

Management Discussion and Analysis

MARKET REVIEW

The timely implementation of macro-economic adjustment and control measures by the Chinese government contribute to a slower but controlled economic growth and will be beneficial to the healthy development of the economy in the medium to long term. The economy of China continued to grow robustly with an estimated GDP growth of 9.8 percent in 2005.

The austere measures implemented by the Chinese government have minimal or no effect on the healthcare industry. The Chinese healthcare industry continues to modernize and has 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 market oriented industry reforms driven by the Chinese government.



From 2001 to 2005, the per capita income of urban and rural residents in China grew by annual averages of 9.2 percent and 5.2 percent respectively. Currently China's overall GDP ranks sixth in the world after decades of rapid economic development, with the nation's per capita GDP exceeds US\$1,200. The improved standard of living and the increase in healthcare consciousness increased spending on healthcare products and services.

According to the World Health Report 2005 published by the World Health Organization, China was lagged behind other developed countries on healthcare services. Medical and healthcare services in the developed countries accounted for 8.9 percent of GDP on average in 2002. Medical and healthcare services in the US represented 14.6 percent of GDP, while the figure for China was only 5.8 percent in 2002. 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 it a sizable market over the coming years.

Equally important is the unprecedented growth in the life insurance market in China. Total life insurance premiums grew from RMB87,210 million in 1999 to RMB293,055 million in 2004, representing a compound annual growth rate of 27.5 percent.

According to the Sigma Report 2005 prepared by Swiss Reinsurance Company, China is likely to experience significant growth in life insurance premiums and policies. The report stated that average life insurance depth (measured by total life insurance premiums as a percentage of GDP) for developed countries is at 5.1 percent, while China's average life insurance depth is only at 2.2 percent in 2004 and is expected to reach 4.5 percent in 2012. The Group believes that this presents opportunities for healthcare providers and increases demand for early screening of diseases for life policy applicants.

BUSINESS REVIEW

The Group has successfully completed the objectives of operation strategic prioritization of resources ("SPOR") and is able to commit all its resources to carry out the business plans for the high margin protein chips operation. The following summary of major events and issues for 2005 will provide an indication of the corporate activities:

BUSINESS REVIEW (continued)

Major Events and Issues in 2005

6 Jan	Completion of issuance of convertible bonds in an aggregate principal amount of HK\$200,000,000 to provide funding for the construction of a new plant in Shanghai, as part of the KM2003 Objectives to increase production capacity.
7 Jan	Completion of the Share Transfer Agreement in relation to disposal of the entire issued share capital of Giant Power International Limited and Fieldcrown Investments Limited as part of operation SPOR to dispose of the remaining investment properties.
9 Jun	Launched the groundbreaking ceremony of new plant in Fengxian, Shanghai. The production capacity of the new plant could reach 8 million protein chips per year, which is more than 5 times of the current capacity.
15 Jun	Corporate name changed from Shanghai Ming Yuan Holdings Limited to Mingyuan Medicare Development Company Limited. It marked a successful operational shift to a committed approach towards innovative medicare solutions for the early detection and prevention of diseases.
10 Aug	Appointed Biomarkers Sdn Bhd. ("BIO") to be the sole and exclusive distributor of the Group's Protein Chip System for Multi-Tumor Marker Detection ("C12 protein chips") in Malaysia, Indonesia and Brunei. BIO is an affiliation of HSC Medical Center in Kuala Lumpur, HSC is one of the world's leading one-stop medical, heart and diagnostic center specializing in early detection and treatment of heart, stroke and cancer with utilization of the latest medical technology.
18 Aug – 6 Sep	Huzhou HealthDigit Company Limited, the wholly owned subsidiary of the Company, successfully entered into cooperation agreements with the Guangdong, Shanghai, Zhejiang and Liaoning branches of China Life Insurance (Group) Company, whereby the branches would adopt C12 protein chips for its VIP customers screening tests for cancer tumors.

Mission Statement – A Dedicated and Diversified Approach

The year of 2005 marked a successful conclusion to operation SPOR and transformation of the Group into China's leading protein chips supplier.

Being a leading supplier of protein chips in China, the Group dedicates itself to providing low cost, non-invasive, and innovative medicare solutions in the areas of early detection and prevention of diseases to enhance human health and quality of life, and to provide a new approach to life insurance industries in the evaluation of life span.

The Group believes that early detection of potential diseases including life threatening diseases significantly improves the chances of successful medical therapy and treatment, raises the survival rate and improves the quality of life for patients.

Currently, the Group's protein chip business division manufactures and distributes C12 protein chips and related systems ("C12 products") to hospitals and life insurance companies in China. The C12 products are capable of detecting up to twelve tumor markers simultaneously and assisting in early detection of ten prevalent cancer tumor types.

During the year, the Group has experienced a robust performance in both order and sales of C12 products. As a proven and leading supplier of protein chips in China, the Group began to supply C12 products to life insurance companies based in China for the pre-screening and general health appraisal of life policy applicants. The Group expects the overall growth for the protein chips sales to be promising and sustainable in the future.

The Group continued to experience rapid growth in its protein chips business operations and sold a total of 1.19 million protein chips (2004: 0.71 million), representing an increase of 67.6 percent over that of last year.

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BUSINESS REVIEW (continued)

The significant increase was due mainly to a number of the following factors:

Sales strategy

Building on past sales' experiences, the Group has established a more comprehensive pricing structure tailored for direct sales, distributorships and life insurance companies. Without the hindsight of affecting profit margins for the Group, the pricing strategy includes volume discounts, prompt rebates, seasonal adjustments, etc. During the year, the Group successfully restructured the nationwide distributorships that was built on the common goal of long term business development and profitability. At the same time, the new structure encourages competition among distributors, and attracts more potential distributors. The Group will continue to review its pricing structure and is prepared to make revisions from time to time.

Sales channels

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

Chipreader optimization plan

As at 31st December, 2005, the Group had 323 (2004: 240) chipreaders in the market. The Group understands that the chipreader for the C12 protein chips is a principal contributing factor for the sales volume and to this effect, the Group has devised an optimization strategy that implement plans to increase the utilization rate per chipreader per month by promoting the sharing of chipreaders among hospitals in any location, reallocating some existing chipreaders to newly signed up hospitals and insurance companies, and increasing the production of chipreaders to meet new demands. During the year, the implementation of the optimization plan for chipreaders also contributed significantly to the increase in sales volume for the C12 protein chips. The utilization rate per chipreader will be further increased when the Group continues to high growth for its C12 products and introduces new product in 2006.

Chipset packaging diversification

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

Aftersales 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. This provides customers with a true sense of being cared for and instills in our employees a sense of mission to assist our customers and their patients.

Property Investment and IT Products and Services

Due to operation SPOR, the Group has successfully sold the remaining investment properties and continues its exercise to downsize the IT Products and Services division in 2005. Contribution from the two divisions will be increasing minimal and these two divisions would be discontinued in the near future.

FINANCIAL PERFORMANCE

The consolidated turnover of the Group amounted to HK\$282.1 million (2004: HK\$523.6 million) for the year under review, representing a decrease of approximately 46.1 percent over that of last year. The decrease in turnover was mainly attributable to downsizing of the IT products and services business division.

The net profit attributable to shareholders of the parent amounted to HK\$70.0 million (2004: HK\$67.2 million), representing an increase of 4.2 percent over that of last year. The increase was due to the increase in contribution from the protein chips business division which represented over 99.5 percent of the group's profits. Earnings per share was HK2.61 cents (2004: HK2.50 cents), representing an increase of approximately 4.4 percent.

The net profit attributable to shareholders of the parent for the year was significantly affected by the application of a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (herein collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1 January 2005. The implementation of these new HKFRSs affected a number of accounting items and two areas are particularly affected, namely the convertible bonds and the employees share option scheme.

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

Protein Chips

Turnover contributed by the sale of C12 products and related equipment amounted to HK\$127.0 million (2004: HK\$78.8 million), representing a significant increase of approximately 61.2 percent over that of last year. More importantly, segment profits of the protein chips division amounted to HK\$87.0 million (2004: HK\$48.3 million), representing an increase of approximately 80.1 percent over that of last year.

Property Investment and IT Products and Services

Property investment – The Group sold the last remaining investment properties in Shanghai and Canada in 2005. Total turnover contributed by this division amounted to HK\$10.8 million (2004: HK\$15.1 million), representing a decrease of 28.5 percent over that of last year. The segment result for this division amounted to HK\$439,000 (2004: HK\$7.5 million), representing a sharp decrease of approximately 94.1 percent over that of last year. The Group does not expect any further contribution from this division in 2006.

IT products and services – Turnover contributed by this division amounted to HK\$144.3 million (2004: HK\$429.7 million), representing a sharp decline of 66.4 percent over that of last year. Due to operation SPOR, the Group reduced its allocation of resources to this division and the segment profits amounted to only HK\$65,000 (2004: HK\$6.6 million), representing a sharp drop of approximately 99.0 percent. Following the continual downsizing of the IT products and services divisions in 2005 by way of significantly reducing the number of trades, the turnover and profits from this division has declined sharply. The Group intends to discontinue this division in 2006 and therefore this division is unlikely to contribute to the growth of the Group in the future.

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PROSPECTS

The Group is aware that the healthcare industry worldwide particularly in China is growing exponentially and in line with the recent resolutions adopted by the World Health Organization during the 58th World Health Assembly in 2005. There is an increasing emphasis on early detection and prevention of diseases by way of promoting national health programs in all member states to control and prevent diseases including cancers.

The Group's mission to develop and apply innovative biomedical solutions for the early detection and prevention of diseases may be traced back to 2000 when Shanghai HealthDigit Co. Limited (上海数康生物科技有限公司), a wholly-owned subsidiary of the Group, was founded. The accumulation of market experiences enables the Group to appreciate the opportunities and challenges for biomedical products and services, and structure its unique distribution network for growth.

This places the Group in a first mover advantage to service the increasing health conscious and affluent group of customers in China who demand higher standard of healthcare service and are looking for ways to improve quality of life including early medical therapy and treatment of diseases through early detection. The Group's protein 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.

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

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

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

PROSPECTS (continued)

Key Milestones Progress

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

(1) Expand production capacity for the protein chips.

As described in the 2004 Annual Report, the Group was planning to construct a new factory at the Songjiang Industrial Zone in the outskirts of the City of Shanghai to expand its production capacity for the protein chips. The Group decided to move the planned new factory to Fengxian MA District in Shanghai in May 2005. The new factory would be built on a site area with approximately 87,233 sq.m. at an estimated total cost of HK\$200 million.

As described in the 2004 Annual Report, the new plant will have a total production capacity of 8 million chips and will be a production base for a range of protein chips used for screening and diagnosis of different diseases. Relevant applications will be made to the China State Food and Drug Administration (“SFDA”) for a Good Manufacturing Practice Certificate (commonly known as “GMP”) for the new plant. It is expected that Phase I of the new plant with 4 million production capacity will be operational in the first quarter of 2007.

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

The Group is currently operating a plant at the Huzhou Economic & Technological Development Zone in the Zhejiang Province (the “Huzhou Plant”) with a production capacity of 1.5 million chips per annum. The Group’s flagship C12 protein chips are currently produced at this GMP compliant plant and the Group is expanding the production capacity at the Huzhou Plant from 1.5 million chips to 1.8 million chips in 2006



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

The Group currently distributes its C12 products to over 45 health centers for major insurance companies and over 450 hospitals in China through regional distributorships and direct sales. The Group will further expand the points of service to a total of 800 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 protein chips and systems and provide after-sales services for customers.

(4) Commit resources in marketing and promotional activities for different protein chips.

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

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

The Group continues to conduct research in-house on different applications of protein chips to be used for early detection of diseases. 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 has specific plans to launch new products such as protein chips for the detection of autoimmune and infertility diseases and to introduce new improved version of the C12 products within the next 24 months.



PROSPECTS (continued)

Key Milestones Progress (continued)

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

While the major market for the Group is China, the Group has commenced feasibility studies on various markets outside China and intends to work with partners and regulators in their respective native countries for the distribution of "HealthDigit" protein chips and systems. In 2005, the Group appointed Biomarkers Sdn Bhd. ("BIO") to be the sole and exclusive distributor for C12 protein chips in Malaysia, Indonesia and Brunei. BIO is an affiliation of HSC Medical Center in Kuala Lumpur, HSC is one of the world's leading one-stop medical, heart and diagnostic center specializing in early detection and treatment of heart, stroke and cancer with utilization of the latest medical technology. The Group plans to work in partnership with established medical professionals and centers in their respective countries for a more orderly distribution of the C12 products and systems. It is also the plan of the Group to enter other Asian markets, including Singapore, Thailand, Hong Kong and Taiwan within the next three years.

New Line of Protein Chips for the Early Detection of Diseases

In addition to the existing C12 products, the Group maintains a schedule for the introduction and launch of new types of protein chips. Following summary represents some of the protein chips that the Group plans to introduce to the market in the coming years:

– 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 damage 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.

The clinical tests for RAD protein chip have been successfully completed and the Group has applied to SFDA for the granting of new drug certificate for the RAD protein chip. The Group expects the approval would be granted in 2006. It is estimated that over 50 million people in China suffered from rheumatoid autoimmune diseases.

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

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

Clinical tests for ISD have already been completed in 2005 and the Group has submitted the ISD protein chips to SFDA for approval in early 2006. It is estimated that over 20 million people in China suffered from infertility and sterility diseases.

– Improved Version of C12 Protein Chip (referred to as "C12A")

The Group has further modified the existing C12 protein chips to improve the overall sensitivity from the average of 80 percent by at least 5 percent and strengthen the level of specificity.

Clinical tests for C12A have already been successfully completed in 2005 and the Group has submitted C12A protein chips to the SFDA for approval.

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PROSPECTS (continued)

Non Protein Chips

Following the disposal of all its key investment properties in 2004, the Group has successfully downsized its remaining IT products and services division in 2005. The Group's future plan will be solely centered on innovative medicare solutions in the healthcare area of early detection and prevention of diseases and there will no longer be any revenue contributions from this category in the future.

Conclusion

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

On a broader front, the Group will continue to expedite its business growth by actively pursuing new medical related opportunities through alliances, licensing and acquisitions. Finally, the Directors believe that the Group will continue to enjoy respectable growth in sales in C12 products and to benefit from diversifying other protein chips in the foreseeable future.

DIVIDEND

The directors do not recommend the payment of dividend for the year ended 31st December, 2005 (2004: Nil).

PLEDGE OF ASSETS

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

	2005 HK\$'000	2004 HK\$'000
Land and buildings	6,101	–
Pledged bank deposit	190	–
Properties held for sale	–	5,500
	6,291	5,500

LIQUIDITY AND FINANCING

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

At 31st December, 2005 the Group had cash and bank balances of HK\$489.3 million (2004: HK\$123.5 million). The Group's gearing ratio as at 31st December, 2005 was 52.8 percent (2004: 8.6 percent), based on bank and other borrowings of HK\$259.7 million (2004: HK\$33.1 million) and shareholders' fund of HK\$492.3 million (2004: HK\$383.9 million).

The Group's bank borrowings were denominated in Hong Kong Dollars and Renminbi. Bank borrowings totaling HK\$76.5 million were outstanding as at 31st December, 2005. Annual interest rates of the borrowings denominated in Hong Kong Dollars and Renminbi as at 31st December, 2005 were approximately 6.1 percent and 5.8 percent respectively.

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