

Chairman's Statement

"Our corporate mission to apply innovative medicare solutions for the early detection and prevention of diseases including chronic and life threatening diseases such as cancer has an eventual goal of enhancing human health and quality of life of all individuals.

Early screening of life threatening diseases is becoming a critical link to modern medicine today. Our products, used for early screening of asymptomatic patients, provide early awareness of potential problems to patients, and in many situations lead to timely and accurate diagnosis. In our experience, early screening for cancers provide the patients with early medical interventions, therapeutic opportunities and most importantly, their survival probabilities.

Finding better and faster ways to achieve accurate diagnosis can potentially improve patient management, lead to earlier therapeutic intervention and reduce the costs associated with indecision, benefiting both patients and healthcare providers.

At the 58th World Health Assembly in 2005, the Member States of the World Health Organization adopted a resolution on Cancer Prevention and Control. 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. The global direction on early screening coincides with our Group's founding mission and the Group's C12 products have met the basic criteria of low cost, high throughput and non invasive factors for early cancer screening for developing countries, including China.

Being an early and leading pioneer of innovative medicare solutions in China, the Board is committed to its corporate mission, and we believe that a successful implementation of the goal will enhance human health and quality of life, directly enhance shareholders' value and secure the future growth of the company."

Mr. Yao Yuan, Chairman of the Board



INTRODUCTION

I am pleased to report that Mingyuan Medicare Development Company Limited and its subsidiaries (the "Group") have achieved respectable growth in both turnover and profitability.

Following the disposal of substantially all of the investment properties in December 2004 and downsizing of the IT products and services business unit in 2005, the Group has successfully implemented all the objectives of operation of SPOR (i.e. Strategic Prioritization of Resources). The Group's principal business will be focused in the provision of innovative medicare solutions particularly in the area of early detection of diseases, including cancers.

Although the financial impact of operation SPOR on the Group will result in an overall lower consolidated turnover, the Group is better positioned to a high profit margin model for future growth.

On 23rd May, 2005, a special resolution was approved by the shareholders of the Company at the Annual General Meeting to change the name of the Company from "Shanghai Ming Yuan Holdings Limited" to "Mingyuan Medicare Development Company Limited". The new Chinese name "铭源医疗发展有限公司" was adopted for identification purpose for the Company.

The change in corporate name marks a successful operational shift from investment holding of several businesses to a more focused and dedicated approach towards the provision of healthcare products and services. The Board has adopted the full meaning of the word "Development" to indicate the corporate partnership approach towards our customers, suppliers and business associates evolving in various different phases in the development of the Group's corporate roadmap.

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

PERFORMANCE

In 2005, the Group turnover decreased by 46.1 percent to HK\$282.1 million. Net profit attributable to shareholders for the year was HK\$70.0 million, representing a 4.2 percent increase over the HK\$67.2 million of 2004. Earnings per share was 2.61 HK cents, compared with 2.50 HK cents in 2004.

In the first year of implementation of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") which are effective for accounting periods on or after 1 January 2005, the Group's overall profitability is particularly affected by two non cashflow items, namely the convertible bonds and employee share option scheme. Details of the relevant adjustments are discussed in "Notes To The Financial Statements".

With a more strengthened distribution network and better cost control measures, the Group continues to experience significant growth in the protein chips business operation with a turnover of HK\$126.9 million (2004: HK\$78.8 million), representing an increase of approximately 61.0 percent over that of last year. More significantly, segment profits of the operation amounted to HK\$87.0 million (2004:HK\$48.3 million), representing an increase of approximately 80.1 percent over that of last year.

BUSINESS REVIEW

Strategic Prioritization of Resources ("SPOR")

In 2004, the Group is principally engaged in three business divisions, namely, IT products and services, protein chips and property investment and in that year the Group conducted operation SPOR to shift resources allocation from other business divisions to the high-growth protein chips division.

In 2005, the Group successfully completed operation SPOR with the complete disposal or downsizing of the remaining business divisions and the Group's business operation is principally on the provision of innovative medicare solutions for the early detection and prevention of diseases in the healthcare market particularly in China.

The Group has an excellent year for its protein chips division and sold a total of 1.19 million protein chips, representing an increase of 67.6 percent over the 0.71 million protein chips of 2004.

Sales and Marketing for Protein Chips

As part of the efforts to broaden sales channels and develop customer portfolio management, the Group will continue to fine tune its sales and marketing strategies with emphasis on the broadening of sales channels and coordinating marketing efforts. The exercise so far has resulted in the establishment of a more comprehensive pricing and cooperation structure tailored for direct sales to life insurance companies, hospitals and corporations, indirect sales to hospitals by way of nation-wide distributorships. A combination of these methodical changes is expected to yield higher growth in sales of protein chips and establish a sustainable sales infrastructure for the Group.

At the same time, the Group's successful efforts in optimizing the utilization of protein chips per chipreader have 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.

Fund Raising and New Plant in Shanghai

The Group understands the critical link between adequate long term funding and the timely implementation of business plans for sustainable growth. Through operation SPOR, internal funding resources generated from day to day operations and external fund raising exercises through new equity placements, convertible bonds and term loans, the Group has successfully raised more than HK\$370 million to execute its business plans, particularly the HK\$200 million required for the construction of a new plant in the Fengxian MA District in Shanghai.

Upon completion, the new plant will have a total production capacity of 8 million chips per annum and will be a production base for a range of protein chips used for the screening and diagnosis of different diseases. Based on the progress on the construction, the Group intends to start trial production in the fourth quarter of 2006 and the factory is scheduled for full production in the first quarter of 2007.

The Group will continue to operate its current production facility at the Huzhou Economic & Technological Development Zone in the Zhejiang Province which has a capacity of 1.5 million chips per annum and the Group has expanded the current production capacity by an additional 300,000 chips to a total production capacity of 1.8 million chips in 2006.

PROSPECTS

Corporate mission, cancer and market potential

Cancer is the second leading cause of death after cardiac related diseases, and is one of the most common causes of morbidity and mortality today. The World Health Organization (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

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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.

The Group's 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 one of the pioneers to engage biomedical methodology for the early screening of cancer tumors. The Group is delighted to witness a historical moment in the history of 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 calls for improved cancer prevention measures, better early detection and treatment, and increased palliative care. WHO will develop a cancer prevention and control strategy which will help countries addressing this growing health crisis, and represent an important new initiative for WHO.

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 protein chips business division in 2003 (referred to as "KM2003 Objectives") and the Group has made impressive 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.

Post operation SPOR, the Group understands the need to diversify its revenue sources and its product platform, and the Group is strengthening its KM2003 Objectives with following improvements in its business model:

In addition to its own proprietary intellectual property ("PIP") protein chip platform, the Group intends to establish a new revenue source 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 products which are used for early screening of diseases and are complimentary to our product. The Group intends to develop its product platform into three major revenue sources, namely cancer, cardiac and other diseases series based on both PIP and LIP sources. In the meantime, the Group is actively seeking appropriate partnership in the area of cardiac diseases.

Being a leading supplier of protein chips in China, the Group understands 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.

CORPORATE GOVERNANCE

In a highly competitive global market, the Group has demonstrated in the past with its strong ability to deliver profitability and growth to its shareholders amidst difficult and challenging market conditions. Being the Group's commitment to protect shareholders' interests, all decisions are made to enhance shareholders' value and upheld our good standard of corporate governance practice.

CORPORATE GOVERNANCE (continued)

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 1 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 outstanding results were from the hard work of all staff and the year 2005 may be remembered as a corporate milestone following the ongoing execution of KM2003 Objectives, the implementation of operation SPOR and the sourcing of new funds for the Group's corporate development. As part of the Group's ongoing investor relation programs to strengthen corporate profile, the Group also conducted roadshows in major financial cities including New York, London and Hong Kong in 2005.

I am pleased that the shareholder base for the Group was further broadened following the investment of two established companies, namely CITIC Capital Markets Holdings Limited and China Life Trustees Limited, into the Group.

CITIC Capital Markets Holdings Limited is an international investment bank established by CITIC Group to provide full and diversified range of financial services. China Life Trustees Limited was set up by China Life Insurance (Overseas) Company Limited – Hong Kong Branch for the provision of pension scheme and mandatory provident fund scheme. Both China Life Trustees Limited and China Life Insurance (Overseas) Company Limited belong to the China Life Insurance (Group) Company Limited, the leading insurance group in China.

I am confident that investment by these two leading Chinese companies into the Group is a demonstration of market confidence in the corporate direction of the Group business strategy in healthcare products, and further reaffirms the Group's market position as the leading supplier of protein chips for early detection of diseases.

In 2005, the Board approved an Employee Share Option Scheme for its eligible employees and that a total of 157 million share options, which represented approximately 5.84 percent of the Company's shares in issue as at the date of grant, were granted in 2005. The scheme allows the key employees of the Group to exercise its option right in five equal tranches from April 8, 2005 to April 7, 2010. The objective of the scheme is to provide incentives and rewards to eligible employees, and to allow the Group to plan for its human resources strategy more competitively in the future.

In addition, there have been some personnel changes on the board. On June 1, Dr. Xiao Chuan Guo resigned as Independent Non-Executive Director of the Company and Mr. Hu Jin Hua was appointed as Independent Non-Executive Director of the Company. On December 29, Dr. Hu Geng Xi resigned as Executive Director, but will continue to hold office as the Chief Scientific Officer of the Company. On behalf of the Board, I express gratitude for the contributions made by all past directors and welcome the appointment of Mr. Hu as an Independent Non-Executive Director of the Company who will undoubtedly bring new healthcare ideas and experiences to the Group.

The Company believes that the appointment of Mr. Hu will further strengthen the Company's commitment in corporate governance practices and enhance the Company's knowledge in national healthcare policies.

Finally, I would like to express my greatest appreciation for members of the Board for their constant and valuable support and guidance. At the same time, I am also very grateful and appreciative to the Group's management team and staff for their professionalism, enterprise, hard work, loyal support and dedication.

Yao Yuan

Executive Chairman

27th March, 2006