Asia Opportunities Master L.P. is a wholly-owned subsidiary of Highbridge GP Ltd. which in turn is owned as to 50% and 50% by Clive Harries and Richard Crawshaw respectively. Accordingly, Highbridge Asia Opportunities Master L.P., Highbridge GP Ltd., Clive Harries and Richard Crawshaw were deemed to be interested in 153,513,513 ordinary shares in the Company.
- (vi) Being aggregate corporate interest of 142,000,000 shares held by Citigroup Global Markets Financial Products LLC, 31,840,525 shares held by Citigroup Global Markets Ltd and 21,391,900 shares held by Citibank N.A.

Citigroup Global Markets Financial Products LLC is a wholly owned subsidiary of Citigroup Global Markets Holdings GmbH, which in turn 75.7% interest owned by Citigroup Global Markets (International) Finance AG and 24.3% interest owned by Salomon Brothers Pacific Holding Company Inc. Citigroup Global Markets (International) Finance AG and Salomon Brothers Pacific Holding Company Inc. are wholly owned subsidiaries of Citigroup Financial Products Inc. which in turn a wholly owned subsidiary of Citigroup Global Markets Holdings Inc. Citigroup Inc. owned 100% interest in Citigroup Global Markets Holdings Inc.

Citigroup Global Markets Ltd is wholly owned subsidiary of Citigroup Global Markets Europe Ltd which in turn 97.33% interest owned by Citigroup Global Markets LLC and 2.67% interest owned by Citigroup Global Markets (International) Finance AG. Citigroup Global Markets LLC is a wholly owned subsidiary of Citigroup Financial Products Inc.

Citibank N.A. is a wholly owned subsidiary of Citigroup Holdings Inc. which in turn a wholly owned subsidiary of Citigroup Inc.

Save as disclosed above, the Company had not been notified of any other relevant interests representing 5 percent or more in the issued share capital of the Company as at 31st December, 2007.

### APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Company considers all of the independent non-executive directors are independent.

### EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme are set out in note 33 to the consolidated financial statements.

### SUFFICIENCY OF PUBLIC FLOAT

The Company maintained a sufficient public float throughout the year ended 31st December, 2007.

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## DIRECTORS' REPORT (CONTINUED)

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

### AUDITOR

A resolution will be submitted at the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

**Mr. Yao Yuan**

*Executive Chairman*

31st March, 2008



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## INDEPENDENT AUDITOR'S REPORT

# Deloitte.

## 德勤

TO THE MEMBERS OF  
**MINGYUAN MEDICARE DEVELOPMENT COMPANY LIMITED**  
*(incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of Mingyuan Medicare Development Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 38 to 96, which comprise the consolidated balance sheet as at 31st December, 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong  
31st March, 2008

## CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2007

	Notes	2007 HK\$'000	2006 HK\$'000
<b>Continuing operations</b>			
Revenue	7	256,474	160,835
Cost of sales		(42,992)	(19,525)
Gross profit		213,482	141,310
Other income	9	30,748	20,643
Selling and distribution costs		(15,921)	(9,164)
Administrative expenses		(68,570)	(43,606)
Finance costs	10	(9,624)	(16,740)
Gain on disposal/dissolution of subsidiaries	34	178	2,608
Profit before taxation		150,293	95,051
Income tax	11	(23,411)	(18,933)
Profit for the year from continuing operations		126,882	76,118
<b>Discontinued operations</b>			
Loss for the year from discontinued operations	12	–	(3,156)
Profit for the year	13	126,882	72,962
Attributable to:			
Equity holders of the parent		125,282	73,559
Minority interests		1,600	(597)
		126,882	72,962
Dividends recognised as distribution during the year	15	56,214	26,881
Earnings per share			
From continuing and discontinued operations			
Basic	16	4.48 HK cents	2.74 HK cents
Diluted		4.30 HK cents	nil
From continuing operations			
Basic	16	4.48 HK cents	2.83 HK cents
Diluted		4.30 HK cents	nil

## CONSOLIDATED BALANCE SHEET

At 31st December, 2007

	<i>Notes</i>	2007 HK\$'000	2006 HK\$'000
<b>Non-Current Assets</b>			
Property, plant and equipment	17	326,351	229,512
Prepaid lease payments	18	69,945	67,635
Goodwill	19	104,240	104,240
Intangible asset	20	2,088	5,104
Available-for-sale investments	21	528	946
Deposits paid for acquisition of property, plant and equipment	22	23,297	6,870
		<b>526,449</b>	414,307
<b>Current Assets</b>			
Prepaid lease payments	18	1,509	1,429
Inventories	23	14,222	7,460
Trade and other receivables, deposits and prepayments	24	80,809	50,445
Investments held for trading	21	25,189	–
Pledged bank deposits	25	–	10,000
Deposits placed with financial institutions	25	–	166,658
Bank balances and cash	25	453,514	274,903
		<b>575,243</b>	510,895
<b>Current Liabilities</b>			
Trade and other payables	26	47,714	34,447
Amount due to a related company	27	6,209	11,741
Bank borrowings – due within one year	28	68,229	70,500
Taxation payable		16,783	11,002
		<b>138,935</b>	127,690
<b>Net Current Assets</b>		<b>436,308</b>	383,205
		<b>962,757</b>	797,512

## CONSOLIDATED BALANCE SHEET (CONTINUED)

At 31st December, 2007

	Notes	2007 HK\$'000	2006 HK\$'000
<b>Capital and Reserves</b>			
Share capital	29	144,904	134,405
Reserves		682,535	433,689
Equity attributable to equity holders of the parent		827,439	568,094
<b>Minority Interests</b>		4,363	2,763
<b>Total Equity</b>		831,802	570,857
<b>Non-Current Liabilities</b>			
Bank borrowings – due after one year	28	69,916	24,625
Convertible bonds	30	54,761	193,428
Deferred tax liabilities	31	6,278	8,602
		130,955	226,655
		962,757	797,512

The consolidated financial statements on pages 38 to 96 were approved and authorised for issue by the Board of Directors on 31st March, 2008 and are signed on its behalf by:

*Director*

*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2007

	Attributable to equity holders of the parent											
	Share capital HK\$'000	Share premium HK\$'000	Convertible bonds equity reserve HK\$'000	Share option reserve HK\$'000	Contributed surplus HK\$'000 (Note b)	Translation reserve HK\$'000	Statutory reserve HK\$'000 (Note a)	Available-for-sale investment reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000	Minority interest HK\$'000	Total HK\$'000
At 1st January, 2006	134,405	150,354	20,343	9,965	12,804	9,517	644	-	154,217	492,249	8,921	501,170
Exchange realignment	-	-	-	-	-	28,470	-	-	-	28,470	-	28,470
Gain on fair value changes of available-for-sale investments	-	-	-	-	-	-	-	47	-	47	-	47
Income recognised directly in equity	-	-	-	-	-	28,470	-	47	-	28,517	-	28,517
Release upon disposal of subsidiaries	-	-	-	-	-	(3,502)	(644)	-	-	(4,146)	(8,324)	(12,470)
Profit for the year	-	-	-	-	-	-	-	-	73,559	73,559	(597)	72,962
Total recognised income and expenses for the year	-	-	-	-	-	24,968	(644)	47	73,559	97,930	(8,921)	89,009
Recognition of equity settled share based payment	-	-	-	4,796	-	-	-	-	-	4,796	-	4,796
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	2,763	2,763
Dividends paid	-	-	-	-	-	-	-	-	(26,881)	(26,881)	-	(26,881)
At 31st December, 2006	134,405	150,354	20,343	14,761	12,804	34,485	-	47	200,895	568,094	2,763	570,857
Exchange realignment	-	-	-	-	-	44,585	-	-	-	44,585	-	44,585
Profit for the year	-	-	-	-	-	-	-	-	125,282	125,282	1,600	126,882
Released upon disposal of available-for-sale investments	-	-	-	-	-	-	-	(47)	-	(47)	-	(47)
Total recognised income and expenses for the year	-	-	-	-	-	44,585	-	(47)	125,282	169,820	1,600	171,420
Recognition of equity settled share based payment	-	-	-	5,388	-	-	-	-	-	5,388	-	5,388
Conversion of convertible bonds	9,797	145,187	(14,749)	-	-	-	-	-	-	140,235	-	140,235
Exercise of share options	1,893	30,957	-	(5,118)	-	-	-	-	-	27,732	-	27,732
Lapse of share options	-	-	-	(2,499)	-	-	-	-	2,499	-	-	-
Repurchase of shares	(1,191)	(26,425)	-	-	-	-	-	-	-	(27,616)	-	(27,616)
Dividends paid	-	-	-	-	-	-	-	-	(56,214)	(56,214)	-	(56,214)
At 31st December, 2007	144,904	300,073	5,594	12,532	12,804	79,070	-	-	272,462	827,439	4,363	831,802

## Notes:

- The Group's statutory reserve represents reserves required to be appropriated from profit after taxation of the Company's PRC subsidiaries under PRC Laws and regulations. The amount of the appropriation is at the discretion of the PRC subsidiaries' board of directors.
- The contributed surplus of the Group represents the amount due to the former holding company waived during the change of the substantial shareholders in 2002.

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2007

	Notes	2007 HK\$'000	2006 HK\$'000
<b>OPERATING ACTIVITIES</b>			
Profit before taxation from continuing operations		<b>150,293</b>	95,051
Loss before taxation from discontinued operations	12	–	(1,219)
		<b>150,293</b>	93,832
Adjustments for:			
Finance cost		<b>9,624</b>	17,867
Share-based payments		<b>5,388</b>	4,796
Interest income		<b>(5,217)</b>	(7,711)
Loss on disposal of available-for-sale investment		<b>167</b>	–
Depreciation of property, plant and equipment		<b>6,261</b>	5,542
Impairment loss on intangible asset		<b>3,343</b>	–
Amortisation of prepaid lease payment		<b>1,473</b>	335
Amortisation of intangible asset		<b>121</b>	86
Change in fair value of investment held for trading		<b>10,073</b>	–
Gain on disposal/dissolution of subsidiaries		<b>(178)</b>	(2,608)
Gain on disposal of property, plant and equipment		<b>(17,764)</b>	(12,067)
Operating cash flows before movements in working capital		<b>163,584</b>	100,072
(Increase) decrease in inventories		<b>(6,762)</b>	6,306
Decrease in investments held for trading		<b>(35,262)</b>	–
(Increase) decrease in trade and other receivables, deposits and prepayments		<b>(30,364)</b>	19,991
Increase (decrease) in trade and other payables		<b>2,307</b>	(877)
Net cash generated from operations		<b>93,503</b>	125,492
Interest paid		<b>(8,842)</b>	(7,592)
Taxation paid		<b>(19,954)</b>	(8,122)
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>		<b>64,707</b>	109,778
<b>INVESTING ACTIVITIES</b>			
Interest received		<b>5,217</b>	7,711
Additions of property, plant and equipment		<b>(86,714)</b>	(106,985)
Deposits paid for acquisition of property, plant and equipment		<b>(16,427)</b>	(6,870)
Decrease (increase) in pledged bank deposits		<b>10,000</b>	(9,810)
Proceeds from disposal of property, plant and equipment		<b>29,683</b>	24,148
Proceeds from disposal of subsidiaries (net of cash and cash equivalent disposal of)	34	<b>182</b>	11,351
Proceed from disposal of available-for-sale investment		<b>204</b>	–
Repayment from loans receivable		–	269
Purchase of subsidiaries (net of cash and cash equivalents acquired)	35	–	(57,516)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(57,855)</b>	(137,702)

## CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

For the year ended 31st December, 2007

<i>Notes</i>	2007 HK\$'000	2006 HK\$'000
<b>FINANCING ACTIVITIES</b>		
Dividends paid	<b>(56,214)</b>	(26,881)
Exercise of share options	<b>27,732</b>	–
Repurchase of shares	<b>(27,616)</b>	–
New bank loans	<b>93,520</b>	80,125
Repayment of bank borrowings	<b>(53,738)</b>	(99,539)
(Decrease) increase in amount due to a related company	<b>(5,532)</b>	5,013
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(21,848)</b>	(41,282)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(14,996)</b>	(69,206)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<b>441,561</b>	489,085
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<b>26,949</b>	21,682
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>453,514</b>	441,561
<b>ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS</b>		
Bank balances and cash	<b>453,514</b>	274,903
Deposits placed with financial institutions	–	166,658
	<b>453,514</b>	441,561

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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 1. GENERAL

The Company is a public limited company incorporated in Bermuda with its shares listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of the registered office and principal place of business of the Company are disclosed in the section headed “Corporate Information” of the annual report.

The consolidated financial statements are presented in Hong Kong dollars. As the Company is listed in Hong Kong, the presentation currency of the Group are in Hong Kong dollars accordingly.

The Company is an investment holding company. The principal activities of its subsidiaries at 31st December, 2007 are set out in note 42.

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

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are effective for the Group’s financial year beginning on or after 1st January, 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – INT 8	Scope of HKFRS 2
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment

Except for the changes in disclosures as set out below, the adoption of those new HKFRSs has no material impact on the Group’s results and financial position for the current or prior years, and does not result in any significant changes in the accounting policies of the Group.

On 1st January, 2007, the Company adopted HKFRS 7 “Financial Instruments: Disclosures” and HKAS (Amendment) “Capital Disclosures”, and has included various revised and new disclosures in its notes to the financial statements, which relate to the Group’s financial instruments and capital management.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

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

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

HKAS 1 (Revised)	Presentation of Financial Statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>2</sup>
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations <sup>1</sup>
HKFRS 3 (Revised)	Business Combinations <sup>2</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions <sup>3</sup>
HK(IFRIC) – INT 12	Service Concession Arrangements <sup>4</sup>
HK(IFRIC) – INT 13	Customer Loyalty Programmes <sup>5</sup>
HK(IFRIC) – INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction <sup>4</sup>

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

<sup>2</sup> Effective for annual periods beginning on or after 1st July, 2009

<sup>3</sup> Effective for annual periods beginning on or after 1st March, 2007

<sup>4</sup> Effective for annual periods beginning on or after 1st January, 2008

<sup>5</sup> Effective for annual periods beginning on or after 1st July, 2008

The directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

#### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of any entity so as to obtain benefit from its activities.

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

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

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Basis of consolidation** (Continued)

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

#### **Business combination**

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations", which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

#### **Goodwill**

##### ***Goodwill arising on acquisition prior to 1st January, 2005***

Goodwill arising on an acquisition of net assets and operations of another entity for which the agreement date is before 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant acquiree at the date of acquisition.

For previously capitalised goodwill arising on acquisitions of net assets and operations of another entity after 1st January, 2001, the Group has discontinued amortisation from 1st January, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Goodwill** (Continued)

##### ***Goodwill arising on acquisitions on or after 1st January, 2005***

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

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

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

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

#### **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of goods are recognised when the goods are delivered and title has passed.

Service income is recognised when services are provided.

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

#### **Property, plant and equipment**

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative expenses (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment loss.

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

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Property, plant and equipment** (Continued)

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

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

When the leasehold land and buildings are in the course of development for production or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and amortised over a straight-line basis over the lease term. During the construction period, the amortisation charge provided for the leasehold land is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

#### **Leasing**

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

#### ***The Group as lessee***

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

#### **Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Foreign currencies** (Continued)

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Company's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

#### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

#### **Retirement benefits costs**

Payments to state-managed retirement benefit schemes and Mandatory Provident Fund Scheme are charged as expense when employees have rendered service entitling them to the contributions.

#### **Government grant**

Government grants are recognised as income over the period necessary to match them with the related costs. Grants related to depreciable assets are presented as a deduction from the carrying amount of the relevant assets and are released to income over the useful lives of the assets. Other unconditional government grants are recognised as income when the Group is entitled to receive.

#### **Taxation**

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Taxation** (Continued)

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

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

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

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

#### **Intangible assets**

##### ***Research and development expenditures***

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

##### ***Intangible assets acquired in a business combination***

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

#### **Financial instruments**

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

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Financial instruments** (Continued)

##### ***Financial assets***

The Group's financial assets are classified into one of the two categories, including available-for-sale financial assets, financial assets designated at fair value through profit or loss and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

##### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

##### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss (see accounting policy on impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposits, deposits placed with financial institutions and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Financial instruments** (Continued)

#### **Financial assets** (Continued)

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

Financial assets at FVTPL comprised financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

##### *Impairment of financial assets*

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.



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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Financial instruments** (Continued)

##### **Financial assets** (Continued)

##### *Impairment of financial assets* (Continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity.

##### **Financial liabilities and equity**

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified as other financial liabilities. The accounting policies adopted in respect of other financial liabilities and equity instruments are set out below.

##### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis for debt instruments.

##### *Convertible bonds*

Convertible bonds issued by the Company that contain both liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instrument is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the conversion option for the holder to convert the loan notes into equity, is included in equity (convertible bonds equity reserve).

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Financial instruments** (Continued)

#### **Financial liabilities and equity** (Continued)

##### *Convertible bonds* (Continued)

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

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

##### *Other financial liabilities*

Other financial liabilities include trade and other payables, amount due to a related company and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

##### *Equity instruments*

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

Upon repurchase of the Company's own shares, the respective shares are subsequently cancelled upon repurchase and accordingly, the issued share capital of the Company is reduced by the nominal value thereof. The premium paid on repurchase was charged against the Company's share premium account.

#### **Derecognition**

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Share-based payment transactions**

##### ***Equity-settled share-based payment transactions***

##### *Share options granted to employees*

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period with a corresponding increase in equity (share option reserve).

At each balance sheet date, the Group revises its estimates of number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss, with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in equity (share option reserve) will be transferred to accumulated profits.

#### **Impairment losses on tangible and intangible assets other than goodwill**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

### 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 4. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

#### **Estimated impairment of goodwill**

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31st December, 2007, the management of the Group determined that there was no impairment on goodwill. Details of the impairment testing on goodwill are disclosed in note 19.

#### **Estimated impairment of trade receivable**

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31st December, 2007, carrying amount of trade receivables is HK\$75,094,000 (net of allowance for doubtful debts of HK\$3,261,000).

### 5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes the bank borrowings disclosed in note 28 and convertible bonds disclosed in note 30, and equity attributable to equity holders of the Company, comprising issued share capital and various reserves.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 6. FINANCIAL INSTRUMENTS

#### 6a. Categories of financial instruments

	2007	2006
	HK\$'000	HK\$'000
<b>Financial assets</b>		
Loans and receivables		
– Trade and other receivables	75,619	43,624
– Pledged bank deposits	–	10,000
– Deposits placed with financial instruments	–	166,658
– Bank balances and cash	453,514	274,903
	529,133	495,185
Financial assets designated at fair value through profit or loss		
– Investment held for trading	25,189	–
Available-for-sale investments	528	946
	554,850	496,131
<b>Financial liabilities</b>		
Amortised cost		
– Trade and other payables	47,714	34,447
– Amount due to a related company	6,209	11,741
– Bank borrowings	138,145	95,125
– Convertible bonds	54,761	193,428
	246,829	334,741

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 6. FINANCIAL INSTRUMENTS (CONTINUED)

#### 6b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, available-for-sale investment, investments held for trading, deposits placed with financial institutions, deposits paid for acquisition of property, plant and equipment, bank balances, trade and other payables, bank borrowings and convertible bonds. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (represented by currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

#### **Market risk**

##### (i) *Currency risk*

The Group mainly operates in Hong Kong and the PRC, and did not have significant sales or purchases denominated in currencies other than the functional currency of the relevant group entities. The exposure in exchange rate risks mainly arises from fluctuation in the Hong Kong dollar and US dollar exchange rates in the Group's bank balances and borrowings. The Group did not enter into any derivative contracts or a foreign currency hedging policy aimed at minimising exchange rate risks during the year. However, the management closely monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

The carrying amounts of the Group's monetary assets and monetary liabilities other than the functional currency of the relevant group entities at the balance sheet date are as follows:

	Assets		Liabilities	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
US dollar	274,383	9,620	–	–
HK dollar	18,720	121	8,000	8,000

The sensitivity analysis is not presented since the amount involved is not significant to the Group.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 6. FINANCIAL INSTRUMENTS (CONTINUED)

#### 6b. Financial risk management objectives and policies (Continued)

##### **Market risk** (Continued)

##### (ii) *Interest rate risk*

The Group is exposed to cash flow interest rate risk in relation to its variable-rate bank balances and bank borrowings (see note 25 and note 28 for details of bank balances and bank borrowings respectively). It is the Group's policy to keep its bank balances and bank borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

##### Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to variable-rate bank balances and bank borrowings, the analysis is prepared assuming the amount of asset and liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31st December, 2007 would increase/decrease by approximately HK\$1,175,000 (2006: decrease/increase by approximately HK\$866,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank balances and bank borrowings.

##### **Credit risk**

As at 31st December, 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

As at 31st December, 2007, the Group had a concentration of credit risk in its five largest customers which complied approximately HK\$46,469,000 (2006: HK\$33,400,000) of the Group's trade receivables.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 6. FINANCIAL INSTRUMENTS (CONTINUED)

#### 6b. Financial risk management objectives and policies (Continued)

##### Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

#### 2007

	On demand or less than 1 month HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	1-5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at 31.12.2007 HK\$'000
<b>Financial liabilities</b>						
Trade and other payables	4,147	1,877	41,690	–	47,714	47,714
Convertible bonds	–	–	–	63,475	63,475	54,761
Bank borrowings						
– variable rate	1,634	–	69,506	88,840	159,980	138,145
Amount due to a related company	6,209	–	–	–	6,209	6,209
	<b>11,990</b>	<b>1,877</b>	<b>111,196</b>	<b>152,315</b>	<b>277,378</b>	<b>246,829</b>

#### 2006

	On demand or less than 1 month HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	1-5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at 31.12.2006 HK\$'000
<b>Financial liabilities</b>						
Trade and other payables	1,611	1,407	31,429	–	34,447	34,447
Bank borrowings						
– fixed rate	–	–	15,283	–	15,283	15,000
– variable rate	–	30,754	26,153	27,197	84,104	80,125
Amount due to a related company	11,741	–	–	–	11,741	11,741
Convertible bonds	–	–	–	234,820	234,820	193,428
	<b>13,352</b>	<b>32,161</b>	<b>72,865</b>	<b>262,017</b>	<b>380,395</b>	<b>334,741</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 6. FINANCIAL INSTRUMENTS (CONTINUED)

#### 6c. Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices respectively; and
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised costs in the consolidated financial statements approximate their fair values.

### 7. REVENUE

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

	2007 HK\$'000	2006 HK\$'000
Continuing operations		
Sales of protein chips and related equipments	219,031	150,865
Hospital operation	37,443	9,970
	256,474	160,835
Discontinued operations (note 12)		
Sale of information technology products	–	14,740
	256,474	175,575

### 8. SEGMENT INFORMATION

#### Business segments

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

Principal operating divisions are as follows:

- Protein chips division – Manufacture and trading of protein chips and related equipments
- Health care division – Provision of cervical cancer care and operation of Shanghai Woman and Child Healthcare Hospital of Hong-Kou District, Shanghai, the PRC (上海市虹口区婦幼保健院)

In previous years, the Group also engaged in the trading of information technology products and related accessories (information technology products and services division). This operation was discontinued on 30th September, 2006.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 8. SEGMENT INFORMATION (CONTINUED)

#### Business segments (Continued)

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

	Protein chips division HK\$'000	Health care division HK\$'000	Consolidated HK\$'000
<b>For the year ended 31st December, 2007</b>			
<b>REVENUE</b>			
External sales	219,031	37,443	256,474
<b>RESULTS</b>			
Segment results	183,401	581	183,982
Unallocated expenses			(19,387)
Interest income			5,217
Change in fair value of investment held for trading			(10,073)
Finance costs			(9,624)
Gain on disposal/dissolution of subsidiaries			178
Profit before taxation			150,293
Taxation			(23,411)
Profit for the year			126,882
<b>Assets and liabilities at 31st December, 2007</b>			
<b>ASSETS</b>			
Segment assets	409,895	102,844	512,739
Goodwill	47,115	57,125	104,240
Unallocated assets			484,713
Consolidated total assets			1,101,692
<b>LIABILITIES</b>			
Segment liabilities	27,786	21,467	49,253
Unallocated liabilities			220,637
Consolidated total liabilities			269,890

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 8. SEGMENT INFORMATION (CONTINUED)

**Business segments** (Continued)

	<b>Protein chips division HK\$'000</b>	<b>Health care division HK\$'000</b>	<b>Unallocated HK\$'0000</b>	<b>Consolidated HK\$'000</b>
<b>Other information for the year ended 31st December, 2007</b>				
Capital expenditure	81,784	16,592	84	98,460
Depreciation on property, plant and equipment	5,091	1,114	56	6,261
Impairment loss on intangible asset	–	3,343	–	3,343
Shares-based payment	–	–	5,388	5,388
Amortisation of prepaid lease payment	861	612	–	1,473
Amortisation of intangible asset	–	121	–	121

	Continuing operations			Discontinued operations	Consolidated HK\$'000
	Protein chips division HK\$'000	Health care division HK\$'000	Sub-total HK\$'000	Information technology products and services division HK\$'000	

**For the year ended 31st December, 2006**

#### REVENUE

External sales	150,865	9,970	160,835	14,740	175,575
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#### RESULTS

Segment results	115,173	1,059	116,232	(738)	115,494
Unallocated expenses			(14,752)	–	(14,752)
Interest income			7,703	8	7,711
Finance costs			(16,740)	(489)	(17,229)
Gain on disposal/dissolution of subsidiaries			2,608	–	2,608
Profit before taxation			95,051	(1,219)	93,832
Taxation			(18,933)	–	(18,933)
Loss on disposal of discontinued operations			76,118	(1,219)	74,899
			–	(1,937)	(1,937)
Profit (loss) for the year			76,118	(3,156)	72,962

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 8. SEGMENT INFORMATION (CONTINUED)

#### Business segments (Continued)

	Protein chips division HK\$'000	Health care division HK\$'000	Consolidated HK\$'000
<b>Assets and liabilities at 31st December, 2006</b>			
<b>ASSETS</b>			
Segment assets	297,035	64,226	361,261
Goodwill	47,115	57,125	104,240
Unallocated assets			459,701
Consolidated total assets			925,202
<b>LIABILITIES</b>			
Segment liabilities	18,641	26,140	44,781
Unallocated liabilities			309,564
Consolidated total liabilities			354,345

	Continuing operations			Discontinued operations	Consolidated HK\$'000
	Protein chips division HK\$'000	Health care division HK\$'000	Unallocated HK\$'000	Information technology products and services division HK\$'000	
Capital expenditure	91,019	38,691	–	–	129,710
Depreciation on property, plant and equipment	4,747	359	369	67	5,542
Share based payment	–	–	4,796	–	4,796
Amortisation of prepaid lease payment	135	200	–	–	335
Amortisation of intangible asset	–	86	–	–	86
Goodwill arising from acquisition of subsidiaries	–	57,125	–	–	57,125

#### Other information for the year ended 31st December, 2006

Capital expenditure	91,019	38,691	–	–	129,710
Depreciation on property, plant and equipment	4,747	359	369	67	5,542
Share based payment	–	–	4,796	–	4,796
Amortisation of prepaid lease payment	135	200	–	–	335
Amortisation of intangible asset	–	86	–	–	86
Goodwill arising from acquisition of subsidiaries	–	57,125	–	–	57,125

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 8. SEGMENT INFORMATION (CONTINUED)

#### Geographical segments

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

	Revenue by geographical market	
	2007 HK\$'000	2006 HK\$'000
<b>Continuing operations</b>		
Hong Kong	12,882	637
PRC	243,592	160,198
	<b>256,474</b>	<b>160,835</b>
<b>Discontinued operations</b>		
PRC	–	14,740
	<b>256,474</b>	<b>175,575</b>

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

	Carrying amount of segment assets		Additions of property, plant and equipment and intangible assets	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Hong Kong	495	27	114	323
PRC	512,244	361,234	98,346	129,387
	<b>512,739</b>	<b>361,261</b>	<b>98,460</b>	<b>129,710</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 9. OTHER INCOME

	Continuing operations		Discontinued operations		Consolidated	
	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest income	5,217	7,703	–	8	5,217	7,711
Gain on disposal of property, plant and equipment	17,764	12,067	–	–	17,764	12,067
Government subsidy (Note)	6,301	–	–	–	6,301	–
Others	1,466	873	–	897	1,466	1,770
	<b>30,748</b>	20,643	–	905	<b>30,748</b>	21,548

Note: The Group received government grants from the local municipal governments in relation to the encouragement of the development and advancement of the business of the Group. According to the relevant government grant documents, the grants are general subsidies for the business operation of the Group.

### 10. FINANCE COSTS

	Continuing operations		Discontinued operations		Consolidated	
	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest on bank borrowings wholly repayable within five years	6,843	5,103	–	489	6,843	5,592
Effective interest expenses on convertible bonds	3,567	12,275	–	–	3,567	12,275
Total borrowing costs	10,410	17,378	–	489	10,410	17,867
Less: amounts capitalised	(786)	(638)	–	–	(786)	(638)
	<b>9,624</b>	16,740	–	489	<b>9,624</b>	17,229

The borrowing costs capitalised during the year was arose on a specific bank borrowings of HK\$1,610,400 (2006: HK\$1,500,000).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 11. INCOME TAX

	Continuing operations		Discontinued operations		Consolidated	
	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The charge comprises:						
Hong Kong Profits Tax						
– Current year	–	–	–	–	–	–
– Overprovision in prior years	–	(671)	–	–	–	(671)
Taxation in other jurisdictions of PRC						
– Current year	<b>25,735</b>	19,604	–	–	<b>25,735</b>	19,604
Deferred tax ( <i>note 31</i> )	<b>(2,324)</b>	–	–	–	<b>(2,324)</b>	–
	<b>23,411</b>	18,933	–	–	<b>23,411</b>	18,933

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

On 16th March, 2007, the National People's Congress promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by order No. 63 of the President of the People's Republic of China. The New Law imposed a single income tax rate of 25% for both invested enterprises. On 6th December, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 33% to 25% for all PRC subsidiaries of the Company from 1st January, 2008. The deferred tax balance has been adjusted to reflect the tax rates that are adopted to apply to the respective periods when the asset is realised or the liability is settled (adjust as appropriate). The Company's all subsidiaries in PRC applied tax rate of 33% to provide for current tax for the current year before the New Law became effective.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 11. INCOME TAX (CONTINUED)

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

	2007 HK\$'000	2006 HK\$'000
Profit before tax	150,293	95,051
Tax at the domestic income tax rate at 33% (2006: 33%) (Note a)	49,597	31,366
Tax effect of income not taxable in determining taxable profit	(2,357)	(525)
Tax effect of expenses not deductible for tax purpose	10,527	9,230
Effect of tax exemptions granted to PRC subsidiaries	(31,996)	(20,593)
Change in tax rate in deferred tax	(2,085)	–
Overprovision in prior years	–	(671)
Others	(275)	126
Taxation for the year	23,411	18,933

Notes:

- (a) Being tax rate in PRC where the operation of the Group is substantially based.
- (b) As at 31st December, 2007, the Group had unused tax losses of approximately HK\$44,307,000 (2006: HK\$44,307,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profits streams. Such tax losses can be carried forward indefinitely.

### 12. DISCONTINUED OPERATION

On 7th August, 2006, the Group entered into an agreement to dispose of a subsidiary, 上海龍祥電腦有限公司 (「上海龍祥」), which carried out all of the Group's activities in its information technology products and services segment. The disposal was completed during the year ended 31st December, 2006 and control of 上海龍祥 was passed to the acquirer on 30th September, 2006 and the corresponding business segment were discontinued during the year ended 31st December, 2006.

The loss for the year ended 31st December, 2006 from the discontinued operation is analysed as follows:

	2006 HK\$'000
Loss of information technology products and services division for the year	(1,219)
Loss on disposal of subsidiaries engaged in information technology products and services division (note 34)	(1,937)
	(3,156)
Attributable to:	
Equity holder of the Company	(2,559)
Minority interests	(597)
	(3,156)



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 12. DISCONTINUED OPERATION (CONTINUED)

The results of the information technology products and services division for the period from 1st January, 2006 to 30th September, 2006, were as follows:

	1.1.2006 to 30.9.2006 HK\$'000
Revenue	14,740
Cost of sales	(14,645)
Other income	905
Selling and distribution costs	(14)
Administrative expenses	(1,716)
Finance costs	(489)
Loss before taxation	(1,219)
Taxation	–
Loss for the period	(1,219)

During the year ended 31st December, 2006, 上海龍祥 contributed HK\$28,759,090 to the Group's net operating cash flows, contributed HK\$8,000 in respect of investing activities and paid HK\$28,496,000 in respect of financing activities.

The carrying amounts of the assets and liabilities of 上海龍祥 at the date of disposal are disclosed in note 34.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 13. PROFIT FOR THE YEAR

	Continuing operations		Discontinued operations		Consolidated	
	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit for the year has been arrived at after charging (crediting):						
Depreciation	<b>6,261</b>	5,475	–	67	<b>6,261</b>	5,542
Impairment loss on intangible asset included in administrative expenses	<b>3,343</b>	–	–	–	<b>3,343</b>	–
Amortisation of prepaid lease payment	<b>1,473</b>	335	–	–	<b>1,473</b>	335
Amortisation of intangible assets included in administrative expenses	<b>121</b>	86	–	–	<b>121</b>	86
Staff costs						
– directors' remuneration (note 14(a))	<b>6,198</b>	4,329	–	–	<b>6,198</b>	4,329
– other staff costs	<b>27,224</b>	16,802	–	867	<b>27,224</b>	17,669
– share-based payments, excluding directors	<b>4,151</b>	3,558	–	–	<b>4,151</b>	3,558
– retirement benefits scheme contributions, excluding directors	<b>115</b>	120	–	–	<b>115</b>	120
Total staff costs	<b>37,688</b>	24,809	–	867	<b>37,688</b>	25,676
Auditor's remuneration	<b>1,600</b>	1,300	–	100	<b>1,600</b>	1,400
Change in fair value of investments held for trading	<b>10,073</b>	–	–	–	<b>10,073</b>	–
Cost of inventories recognised as an expense	<b>42,992</b>	19,525	–	14,645	<b>42,992</b>	34,170
Allowances for bad and doubtful debts	<b>1,122</b>	–	–	–	<b>1,122</b>	–
Research and development expenditure	<b>4,409</b>	1,118	–	–	<b>4,409</b>	1,118
Exchange (gain) loss	<b>(28)</b>	2,366	–	–	<b>(28)</b>	2,366

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 14. DIRECTORS AND EMPLOYEES' EMOLUMENTS

#### (a) Director's emoluments

	2007 HK\$'000	2006 HK\$'000
Directors' fees:		
(i) Executive		
– Yao Yuan	1,284	1,714
– Chien Hoe Yong, Henry	845	420
– Hu Jun	–	–
– Yu Ti Jun	120	120
– lu Chung	1,076	450
	<b>3,325</b>	2,704
(ii) Independent non-executive		
– Lam Lee G.	120	120
– Lee Sze, Ho, Henny	120	120
– Hu Jin Hua	120	120
	<b>360</b>	360
Total directors' fees	<b>3,685</b>	3,064

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 14. DIRECTORS AND EMPLOYEES' EMOLUMENTS (CONTINUED)

#### (a) Director's emoluments (Continued)

	2007 HK\$'000	2006 HK\$'000
Other emoluments of executive directors:		
(i) Salaries and other benefits		
– Yao Yuan	516	–
– Chien Hoe Yong, Henry	–	–
– Hu Jun	–	–
– Yu Ti Jun	–	–
– lu Chung	724	–
	<b>1,240</b>	–
(ii) Retirement benefits scheme contribution		
– Yao Yuan	12	12
– Chien Hoe Yong, Henry	12	12
– Hu Jun	–	–
– Yu Ti Jun	–	–
– lu Chung	12	3
	<b>36</b>	27
(iii) Share-based payments		
– Yao Yuan	–	–
– Chien Hoe Yong, Henry	315	706
– Hu Jun	119	266
– Yu Ti Jun	461	266
– lu Chung	–	–
– Lam Lee G.	342	–
	<b>1,237</b>	1,238
Total other emoluments of executive directors	<b>2,513</b>	1,265
Total	<b>6,198</b>	4,329

None of the directors has waived any emoluments during both years.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 14. DIRECTORS AND EMPLOYEES' EMOLUMENTS (CONTINUED)

#### (b) Employees' emoluments

The five highest paid individuals in the Group include three directors of the Company (2006: two), details of whose emoluments are set out above. The aggregate remuneration of the remaining highest paid individuals, who are employees of the Group, is as follows:

	2007 HK\$'000	2006 HK\$'000
Salaries, allowances and benefits in kind	964	3,060
Retirement benefits scheme contributions	24	33
Share-based payments	270	1,082
	<b>1,258</b>	<b>4,175</b>

Their emoluments were within the following bands as set out below:

HK\$	2007 Number of employees	2006 Number of employees
Nil to 1,000,000	2	1
1,500,001 to 2,000,000	–	2

### 15. DIVIDENDS

	2007 HK\$'000	2006 HK\$'000
Dividends recognised as distribution during the year:		
Final, paid – HK\$0.01 per share for 2006 (2005: Nil)	27,124	–
Interim – HK\$0.01 per share for 2007 (2006: HK\$0.01 per share)	29,090	26,881
	<b>56,214</b>	<b>26,881</b>
Dividends proposed		
Final – HK\$0.01 per share for 2007 (2006: HK\$0.01 per share)	29,258	26,881

The final dividend of HK\$0.01 per share (2006: HK\$0.01 per share) has been proposed by the directors and is subject to approval by shareholders in forthcoming general meeting.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 16. EARNINGS PER SHARE

#### For continuing and discontinued operations

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

	2007	2006
	HK\$'000	HK\$'000
<b>Earnings</b>		
Earnings for the purposes of basic earnings per share (profit for the year attributable to the equity holders of the parent)	125,282	73,559
Effect of dilutive potential ordinary shares:		
– Interest on convertible loan notes	3,567	–
	<b>128,849</b>	73,559
	<b>2007</b>	2006
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,797,888,233	2,688,107,099
Effect of dilutive potential ordinary shares:		
– Share options	28,697,405	–
– Convertible loan notes	170,751,722	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b>2,997,337,360</b>	2,688,107,099

For the year ended 31st December, 2006, the computation of diluted earnings per share does not assume the exercise of the share options since the exercise price of the Company's share options was higher than the average market price.

For the year ended 31st December, 2006, the computation of diluted earnings per share does not assume the conversion of the Company's outstanding convertible loan notes since their exercise would result in an increase in profit per share.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 16. EARNINGS PER SHARE (CONTINUED)

#### From continuing operations

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

Earnings figures are calculated as follows:

	2007 HK\$'000	2006 HK\$'000
Profit for the year attributable to equity holders of the parent	125,282	73,559
Add: Loss for the year from discontinued operation attributable to the equity holders of the parent ( <i>note 12</i> )	–	2,559
Earnings for the purposes of basic earnings per share from continuing operations	125,282	76,118

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

#### From discontinued operation

For the year ended 31st December, 2006, basic loss per share for the discontinued operations is 0.09 HK cent per share, based on the loss for the year from the discontinued operations attributable to the equity holders of the parent of HK\$2,559,000 and the denominators detailed above for basic earnings per share.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and equipment	Office equipment	Motor vehicles	Leasehold improvements	Furniture and fixtures	Buildings under construction	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>COST</b>								
At 1st January, 2006	6,867	26,986	2,036	3,957	1,637	643	90,180	132,306
Exchange adjustments	275	1,072	60	70	–	10	3,607	5,094
Additions	4	12,185	162	1,475	–	22	93,775	107,623
Acquired on acquisition of subsidiaries	5,300	1,961	64	35	1,566	721	7,250	16,897
Eliminated on disposal of subsidiaries	–	(54)	(10)	(463)	–	(418)	–	(945)
Disposals	–	(12,881)	–	(842)	–	–	–	(13,723)
At 31st December, 2006	12,446	29,269	2,312	4,232	3,203	978	194,812	247,252
Exchange adjustments	590	2,154	147	885	115	56	14,336	18,283
Additions	–	20,027	599	2,432	–	586	74,816	98,460
Transfer	164,240	17,616	–	–	–	–	(181,856)	–
Eliminated on disposal of subsidiaries	–	–	(11)	–	–	–	–	(11)
Disposals	–	(15,691)	(1,023)	(391)	–	(60)	–	(17,165)
At 31st December, 2007	177,276	53,375	2,024	7,158	3,318	1,560	102,108	346,819
<b>DEPRECIATION</b>								
At 1st January, 2006	766	7,737	1,478	1,997	1,367	474	–	13,819
Exchange adjustments	38	378	45	31	–	7	–	499
Provided for the year	359	3,495	320	972	301	95	–	5,542
Eliminated on disposal of subsidiaries	–	(54)	–	(154)	–	(270)	–	(478)
Eliminated on disposals	–	(953)	–	(689)	–	–	–	(1,642)
At 31st December, 2006	1,163	10,603	1,843	2,157	1,668	306	–	17,740
Exchange adjustments	86	780	116	730	3	5	–	1,720
Provided for the year	983	3,846	258	823	104	247	–	6,261
Eliminated on disposal of subsidiaries	–	–	(7)	–	–	–	–	(7)
Eliminated on disposals	–	(4,019)	(901)	(271)	–	(55)	–	(5,246)
At 31st December, 2007	2,232	11,210	1,309	3,439	1,775	503	–	20,468
<b>CARRYING VALUES</b>								
At 31st December, 2007	175,044	42,165	715	3,719	1,543	1,057	102,108	326,351
At 31st December, 2006	11,283	18,666	469	2,075	1,535	672	194,812	229,512



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

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

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

### 18. PREPAID LEASE PAYMENTS

	2007 HK\$'000	2006 HK\$'000
Analysed for reporting purpose as:		
Current assets	1,509	1,429
Non-current asset	69,945	67,635
	<b>71,454</b>	69,064

The Group's prepaid lease payments represent payments for land use rights under medium-term lease located in the PRC. The Group has acquired rights to the use of land (the "land use rights") in the PRC. While the subsidiaries have paid substantially the full consideration of the purchase consideration, the relevant government authorities have not yet granted formal title to certain of these land use rights to those subsidiaries. The net book value of the land use rights for which the Group had not yet been granted formal title as at 31st December, 2007 was approximately HK\$28,954,000 (2006: HK\$28,850,000).

The directors of the Company believe that the relevant official land use right certificates will be granted to the Group in due course and the absence of official land use right certificates of these land use rights does not impair the value of the relevant properties of the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 19. GOODWILL

	HK\$'000
<hr/>	
COST	
At 1st January, 2006	47,115
Arising on acquisition of subsidiaries (note 35)	57,125
<hr/>	
At 31st December, 2006 and at 31st December, 2007	104,240
<hr/>	

Particulars regarding impairment testing on goodwill are disclosed below:

As explained in note 8, the Group uses business segments as its primary segment for reporting segment information. For the purpose of impairment testing, the carrying amount of goodwill has been allocated to the following cash generating units which represent the two business segments of the Group:

	2007 & 2006 HK\$'000
<hr/>	
Segment of protein chips division	47,115
Segment of health care division	57,125
<hr/>	
	104,240
<hr/>	

During the year ended 31st December, 2007, management of the Group determined that there was no impairment in either of these two cash generating units containing goodwill.

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

#### Cash generating unit for segment of protein chips division

The recoverable amount of this unit has been determined based on a value in use calculation. The calculation uses cash flow projections based on financial budgets approved by management covering a 10-year period with zero growth rate, and a discount rate of 15% per annum. Goodwill is expected to generate cash flow from an identified period. Another key assumption for the value in use calculation relates to the estimation of cash inflows which include budgeted sale and gross margin, such estimation is determined based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of this cash generating unit to exceed the aggregate recoverable amount of this cash generating unit.

#### Cash generating unit for segment of health care operation

The recoverable amount of this unit has been determined based on a value in use calculation. The calculation uses cash flow projections based on financial budgets approved by management covering a 10 year period with a 2% growth rate for the first five year and remained constant for the remaining five years, and a discount rate of 9.5% per annum. Another key assumption for the value in use calculation relates to the estimation of cash inflows which include budgeted sales and gross margin such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of this cash generating unit to exceed the aggregate recoverable amount to this cash generating unit.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 20. INTANGIBLE ASSET

	<b>Distribution right</b>
	HK\$'000
<b>COST</b>	
Acquired on acquisition of subsidiaries and at 31st December, 2006	5,190
Exchange adjustment	448
Impairment loss	(3,343)
At 31st December, 2007	2,295
<b>AMORTISATION</b>	
Provided for the year and at 31st December, 2006	86
Provided for the year	121
At 31st December, 2007	207
<b>CARRYING VALUE</b>	
At 31st December, 2007	2,088
At 31st December, 2006	5,104

The above distribution right was purchased as part of a business combination during the year ended 31st December, 2006. The distribution right entitles the Group to distribute HPV detection products (HPV DNA diagnostic kits for cervical cancer screening) in the Asia Pacific region for a period of 20 years.

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

### 21. AVAILABLE-FOR-SALE INVESTMENTS/INVESTMENTS HELD FOR TRADING

	<b>2007</b>	2006
	HK\$'000	HK\$'000
<b>Available-for-sale investments</b>		
Equity securities listed outside Hong Kong – at fair value	–	418
Unlisted investments	<b>528</b>	528
	<b>528</b>	946
<b>Investments held for trading:</b>		
Equity securities listed in Hong Kong – at fair value	<b>25,189</b>	–

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 22. DEPOSITS PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

The amount represents deposits paid for the acquisition of property, plant and equipment in relation to the Group's expansion of its protein chips and health care operations.

### 23. INVENTORIES

	2007 HK\$'000	2006 HK\$'000
Raw materials	8,761	5,173
Work in progress	3,439	1,284
Finished goods	2,022	1,003
	<b>14,222</b>	7,460

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

	2007 HK\$'000	2006 HK\$'000
Trade receivables	78,355	45,584
Less: Allowance for doubtful debt	(3,261)	(1,960)
	<b>75,094</b>	43,624
VAT receivables	525	-
Prepayments	2,993	3,913
Others	2,197	2,908
	<b>80,809</b>	50,445

Note:

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

	2007 HK\$'000	2006 HK\$'000
0-60 days	68,766	43,035
61-90 days	6,328	589
	<b>75,094</b>	43,624

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 24. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (CONTINUED)

#### Movement in the allowance for doubtful debts

	2007 HK\$'000	2006 HK\$'000
Balance at beginning of the year	1,960	1,960
Exchange adjustment	179	–
Impairment loss recognised	1,122	–
Balance at end of the year	3,261	1,960

Before accepting any new customers, the Group will assess and understand the potential customer's credit quality and defines its credit limits. Credit limits attributed to each customer are reviewed regularly.

### 25. PLEDGED BANK DEPOSITS/DEPOSITS PLACED WITH FINANCIAL INSTITUTIONS AND BANK BALANCES AND CASH

The pledged bank deposits as at 31st December, 2006 represented bank deposits pledged to a bank to secure the banking facilities for bank borrowings due within one year granted to the Group and therefore were classified as current asset. The deposits carried interest at 2.07% per annum.

The deposits placed with financial institutions as at 31st December, 2006 carried interest at prevailing market rate of 4% per annum.

Bank balances and cash comprises bank balances and cash held by the Group and short-term bank deposits that are interest-bearing at market rate. All bank deposits are with a maturity of three months or less. The bank deposits carry interest at prevailing market rates ranging from 0.72% to 2.04% per annum (2006: 0.72% to 3.61% per annum).

The amount of the Group's bank balances and cash denominated other than the functional currency of the relevant group entities are set out below:

	US dollar HK\$'000
<b>At 31st December, 2007</b>	
Bank balances and cash	274,383
<b>At 31st December, 2006</b>	
Bank balances and cash	9,620

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 26. TRADE AND OTHER PAYABLES

	2007 HK\$'000	2006 HK\$'000
Trade payables	6,215	3,137
Receipts in advance	3,833	2,925
Accrued expenses	17,022	18,961
Payable for construction in progress	13,299	2,339
Other tax payable	5,076	4,454
Others	2,269	2,631
	<b>47,714</b>	<b>34,447</b>

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

	2007 HK\$'000	2006 HK\$'000
0-60 days	6,014	1,565
61-90 days	9	1,407
Over 90 days	192	165
	<b>6,215</b>	<b>3,137</b>

### 27. AMOUNT DUE TO A RELATED COMPANY

Details of an amount due to a related company are as follows:

	2007 HK\$'000	2006 HK\$'000
上海銘源實業集團有限公司(「上海銘源實業」)	6,209	11,741

上海銘源實業 is a company in which Mr. Yao Yuan has a significant interest.

The amount is unsecured, non-interest bearing and is repayable on demand.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 28. BANK BORROWINGS

	2007 HK\$'000	2006 HK\$'000
Secured bank borrowings	80,520	44,000
Unsecured bank borrowings	57,625	51,125
	<b>138,145</b>	95,125
The amount are repayable as follows:		
– On demand or within one year	68,229	70,500
– More than one year but not exceeding two years	16,236	1,625
– More than two years but not more than five years	53,680	23,000
	<b>138,145</b>	95,125
Less: Amounts due within one year under current liabilities	<b>(68,229)</b>	(70,500)
Amounts due after one year	<b>69,916</b>	24,625
Total borrowings		
– Fixed rate	–	15,000
– Variable rate	<b>138,145</b>	80,125
	<b>138,145</b>	95,125

The exposure of the Group's fixed rate borrowings are as follows:

	HK\$'000	HK\$'000
Fixed rate borrowings		
– On demand or within one year	–	15,000
	–	15,000

The range of effective interest rates on the Group's bank borrowings are as follows:

	2007	2006
Effective interest rates:		
– Fixed rate borrowings	–	5.76%
– Variable rate borrowings	<b>4.86% – 8.42%</b>	4.92% – 6.04%

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 29. SHARE CAPITAL

	Number of shares	Value HK\$'000
Ordinary shares of HK\$0.05 each		
Authorised:		
At 1st January, 2006, 31st December, 2006 and 31st December, 2007	4,000,000,000	200,000
Issued and fully paid:		
Ordinary shares of HK\$0.05 each		
At 1st January, 2006	2,688,096,230	134,405
Conversion of convertible bonds	10,869	–
At 31st December, 2006	2,688,107,099	134,405
Conversion of convertible bonds	195,932,426	9,797
Exercise of share options	37,860,000	1,893
Shares repurchased and cancelled	(23,810,000)	(1,191)
At 31st December, 2007	2,898,089,525	144,904

During the year, the Company repurchased its own shares through The Stock Exchange of Hong Kong Limited as follows:

Month of repurchase	Ordinary shares of HK\$0.05 each	Price per share		Aggregate consideration paid HK\$'000
		Highest HK\$	Lowest HK\$	
August, 2007	6,620,000	1.1808	1.1281	7,685
October, 2007	5,910,000	1.1867	1.1600	6,944
November, 2007	5,810,000	1.1806	1.1400	6,757
December, 2007	5,470,000	1.1600	1.1300	6,230
	23,810,000			27,616

The above shares were cancelled upon repurchase.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 30. CONVERTIBLE BONDS

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

The 2010 Bonds bear interest at the rate of 1% per annum on the principal amount. Interest is payable in arrear on 6th January in each year commencing on 6th January, 2005. The initial conversion price is HK\$0.74 per share, subject to anti-dilutive adjustments.

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

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

During the year ended 31st December, 2007, a principal amount of HK\$144,990,000 (2006: HK\$10,000) of the 2010 Bonds were converted into ordinary shares of HK\$0.05 each of the Company.

The convertible bonds contain two components, liability and equity elements. The equity element is presented in equity heading "Convertible bond equity reserve". The effective interest rate of the liability component is 6.77% per annum.

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

	2007 HK\$'000	2006 HK\$'000
Carrying amount at the beginning of the year	193,428	183,153
Conversion of convertible bonds	(140,235)	–
Interest charged	3,567	12,275
Interest paid	(1,999)	(2,000)
Carrying amount at the end of the year	54,761	193,428

### 31. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities provided by the Group and movements thereon during the current and prior reporting periods:

	Revaluation of property, plant and equipment and prepaid lease payments HK\$'000
At 31st December, 2005 and 1st January, 2006	–
Arising on acquisition of subsidiaries	8,602
At 31st December, 2006	8,602
Adjustment to change in tax rate	(2,085)
Released to consolidated income statement	(239)
At 31st December, 2007	6,278

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 32. BALANCE SHEET OF THE COMPANY

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

	2007 HK\$'000	2006 HK\$'000
<b>Total Assets</b>		
Property, plant and equipment	67	39
Interests in subsidiaries	–	–
Amounts due from subsidiaries	606,267	487,714
Investments held for trading	24,761	–
Other receivables, deposits and prepayments	2,668	1,821
Bank balances and cash	18,720	121
	<b>652,483</b>	489,695
<b>Total Liabilities</b>		
Other payables and accruals	1,313	1,530
Amounts due to subsidiaries	73,134	50,915
Amount due to a related company	3,205	–
Bank borrowings	8,000	8,000
Convertible bonds	54,761	193,428
	<b>140,413</b>	253,873
	<b>512,070</b>	235,822
<b>Capital and Reserves</b>		
Share capital	144,904	134,405
Reserves (Note)	367,166	101,417
	<b>512,070</b>	235,822

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 32. BALANCE SHEET OF THE COMPANY (CONTINUED)

Note:

	Share premium HK\$'000	Convertible bonds equity reserve HK\$'000	Share option reserve HK\$'000	Contributed surplus HK\$'000	Accumulated (losses) profits HK\$'000	Total HK\$'000
At 1st January, 2006	150,354	20,343	9,965	12,804	(70,014)	123,452
Issue of shares						
Recognition of equity settled share based payments	–	–	4,796	–	–	4,796
Profit for the year	–	–	–	–	50	50
Dividends paid	–	–	–	–	(26,881)	(26,881)
At 31st December, 2006	150,354	20,343	14,761	12,804	(96,845)	101,417
Conversion of convertible bonds	145,187	(14,749)	–	–	–	130,438
Exercise of share options	30,957	–	(5,118)	–	–	25,839
Lapse of share option	–	–	(2,499)	–	2,499	–
Recognition of equity settled share based payments	–	–	5,388	–	–	5,388
Profit for the year	–	–	–	–	186,723	186,723
Repurchase of shares	(26,425)	–	–	–	–	(26,425)
Dividends paid	–	–	–	–	(56,214)	(56,214)
At 31st December, 2007	300,073	5,594	12,532	12,804	36,163	367,166

### 33. SHARE OPTIONS

#### Equity-settled share option scheme

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

As at 31st December, 2007, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 119,120,000 (2006: 133,400,000) representing 4.11% (2006: 4.96%) of the shares of the Company in share at that date.

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 33. SHARE OPTIONS (CONTINUED)

#### Equity-settled share option scheme (Continued)

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

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

#### 2007

Directors	Date of grant	Exercise price	Vesting period	Exercisable period	Number of share options				
					Outstanding at 1.1.2007	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2007
Directors	8.4.2005	HK\$0.728	N/A	8.4.2005 – 7.4.2010	9,300,000	–	–	–	9,300,000
			8.4.2005 – 7.4.2006	8.4.2006 – 7.4.2010	9,300,000	–	–	–	9,300,000
			8.4.2005 – 7.4.2007	8.4.2007 – 7.4.2010	9,300,000	–	–	–	9,300,000
			8.4.2005 – 7.4.2008	8.4.2008 – 7.4.2010	9,300,000	–	–	–	9,300,000
			8.4.2005 – 7.4.2009	8.4.2009 – 7.4.2010	9,300,000	–	–	–	9,300,000
	27.4.2007	HK\$0.78	N/A	27.4.2007 – 7.4.2010	–	1,600,000	–	–	1,600,000
			27.4.2007 – 26.4.2008	27.4.2008 – 7.4.2010	–	1,600,000	–	–	1,600,000
			27.4.2008 – 26.4.2009	27.4.2009 – 7.4.2010	–	1,600,000	–	–	1,600,000
					46,500,000	4,800,000	–	–	51,300,000
Employees	8.4.2005	HK\$0.728	N/A	8.4.2005 – 7.4.2010	18,100,000	–	(15,700,000)	(1,200,000)	1,200,000
			8.4.2005 – 7.4.2006	8.4.2006 – 7.4.2010	18,100,000	–	(13,500,000)	(1,200,000)	3,400,000
			8.4.2005 – 7.4.2007	8.4.2007 – 7.4.2010	16,900,000	–	(5,400,000)	–	11,500,000
			8.4.2005 – 7.4.2008	8.4.2008 – 7.4.2010	16,900,000	–	–	–	16,900,000
			8.4.2005 – 7.4.2009	8.4.2009 – 7.4.2010	16,900,000	–	–	–	16,900,000
	27.4.2007	HK\$0.78	N/A	27.4.2007 – 7.4.2010	–	7,060,000	(3,260,000)	–	3,800,000
			27.4.2007 – 26.4.2008	27.4.2008 – 7.4.2010	–	7,060,000	–	–	7,060,000
			27.4.2008 – 26.4.2009	27.4.2009 – 7.4.2010	–	7,060,000	–	–	7,060,000
					86,900,000	21,180,000	(37,860,000)	(2,400,000)	67,820,000
Total				133,400,000	25,980,000	(37,860,000)	(2,400,000)	119,120,000	
Exercisable at 31st December, 2007									49,400,000

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 33. SHARE OPTIONS (CONTINUED)

#### Equity-settled share option scheme (Continued)

2006

Directors	Date of grant	Exercise price	Vesting period	Exercisable period	Number of share options				
					Outstanding at 1.1.2006	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2006
Directors	8.4.2005	HK\$0.728	N/A	8.4.2005 – 7.4.2010	9,300,000	–	–	–	9,300,000
			8.4.2005 – 7.4.2006	8.4.2006 – 7.4.2010	9,300,000	–	–	–	9,300,000
			8.4.2005 – 7.4.2007	8.4.2007 – 7.4.2010	9,300,000	–	–	–	9,300,000
			8.4.2005 – 7.4.2008	8.4.2008 – 7.4.2010	9,300,000	–	–	–	9,300,000
			8.4.2005 – 7.4.2009	8.4.2009 – 7.4.2010	9,300,000	–	–	–	9,300,000
					46,500,000	–	–	–	46,500,000
Employees	8.4.2005	HK\$0.728	N/A	8.4.2005 – 7.4.2010	22,100,000	–	–	(4,000,000)	18,100,000
			8.4.2005 – 7.4.2006	8.4.2006 – 7.4.2010	22,100,000	–	–	(4,000,000)	18,100,000
			8.4.2005 – 7.4.2007	8.4.2007 – 7.4.2010	22,100,000	–	–	(5,200,000)	16,900,000
			8.4.2005 – 7.4.2008	8.4.2008 – 7.4.2010	22,100,000	–	–	(5,200,000)	16,900,000
			8.4.2005 – 7.4.2009	8.4.2009 – 7.4.2010	22,100,000	–	–	(5,200,000)	16,900,000
					110,500,000	–	–	(23,600,000)	86,900,000
<b>Total</b>					<b>157,000,000</b>	<b>–</b>	<b>–</b>	<b>(23,600,000)</b>	<b>133,400,000</b>
Exercisable at 31st December, 2006									54,800,000

In respect of the share options exercised during the year ended 31st December, 2007, the weighted average share price at the date of exercise is HK\$1.32.

During the year ended 31st December, 2007, options were granted on 27th April, 2007. The estimated fair values of the option granted on this date are ranged from HK\$0.21 to HK\$0.22.

These fair values were calculated using the Binomial Model pricing model. The inputs into the model were as follows:

	<b>2007</b>
Weighted average share price	HK\$1.262
Exercise price	HK\$0.78
Expected share volatility	44.42%
Expected life	1-3 years
Weighted average risk-free rate	4%
Expected dividend yield	2.61%

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 33. SHARE OPTIONS (CONTINUED)

#### Equity-settled share option scheme (Continued)

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

The Binomial Model has been used to estimate the fair value of the options. The variable and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

The Group amortises the fair value of the share options calculated above over the relevant vesting period. Accordingly, an amount of HK\$5,388,000 was charged as an equity-settled expense for the year ended 31st December, 2007 (2006: HK\$4,796,000).

### 34. DISPOSAL/DISSOLUTION OF SUBSIDIARIES

During the year ended 31st December, 2007, the Group disposed of its entered interest in Hong Lan International Trading (Shanghai) Limited ("Hong Lan") at a consideration of HK\$200,000. Hong Lan was engaged in property investment previously and inactive during the year. Details of the assets and liabilities of the subsidiary disposed of was as follows:

	Hong Lan HK\$'000
Net assets disposed of:	
Property, plant and equipment	4
Bank balances and cash	18
	22
Gain on disposal of subsidiary	178
	200
Consideration	200
Satisfied by:	
Cash	200
Net cash inflow arising on disposal:	
Cash consideration	200
Bank balances and cash disposed of	(18)
	182

During the year, Hong Lan did not make any significant contribution to the Group's results and cash flow.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 34. DISPOSAL/DISSOLUTION OF SUBSIDIARIES (CONTINUED)

During the year ended 31st December, 2006, the Group disposed of its 51% interest in 上海龍祥 for a total consideration of HK\$4,200,000 and disposed of its 80% interest in Beijing Health Digit Co., Ltd. ("Beijing HD") for a total consideration of RMB8,000,000 (equivalent to HK\$7,692,000). 上海龍祥 was engaged in the business of trading of computer products and related accessories and Beijing HD was engaged in investment holding. Details of the assets and liabilities of the subsidiaries disposed of were as follows:

	Beijing HD HK\$'000	Dissolved subsidiaries HK\$'000	Subtotal HK\$'000	上海龍祥 HK\$'000	Total HK\$'000
Net assets disposed/dissolved of:					
Property, plant and equipment	10	–	10	457	467
Inventories	–	–	–	982	982
Trade and other receivables	9,641	2	9,643	12,220	21,863
Bank balances and cash	10	–	10	531	541
Trade and other payables	–	–	–	(162)	(162)
	9,661	2	9,663	14,028	23,691
Minority interests	(1,870)	–	(1,870)	(6,454)	(8,324)
	7,791	2	7,793	7,574	15,367
Translation reserves realised	(91)	(2,618)	(2,709)	(793)	(3,502)
Statutory reserve realised	–	–	–	(644)	(644)
(Loss) gain on disposal of subsidiaries	(8)	2,616	2,608	(1,937)	671
Consideration	7,692	–	7,692	4,200	11,892
Satisfied by:					
Cash					11,892
Net cash inflow arising on disposal:					
Cash consideration					11,892
Bank balances and cash disposed of					(541)
					11,351

The financial impact of 上海龍祥 on the Group's results and cash flows in the current and prior periods is disclosed in note 12.

During year ended 31st December, 2006, Beijing HD and other dissolved subsidiaries did not make any significant contribution to the Group's results and cash flow.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 35. ACQUISITION OF SUBSIDIARIES

On 31st August, 2006, the Group acquired 51% of the issued share capital of Shanghai Weiyi Hospital Investment & Management Co., Ltd. ("Shanghai Weiyi") at a consideration of HK\$60,000,000. Shanghai Weiyi is an investment holding company and holding (i) a 100% subsidiary, namely Shanghai Woman and Child Healthcare Hospital of Hong-Kou District ("上海市虹口區婦幼保健院") and (ii) a distribution right to distribute HPV Detection products (HPV DNA diagnostic kits for cervical cancer screening) in the Asia Pacific region for a period of 20 years. This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was HK\$57,125,000.

The assets and liabilities acquired in the transaction, and the goodwill arising, were as follows:

	<b>Acquiree's carrying amounts before combination</b>	<b>Fair value adjustments</b>	<b>Fair value</b>
	HK\$'000	HK\$'000	HK\$'000
Assets and liabilities acquired:			
Property, plant and equipment	14,237	2,660	16,897
Prepaid lease payments	12,653	16,197	28,850
Available-for-sale investment	371	528	899
Intangible assets	6,090	(900)	5,190
Inventories	777	–	777
Bank balances and cash	2,484	–	2,484
Trade and receivables	19,229	–	19,229
Trade and other payable	(22,086)	–	(22,086)
Bank borrowings	(38,000)	–	(38,000)
Deferred tax liabilities	–	(8,602)	(8,602)
	(4,245)	9,883	5,638
Minority interest			(2,763)
Goodwill			2,875
			57,125
			60,000
Total consideration satisfied by:			
Cash			60,000
Net cash outflow arising on acquisition:			
Cash consideration paid			60,000
Bank balances and cash acquired			(2,484)
			57,516



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 35. ACQUISITION OF SUBSIDIARIES (CONTINUED)

The goodwill arising on the acquisition is attributable to the anticipated profitability of the distribution of the Group's products in the new markets and the anticipated future operating synergies from the combination.

Shanghai Weiyi and its subsidiaries contributed HK\$1,235,000 to the Group's profit for the period between the date of acquisition and the balance sheet date. The directors are of the view that it is impracticable to disclose the revenue and the result of Shanghai Weiyi and its subsidiaries for the period from 1st January, 2006 to 31st December, 2006 as if the acquisition had been effected on 1st January, 2006 since such financial information was not provided by the vendor.

### 36. COMMITMENTS

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

	2007 HK\$'000	2006 HK\$'000
Contracted for but not provided for in the financial statements in respect of acquisition of property, plant and equipment	<b>94,505</b>	90,222

### 37. OPERATING LEASE COMMITMENTS

#### The Group as lessee

During the year, the Group made minimum lease payments under operating leases of approximately HK\$1,600,000 (2006: HK\$2,360,000) in respect of land and buildings, other equipment and staff quarter.

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

	2007 HK\$'000	2006 HK\$'000
Within one year	<b>3,369</b>	2,709
In the second to fifth year inclusive	<b>2,441</b>	3,898
	<b>5,810</b>	6,607

Operating lease payments represent rentals payable by the Group for certain of its office properties and staff quarter. Leases are negotiated for an average term of two years.

### 38. CONTINGENT LIABILITIES

As at 31st December, 2007 and 31st December, 2006, the Group did not have any significant contingent liabilities.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 39. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all its employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Scheme Ordinance. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the MPF Scheme.

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries are required to contribute certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions.

The total cost charged to income of HK\$151,000 (2006: HK\$147,000) represents contributions payable to these schemes by the Group in respect of the current accounting period. As at 31st December, 2007, no contributions (2006: HK\$23,000) due in respect of the reporting period had not been paid over to the schemes.

### 40. PLEDGE OF ASSETS

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

	2007 HK\$'000	2006 HK\$'000
Prepaid lease payments	42,500	–
Buildings	169,721	5,992
Buildings under construction	–	23,587
Investments held for trading	14,429	–
Pledged bank deposit	–	10,000
	<b>226,650</b>	<b>39,579</b>

### 41. RELATED PARTY DISCLOSURES

During the year, the Group paid rental expense of HK\$211,000 (2006: nil) to 上海銘源房地產開發經營有限公司 which is a subsidiary of 上海銘源實業.

The remuneration of directors and other members of key management during the year was as follows.

	2007 HK\$'000	2006 HK\$'000
Short-term benefits	5,039	5,764
Post-employment benefits	72	60
Share-based payments	1,785	2,320
	<b>6,896</b>	<b>8,144</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 41. RELATED PARTY DISCLOSURES (CONTINUED)

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

Details of the Group's balances with related parties are set out in note 27.

### 42. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31st December, 2007 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Nominal value of issued share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
MY Technology Limited	British Virgin Islands	US\$1	–	100%	Trading of computer products and related accessories
HD Global Limited	British Virgin Islands	US\$2,000,000	–	100%	Investment holding
上海數康生物科技 有限公司 (Note a)	PRC	RMB40,000,000	–	100%	Research and development activities
湖洲數康生物科技 有限公司 (Note a)	PRC	RMB10,000,000	–	100%	Manufacturing and trading of protein chips and related equipments
上海銘源數康生物芯片 有限公司 (Note a)	PRC	US\$29,800,000	–	100%	Manufacturing and trading of protein chips and related equipments
上海唯依醫院投資管理 有限公司 (Note c)	PRC	RMB15,000,000	–	51%	Investment holding
上海市虹口區婦幼保健院 (Note b)	PRC	N/A	–	51%	Providing woman and child health car services

Notes:

- (a) These companies are registered in the form of wholly-owned foreign investment enterprise.
- (b) These companies are registered in the form of 事業法人.
- (c) This company is registered in the form of Sino-foreign joint venture.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2007

### 42. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any loan capital subsisting at the end of the year or at any time during the year.

## FINANCIAL SUMMARY

A summary of the consolidated results and of the assets and liabilities of the Group for the past five financial periods is set out below:

### (A) RESULTS

	Year ended 31st December,				
	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000 (Note) (restated)	2006 HK\$'000	2007 HK\$'000
<b>Continuing operations</b>					
Turnover	456,048	523,568	126,985	160,835	<b>256,474</b>
Profit before taxation	39,294	72,023	72,124	95,051	<b>150,293</b>
Taxation	(3,546)	(4,771)	–	(18,933)	<b>(23,411)</b>
Profit for the year from continuing operations	35,748	67,252	72,124	76,118	<b>126,882</b>
<b>Discontinued operations</b>					
Loss for the year from discontinued operations	–	–	(2,089)	(3,156)	–
Profit for the year	35,748	67,252	70,035	72,962	<b>126,882</b>
Dividends recognised as distribution during the year	–	–	–	26,881	<b>56,214</b>
Attributable to:					
Equity holders of the parent	33,693	67,020	70,096	73,559	<b>125,282</b>
Minority interests	2,055	232	(61)	(597)	<b>1,600</b>
	35,748	67,252	70,035	72,962	<b>126,882</b>

### (B) ASSETS AND LIABILITIES/EQUITY

	At 31st December,				
	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000
Total assets	419,504	472,799	781,181	925,202	<b>1,101,692</b>
Total liabilities	(118,475)	(79,949)	(280,011)	(354,345)	<b>(269,890)</b>
	301,029	392,850	501,170	570,857	<b>831,802</b>
Equity attributable to the holders of the parent	291,548	383,868	492,249	568,094	<b>827,439</b>
Minority interests	9,481	8,982	8,921	2,763	<b>4,363</b>
	301,029	392,850	501,170	570,857	<b>831,802</b>

Note: Certain amounts were re-presented under the "loss for year from discontinued operations" in accordance with HKFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations" issued by HKICPA.

## THE MINGYUAN NETWORK 铭源网络

### MINGYUAN HEAD

OFFICE 铭源总部：

- HONG KONG 香港

### HEALTHDIGIT HEAD

OFFICE 数康总部：

- SHANGHAI 上海

### REPRESENTATIVE

OFFICE 代表处：

- BEIJING 北京 ● SHANGHAI 上海

### FACTORY 厂房：

C-12 - ▲ SHANGHAI FENGXIAN 上海奉贤

▲ HUZHOU 湖州

HPV - ▲ SHENZHEN 深圳

### C-12 PRODUCT CHINA DISTRIBUTION

C-12 产品中国代理：

- HARBIN 哈尔滨
- SHENYANG 沈阳
- SHIJIAZHUANG 石家庄
- XIAN 西安
- JINAN 济南
- NANJING 南京
- FUZHOU 福州
- CHONGQING 重庆
- KUNMING 昆明
- URUMQI 乌鲁木齐
- BEIJING 北京
- TAIYUAN 太原
- LUOYANG 洛阳
- HEFEI 合肥
- SHANGHAI 上海
- HAIKOU 海口
- WUHAN 武汉
- HOHHOT 呼和浩特
- CHANGCHUN 长春
- TIANJIN 天津
- ZHENGZHOU 郑州
- HANGZHOU 杭州
- NANCHANG 南昌
- SHENZHEN 深圳
- CHENGDU 成都
- CHANGSHA 长沙

### C-12 PRODUCT OVERSEAS DISTRIBUTION

C-12 产品海外代理：

- MALAYSIA 马来西亚
- THAILAND 泰国
- SINGAPORE 新加坡
- BRUNEI 汶莱



## MAJOR CAUSES OF DEATH IN CHINA 中国主要致命疾病：

3 LEADING CAUSES OF DEATH IN CHINA WITH POPULATION AGED OVER 40 中国 40 岁以上人士的三大致命疾病

The three leading causes of death (Heart Diseases, Cancer & Cerebrovascular Disease) accounted for 66.1% of deaths from all causes. Others include infectious diseases, respiratory diseases and diabetes etc.

三大致命疾病（即心脏病、癌症及脑血管病）占总死亡人数 66.1%，而其他致命疾病包括传染病、呼吸道疾病及糖尿病等。

### 33.9% other 其他

### 22.5% Heart Diseases 心脏病

(ICD-9 codes 390-398 and 401 - 429)  
TOTAL 总计：4,459 (22.5%)  
MEN 男性：2,489 (22%)  
WOMAN 女性：2,017 (23.1%)

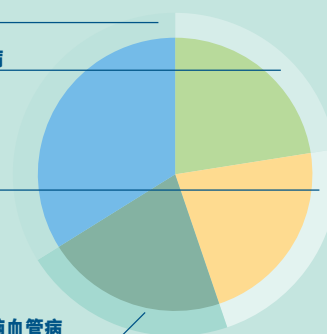
### 22.3% Cancer 癌症

(ICD-9 codes 140 - 208)  
TOTAL 总计：4,459 (22.3%)  
MEN 男性：2,833 (25%)  
WOMAN 女性：1,626 (18.6%)

### 21.3%

### Cerebrovascular Diseases 脑血管病

(ICD-9 codes 430 - 438)  
TOTAL 总计：4,260 (21.3%)  
MEN 男性：2,446 (21.6%)  
WOMAN 女性：1,814 (20.8%)



\* The causes of death were coded according to the International Classification of Diseases, Ninth Revision (ICD-9). 致命疾病乃按国际病症分类法第九版(ICD-9)编码。

## MORTALITY FOR THE FIVE LEADING CAUSES OF DEATH FROM CANCER WITH POPULATION AGED OVER 40 (MEN) : 40 岁以上人士的五大致命癌症死亡率（男性）：

LUNG 肺癌 25.9%

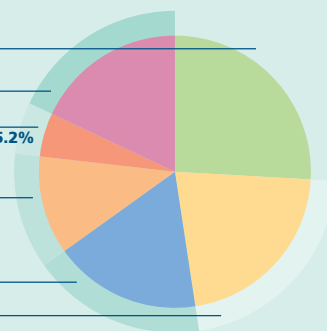
OTHER 其他 18%

COLON & RECTUM 结肠及直肠癌 5.2%

ESOPHAGUS 食道癌 11.7%

STOMACH 胃癌 17.5%

LIVER 肝癌 21.7%



## MORTALITY FOR THE FIVE LEADING CAUSES OF DEATH FROM CANCER WITH POPULATION AGED OVER 40 (WOMEN) : 40 岁以上人士的五大致命癌症死亡率（女性）：

LUNG 肺癌 21.8%

OTHER 其他 20.1%

STOMACH 胃癌 14.9%

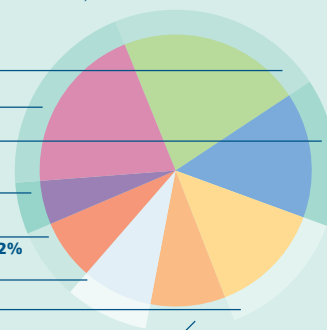
BREAST 乳腺癌 5.2%

COLON & RECTUM 结肠及直肠癌 7.2%

UTERUS 子宫癌 8.4%

LIVER 肝癌 13.5%

ESOPHAGUS 食道癌 8.9%



Source : 'Major Causes of Death among Men and Women in China' dated 15 Sep 2005 from The New England Journal of Medicine

资料来源：The New England Journal of Medicine 二零零五年九月十五日发表的「Major Causes of Death among Men and Women in China」