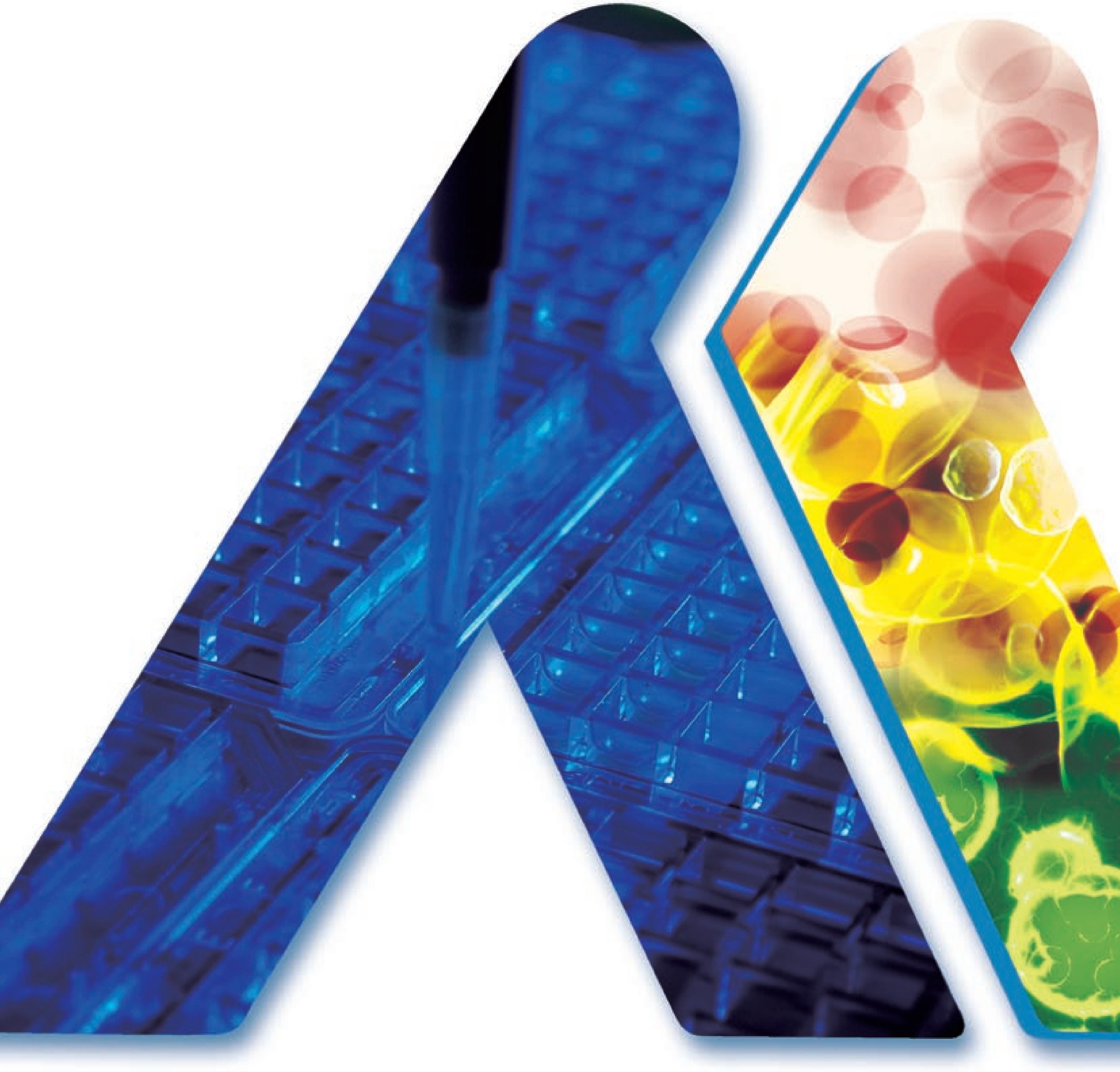
銘源醫療

Mingyuan Medicare Development Company Limited

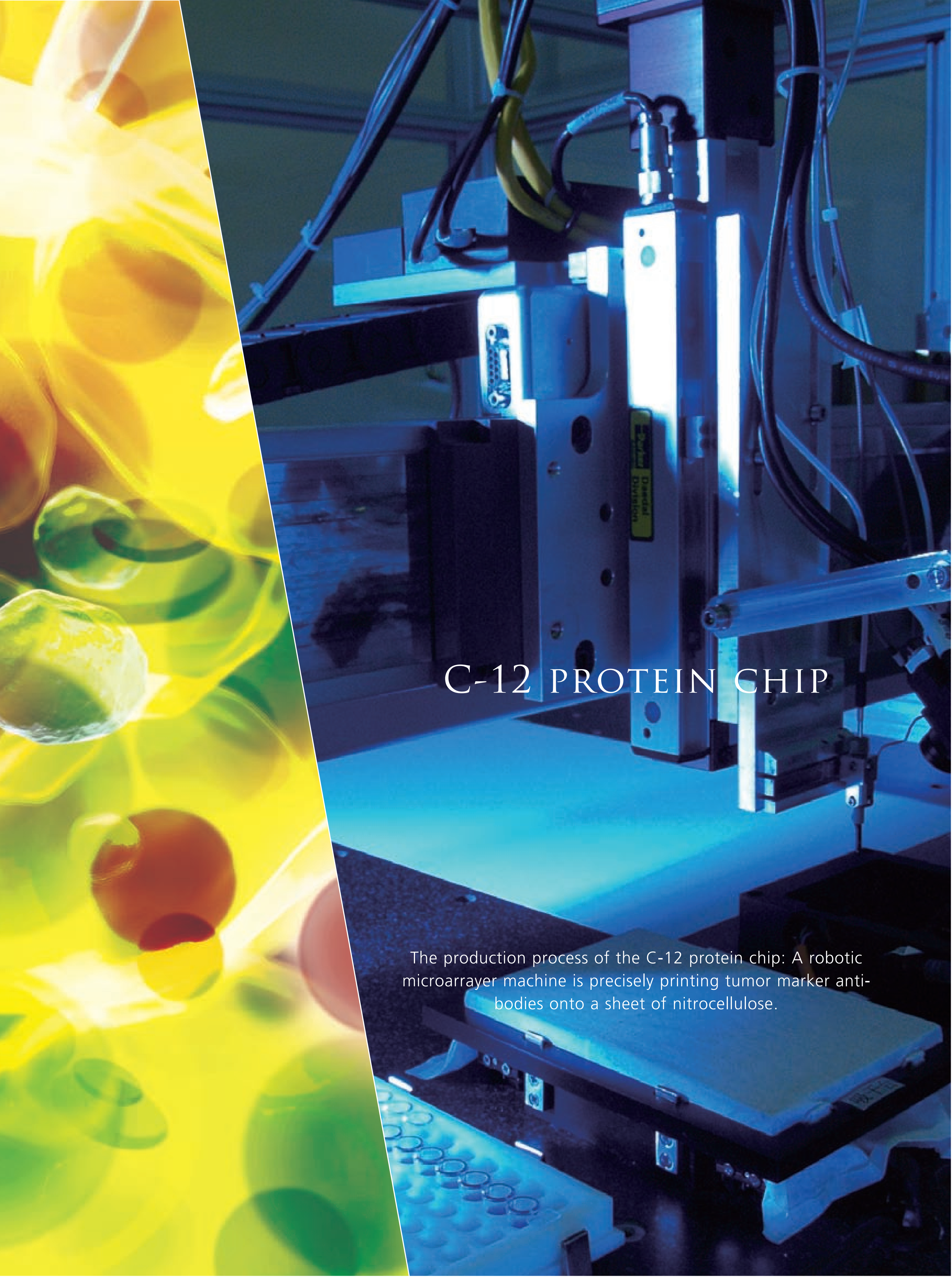
(Incorporated in Bermuda with limited liability)

Stock Code : 00233



INNOVATIVE MEDICARE OUR VISION

Annual Report 2008



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

Early Detection and Prevention of Diseases

MINGYUAN MEDICARE

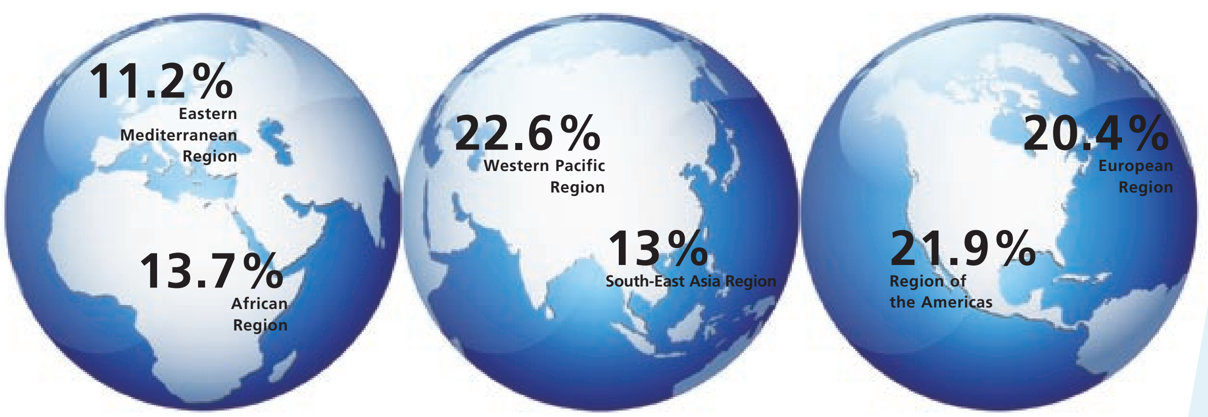
Development Company Limited (the "Company") principally engages in provision of innovative medicare solutions for the early detection and prevention of diseases particularly in China.

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).

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 a 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.

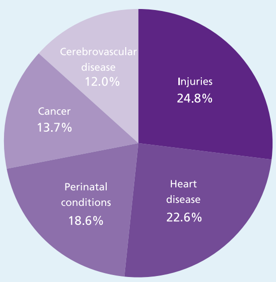
Source:

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

DEATHS BY CAUSE IN WHO REGIONS, 2002

AFRICA

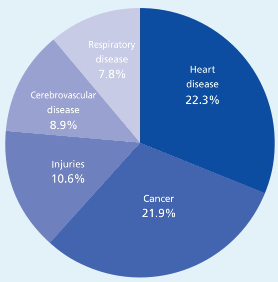
ALGERIA, CAPE VERDE, CENTRAL AFRICAN REPUBLIC, CONGO, KENYA & LIBERIA ETC.



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

AMERICA

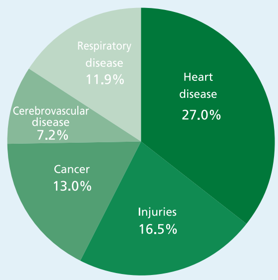
ARGENTINA, CANADA, CHILE, COLOMBIA, CUBA, MEXICO, PERU, USA & VENEZUELA ETC.



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

SOUTH-EAST ASIA

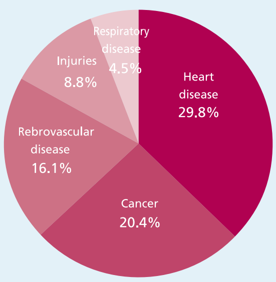
BANGLADESH, INDIA, INDONESIA, MALDIVES, MYANMAR, NEPAL, SRI LANKA & THAILAND ETC.



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

EUROPE

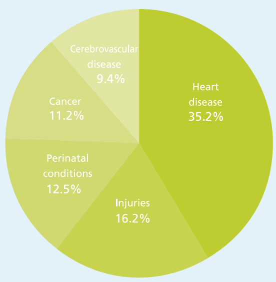
ALBANIA, ARMENIA, AUSTRIA, BELGIUM, BULGARIA, CZECH REPUBLIC, DENMARK, GERMANY & HUNGARY ETC.



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

EASTERN MEDITERRANEAN

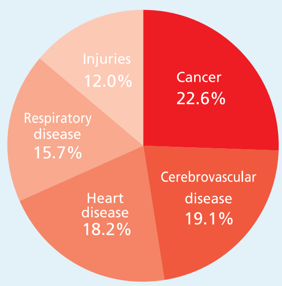
AFGHANISTAN, BAHRAIN, EGYPT, IRAN, IRAQ, KUWAIT, MOROCCO, PAKISTAN, SAUDI ARABIA & SUDAN ETC.



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)

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

Product Introduction

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:

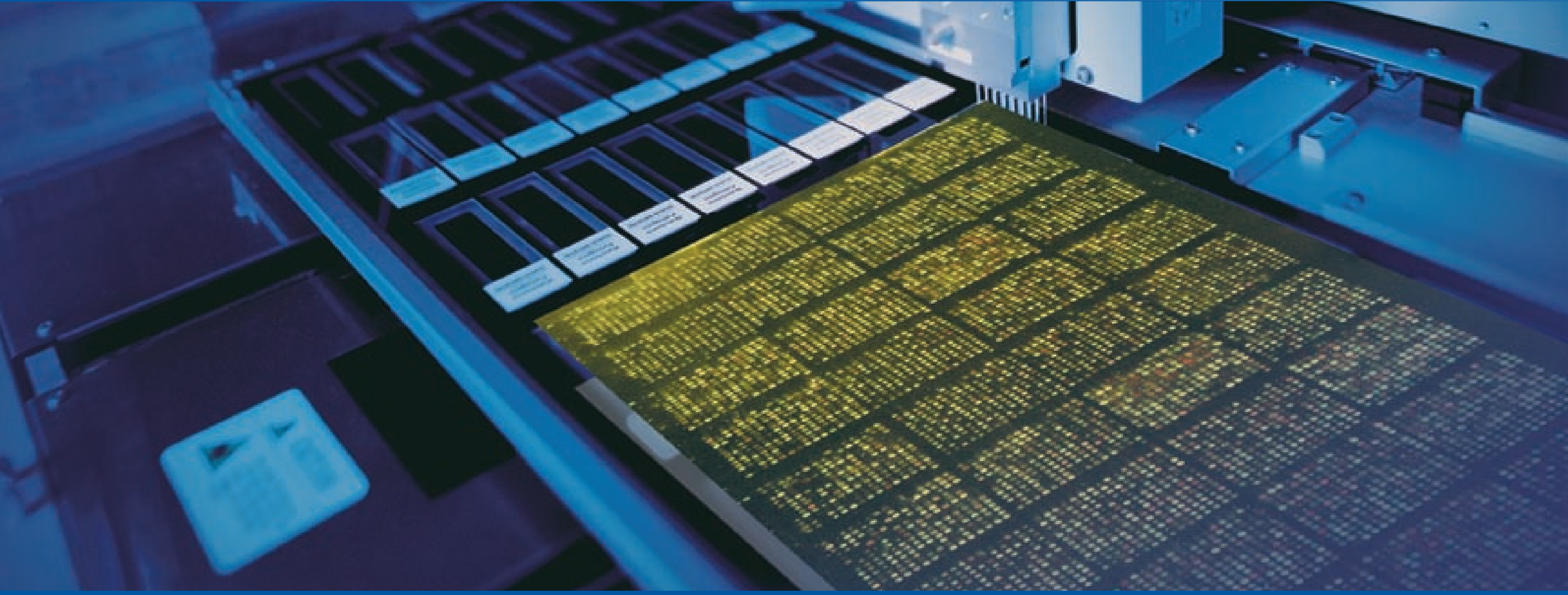
(1) screening a healthy population or a high risk population for the presence of cancer;
(2) making a diagnosis of cancer or of a specific type of cancer;
(3) determining the prognosis in a patient;
(4) monitoring the recovery of a patient or while receiving surgery, radiation, or chemotherapy.

Common Diagnosis Methods of Cancer:

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

Common Treatments of Cancer:

- Surgery
- Radiotherapy
- Chemotherapy
- Hormonal Therapy
- Immunotherapy



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' 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

Product Introduction

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)

Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr. Yao Yuan
Mr. Iu Chung
Mr. Chien Hoe Yong, Henry
Mr. Hu Jun
Mr. Yu Ti Jun

Non-Executive Directors
Mr. Yang Zhen Hua
Mr. Ma Yong Wei

Independent Non-Executive Directors
Dr. Lam Lee G.
Mr. Hu Jin Hua
Mr. Lee Sze Ho, Henry

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

Baker & Mckenzie
Cheng Wong Lam & Partners
Clifford Chance
Stephenson Harwood & Lo

PRINCIPAL BANKERS

CCB International Asset Management Limited
Citic Ka Wah Bank Limited
Citigroup Global Markets Asia Limited
DBS Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited

PRINCIPAL SHARE REGISTRARS

Butterfield Corporate Services Limited
65 Front Street, Hamilton, Bermuda

BRANCH SHARE REGISTRARS IN HONG KONG

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46th Floor, Hopewell Centre,
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Wanchai, Hong Kong

REGISTERED OFFICE

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

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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

C-12 protein chip

The Quality Control process of C-12 protein chip:
A technician is monitoring the process of antibody printing through a computer system for product quality control.

LU-07 ChipReader

The LU-07 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.

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:

EARLY DETECTION CAN SAVE LIVES

- 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 serves as a viable alternative to the 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 expanding our early screening and detection products to include cervical cancer and tuberculosis diseases.

Apart from committing a healthcare spending of over RMB850 billion in the next three years, the Chinese Government most recently published a landmark blueprint for its Healthcare Reform with an objective of providing a healthcare system that is safe, effective, convenient and affordable. The system is to be formed on the basis of providing quality services on public health, medical service, medical insurance and supply of medication to all Chinese citizens by 2020.

In line with other government healthcare policies in the developed countries, the reform places strong emphasis on disease prevention and China recognizes prevention and early detection of diseases to be extremely important for improving the quality of healthcare while also controlling costs. It is widely accepted that early screening can identify diseases and conditions earlier, where treatment can be more effective and cost less, and at the same time rewards lifestyle choices and behaviours.

Our continuous determination to leverage biomedical tests to conduct early screening for life threatening diseases are rewarded by the steady and fast 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 Cancer Care Insurance Policy through its extensive retail distribution network and the successful registration of the C-12 test on the provincial drug catalogue in three provinces will rapidly strengthen the concept of early screening amongst the Chinese population.

Being an early and leading pioneer of innovative biomedical solutions provider 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 disease 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

Despite challenging times in 2008 with the financial crisis continues to unfold and its impact to be felt in every economy in the world including China, it gives me pleasure to report that Mingyuan Medicare Development Company Limited and its subsidiaries (the "Group") continued to achieve good 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 steady 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 an affordable HPV DNA diagnostic kit for cervical cancer for women to protect their health and is also currently applying for a drug license for the TB Screening Chip to be used mainly for rapid screening and diagnosis of the global disease of tuberculosis. The Group believes that the further introduction of a diversity of different biomedical chips and tests on a regular basis which will continue to be based on the founding principles of high sensitivity, high reliability, low costing and high throughout.

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

Chairman's Statement (continued)

PERFORMANCE

In 2008, the Group's consolidated turnover amounted to HK$326.0 million for the year (2007: HK$256.4 million), representing an increase of approximately 27.1 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 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$150.8 million, representing an increase of 18.9 percent increase over the HK$126.8 million of 2007. Earnings per share were 5.13 HK cents, compared with 4.48 HK cents in 2007.

At the Protein Chip Division, this year the Group recorded a turnover of HK$290.5 million (2007: HK$219.0 million), representing a high double digit increase of approximately 32.6 percent over that of last year. More significantly, segment profits of the operation amounted to HK$207.4 million (2007: HK$183.4 million), representing an increase of approximately 13.0 percent over that of last year.

At the 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$35.5 million (2007: 37.4 million) and HK$2.7 million (2007: HK$581,000) 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 118 hospitals are approved to offer the testing kits to its customers.

BUSINESS REVIEW

This year has been an excellent 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 Core

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 8.8 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 nationwide distributorships. A combination of these methodical changes is producing strong growth in sales of protein chips and is expected to establish a more sustainable sales infrastructure for the Group.

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

Chairman's Statement (continued)

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.

PROSPECTS

Products and Services – The Twin Engine of Growth

Having established its position as a market leader in the commercialisation of in vitro diagnostic products (referred to as "IVD"), the Group intends to expand beyond its traditional principal business unit of low turnover and high margin sector of IVD testing kits and the unit may be referred to as "Product, Manufacturing and Distribution (simply as "PMD")" to a new but also a principal business unit of high turnover and moderate margin sector of health screening and management and the unit may be referred to as "Medical Centres Management (simply as "MCM")".

MCM will principally provide healthcare services for local residents that demand attentive and an on time quality healthcare services, and is complimentary to the existing business activities of PMD particularly in strengthening and expanding capability to launch health screening packages which will include new biomedical screening testing kits to residents living in major cities in China. MCM will further promote the concept of early health and screening and the Group intends to establish a nationwide network of medical centres by way of direct participation and franchise operations.

Cancer Prevention and Control – Vision

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.

Chairman's Statement (continued)

KM2003 objectives, adding revenue source and product series diversification

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

In the last few years, the Group has successfully established new revenue sources and further diversified its product platform series, and the Group is committed to further strengthen 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 establishing 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 and diagnosis of diseases. The Group has set its goals to develop its product platform into three major revenue sources, namely cancer, cardiac and other life threatening 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.

PIP Series

In addition to C-12 Protein Chip, the Group has successfully applied for a new drug license from the SFDA for its C-6 Protein Chip this year and is conducting preliminary sales study in selected provinces in China. With a lower costing and pricing structure, C-6 Protein Chip aims to serve the rural population and to be included in health screening packages at medical centres.

The Group expects the second generation of C-12 Protein Chip or referred to as C-12A will obtain licensing in 2009 and the latter shows significant improvement in both sensitivity and specificity which could be used for clinical applications in addition to its traditional application as a early screening chip.

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.

In 2006, 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.

In October 2008, the Nobel committee has awarded the Prize for Physiology or Medicine to Dr. Harald zur Hausen, a German physician-scientist, for his discovery of human papilloma viruses causing cervical cancer and this has demonstrated the Group's market vision in identifying technologically and commercially viable early screening product such as the HPV DNA testing kit for the Chinese market.

The Group is excited about the future of its HPV DNA products and its potential as a standard inclusion in health screening packages for the Chinese women population.

Tuberculosis Screening Chip ("TBS Chip")

Tuberculosis ("TB") is the number one infectious disease both in incidence and in death rate, causing about 2 million deaths globally and over 200,000 deaths in China each year. The disease is also making a comeback in recent years because of the emergence of AIDS, the abuse uses of antibiotics that result in TB drug resistance, and the lack of progress in recent years on new diagnostic and therapeutic technology to overcome the disease.

Chairman's Statement (continued)

That is why institutions such as the World Health Organization (referred to as "WHO") and the Bill & Melinda Gates Foundation have put up major efforts into fighting TB. The China government has also put high emphasis on the importance of the prevention of TB in its 11th Five Year Plan. According to WHO, the world market potential for TB diagnosis is over US$1.0 billion and the Chinese market potential for TB diagnosis is estimated would be over RMB1.0 billion.

On 15th May, 2008, the Company announced that SHMY Healthdigit Biochips Company Limited ("Healthdigit"), a wholly owned subsidiary of the Company, has completed the development of a protein chip product (the "TBS Chip") for the rapid diagnosis of TB. The TBS Chip is able to detect multiple TB specific antibodies in the blood serum of the patient without special laboratory settings rapidly and efficiently, and is capable of conducting TB screening for the mass population. The Group believes that this kind of rapid test could contribute more positively towards a better management of tuberculosis. The application process to State Food and Drug Administration (referred to as "SFDA") for the granting of drug license is underway with final approval expected in 2009.

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

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

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

In August 2008, the Group's TB project was approved by the Ministry of Health of China to be a key research project towards the better management of tuberculosis and special project grants were made available.

On 1st April, 2009, the Bill & Melinda Gates Foundation and the Ministry of Health of China announced a US$33 million project to test new ways to diagnose drug-resistant TB and assess new treatments and better ways to track patients. According the ministry, China accounts for fourteen percent of the world's overall TB cases and up to 22 percent of its drug-resistant cases, with about 130,000 deaths from the disease each year. Detecting drug-resistant TB quickly improves the chances a patient will survive and lowers the risk that the disease mutates further into an even more drug-resistant form of the disease. The Group believes that its TBS chip which is co-developed by the reputable Tuberculosis Research Laboratory in Beijing and will be licensed in 2009 will be a suitable candidate for consideration by the Ministry to screen for new TB cases in China.

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.

CHAIRMAN'S STATEMENT (CONTINUED)

As part of the Group's continuous measures to strengthen corporate governance and to further build professionalism at the Board, the Company has appointed two new non-executive directors to the Board on 27th June, namely, Mr. Yang Zhen Hua ("Mr. Yang") and Mr. Ma Yong Wei ("Mr. Ma").

Mr. Yang is a highly recognized professional who has devoted his career to the field of laboratory medicine and clinical chemistry in China. He is currently the President of the Chinese Committee for Clinical Laboratory Standards and Professorship at the Clinical Laboratory Centre at the Ministry of Health in China. Mr. Yang also holds positions as Honorary President of Chinese Society of Laboratory Medicine, the Honorary President of Chinese Association of Clinical Laboratory Management and the Honorary Chief Editor for the Chinese Journal of Laboratory Medicine. Mr. Yang has published more than 100 articles and books related to laboratory medicine and clinical chemistry. Mr. Yang is a pioneer for representing China's interests in international laboratory medicine and clinical chemistry and more notably as a national representative for China to the International Federation of Clinical Chemistry. Most recently, Mr. Yang was the Chairman for the Organization Committee of the 11th Asia Pacific Conference of Clinical Biochemistry which was successfully held in Beijing in October 2007.

Mr. Ma is a highly respected executive in both the financial and insurance industry in China and has over 35 years of experience in China. Mr. Ma is currently an independent non-executive director of China Life Insurance Company Limited, whose shares are listed on Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Ma started his banking career with the People's Bank of China since 1968. Mr. Ma was the Vice President of Agricultural Bank of China in 1984 and was the President of the Bank between 1985 and 1994. From 1994 to 1996, Mr. Ma was the Chairman and General Manager of the People's Insurance Company (Group) of China. Between 1996 and 1998, Mr. Ma was the Chairman and General Manager of China Insurance Group. Mr. Ma also had served Chairmanship for the China Insurance Regulatory Commission from 1998 to 2002. Mr. Ma was a member of the National Committee of the Chinese People's Political Consultative Conference from 2002 to March 2008.

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 240. By category, those who attended included fund managers (71%); analysts (15%); bankers (10%); media (2%); and others (2%). In addition, 3 roadshows and 7 investor forums were conducted with a total attendance of 161.

We have also participated in corporate briefings to financial institutions organized by various international securities houses, including Goldman Sachs (Asia) LLC, Morgan Stanley Asia Limited, J.P. Morgan Securities (Asia Pacific) Limited, Credit Suisse (Hong Kong) Limited, Citigroup Global Markets Asia Limited, DBS Vickers (Hong Kong) Limited and in New York, Boston, Singapore, Hong Kong and China.

CONCLUSION

Despite the current severe economic slowdown globally, we remain optimistic about the future of the Group and its business development opportunities following the announcement by the Chinese Government on its landmark blueprint for Healthcare Reform for the next decade and an earlier commitment to spend over RMB850 billion in the next few years relating to the reform.

While continuing on its existing corporate roadmap to maximise its existing sales revenue, the Group will apply for more provinces and major cities to be included on their drug catalogue and to further promote the clinical application of its C-12 Protein Chips as a new source of revenue.

The Group's revenue will be further diversified by the contribution made by the expanding sales of its superior HPV DNA cervical cancer screening testing kits and the C-6 Protein Chips. Nevertheless, the Group will implement prudent treasury and accounting practices to strengthen its cash resources and to review its financial ratios on a ongoing basis.

Yao Yuan
Executive Chairman
20th April, 2009

Management Discussion and Analysis

MARKET REVIEW

In 2008, China has experienced an exceptional year with the occurrence of some historic events including the catastrophic May 12 earthquake in the Sichuan Province and the Beijing 2008 Olympic Games. The world, however, would remember 2008 as the year that the global economy entered into the most severe downturn since the Great Depression in the 1930s following the collapse in the confidence of the international financial system. While the severity of the effects are still being unfolded, many of the developed economies have already entered into recession and growth in many emerging countries has been slowed down already.

Although the China economy has maintained double-digit growth for years, fixed-asset investment and exports have dwarfed consumption as the two pillars of expansion. With global recession clearly in view, the China government has acknowledged that the strategic and historic need of establishing a self sustaining domestic demand to offset weak demand abroad by way of loosening credit conditions, cutting taxes and approving a historic RMB4 trillion stimulus package to embark on a massive infrastructure program.

During this year of turbulence in the global financial industry and economy, China has managed to achieve a respectable growth rate of 9.0 percent, remaining one of the few countries in the world still manages a positive GDP growth rate. In the last five years, the China economy have grown over 88.1 percent with an average annual increase of 10.8 percent and the China economy is currently the third largest economy in the world. Confronting economic complexity both home and abroad, the China Government has switched from a prudent fiscal policy and a tight monetary policy to control inflation to a major economic policy change by adopting a flexible and prudent macro-economic policies to introduce more timely measures to expand domestic demand, speed up the construction of public facilities and improve living standards of the poor to achieve steady and relative fast economic growth.

Nevertheless, the China Government is committed to a steady and fast economic growth with emphasis on quality and efficiency of the growth and the type of growth based on domestic demand. Most recently at the Second Session of the 11th National People's Congress, the China Government announced its plan to maintain its GDP growth to approximately 8 percent in 2009 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 global financial crisis still unfolding, the China Government engages on strategic and fundamental changes in the economic structure of the country and holds the view that 2009 will be the most difficult year for China's economic development since the beginning of the 21st century.

The China Government has approved a landmark healthcare reform plan of RMB850 billion to be spent before 2011 to provide universal medical service to all Chinese citizens and to pave the road for further medical reforms. According to the reform plan, authorities would take measures within three years to provide basic medical security to all Chinese in urban and rural areas, improve the quality of medical services, and make medical services more accessible and affordable for ordinary people.

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

Since the introduction of the new rural cooperative medical care system, a total of 2,729 counties have already launched the program and that over 814 million farmers, which represented a participation rate of 91.5 percent, have participated.

From 2001 to 2008, the per capita income of urban and rural residents in China grew at annual averages of 9.9 percent and 6.4 percent respectively. In 2008 the per capita income of urban and rural residents per year was approximately RMB15,781 and RMB4,761 respectively, representing a growth of 8.4 percent and 8.0 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 2008 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 317.0 million in 2008, representing an increase of over 279.2 million participants with annual averages of 29 percent. Under the 11th Five Year Plan, it is estimated that the urban population in China will increase from 43 percent of total population to 47 percent of total population between 2005 and 2010, and 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

In this first extraordinary year of global financial crisis, the outlook for the Chinese economy remained uncertain and healthcare spending in both private and corporate sectors has becoming more conservative. In an increasingly difficult and challenging operating environment, the Group has resolved to be more prudent in its business development agenda and financial management approach until the positive effects of both the huge economic stimulus package and the healthcare reform spending is becoming more evident and the general operating environment becomes more sustainably stable.

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

Major corporate activities undertaken in 2008 were summarized as follows:

Major Events and Issues in 2008:

May	The Company in conjunction with the Tuberculosis Research Laboratory of Second Affiliated Hospital of the PLA General Hospital in Beijing has successfully developed a protein chip for the rapid screening of tuberculosis referred to as "TBS Chip" and has submitted a formal application to the State Food and Drug Administration ("SFDA") in China for certification on medical device in vitro diagnosis.
June	The appointment of two prominent non-executive directors, namely, Mr. Yang Zhenhua, a prominent industry expert on laboratory medicine and clinical chemistry, and Mr. Ma Yongwei, a prominent expert on banking and insurance industry, to further strengthen the corporate governance of the Company particularly in the areas of industry risk management.
July	The signing of a strategic co-operation memorandum between the Company and GE (China) Co., Ltd. to jointly exploit the possibility of developing medical and diagnostic centres in China.
	The Company participates in a national research project in China for the standardization of CEA tumor marker for inclusion in vitro diagnostic kits in conjunction with guidelines set by the Chinese National Institute for the Control of Pharmaceutical and Biological Products. The objective of the project is to establish a national standard for quality assurance for all in vitro diagnostic ("IVD") kits and the project is funded by the SFDA and the Ministry of Finance.
August	The Company's C-6 Protein Chip was approved by the SFDA as a medical device for in vitro diagnosis and the cost effective chip is designed to serve the rural population with screening focus on at least four common tumor types, including lung, liver, gastric and colorectal.

Management Discussion and Analysis (continued)

October	The appointment of the Company by Luminex Corporation, a Delaware corporation listed on NASDAQ to be the exclusive distributor of a series of newborn screening products based on its proprietary multiplexing xMAP technology for the diagnosis of genetic diseases in China and Hong Kong. The Company acquired 75 percent equity interest in Shanghai Kang Pei Bio-Medical Company Limited ("Shanghai Kang Pei"). Shanghai Kang Pei is principally engaged in the business of providing comprehensive medical diagnostic, health check, medical management and medical appraisal services to both private and corporate clients in China and is currently managing twelve medical centres with existing customer base of over 400,000 in cities including Shanghai, Tianjin, Chengdu and Taiyuan.
December	The Company was awarded "Hong Kong Outstanding Enterprises Parade 2008" by the Economic Digest, a popular business and economic magazine in Hong Kong, and the award was based on a number of criteria including financial performance growth, quality of corporate governance and popularity among retail investors.

Mission Statement – Innovative Medicare Solutions Partnership

The Group is a leading pioneer in commercializing new diagnostics technologies and is a leading supplier of biomedical solutions in China and has sold more than 8.8 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.

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

Protein Chips Division

Currently, the Group manufactures and distributes C-12 products to hospitals and life insurance companies in China. 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 fast growth in sales of C-12 products. As a proven and leading supplier of protein chips in China, the Group has been supplying C-12 products to life insurance companies in China for the pre-screening and general health appraisal of life and cancer policy applicants. More recently, C-12 products are listed on the BMIS as a reimbursable drug in the provinces of Hunan, Sichuan and Jiangsu, and the Group believes that more provinces and municipalities will include C-12 products on their BMIS. Despite a deteriorating global economy, the Group expects the overall growth for the protein chips sales based on domestic demand to be promising and sustainable in the future.

The Group continued to experience fast growth in its protein chips business operations and sold a total of 2.8 million protein chips (2007: 2.2 million), representing an increase of approximately 27.3 percent over that of last year.

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

Sales Strategy

The Group's sales strategy involves the setting up of sales' channels, the establishment of a comprehensive pricing structure for the different sales' channels, the strengthening of technical support structures, the building up a sustainable distribution network and the ongoing promotion of the effectiveness of IVD testing for life threatening diseases.

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

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

Sales channels

The Group continued to strengthen its sales network and has expanded beyond the distributorship channel where historically most of the sales were generated. The Group has successfully established direct sales channels for life insurance industry and large corporations, and more recently, has successfully be listed on the BMIS as a partially reimbursable IVD test in several location 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.

China Life – The Pursuit

On 19th December, 2006, the Group has successfully established a milestone sales channel that will invariably contribute significantly but progressively 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 "Cancer Care Insurance Policy" is a new health insurance policy developed by China Life, the largest life insurance provider in China. Being a major branch of China Life, CLS has over 4,000 exclusive agents and over seven million customers. 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 lasts for a period of three years.

The Cancer Care Insurance Policy is successful in Shanghai, and both China Life and the Group are promoting the cancer care policy in other branches of China Life. In the fourth quarter of 2008, the Group has successfully expanded the coverage to Chengdu, Changsha and Shenyang branches of Chia Life. The Group intends to add at least another four China Life cities each year until a total coverage of twenty five locations and the Group is working alongside with China Life personnel to expand the coverage progressively and methodically.

The Directors believes that the extensive insurance distribution network of China Life would further the promotion of cancer care policy thereby providing a sustainable sales of the C-12 products. The cooperation with China Life will further strengthening the Company's position as a leading supplier of biomedical chips and could eventually significantly increase the Company's sales of its proprietary protein chips and systems in coming years. While the momentum of the sales to China Life is in motion, the Group is patient in building a cooperation infrastructure for growth and providing education to the general employees regarding the advantages and reliability of IVD products.

Basic Medical System – A New Dawn Under The Healthcare Reform Spending

The Group has successfully applied C-12 products as a partially reimbursable drug under the "BMIS" in three provinces of Hunan, Jiangsu and Fujian. In 2008, sales increased at an average of over 40 percent at hospitals of these three provinces.

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

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

Management Discussion and Analysis (continued)

Chipreader optimization plan

As at 31st December, 2008, the Group had 435 (2007: 406) chipreaders in the market. The Group has successfully increased the utilization rate per chipreader per month by promoting the sharing of chipreaders among hospitals in the same location, reallocating some existing chipreaders to newly signed up hospitals and insurance companies, and increasing the production of chipreaders to meet new demands. During the year, the implementation of the optimization plan for chipreaders also contributed significantly to the increase in sales volume for the C-12 products. The utilization rate per chipreader will be further increased should sales on C-12 products continue to experience growth in the future and other new products were introduced.

Chipset packaging diversification

The Group currently maintains three different sizes of packaging for its customers, namely 48 wells chipset for the simultaneous testing of 42 patients, 24 wells for the testing of 18 patients and 16 wells for the testing of 10 patients. The smaller packaging for 18 and 10 patients is more popular with regional hospitals and allows more regular processing of C-12 products for patients. Nevertheless, the Group maintains a flexible policy on packaging based on a reasonable demand from its customers and will review the packaging from time to time.

After sales service

The Group continues to strengthen after sales service to its customers and in house procedure has been developed to track down details of subsequent therapeutic treatments in hospitals for cancer patients being diagnosed. The Group places great emphasis on the after sales services and is hosting regular sales review with distributors and relevant hospital personnels to gather comments for further improvement in both products and services. The after sales services not only indicate that our customers are actually being cared for. It also embeds in our employees a sense of mission to assist our customers and their patients.

Healthcare Division

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

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

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

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

The HPV DNA testing kits offer superior sensitivity (>95%) for early screening 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.

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

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

FINANCIAL PERFORMANCE

The net profit attributable to shareholders amounted to HK$150.1 million (2007: HK$125.3 million), representing an increase of 19.8 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 5.13 HK cents (2007: 4.48 HK cents), representing a significant increase of approximately 14.5 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$290.5 million (2007: HK$219.0 million), representing an increase of approximately 32.6 percent over that of last year. Segment profits of this division amounted to HK$207.5 million (2007: HK$183.4 million), representing an increase of approximately 13.1 percent over that of last year.

The Group continued to experience strong growths and sold a total of 2.8 million protein chips (2007: 2.2 million), representing an increase of 27.3 percent over that of last year. The Group continued to enlarge its sales and related after sales support to life insurance companies, particularly the China Life group of branches in China. Based on the proven servicing and logistical model in Shanghai, the Group plans to support the launch of the relevant China Life's Cancer Care Insurance Policy in other major cities in China and the Group has expanded its coverage to three additional cities including Changsha City in Hunan Province, Chengdu City in Sichuan Province and Shenyang City in Liaoning Province.

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 Hospital Unit and the Cervical Cancer Care Unit. Turnover contributed by this division amounted to HK$35.6 million (2007: HK$37.4 million). The segment profits of this division amounted to HK$2.7 million (2007: HK$581,000).

Cervical Cancer Care Unit

The Group officially launched its new HPV DNA diagnostic kits in 2007 with the successful appointment of distributors in nine provinces and two municipalities including Tianjin, Beijing and Shanghai. In 2008, the Group sold more than 38,000 kits (2007: 25,000 kits) and the HPV DNA diagnostic kits are already approved to sell in over 118 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

The international financial crisis created new challenges in 2008 and the year ahead is likely to be equally demanding and challenging. The global downturn in economy will inevitably lead to a deterioration in consumer and corporate confidence which in turn leads to a more prudent spending approach and agenda including healthcare spending. The PRC's massive RMB4 trillion economic stimulus package and the RMB850 billion healthcare reform are very encouraging news to soften the effects of a slowdown in global economy.

In 2009, the Group will adopt a prudent approach towards the management of its business operations and will exercise tighter controls on financial management. The Group will further strengthen its communication with its customers including distributors, hospitals, medical centres and life insurance companies to provide closer technical and customer support while establishing a better understanding of their needs in these challenging times.

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.

Management Discussion and Analysis (continued)

In pursuit of its KM2003 Objectives, the Group is pleased with the progress on the implementation of its business plans that are largely focused on product series diversification, sales channel diversification, production expansion, technology partnerships, technology promotion, etc. This has led to the successful listing of C-12 products on the Drug Catalogue of three major provinces including Hunan, Sichuan and Jiangsu, the launch of the HPV DNA testing kits for cervical cancer in over 118 hospitals, and the set up of the unique sales arrangement with CLS for its Cancer Care Insurance Policy which has now been extended to four cities including Shanghai, Changsha, Chengdu and Shenyang.

Being the leading biomedical company in the area of early screening and detection of diseases in the PRC, the Group understands that there are many challenges and risks associated with the industry ahead. 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.

Facing a recession, government globally is facing strained healthcare budgets and there is a strong belief that a reallocation of resources to a program of strong prevention and early detection would contribute to a healthier population and deliver considerable savings. During the 58th World Health Assembly of the World Health Organisation ("WHO") held in 2005, member states adopted a number of resolutions that included a common understanding on early detection and prevention of diseases by way of promoting national health programs to control and prevent diseases including cancers. It is estimated by WHO that one third of all cancer cases and 80 percent of premature deaths from heart attacks and strokes are preventable. Earlier detection of diseases can lead to more effective treatment and prevention offers the most cost-effective and long term strategy for the control of cancer and other diseases.

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

Since 2003, the Group has 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 China which is one of the most promising healthcare markets in the world. Despite many challenges ahead, the outlook for the Group is promising and is optimistic about its future and role in the healthcare reform.

In order to further strengthen the Group's position as a market leader in the IVD sector, the Group intends to expand beyond its traditional principal business unit of low turnover and high margin sector of IVD testing kits, refers to as "Product, Manufacturing and Distribution ("PMD")", to a new business unit of high turnover and moderate margin sector of health screening and management, refers to as "Medical Centres Management ("MCM")".

Management Discussion and Analysis (continued)

Details of PMD and MCM are illustrated below:

Product, Manufacturing and Distribution ("PMD")

Key Milestones Progress

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

(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 C-12 protein 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 over 1,000 hospitals and health centers of insurance companies. At the new plant site, the Group is currently building a composite training center to train medical and healthcare personnel on handling of protein chips and systems and provide after sales services for customers.

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

In addition to the three provinces where C-12 products are listed on the individual BMIS as partially reimbursable drug items, the Group believes that C-12 products will be qualified in more provinces and municipalities as a partially reimbursable item.

(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 Strategic Marketing Department is responsible for the setting up of marketing and promotional programs on a timely basis 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.

In 2008, the department successfully organized a high level review of the potential value of C-12 products for clinical applications which are currently served by single markers with an estimated market size of over RMB4 billion per annum. The results of the comparative study were very encouraging and the Group intends to supply C-12 products for clinical applications at hospitals in Shanghai on a trial basis.

An independent study on the Group's HPV DNA testing kit which is based on Multiplex PCR Fluorescence Technique was conducted during the period from October 2007 and June 2008 on approximately 2,000 samples in Beijing and Shenzhen. Results of this independent study were very encouraging and it demonstrated that the Group's HPV DNA testing kit achieved a higher clinical value when compared with other existing HPV detection methods and the traditional smear methods. The study will further strengthen the Group's HPV DNA testing kit as a technologically advanced and reliable product to be used for cervical cancer screening and diagnosis.

In an announcement on 17th July, 2008, the Chinese National Institute for the Control of Pharmaceutical and Biological Products (referred to as "NICPBP") invited Healthdigit to participate in a national research project in China for the standardization of tumor makers for IVD kits. The objective of the project is to establish a national standard for quality assurance for IVD kits. The project is organized and funded by the SFDA and the Ministry of Finance of the China. This is the first a national program to standardize various materials for IVD kits including establishing a national quality standard for existing and future tumor markers.

As an integral part of the SFDA's quality control and supervision organizational structure, the NICPBP is the statutory body and the highest technical arbitration body in respect of testing the quality of pharmaceutical and biological products. NICPBP principally conducts technical appraisals of pharmaceutical and biological products (whether domestically produced or imported) and assesses quality standards with respect to new pharmaceutical and biological products, etc. Besides, the NICPBP has established a standard for IVD reagents and carries out regular market spot checks on IVD reagents sold in the domestic market.

NICPBP has been designated by WHO as a "World Health Organisation Drug Quality Centre" and in February 2008 at the invitation of the United States Pharmacopeia Convention ("USP Convention") and under the approval of the SFDA, has formally become a member of USP Convention. NICPBP and USP Convention will collaborate on a few areas, including the strengthening of documentary and physical standards for maintaining the quality of medicines and the setting up of review, testing, and audit procedures on manufacturers of ingredients imported into China and those manufacturing for export from the China to the United States.

This program is essential for quality control of IVD products in clinical applications. Currently, the standards and written guidelines for quality control of IVD kits or tumor maker detection kits have not been fully established in the China market. The objectives of this program is to establish a national standard to allow both NICPBP and manufacturers to assure the quality of the IVD products or tumor marker detection kits more systematically, reliably and effectively. This program will also lay the framework for future programs on standardization of other pharmaceutical and biological products.

Under the project, the Healthdigit will conduct calibrating procedures on the CEA tumor marker. While the NICPBP is responsible for providing research methods, research plan, and funding, Healthdigit will undertake the execution of the research plan according to specific guidelines. CEA is one of the most commonly used tumor markers in clinical practice. It is also an integral part of the C-12 protein chip products.

NICPBP is part of the SFDA's positive efforts to modernize its existing approving and supervisory procedures and to adopt a more uniform and global approach for the strengthening of quality standards on all drugs and medical devices that are distributed in China.

By participating in this project at the exclusive invitation of the NICPBP, we believe that our long-standing experience would make the necessary contribution towards the quality standard settings for tumor marker. Our participation in this project will invariably also allow us to gain an in-depth knowledge on the national requirements on existing and future applications governing markers and, on sample and quality testing and verification procedures and will allow us to develop other series of multi-markers IVD testing kits.

(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.

Under the LIP product platform, the Group has 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 since 2006. 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.

On 15th May, the Company announced that SHMY Healthdigit Biochips Company Limited ("Healthdigit"), a wholly owned subsidiary of the Company, has completed the development of a protein chip product (the "TBS Chip") for the rapid diagnosis of tuberculosis ("TB"). The TBS Chip is able to detect multiple TB specific antibodies in the blood serum of the patient without special laboratory settings rapidly and efficiently, and is capable of conducting TB screening for mass population. The Group believes that this kind of rapid test could contribute more positively towards an effective management of TB. The application process to the SFDA for the granting of drug license is underway with final approval expected in 2009.

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

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

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

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

While the major market for the Group is China, the Group has commenced feasibility studies on various markets outside China and intends to work with partners and regulators in their respective native countries for the distribution of "HealthDigit" protein chips and systems. The Group believes that the TBS Chip for tuberculosis and HPV DNA Testing Kits for cervical cancer have export potentials and could contribute effectively globally towards the management of the two diseases.

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

Management Discussion and Analysis (continued)

On 25th July, the Company entered into a strategic co-operation memorandum with GE (China) Co., Ltd. Healthcare to begin a feasibility study to establish medical and diagnostic centres jointly in the China. Under the strategic co-operation memorandum, the Company would build up a network of medical and diagnostic centres in the China with the help of GE Healthcare for the provision of "Early Health" services. The "Early Health" services would include an early screening for major diseases with the application of the advanced biomedical servicing kits provided by the Company and a combination of X-Ray, digital mammography, Computed Tomography, Magnetic Resonance and Molecular Imaging technologies provided by GE Healthcare. In addition, GE Healthcare would continue promoting the "Early Health" concept among the public worldwide.

GE (China) Co., Ltd. Healthcare is the arm of GE Healthcare in the China. Headquartered in Chalfont St. Giles, United Kingdom, GE Healthcare is an important business unit at General Electric Company. General Electric Company was ranked number 6 by Fortune magazine in ranking the America's largest corporations for 2008. GE Healthcare provides transformational medical technologies and services that are shaping a new age of patient care. Their expertise in medical imaging and information technologies, medical diagnostics, patient monitoring systems, performance improvement, drug discovery, and biopharmaceutical manufacturing technologies is helping clinicians around the world with new ways to predict, diagnose, inform and treat disease, so their patients can live their lives to the fullest. At the present moment, GE Healthcare has a workforce of over 3,000 employees in China and has set up service centres in various major cities in China.

On 2nd October, 2008, the Company entered into a distribution agreement with Luminex Corporation ("Luminex"), a Delaware corporation listed on NASDAQ, to be the exclusive distributor of a series of newborn screening products ("NSPs") for the diagnosis of genetic diseases in China and Hong Kong. The NSPs are developed by Luminex utilizing its proprietary multiplexing xMAP technology.

Genetic disorders such as phenylketonuria (commonly known as PKU), congenital hypothyroidism (commonly known as CH), congenital adrenal hyperplasia (commonly known as CAH) and glucose-6-phosphate dehydrogenase (commonly known as G6PD) deficiency affect the development of thousands of newborns each year in China. If these disorders are not found and detected early, the affected newborns may experience significant cognitive development delays and ongoing health complications. There are about 20 million newborns each year in China and newborn screening of genetic disorders are mandated by the Chinese government. When genetic disorders are detected in babies early, doctors can monitor the babies for health complication and begin treatments quickly. This will improve the infants quality of life and life expectancy. Instead of detecting each genetic disorder one at a time, Luminex's proprietary multiplexing xMAP technology can simultaneously analyze up to 100 unique assays within a single sample, making large scale screening more efficient, accurate and less costly.

Luminex develops, manufactures and markets innovative biological testing technologies with applications throughout the life science and diagnostic industries. Luminex's proprietary multiplexing xMap technology delivers fast, accurate and cost effective bioassay results and is sold worldwide to leading clinical laboratories as well as major pharmaceutical, diagnostic and biotechnology companies.

Management Discussion and Analysis (continued)

(6) *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:

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

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

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

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

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

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

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

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

Management Discussion and Analysis (continued)

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

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

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

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

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

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

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

  Clinical tests for RAD protein chip have been successfully completed and it is estimated that over 50 million people in 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 and it is estimated that over 20 million people in China suffered from infertility and sterility diseases.

Medical Centres Management ("MCM")

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

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

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

On 30th October, 2008, Huzhou HealthDigit Company Limited, a wholly-owned subsidiary of the Company, acquired 75 percent equity interest in Shanghai Kang Pei which is a domestic limited liability company established in the PRC on 11th January, 2000.

Shanghai Kang Pei and its three (3) subsidiaries and two (2) jointly controlled entities are principally engaged in the business of providing medical diagnostic, health check and medical appraisal services to clients in China. Shanghai Kang Pei currently has a network of 12 medical centers in Shanghai, Tianjin, Chengdu and Taiyuan in China. Total number of clients served by Shanghai Kang Pei and its subsidiaries exceeds 400,000 per annum.

The acquisition of Shanghai Kang Pei would provide to the Company a readily established MCM network to begin the above mentioned objectives and benefits.

Conclusion

In most of the major developed countries, there is a trend that an increasing number of hospitals are reporting a decline in patient visits and hospitals are struggling with shrinking revenue as the global recession is spreading spirally downwards. It is becoming a reality that healthcare is no longer recessionary proof as more people are losing their jobs and consumer confidence is severely affected.

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

The China Government has already referred 2009 to be possibly the most difficult year for China's economic development since the beginning of the 21st century and it was evident that individuals and corporations in China are becoming more prudent on their healthcare spending. The Management of the Group is ready to face the challenges ahead and is adopting a flexible, prudent and conservative approach towards the implementation of its business development strategies while maintaining a sustainable growth rate for its turnover and profitability.

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

Being a leading supplier of protein chips and solutions for early detection of diseases in the high growth healthcare industry in China, the Group appreciates the many challenges and risks that are associated with the high growth industry and believe that the Group is reasonably well placed to respond to the risks and challenges accordingly.

The Group is working closely with an increasing number of healthcare institutions including hospitals, medical centres, clinical laboratory testing centres, etc. to understand better testing needs of the patients in order to introduce innovative and effective screening and diagnostics methods. The Group also understands the constant evolution of biomedical science and its applications, and will continue to expedite its business growth by actively pursuing new medical related opportunities through alliances, licensing and acquisitions. The Group is optimistic about its future and is in a state of readiness to face the many new challenges in 2009.

FINAL DIVIDEND

The Directors do not recommend the payment of a final dividend (2007: HK$0.01 per share) for 2008.

Management Discussion and Analysis (continued)

PLEDGE OF ASSETS

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

	2008	2007
	HK$'000	HK$'000
Prepaid lease payments	**43,728**	42,500
Buildings	**172,464**	169,721
Buildings under construction	**81,160**	–
Investments held for trading	**2,385**	14,429
Pledged bank deposits	**16,923**	–
	316,660	226,650

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, 2008 the Group had cash and bank balances of HK$619.8 million (2007: HK$453.5 million). The Group's gearing ratio as at 31st December, 2008 was 23.4 percent (2007: 23.3 percent), based on bank and other borrowings of HK$237.2 million (2007: HK$192.9 million) and shareholders' fund of HK$1,014.9 million (2007: HK$827.4 million).

The Group's bank borrowings were denominated in Hong Kong Dollars and Renminbi. Bank borrowings totaling HK$199.9 million were outstanding as at 31st December, 2008 (2007: HK$138.1 million). The range of effective interest rates on the bank borrowings as at 31st December, 2008 was approximately 1.85 percent to 6.34 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 31st December, 2008 and 31st December, 2007, the Group did not have any significant contingent liabilities.

Profiles of Directors

MR. YAO YUAN

Mr. YAO Yuan, aged 53, 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 (上海工商联合会).

MR. IU CHUNG

Mr. IU Chung, aged 51, 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 45, 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 67, is currently the Executive Director of the Company. Mr. Hu has over 39 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 57, 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.

PROFILES OF DIRECTORS (CONTINUED)

MR. YANG ZHEN HUA

Mr. YANG Zhen Hua, aged 73, is currently a Non-Executive Director of the Company. Mr. Yang graduated from the Chinese Medical University in Shenyang in 1956 and has devoted his career to the field of laboratory medicine and clinical chemistry in China. He is currently Vice-President of the Chinese National Joint Committee of Traceability on Laboratory Medicine and Professorship at the National Centre for Clinical Laboratories under the Ministry of Health in China. Mr. Yang also holds positions as Honorary President of the Chinese Society of Laboratory Medicine, Honorary President of the Chinese Association of Clinical Laboratory Management and Honorary Chief Editor for the Chinese Journal of Laboratory Medicine and Advisor of Chinese Committee of Clinical Laboratory Standards. Mr. Yang has published more than 100 articles and books related to laboratory medicine and clinical chemistry. Mr. Yang has been a pioneer for representing China's interests in international laboratory medicine and clinical chemistry and more notably as a national representative for China to the International Federation of Clinical Chemistry. In 2007, Mr. Yang was the Chairman for the Organization Committee of the 11th Asia Pacific Conference of Clinical Biochemistry.

MR. MA YONG WEI

Mr. MA Yong Wei, aged 66, is currently a Non-Executive Director of the Company. Mr. Ma graduated from Liaoning Finance and Economics College (now Dongbei University of Finance & Economics) and has over 35 years of extensive experience in the banking and insurance industries in China. Mr. Ma started his banking career with the People's Bank of China since 1968. Mr. Ma was the Vice President of Agricultural Bank of China in 1984 and was the President of the Bank between 1985 and 1994. From 1994 to 1996, Mr. Ma was the Chairman and General Manager of the People's Insurance Company (Group) of China. Between 1996 and 1998, Mr. Ma was the Chairman and General Manager of China Insurance Group. Mr. Ma also had served Chairmanship for the China Insurance Regulatory Commission from 1998 to 2002. Mr. Ma was a member of the National Committee of the Chinese People's Political Consultative Conference from 2002 to March 2008. Mr. Ma is also an Independent Non-Executive Director of China Life Insurance Company Limited.

DR. LAM LEE G.

Dr. LEE G. LAM, aged 49, is currently an Independent Non-Executive Director of the Company since 13th September, 2002. 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, a PCLL in law (and has completed the Bar Course) from the City University of Hong Kong, and a Doctor of Philosophy from the University of Hong Kong. Dr. Lam has over 26 years of multinational operation and 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 an independent or non-executive director of several publicly-listed companies in the Asia Pacific region. Having served as a Part-time Member of the Central Policy Unit of the Government of the Hong Kong Special Administrative Region for two terms, Dr. Lam is a Member of the Hong Kong Institute of Bankers, a Board Member of the East-West Center Foundation, a Member of the Young Presidents' Organization, a Fellow of the Hong Kong Institute of Directors and a Member of its Corporate Governance Committee, a Member of the General Committee and the Corporate Governance Committee of the Chamber of Hong Kong Listed Companies, and a Visiting Professor at the School of Economics & Management of Tsinghua University in Beijing.

MR. HU JIN HUA

Mr. HU Jin Hua, aged 66, 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 40, 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 20 years of experience in international accounting and financial planning.

Profiles of Senior Management

MR. LAU YUEN SUN, ADRIAN

Mr. LAU Yuen Sun, Adrian, aged 54, 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 27 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 is also serving directorships in various listed companies in Hong Kong. Mr. Lau is the Vice President of the Company.

MR. LU XIQIANG

Mr. LU Xiqiang, aged 47, 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 41, 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 52, 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 47, 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, study of molecular mechanisms of human diseases, and development of model organisms. Dr. Liu is the Assistant to the President, and General Manager of the Center for Products Planning at Shanghai HealthDigit Company Limited, responsible for technology and products development.

MR. LIM SAY KIAN, STEPHEN

Mr. LIM Say Kian, Stephen, aged 41, holds a Bachelor Degree in Economics (Honours) from National University of Singapore. Mr. Lim has over 17 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, 2008, 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, two Non-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, 2008 is set out below:

	Attendance/Number of Meetings		
Directors	**Board**	**Audit Committee**	**Remuneration Committee**
Executive Directors			
Mr. Yao Yuan *(Chairman)*	6/6	N/A	N/A
Mr. Chien Hoe Yong, Henry *(Chief Executive Officer)*	6/6	N/A	1/1
Mr. Hu Jun	6/6	N/A	N/A
Mr. Yu Tin Jun	6/6	N/A	N/A
Mr. Iu Chung	6/6	N/A	N/A
Non-Executive Directors			
Mr. Yang Zhen Hua *(Note)*	3/3	N/A	N/A
Mr. Ma Yong Wei *(Note)*	3/3	N/A	N/A
Independent Non-Executive Directors			
Dr. Lam Lee G.	6/6	2/2	1/1
Mr. Hu Jin Hua	6/6	2/2	N/A
Mr. Lee Sze Ho, Henry	6/6	2/2	1/1

Note:

Both Mr. Yang Zhen Hua and Mr. Ma Yong Wei were appointed as Non-Executive Directors of the Company with effect from 27th June, 2008.

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.

CORPORATE GOVERNANCE REPORT (CONTINUED)

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 and 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. The newly appointed Non-executive Directors, Mr. Yang Zhen Hua and Mr. Ma Yong Wei are required to retire and subject to re-election by shareholders at the forthcoming annual general meeting.

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, 2008, 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.

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, 2008, 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.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The Audit Committee had two meetings with the Financial Controller during the year ended 31st December, 2008 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, 2008 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.

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.

CORPORATE GOVERNANCE REPORT (CONTINUED)

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$1,800,000 (2007: HK$1,600,000) was charged to the 2008 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 was HK$690,000 (2007: HK$192,600).

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 2008 Annual General Meeting held on 2nd June, 2008, 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 on a timely basis.

DIRECTORS' REPORT

The directors present their annual report and the audited consolidated financial statements for the year ended 31st December, 2008.

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, 2008 are set out in the consolidated income statement on page 48.

The directors do not recommend the payment of a final dividend to the shareholders for the year 2008.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 16 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.

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, 2008, the Company had no reserves available for distribution to its shareholders (2007: HK$48,967,000).

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 47% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 18% of the Group's total sales. The aggregate purchases attributable to the Group's five largest suppliers comprised approximately 57% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 43% 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

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. Iu Chung

Non-executive directors

Mr. Yang Zhen Hua	(appointed on 27th June, 2008)
Mr. Ma Yong Wei	(appointed on 27th June, 2008)

Independent non-executive directors:

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

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' REPORT (CONTINUED)

DIRECTORS' INTERESTS IN SHARES

As at 31st December, 2008, 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	966,079,075 *(Note (i))*	Long	32.92%
		123,355,263 *(Note (i))*	Short	4.26%
Mr. Iu Chung	Held by controlled corporation and beneficial owner	999,419,075 *(Note (ii))*	Long	34.06%
		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. Iu Chung respectively.

(ii) Being the aggregate personal interest of 33,340,000 shares and the corporate interest held by Ming Yuan Investments Group Limited of 966,079,075 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, 2008, 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.

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:

					Number of share options				
Directors	Date of grant	Exercise price	Vesting period	Exercisable period	Outstanding at 1.1.2008	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2008
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
					12,400,000	–	–	–	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					51,300,000	–	–	–	51,300,000
Employees									
Employees	8.4.2005	HK$0.728	N/A	8.4.2005 – 7.4.2010	1,200,000	–	(600,000)	–	600,000
			8.4.2005 – 7.4.2006	8.4.2006 – 7.4.2010	3,400,000	–	(800,000)	–	2,600,000
			8.4.2005 – 7.4.2007	8.4.2007 – 7.4.2010	11,500,000	–	(4,700,000)	–	6,800,000
			8.4.2005 – 7.4.2008	8.4.2008 – 7.4.2010	16,900,000	–	(2,500,000)	–	14,400,000
			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	3,800,000	–	(900,000)	–	2,900,000
			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					67,820,000	–	(9,500,000)	–	58,320,000
Total for directors and employees					119,120,000	–	(9,500,000)	–	109,620,000

DIRECTORS' REPORT (CONTINUED)

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, 2008, 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
Long positions				
Ming Yuan Investments Group Limited	Beneficial owner	966,079,075	*(i)*	32.92%
Ming Yuan Holdings Limited	Held by controlled corporation	966,079,075	*(i)*	32.92%
Mr. Yao Yuan	Held by controlled corporation	966,079,075	*(i)*	32.92%
Mr. Iu Chung	Beneficial owner and held by controlled corporation	999,419,075	*(i)&(ii)*	34.06%
Highbridge International LLC	Beneficial owner	153,513,513	*(iii)*	5.23%
Highbridge Master L.P.	Held by controlled corporation	153,513,513	*(iii)*	5.23%
Highbridge Asia Opportunities Master L.P.	Held by controlled corporation	153,513,513	*(iii)*	5.23%
Highbridge G.P., Ltd.	Held by controlled corporation	153,513,513	*(iii)*	5.23%
Clive Harris	Held by controlled corporation	153,513,513	*(iii)*	5.23%
Richard Crawshaw	Held by controlled corporation	153,513,513	*(iii)*	5.23%
NaZareth Group Limited	Held by controlled corporation	628,309,075	*(iv)*	21.41%
Provider Pacific Holdings Limited	Beneficial owner	628,309,075	*(iv)*	21.41%
FMR LLC	Beneficial owner	234,370,000	*(v)*	7.99%
FMR Co	Held by controlled corporation	224,950,000	*(v)*	7.67%
Fidelity Management & Research Company	Held by controlled corporation	224,950,000	*(v)*	7.67%

DIRECTORS' REPORT (CONTINUED)

Name	Capacity	Number of shares	*Notes*	Shareholding percentage
Short positions				
Ming Yuan Investment Group Limited	Beneficial owner	123,355,263	*(i)*	4.20%
Ming Yuan Holdings Limited	Held by controlled corporation	123,355,263	*(i)*	4.20%
Mr. Yao Yuan	Held by controlled corporation	123,355,263	*(i)*	4.20%
Mr. Iu Chung	Held by controlled corporation	123,355,263	*(i) & (ii)*	4.20%

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. Iu Chung respectively.

(ii) Being the aggregate of personal interest held by Mr. Iu Chung of 33,340,000 shares and the corporate interest held by Ming Yuan Investments Group Limited of 966,079,075 shares.

(iii) 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, Master L.P., 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.

(iv) The 628,309,075 shares were held by Provider Pacific Holdings Limited, a wholly owned subsidiary of NaZareth Group Limited. Accordingly, NaZareth Group Limited was deemed to be interested in 628,309,075 ordinary shares in the Company.

(v) Being aggregate corporate interest of 224,950,000 shares held by Fidelity Management & Research Company, 9,420,000 shares held by Fidelity Management Trust Company, Pyramis Global Advisors LLC.

Fidelity Management & Research Company is a wholly owned subsidiary of FMR Co which in turn is wholly owned by FMR LLC.

Fidelity Management Trust Company, Pyramids Global Advisors LLC is wholly owned subsidiary of FMC & Pyramis which in turn is wholly owned by FMR LLC.

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, 2008.

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.

DIRECTORS' REPORT (CONTINUED)

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, 2008.

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.

POST BALANCE SHEET EVENT

Details of significant event occurring after the balance sheet date are set out in note 41 to the consolidated financial statements.

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

20th April, 2009

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE MEMBERS
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 48 to 102, which comprise the consolidated balance sheet as at 31st December, 2008, 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, 2008 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
20th April, 2009

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2008

	Notes	2008 HK$'000	2007 HK$'000
Revenue	*7*	**326,066**	256,474
Cost of sales		**(62,070)**	(42,992)
Gross profit		**263,996**	213,482
Other income	*9*	**20,702**	30,748
Selling and distribution costs		**(23,250)**	(15,921)
Administrative expenses		**(53,735)**	(49,502)
Other expenses		**(18,534)**	(19,068)
Finance costs	*10*	**(12,894)**	(9,624)
Gain on disposal of a subsidiary	*34*	**–**	178
Profit before taxation		**176,285**	150,293
Income tax	*11*	**(25,440)**	(23,411)
Profit for the year	*12*	**150,845**	126,882
Attributable to:			
Equity holders of the parent		**150,102**	125,282
Minority interests		**743**	1,600
		150,845	126,882
Dividends recognised as distribution during the year	*14*	**29,346**	56,214
Earnings per share			
Basic	*15*	**5.13 HK cents**	4.48 HK cents
Diluted		**5.06 HK cents**	4.30 HK cents

CONSOLIDATED BALANCE SHEET

At 31st December, 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-Current Assets			
Property, plant and equipment	16	**358,175**	326,351
Prepaid lease payments	17	**71,150**	69,945
Goodwill	18	**104,240**	104,240
Intangible asset	19	**2,274**	2,088
Available-for-sale investments	20	**528**	528
Deposits paid for acquisition of subsidiaries	21	**56,410**	–
Deposits paid for acquisition of property, plant and equipment	22	**21,670**	23,297
		614,447	526,449
Current Assets			
Prepaid lease payments	17	**1,569**	1,509
Inventories	23	**18,585**	14,222
Trade and other receivables, deposits and prepayments	24	**124,436**	80,809
Investments held for trading	20	**2,467**	25,189
Pledged bank deposits	25	**16,923**	–
Bank balances and cash	25	**602,917**	453,514
		766,897	575,243
Current Liabilities			
Trade and other payables	26	**58,104**	47,714
Amount due to a related company	27	**29,217**	6,209
Bank borrowings – due within one year	28	**87,077**	68,229
Taxation payable		**10,135**	16,783
		184,533	138,935
Net Current Assets		**582,364**	436,308
		1,196,811	962,757
Capital and Reserves			
Share capital	29	**146,731**	144,904
Reserves		**868,193**	682,535
Equity attributable to equity holders of the parent		**1,014,924**	827,439
Minority Interests		**5,106**	4,363
Total Equity		**1,020,030**	831,802
Non-Current Liabilities			
Bank borrowings – due after one year	28	**112,820**	69,916
Convertible bonds	30	**37,268**	54,761
Deferred tax liabilities	31	**26,693**	6,278
		176,781	130,955
		1,196,811	962,757

The consolidated financial statements on pages 48 to 102 were approved and authorised for issue by the Board of Directors on 20th April, 2009 and are signed on its behalf by:

DIRECTOR *DIRECTOR*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2008

	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$'000 (note)	Translation reserve HK$'000	Available-for-sale investment reserve HK$'000	Accumulated profits HK$'000	Total HK$'000	Minority interest HK$'000	Total HK$'000
At 1st January, 2007	134,405	150,354	20,343	14,761	12,804	34,485	47	200,895	568,094	2,763	570,857
Exchange realignment, net income recognised directly in equity	–	–	–	–	–	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
Exchange realignment, net income recognised directly in equity	–	–	–	–	–	38,607	–	–	38,607	–	38,607
Profit for the year	–	–	–	–	–	–	–	150,102	150,102	743	150,845
Total recognised income for the year	–	–	–	–	–	38,607	–	150,102	188,709	743	189,452
Recognition of equity settled share based payment	–	–	–	1,815	–	–	–	–	1,815	–	1,815
Conversion of convertible bonds	1,352	20,026	(2,034)	–	–	–	–	–	19,344	–	19,344
Exercise of share options	475	7,719	–	(1,231)	–	–	–	–	6,963	–	6,963
Dividends paid	–	–	–	–	–	–	–	(29,346)	(29,346)	–	(29,346)
At 31st December, 2008	146,731	327,818	3,560	13,116	12,804	117,677	–	393,218	1,014,924	5,106	1,020,030

note: The contributed surplus of the Group represents an amount due to a former holding company waived upon the change of the substantial shareholders in 2002.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2008

	Note	2008 HK$'000	2007 HK$'000
OPERATING ACTIVITIES			
Profit before taxation		**176,285**	150,293
Adjustments for:			
Finance cost		**12,894**	9,624
Share-based payments		**1,815**	5,388
Interest income		**(6,538)**	(5,217)
Depreciation of property, plant and equipment		**18,716**	6,261
Amortisation of prepaid lease payment		**1,564**	1,473
Amortisation of intangible asset		**146**	121
Gain on disposal of property, plant and equipment		**(6,565)**	(17,764)
Loss on disposal of available-for-sale investment		**–**	167
Gain on disposal of subsidiaries		**–**	(178)
Impairment loss on intangible asset		**–**	3,343
Operating cash flows before movements in working capital		**198,317**	153,511
Increase in inventories		**(4,363)**	(6,762)
Decrease (increase) in investments held for trading		**22,722**	(25,189)
Increase in trade and other receivables, deposits and prepayments		**(31,194)**	(30,364)
Increase in trade and other payables		**8,411**	2,307
Net cash generated from operations		**193,893**	93,503
Interest paid		**(11,043)**	(8,842)
Taxation paid (net of refund)		**(11,673)**	(19,954)
NET CASH FROM OPERATING ACTIVITIES		**171,177**	64,707
INVESTING ACTIVITIES			
Interest received		**6,538**	5,217
Deposit paid for acquisition of subsidiaries		**(56,410)**	–
Additions of property, plant and equipment		**(35,114)**	(86,714)
(Increase) decrease in pledged bank deposits		**(16,923)**	10,000
Deposits paid for acquisition of property, plant and equipment		**(234)**	(16,427)
Proceeds from disposal of property, plant and equipment		**223**	29,683
Proceeds from disposal of subsidiaries (net of cash and cash equivalent disposal of)	*34*	**–**	182
Proceed from disposal of available-for-sale investment		**–**	204
NET CASH USED IN INVESTING ACTIVITIES		**(101,920)**	(57,855)

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

For the year ended 31st December, 2008

	Note	**2008** **HK$'000**	2007 HK$'000
FINANCING ACTIVITIES			
Dividends paid		**(29,346)**	(56,214)
Exercise of share options		**6,963**	27,732
Repurchase of shares		**–**	(27,616)
New bank loans		**96,205**	93,520
Repayment of bank borrowings		**(38,548)**	(53,738)
Increase (decrease) in amount due to a related company		**23,008**	(5,532)
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**58,282**	(21,848)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**127,539**	(14,996)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**453,514**	441,561
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**21,864**	26,949
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**602,917**	453,514

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2008

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 in the opinion of the directors, it will be more useful for the users as the Company is listed in Hong Kong.

The Company is an investment holding company. The principal activities of its subsidiaries at 31st December, 2008 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 the following amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of those new HKFRSs has no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2008

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, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendment)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible Hedged Items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combination[3]
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[4]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[5]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[6]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[3]
HK(IFRIC) – Int 18	Transfer of Assets from Customers[7]

1 Effective for annual periods beginning on or after 1st January, 2009 except for the amendments to HKFRS 5, effective for annual periods beginning on or after 1st July, 2009
2 Effective for annual periods beginning on or after 1st January, 2009
3 Effective for annual periods beginning on or after 1st July, 2009
4 Effective for annual periods ending on or after 30th June, 2009
5 Effective for annual periods beginning on or after 1st July, 2008
6 Effective for annual periods beginning on or after 1st October, 2008
7 Effective for transfer on or after 1st July, 2009

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1st January, 2010. HKAS 27 (Revised) will affect the Group's accounting treatment for changes in the Group's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2008

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 polices 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2008

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2008

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and account for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

Prepaid lease payments

Prepaid lease payments, which represents up-front payments to acquire leasehold land interest, are stated at cost and amortised over the period of the lease on a straight line basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2008

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2008

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development cost incurred on a clearly-defined project will be removed through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2008

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (Continued)

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 that are 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.

Financial assets

The Group's financial assets are classified into one of the three categories, including available-for-sale financial assets, financial assets at fair value through profit or loss ("FVTPL") 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.

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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2008

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL and loans and receivables.

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).

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.

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 and bank balances and cash) 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2008

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets

Financial assets, other than those at FVTPL, 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 affected.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2008

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

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.

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.

Other financial liabilities

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

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 gross 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).

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The equity component, representing 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2008

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2008

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2008, the management of the Group determined that there was no impairment on goodwill. Details of the impairment testing on goodwill are disclosed in Note 18.

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, 2008, carrying amount of trade receivables was HK$101,348,000, net of allowance for doubtful debts of HK$2,211,000 (2007: carrying amount of trade receivable was HK$75,094,000, net of allowance for doubtful debts of HK$3,261,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2008

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 associated 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.

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

	2008 **HK$'000**	2007 HK$'000
Financial assets		
Loans and receivables		
– Trade and other receivables	**114,024**	75,619
– Pledged bank deposits	**16,923**	–
– Bank balances and cash	**602,917**	453,514
	733,864	529,133
Financial assets designated at fair value through profit or loss		
– Investments held for trading	**2,467**	25,189
Available-for-sale investments	**528**	528
	736,859	554,850
Financial liabilities		
Amortised cost		
– Trade and other payables	**28,534**	23,347
– Amount due to a related company	**29,217**	6,209
– Bank borrowings	**199,897**	138,145
– Convertible bonds	**37,268**	54,761
	294,916	222,462

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2008

6. FINANCIAL INSTRUMENTS (CONTINUED)

6b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, investments held for trading, bank balances, trade and other payables, amount due to a related company, 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 (currency risk, interest rate 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 the People Republic of China ("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 US dollar and HK dollar denominated bank balances and borrowings against RMB. The Group did not enter into any derivative contracts nor did it have 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**	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
US dollar	**220**	274,383	**–**	–
HK dollar	**6,087**	25,306	**38,000**	57,625

The Group is mainly exposed to US dollar and HK dollar.

The following table details the Group's sensitivity to a 5% (2007: 5%) increase and decrease in RMB against US dollar and HK dollar. 5% (2007: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% (2007: 5%) change in foreign currency rates. A positive number/negative number below indicates an increase/decrease in post-tax profit where RMB strengthen 5% (2007: 5%) against US dollar and HK dollar. For a 5% (2007: 5%) weakening of RMB against US dollar and HK dollar, there would be an equal and opposite impact on the profit.

	2008	2007
	HK$'000	HK$'000
Profit	**1,323**	(9,983)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2008

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 borrowing 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 is also exposed to fair value interest rate risk in relation to its fixed-rate convertible bonds as described in Note 30.

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 post-tax profit for the year ended 31st December, 2008 would decrease/increase by approximately HK$821,000 (2007: decrease/increase by approximately HK$993,000). 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, 2008, 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, 2008, the Group had a concentration of credit risk in its five largest customers which amounted to approximately HK$47,858,000 (2007: HK$46,469,000) of the Group's trade receivables. Other than the concentration of credit risk on trade receivables, and the concentration risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk.

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, 2008

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.

2008

	Weighted average interest rate %	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$'000	Carrying amount at 31.12.2008 HK$'000
Financial liabilities							
Trade and other payables	–	3,391	4,225	20,918	–	28,534	28,534
Convertible bonds	6.8	–	–	350	39,694	40,044	37,268
Bank borrowings							
– variable rate	5.1	–	38,421	50,663	133,440	222,524	199,897
Amount due to a related company	–	29,217	–	–	–	29,217	29,217
		32,608	42,646	71,931	173,134	320,319	294,916

2007

	Weighted average interest rate %	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
Financial liabilities							
Trade and other payables	–	4,147	1,877	17,323	–	23,347	23,347
Convertible bonds	6.8	–	–	550	62,925	63,475	54,761
Bank borrowings							
– variable rate	6.6	1,634	–	69,506	88,840	159,980	138,145
Amount due to a related company	–	6,209	–	–	–	6,209	6,209
		11,990	1,877	87,379	151,765	253,011	222,462

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2008

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 in active liquid markets are determined with reference to quoted market bid prices; and

- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions.

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, is as follows:

	2008	2007
	HK$'000	HK$'000
Sales of protein chips	**290,512**	219,031
Hospital operation	**35,554**	37,443
	326,066	256,474

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 with corresponding segment information are presented below:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2008

8. SEGMENT INFORMATION (CONTINUED)

Business segments (Continued)

The following is the relevant segment information.

Results

	Protein chips division HK$'000	Health care division HK$'000	Consolidated HK$'000
For the year ended 31st December, 2008			
REVENUE			
External sales	**290,512**	**35,554**	**326,066**
RESULTS			
Segment results	**207,478**	**2,722**	**210,200**
Unallocated expenses			**(13,237)**
Interest income			**6,538**
Change in fair value of investment held for trading			**(14,322)**
Finance costs			**(12,894)**
Profit before taxation			**176,285**
Taxation			**(25,440)**
Profit for the year			**150,845**
For the year ended 31st December, 2007			
REVENUE			
External sales	219,031	37,443	256,474
RESULTS			
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 of a subsidiary			178
Profit before taxation			150,293
Taxation			(23,411)
Profit for the year			126,882

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2008

8. SEGMENT INFORMATION (CONTINUED)

Business segments (Continued)

Assets and liabilities

	Protein chips division HK$'000	Health care division HK$'000	Consolidated HK$'000
At 31st December, 2008			
ASSETS			
Segment assets	**479,663**	**108,336**	**587,999**
Goodwill	**47,115**	**57,125**	**104,240**
Unallocated assets			**689,105**
Consolidated total assets			**1,381,344**
LIABILITIES			
Segment liabilities	**36,360**	**18,127**	**54,487**
Unallocated liabilities			**306,827**
Consolidated total liabilities			**361,314**
At 31st December, 2007			
ASSETS			
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
LIABILITIES			
Segment liabilities	24,783	21,467	46,250
Unallocated liabilities			223,640
Consolidated total liabilities			269,890

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2008

8. SEGMENT INFORMATION (CONTINUED)

Business segments (Continued)

Other Information

	Protein chips division HK$'000	Health care division HK$'000	Unallocated HK$'0000	Consolidated HK$'000
For the year ended 31st December, 2008				
Capital expenditure	**34,991**	**3,014**	**8**	**38,013**
Depreciation on property, plant and equipment	**17,544**	**1,117**	**55**	**18,716**
Gain on disposal of property, plant and equipment	**6,565**	**–**	**–**	**6,565**
Shares-based payment	**–**	**–**	**1,815**	**1,815**
Amortisation of prepaid lease payment	**930**	**634**	**–**	**1,564**
Amortisation of intangible asset	**–**	**146**	**–**	**146**
For the year ended 31st December, 2007				
Capital expenditure	81,784	16,592	84	98,460
Gain on disposal of property, plant and equipment	17,764	–	–	17,764
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

Geographical Segments

Over 90% of the Group's turnover are derived from the operation in the PRC and the Group's assets are substantially located in the PRC, therefore, no geographical segment is presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2008

9. OTHER INCOME

	2008 HK$'000	2007 HK$'000
Interest income	**6,538**	5,217
Gain on disposal of property, plant and equipment	**6,565**	17,764
Government subsidy *(note)*	**4,970**	6,301
Others	**2,629**	1,466
	20,702	30,748

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

	2008 HK$'000	2007 HK$'000
Interest on bank borrowings wholly repayable within five years	**10,494**	6,843
Effective interest expenses on convertible bonds	**2,400**	3,567
Total borrowing costs	**12,894**	10,410
Less: amounts capitalised	**–**	(786)
	12,894	9,624

During the year ended 31st December, 2007, the borrowing costs capitalised was related to a specific bank borrowing of HK$1,610,400. The specific borrowing was fully repaid during the year.

11. INCOME TAX

	2008 HK$'000	2007 HK$'000
Current tax:		
PRC Enterprise Income Tax		
– Current year	**13,312**	25,735
– Overprovision in prior year	**(8,287)**	–
Deferred tax *(Note 31)*	**20,415**	(2,324)
	25,440	23,411

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2008

11. INCOME TAX (CONTINUED)

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

On 26th June, 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax applicable for the year is 16.5% (2007: 17.5%).

Pursuant to the relevant laws and regulations in the PRC, the major 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 Holidays"). The Tax Holidays continue to be applicable for the major PRC subsidiaries after the New Law was implemented (as described below) and will expire in 2009 to 2012.

On 16th March, 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6th December, 2007, the State Council of the PRC issued Implementation Regulation of the New Law. Under the New Law and Implementation Regulation, the Enterprise Income Tax rate of the other subsidiaries in the PRC was reduced from 33% to 25% from 1st January, 2008 onwards. The directors are of the opinion that the impact of New Law is not significant to the other subsidiaries of the Group for the year ended 31st December, 2008 since these PRC subsidiaries were either inactive or the operation was not significant to the Group.

The Tax Law of the PRC requires withholding tax upon distribution of profits earned by the PRC subsidiaries since 1st January, 2008. Deferred tax of approximately HK$20,555,000 has been provided for in the consolidated financial statements in respect of the temporary differences attributable to such profits.

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

	2008	2007
	HK$'000	HK$'000
Profit before taxation	**176,285**	150,293
Tax at the domestic income tax rate at 25% (2007: 33%) *(note i)*	**44,071**	49,597
Tax effect of income not taxable in determining taxable profit	**(3,154)**	(2,357)
Tax effect of expenses not deductible for tax purpose	**6,772**	10,527
Effect of tax exemptions and concession rates granted to PRC subsidiaries	**(34,377)**	(31,996)
Change in tax rate in deferred tax	**–**	(2,085)
Overprovision in prior year *(note iii)*	**(8,287)**	–
Tax effect of withholding tax on the undistributed profits of PRC subsidiaries earned since 1st January, 2008	**20,555**	–
Others	**(140)**	(275)
Taxation for the year	**25,440**	23,411

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2008

11. INCOME TAX (CONTINUED)

notes:

(i) Being tax rate in PRC where the operation of the Group is substantially based.

(ii) As at 31st December, 2008, the Group had unused tax losses of approximately HK$35,405,000 (2007: HK$35,405,000) 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.

(iii) The amount represent a tax refund to a PRC subsidiary, Huzhou HealthDigit Company Limited ("HZHD"). During 2008, HZHD was approved as a "Technology-and-knowledge intensive" enterprise and as a result, became eligible to enjoy a preferential enterprise income tax rate of 18% starting, retrospectively, for the year ended 31st December, 2007. Since HZHD was also entitled to a 50% reduction in the income tax rate, the applicable tax rate for HZHD for the year 2007 is 50% of 18% i.e. 9%. Accordingly, an amount of HK$8,287,000, representing the tax effect of the difference in the tax rate of 13.5% (applicable in 2007 before approval of "Technology-and-knowledge intensive" enterprise) and 9%, was refunded to HZHD.

12. PROFIT FOR THE YEAR

	2008 **HK$'000**	2007 HK$'000
Profit for the year has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**18,716**	6,261
Impairment loss on intangible asset (included in other expenses)	**–**	3,343
Amortisation of prepaid lease payment	**1,564**	1,473
Amortisation of intangible assets (included in other expenses)	**146**	121
Staff costs		
– directors' remuneration *(Note 13(i))*	**5,650**	6,198
– other staff costs	**28,204**	27,224
– share-based payments, excluding directors	**1,308**	4,151
– retirement benefits scheme contributions, excluding directors	**270**	115
Total staff costs	**35,432**	37,688
Auditors' remuneration	**1,800**	1,600
Change in fair value of investments held for trading (included in other expenses)	**14,322**	10,073
Cost of inventories recognised as an expense	**62,070**	42,992
Allowances for bad and doubtful debts (included in other expenses)	**–**	1,122
Loss on disposal of available-for-sale investment	**–**	167
Research and development expenditure (included in other expenses)	**4,066**	4,409
Net exchange gain	**(5)**	(28)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2008

13. DIRECTORS AND EMPLOYEES' EMOLUMENTS

(i) Directors' Emoluments

	2008	2007
	HK$'000	HK$'000
Directors' fees:		
(a) Executive		
– Yao Yuan	**1,274**	1,284
– Chien Hoe Yong, Henry	**905**	845
– Hu Jun	**–**	–
– Yu Ti Jun	**120**	120
– Iu Chung	**1,010**	1,076
	3,309	3,325
(b) Independent non-executive		
– Lam Lee G.	**120**	120
– Lee Sze Ho, Henny	**120**	120
– Hu Jin Hua	**120**	120
`	**360**	360
(c) Non-executive		
– Yang Zhen Hua	**61**	–
– Ma Yong Wei	**61**	–
	122	–
Total directors' fees	**3,791**	3,685

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2008

13. DIRECTORS AND EMPLOYEES' EMOLUMENTS (CONTINUED)

(i) Directors' emoluments (Continued)

	2008 HK$'000	2007 HK$'000
Other emoluments of executive directors:		
(a) Salaries and other benefits		
– Yao Yuan	**526**	516
– Chien Hoe Yong, Henry	**–**	–
– Hu Jun	**–**	–
– Yu Ti Jun	**–**	–
– Iu Chung	**790**	724
	1,316	1,240
(b) Retirement benefits scheme contribution		
– Yao Yuan	**12**	12
– Chien Hoe Yong, Henry	**12**	12
– Hu Jun	**–**	–
– Yu Ti Jun	**–**	–
– Iu Chung	**12**	12
	36	36
(c) Share-based payments		
– Yao Yuan	**–**	–
– Chien Hoe Yong, Henry	**127**	315
– Hu Jun	**48**	119
– Yu Ti Jun	**190**	461
– Iu Chung	**–**	–
	365	895
Total other emoluments of executive directors	**1,717**	2,171
Other emoluments of non-executive directors:		
(a) Share-based payments		
– Lam Lee G.	**142**	342
Total directors' emoluments	**5,650**	6,198

None of the directors has waived any emoluments during either year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2008

13. DIRECTORS AND EMPLOYEES' EMOLUMENTS (CONTINUED)

(ii) Employees' emoluments

The five highest paid individuals in the Group include three directors of the Company (2007: three), 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:

	2008 **HK$'000**	2007 HK$'000
Salaries, allowances and benefits in kind	**964**	964
Retirement benefits scheme contributions	**24**	24
Share-based payments	**84**	270
	1,072	1,258

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

HK$	**2008** **Number of employees**	2007 Number of employees
Nil to 1,000,000	**2**	2

14. DIVIDENDS

	2008 **HK$'000**	2007 HK$'000
Dividends recognised as distribution during the year:		
Final, paid – HK$0.01 per share for 2007 (2006: HK$0.01 per share)	**29,346**	27,124
Interim – Nil per share for 2008 (2007: HK$0.01 per share)	**–**	29,090
	29,346	56,214
Dividends proposed		
Final – Nil per share for 2008 (2007: HK$0.01 per share)	**–**	29,258

The directors do not recommend the payment of a final dividend to shareholders for the year 2008 (2007: HK$0.01 per share).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2008

15. EARNINGS PER SHARE

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

	2008	2007
	HK$'000	HK$'000
Earnings		
Earnings for the purpose of basic earnings per share (profit for the year attributable to the equity holders of the parent)	**150,102**	125,282
Effect of dilutive potential ordinary shares:		
– Interest on convertible loan notes	**2,400**	3,567
Earnings for the purpose of diluted earnings per share	**152,502**	128,849

	2008	2007
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,928,747,984**	2,797,888,233
Effect of dilutive potential ordinary shares:		
– Share options	**35,081,213**	28,697,405
– Convertible loan notes	**51,406,886**	170,751,722
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**3,015,236,083**	2,997,337,360

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2008

16. 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
COST								
At 1st January, 2007	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
Exchange adjustments	9,221	3,775	245	727	113	183	5,669	19,933
Additions	–	18,495	134	893	23	765	17,703	38,013
Transfer	(2,289)	2,515	–	–	–	–	(226)	–
Disposals	–	(4,224)	(1)	(425)	–	(97)	–	(4,747)
At 31st December, 2008	184,208	73,936	2,402	8,353	3,454	2,411	125,254	400,018
DEPRECIATION								
At 1st January, 2007	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
Exchange adjustments	585	1,561	232	537	38	129	–	3,082
Provided for the year	7,801	9,219	235	1,036	109	316	–	18,716
Transfer	(8)	8	–	–	–	–	–	–
Eliminated on disposals	–	–	–	(333)	–	(90)	–	(423)
At 31st December, 2008	10,610	21,998	1,776	4,679	1,922	858	–	41,843
CARRYING VALUE								
At 31st December, 2008	173,598	51,938	626	3,674	1,532	1,553	125,254	358,175
At 31st December, 2007	175,044	42,165	715	3,719	1,543	1,057	102,108	326,351

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2008

16. 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 5% or the term of the lease or land use rights, if shorter
Plant and equipment	10% to 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.

17. PREPAID LEASE PAYMENTS

	2008	2007
	HK$'000	HK$'000
Analysed for reporting purpose as:		
Current assets	**1,569**	1,509
Non-current asset	**71,150**	69,945
	72,719	71,454

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 Group has 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 the Group. The net book value of the land use rights for which the Group had not yet been granted formal title as at 31st December, 2008 was approximately HK$28,990,000 (2007: HK$28,954,000).

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 which does not impair the value of the relevant properties to the Group.

18. GOODWILL

	HK$'000
COST	
At 1st January, 2007, at 31st December, 2007 and at 31st December, 2008	104,240

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:

	2008 & 2007 HK$'000
Segment of protein chips division	47,115
Segment of health care division	57,125
	104,240

During each of the two years ended 31st December, 2008 and 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. For impairment purpose, the calculation uses cash flow projections based on the most recent financial budgets approved by management for the coming year and extrapolates the cash flows projection for the following nine years with zero growth rate (2007: zero growth rate), and a discount rate of 15% (2007: 15%). 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.

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. For impairment purpose, the calculation uses cash flow projections based on the most recent financial budgets approved by management for the coming year and extrapolates the cash flows projection for the following nine years with zero growth rate (2007: a 2% growth rate for the first five years and remained constant for the remaining five years) and a discount rate of 9.5% (2007: 9.5%). 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2008

19. INTANGIBLE ASSET

	Distribution right HK$'000
COST	
At 1st January, 2007	5,190
Exchange adjustment	448
Impairment loss	(3,343)
At 31st December, 2007	2,295
Exchange adjustment	332
At 31st December, 2008	2,627
AMORTISATION	
At 1st January, 2007	86
Provided for the year	121
At 31st December, 2007	207
Provided for the year	146
At 31st December, 2008	353
CARRYING VALUE	
At 31st December, 2008	2,274
At 31st December, 2007	2,088

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2008

20. AVAILABLE-FOR-SALE INVESTMENTS/INVESTMENTS HELD FOR TRADING

	2008 HK$'000	2007 HK$'000
Available-for-sale investment		
Unlisted investment	**528**	528
Investments held for trading		
Equity securities listed in Hong Kong – at fair value	**2,467**	25,189

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 its fair value cannot be measured reliably.

21. DEPOSIT PAID FOR ACQUISITION OF SUBSIDIARIES

On 28th October, 2008, 湖州數康生物科技有限公司, a wholly owned subsidiary of the Group, entered into a conditional agreement with 上海銘康商務信息諮詢有限公司 to acquire a 75% equity interest in Shanghai Kang Pei Bio-Medical Company Limited ("Shanghai Kang Pei ") for a consideration of RMB310,000,000 (equivalent to HK$349,742,000). Up to 31st December, 2008, a deposit of RMB50,000,000 (equivalent to HK$56,410,000) was paid upon entering into the conditional agreement.

Shanghai Kang Pei is a domestic limited liability company established in the PRC on 11th January, 2000. Shanghai Kang Pei and its subsidiaries and jointly controlled entities are principally engaged in the business of providing medical diagnostic, health check and medical appraisal services to clients in the PRC.

The acquisition was completed on 12th January, 2009.

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

	2008 HK$'000	2007 HK$'000
Raw materials	**14,554**	8,761
Work in progress	**1,684**	3,439
Finished goods	**2,347**	2,022
	18,585	14,222

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2008

24. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2008	2007
	HK$'000	HK$'000
Trade receivables	**103,559**	78,355
Less: Allowance for doubtful debt	**(2,211)**	(3,261)
	101,348	75,094
Consideration receivable for disposal of property, plant and equipment	**12,433**	–
VAT recoverable	**243**	525
Prepayments	**8,534**	2,993
Others	**1,878**	2,197
	124,436	80,809

The Group normally allows a credit period of 30 to 270 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:

	2008	2007
	HK$'000	HK$'000
0-60 days	**77,044**	68,766
61-90 days	**16,987**	6,328
91-180 days	**6,049**	–
181-270 days	**1,268**	–
	101,348	75,094

At 31st December, 2008, all trade receivables were neither past due nor impaired (2007: HK$75,094,000). The Group has assessed the credit quality of the trade receivables by using the internal assessment taking into account of the repayment history and financial difficulties (if any) of the trade customers and has not identified any credit risk on these trade receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2008

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

Movement in the allowance for doubtful debts

	2008	2007
	HK$'000	HK$'000
Balance at beginning of the year	**3,261**	1,960
Exchange adjustment	**72**	179
Impairment loss recognised on receivables	**–**	1,122
Amounts recovered during the year	**(963)**	–
Amounts written off as uncollectible	**(159)**	–
Balance at end of the year	**2,211**	3,261

Before accepting any new customers, the Group assesses and understands the potential customer's credit quality and defines its credit limits. Credit limits attributed to each customer are reviewed regularly. The impairment losses recognised and the amounts written off as uncollectible were related to customers that were in financial difficulties.

25. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

The pledged bank deposits represent bank deposits pledged to a bank to secure the bank borrowings due within one year granted to the Group and therefore were classified as current assets. During 2008, the pledged deposits carried variable interest at 4.14% per annum (2007: 2.07% 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. During 2008, the bank deposits carried interest at prevailing market rates ranging from 0.50% to 0.72% (2007: 0.72% to 2.04%) per annum.

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

	US dollar	HK dollar
	HK$'000	HK$'000
At 31st December, 2008		
Bank balances and cash	**220**	6,087
At 31st December, 2007		
Bank balances and cash	**274,383**	25,306

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2008

26. TRADE AND OTHER PAYABLES

	2008 HK$'000	2007 HK$'000
Trade payables	**7,616**	6,215
Receipts in advance	**7,407**	3,833
Accrued expenses	**21,302**	17,022
Payable for construction in progress	**13,511**	13,299
Other tax payable	**4,263**	5,076
Others	**4,005**	2,269
	58,104	47,714

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

	2008 HK$'000	2007 HK$'000
0-60 days	**6,831**	6,014
61-90 days	**295**	9
Over 90 days	**490**	192
	7,616	6,215

27. AMOUNT DUE TO A RELATED COMPANY

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

	2008 HK$'000	2007 HK$'000
上海銘源實業集團有限公司（"上海銘源實業"）	**29,217**	6,209

上海銘源實業 is a company in which Mr. Yao Yuan, a director of the Company, has beneficial 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, 2008

28. BANK BORROWINGS

	2008 HK$'000	2007 HK$'000
Secured bank borrowings	**161,897**	80,520
Unsecured bank borrowings	**38,000**	57,625
	199,897	138,145
The amounts are repayable as follows:		
– On demand or within one year	**87,077**	68,229
– More than one year but not exceeding two years	**33,846**	16,236
– More than two years but not more than five years	**78,974**	53,680
	199,897	138,145
Less: Amounts due within one year under current liabilities	**(87,077)**	(68,229)
Amounts due after one year	**112,820**	69,916

All the Group's bank borrowings carried interest at floating rate.

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

	2008	2007
Variable rate borrowings	**1.80% – 8.51%**	4.86% – 8.42%

At the balance sheet date, the bank borrowings which were denominated in currencies other than the functional currency of the relevant group entities are set out below:

	2008 HK$'000	2007 HK$'000
HK dollar denominated bank borrowings	**38,000**	57,625

During the year, the Group obtained new loans in the amount of HK$96,205,000 (2007: HK$93,520,000). The loans bear interest at market rates and will be repayable in 1 to 3 years. The proceeds were used to finance the acquisition of property, plant and equipment and also the payment of deposits for acquisition of subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2008

29. SHARE CAPITAL

	Number of shares	Value
		HK$'000
Ordinary shares of HK$0.05 each		
Authorised:		
At 1st January, 2007, 31st December, 2007 and 31st December, 2008	4,000,000,000	200,000
Issued and fully paid:		
Ordinary shares of HK$0.05 each		
At 1st January, 2007	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
Conversion of convertible bonds	27,027,026	1,352
Exercise of share options	9,500,000	475
At 31st December, 2008	2,934,616,551	146,731

During the year ended 31st December, 2008, 27,027,026 and 9,500,000 ordinary shares of HK$0.05 each in the Company were issued as a result of conversion of the 2010 convertible bond (see Note 30) and exercise of share options, respectively. All shares issued during the year ranked pari passu with the then existing shares in all respects.

During the year ended 31st December, 2007, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	Ordinary shares of HK$0.05 each	Price per share Highest	Price per share Lowest	Aggregate consideration paid
		HK$	HK$	HK$'000
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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2008

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 entitle the holders to convert their 2010 Bonds into ordinary shares of HK$0.05 each in the Company at any time for the period 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, 2008, a principal amount of HK$20,000,000 (2007: HK$144,990,000) of the 2010 Bonds were converted into ordinary shares of HK$0.05 each in the Company.

The 2010 Bonds contain two components – the equity and liability components. The equity component 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 2010 Bonds for the year is set out below:

	2008	2007
	HK$'000	HK$'000
Carrying amount at the beginning of the year	**54,761**	193,428
Conversion of convertible bonds	**(19,344)**	(140,235)
Interest charged	**2,400**	3,567
Interest paid	**(549)**	(1,999)
Carrying amount at the end of the year	**37,268**	54,761

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2008

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:

	Withholding tax on undistributed profit of PRC subsidiaries	Revaluation of property, plant and equipment and prepaid lease payments	Total
	HK$'000	HK$'000	HK$'000
At 31st December, 2006 and 1st January, 2007	–	8,602	8,602
Adjustment to change in tax rate	–	(2,085)	(2,085)
Released to consolidated income statement	–	(239)	(239)
At 31st December, 2007	–	6,278	6,278
Charge (released) to consolidated income statement	20,555	(140)	20,415
At 31st December, 2008	20,555	6,138	26,693

Under the New Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1st January, 2008 onwards. As at 31st December, 2008, deferred taxation has been provided in full in respect of temporary differences attributable to such accumulated profits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2008

32. BALANCE SHEET OF THE COMPANY

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

	2008 HK$'000	2007 HK$'000
Total Assets		
Property, plant and equipment	**20**	67
Interests in subsidiaries	**–**	–
Amounts due from subsidiaries	**588,625**	606,267
Investments held for trading	**2,385**	24,761
Other receivables, deposits and prepayments	**7,144**	2,668
Bank balances and cash	**400**	18,720
	598,574	652,483
Total Liabilities		
Other payables and accruals	**4,062**	1,313
Amounts due to subsidiaries	**72,797**	73,134
Amount due to a related company	**–**	3,205
Bank borrowings	**–**	8,000
Convertible bonds	**37,268**	54,761
	114,127	140,413
	484,447	512,070
Capital and Reserves		
Share capital	**146,731**	144,904
Reserves *(note)*	**337,716**	367,166
	484,447	512,070

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2008

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 profits (losses) HK$'000	Total HK$'000
At 1st January, 2007	150,354	20,343	14,761	12,804	(96,845)	101,417
Profit for the year and total income recognised for the year	–	–	–	–	186,723	186,723
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
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
Loss for the year and total expenses recognised for the year	–	–	–	–	(26,399)	(26,399)
Conversion of convertible bonds	20,026	(2,034)	–	–	–	17,992
Exercise of share options	7,719	–	(1,231)	–	–	6,488
Recognition of equity settled share based payments	–	–	1,815	–	–	1,815
Dividends paid	–	–	–	–	(29,346)	(29,346)
At 31st December, 2008	327,818	3,560	13,116	12,804	(19,582)	337,716

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, 2008, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 109,620,000 (2007: 119,120,000) representing 3.74% (2007: 4.11%) of the shares of the Company in issue 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, 2008

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 determines 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:

2008

					Number of share options				
Directors	Date of grant	Exercise price	Vesting period	Exercisable period	Outstanding at 1.1.2008	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2008
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
			27.4.2007 – 26.4.2009	27.4.2009 – 7.4.2010	1,600,000	–	–	–	1,600,000
					51,300,000	–	–	–	51,300,000
Employees	8.4.2005	HK$0.728	N/A	8.4.2005 – 7.4.2010	1,200,000	–	(600,000)	–	600,000
			8.4.2005 – 7.4.2006	8.4.2006 – 7.4.2010	3,400,000	–	(800,000)	–	2,600,000
			8.4.2005 – 7.4.2007	8.4.2007 – 7.4.2010	11,500,000	–	(4,700,000)	–	6,800,000
			8.4.2005 – 7.4.2008	8.4.2008 – 7.4.2010	16,900,000	–	(2,500,000)	–	14,400,000
			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	3,800,000	–	(900,000)	–	2,900,000
			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
					67,820,000	–	(9,500,000)	–	58,320,000
Total					119,120,000	–	(9,500,000)	–	109,620,000
Exercisable at 31st December, 2008									74,760,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2008

33. SHARE OPTIONS (CONTINUED)

Equity-settled share option scheme (Continued)

2007

					Number of share options				
Directors	Date of grant	Exercise price	Vesting period	Exercisable period	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
			27.4.2007 – 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
			27.4.2007 – 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, 2008

33. SHARE OPTIONS (CONTINUED)

During the year ended 31st December, 2007, options were granted on 27th April, 2007. The estimated fair values of the options granted on that date ranged from HK$0.21 to HK$0.22 per share. These fair values were calculated using the Binomial Model pricing model. The inputs into the model were as follows:

	2007
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%

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

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 Group amortises the fair value of the share options calculated above over the relevant vesting period. Accordingly, an amount of HK$1,815,000 was charged as an equity-settled expense for the year ended 31st December, 2008 (2007: HK$5,388,000).

In respect of the share options exercised during the year ended 31st December, 2008, the weighted average share price at the date of exercise is HK$1.24 (2007: HK$1.32).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2008

34. DISPOSAL OF A SUBSIDIARY

During the year ended 31st December, 2007, the Group disposed of its entire 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 was inactive at the time of disposal. 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 a subsidiary	178
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 ended 31st December, 2007, Hong Lan did not make any significant contribution to the Group's results and cash flow.

35. COMMITMENTS

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

	2008 **HK$'000**	2007 HK$'000
Contracted for but not provided for in the financial statements in respect of acquisition of property, plant and equipment	**89,568**	94,505
Contracted for but not provided for in the financial statements in respect of acquisition of subsidiaries	**293,332**	–
	382,900	94,505

36. OPERATING LEASE COMMITMENTS

The Group as lessee

During the year, the Group made minimum lease payments under operating leases of approximately HK$1,678,000 (2007: HK$1,600,000) in respect of its office properties 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:

	2008	2007
	HK$'000	HK$'000
Within one year	**2,104**	3,369
In the second to fifth year inclusive	**523**	2,441
	2,627	5,810

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.

37. CONTINGENT LIABILITIES

As at 31st December, 2008 and 31st December, 2007, the Group did not have any significant contingent liabilities.

38. 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$306,000 (2007: HK$151,000) represents contributions payable to these schemes by the Group in respect of the current accounting period. As at 31st December, 2008, no contribution (2007: HK$23,000) was due and unpaid.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2008

39. PLEDGE OF ASSETS

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

	2008 **HK$'000**	2007 HK$'000
Prepaid lease payments	**43,728**	42,500
Buildings	**172,464**	169,721
Buildings under construction	**81,160**	–
Investments held for trading	**2,385**	14,429
Pledged bank deposits	**16,923**	–
	316,660	226,650

40. RELATED PARTY DISCLOSURES

During the year, the Group paid rental expense of HK$462,000 (2007: HK$211,000) 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.

During both year, a director of the Company gave personal guarantee to the extent amount of RMB60,000,000 to a bank to secure the banking facilities granted to the Group.

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

	2008 **HK$'000**	2007 HK$'000
Short-term benefits	**5,151**	5,039
Post-employment benefits	**72**	72
Share-based payments	**832**	1,785
	6,055	6,896

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2008

41. POST BALANCE SHEET EVENTS

(i) On 12th January, 2009, the acquisition of a 75% interest in Shanghai Kang Pei as set out in Note 21 was completed. The directors are of the view that it is impracticable to disclose the financial information of Shanghai Kang Pei as at the date these financial statements are approved since the assessment of the financial information of Shanghai Kang Pei is still in progress.

(ii) On 18th March, 2009, the Company announced that it had entered into a subscription agreement with CCB International Asset Management Limited (an independent third party) in relation to the issue and subscription of convertible bonds at an aggregate principal amount of HK$232,572,000, which will be issued in conjunction with nil-paid warrants with a principal sum of HK$60,136,000. Conversion and exercise in full of the convertible bonds and the warrants will result in the issue of a total of 571,231,780 ordinary shares of HK$$0.05 each in the Company, representing approximately 16.3% of the enlarged share capital.

Details of the principal terms of the bonds and warrants are set out in the Company's announcement dated 18th March, 2009.

The subscription has been completed at the date of this report.

(iii) On 16th April, 2009, the Company announced that the Group entered into a conditional sales and purchase agreement to acquire 95% interest in Genetel Biotech (BVI) Limited ("Genetel BVI") for a consideration of HK$280,000,000. Genetel BVI and its subsidiary are engaged in research and development of DNA technology and products. Details of the terms of the acquisition are set out in the Company's announcement dated 17th April, 2009. The acquisition has not been completed at the date of this report.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2008

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31st December, 2008 and 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 Direct	Indirect	Principal activities
MY Technology Limited	British Virgin Islands	US$1	–	100%	Inactive
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 i)*	PRC	RMB40,000,000	–	100%	Research and development activities
湖洲數康生物科技有限公司 *(note i)*	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 i)*	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 iii)*	PRC	RMB15,000,000	–	51%	Investment holding
上海市虹口區婦幼保健院 *(note ii)*	PRC	N/A	–	51%	Provision of woman and child health care services

notes:

(i) These companies are registered in the form of wholly-owned foreign investment enterprise.

(ii) This company is registered in the form of 事業法人.

(iii) This company is registered in the form of Sino-foreign joint venture.

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

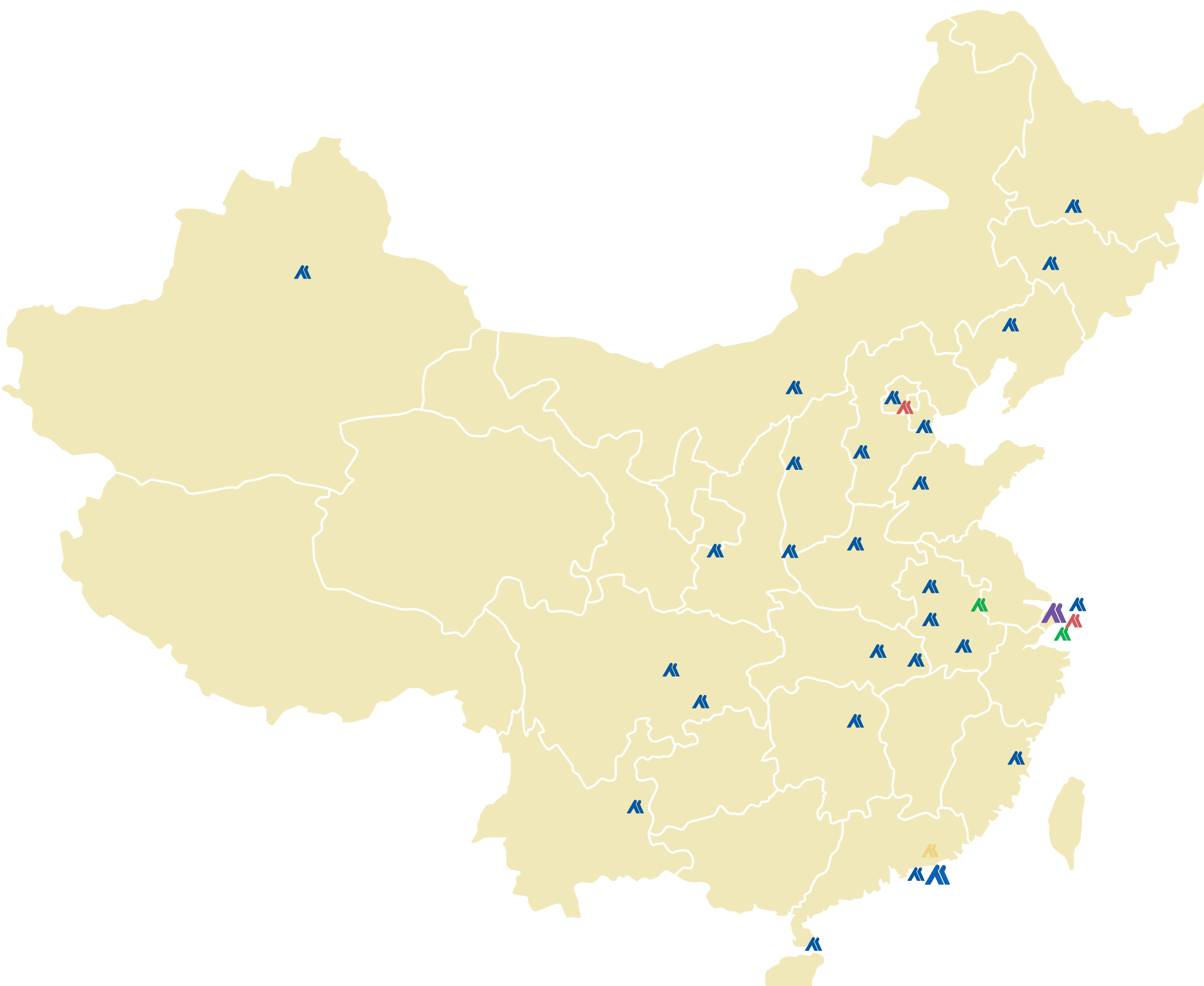
	Year ended 31st December,				
	2004 HK$'000	2005 HK$'000 *(note)* (restated)	2006 HK$'000	2007 HK$'000	**2008** **HK$'000**
Continuing operations					
Turnover	523,568	126,985	160,835	256,474	**326,066**
Profit before taxation	72,023	72,124	95,051	150,293	**176,285**
Taxation	(4,771)	–	(18,933)	(23,411)	**(25,440)**
Profit for the year from continuing operations	67,252	72,124	76,118	126,882	**150,845**
Discontinued operations					
Loss for the year from discontinued operations	–	(2,089)	(3,156)	–	**–**
Profit for the year	67,252	70,035	72,962	126,882	**150,845**
Dividends recognised as distribution during the year	–	–	26,881	56,214	**29,346**
Attributable to:					
Equity holders of the parent	67,252	70,096	73,559	125,282	**150,102**
Minority interests	(232)	(61)	(597)	1,600	**743**
	67,020	70,035	72,962	126,882	**150,845**

(B) ASSETS AND LIABILITIES/EQUITY

	At 31st December,				
	2004 HK$'000	2005 HK$'000	2006 HK$'000	2007 HK$'000	**2008** **HK$'000**
Total assets	472,799	781,181	925,202	1,101,692	**1,381,344**
Total liabilities	(79,949)	(280,011)	(354,345)	(269,890)	**(361,314)**
	392,850	501,170	570,857	831,802	**1,020,030**
Equity attributable to the holders of the parent	383,868	492,249	568,094	827,439	**1,014,924**
Minority interests	8,982	8,921	2,763	4,363	**5,106**
	392,850	501,170	570,857	831,802	**1,020,030**

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

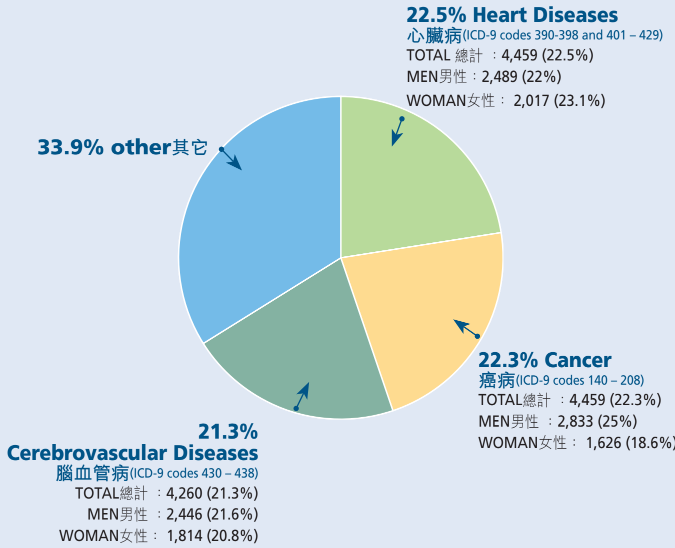
HPV – SHENZHEN 深圳

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 產品海外代理：

- MALAYSIA 马来西亚
- BRUNEI 汶莱
- THAILAND 泰国
- PHILIPPINES 菲律宾
- SINGAPORE 新加坡
- INDONESIA 印尼



MAJOR CAUSES OF DEATH IN CHINA 中國主要致命疾病：

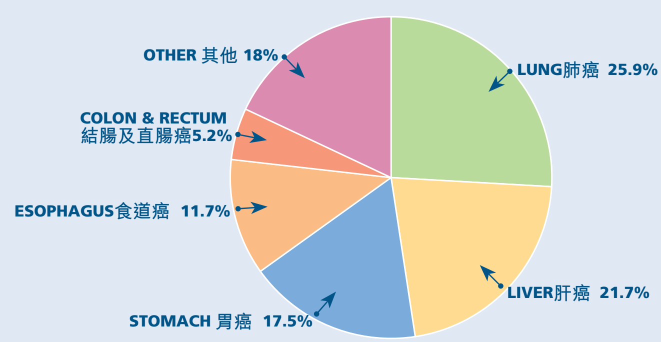
3 Leading Causes of Death in China with population aged over 40
中國**40**歲以上人士的三大致命疾病

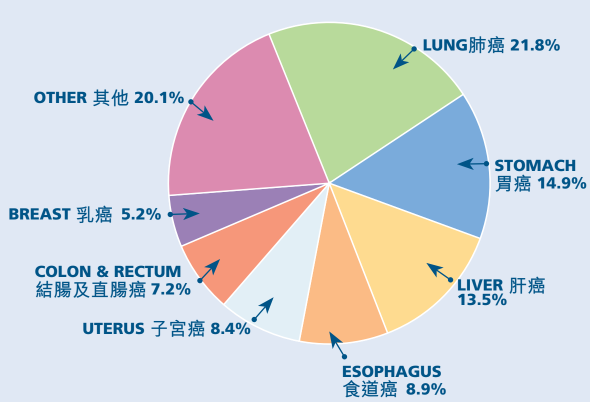
* The causes of death were coded according to the International Classification of Diseases, Ninth Revision (ICD-9). 致命疾病乃按國際病症分類法第九版**(ICD-9)**編碼。

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（即心臟病、癌症及腦血管病）佔總死亡人數**66.1%**，而其他致命疾病包括傳染病、呼吸道疾病及糖尿病等。

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





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

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

資料來源： **The New England Journal of Medicine二零零五年九月十五日發表的「Major Causes of Death among Men and Women in China」**