

## Directors' Report

The directors present their annual report and the audited financial statements of the Company for the year ended 31st December, 2005.

### CHANGE OF NAME

Pursuant to a special resolution passed at the annual general meeting held on 23rd May, 2005, the name of the Company was changed from Shanghai Ming Yuan Holdings Limited to Mingyuan Medicare Development Company Limited. The Company adopted the new Chinese name 「铭源医疗发展有限公司」 (for identification purpose only) in place of 「上海铭源控股有限公司」 (for identification purpose only)

### PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 41 to the financial statements.

### RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31st December, 2005 are set out in the consolidated income statement on page 37.

The directors do not recommend the payment of a dividend and propose that the profit for the year be retained.

### SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 30 to the financial statements.

### PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 15 to the financial statements.

### BORROWINGS

Details of the borrowings of the Group are set out in note 29 to the financial statements.

### CONVERTIBLE BONDS

During the year, the Company issued 1% convertible bonds due 2010 with an aggregate principal amount of HK\$200,000,000.

Details of the convertible bonds are set out in note 31 to the 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, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

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

As at 31st December, 2005 and 31st December, 2004, the Company had no reserves available for distribution to its shareholders.

### MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's five largest customers were less than 30% of the total sales. The aggregate purchases attributable to the Group's five largest suppliers were less than 30% of the total purchases.

None of the directors, the supervisors, their associates or any shareholders which, to the knowledge of the directors, own more than 5% of the Company's issued share capital had any interest in the 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

Mr. Hu Jun

Mr. Yu Ti Jun

Dr. Hu Geng Xi *(resigned on 29th December, 2005)*

#### *Independent non-executive directors:*

Dr. Lam Lee G.

Mr. Hu Jin Hua *(appointed on 1st June, 2005)*

Mr. Lee Sze Ho, Henry

Mr. Xiao Chuan Guo *(resigned on 1st June, 2005)*

In accordance with Bye-law 100 of the Company, Mr. Hu Jin Hua, director appointed by the board after the conclusion of the last annual general meeting, will retire from office and, being eligible, offer himself for re-election at the forthcoming annual general meeting of the Company.

In accordance with Bye-law 109 of the Company, Mr. Chien Hoe Yong, Henry, will retire from the office by rotation and, being eligible, offers himself for re-election at the forthcoming annual general meeting of the Company.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

### DIRECTORS' INTERESTS IN SHARES

As at 31st December, 2005, the interests of the directors of the Company and their associates in the share 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 (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

#### (1) Long positions

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

<u>Name of director</u>	<u>Capacity</u>	<u>Number of ordinary shares held</u>
Mr. Yao Yuan	Held by controlled corporation	1,272,969,075 (Note)

Note: The shares were held by Ming Yuan Investments Group Limited, a wholly-owned subsidiary of Ming Yuan Holdings Limited, of which 50% is held by Mr. Yao Yuan.

##### (b) Share options

<u>Name of director</u>	<u>Capacity</u>	<u>Number of options held</u>	<u>Number of underlying shares</u>
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	10,000,000	10,000,000

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

Save as disclosed above, as at 31st December, 2005, none of the Company's directors or their associates had any interests or short positions in any securities of the Company or any of its associated corporations.

## Directors' Report

### SHARE OPTIONS

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

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

Directors	Date of grant	Exercise price	Vesting period	Exercisable period	Number of share options			
					Outstanding at 1.1.2005	Granted during the year	Exercised during the year	Outstanding at 31.12.2005
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
					-	10,000,000	-	10,000,000
Total for directors					-	46,500,000	-	46,500,000
Employees	8.4.2005	HK\$0.728	N/A	8.4.2005 – 7.4.2010	-	22,100,000	-	22,100,000
			8.4.2005 – 7.4.2006	8.4.2006 – 7.4.2010	-	22,100,000	-	22,100,000
			8.4.2005 – 7.4.2007	8.4.2007 – 7.4.2010	-	22,100,000	-	22,100,000
			8.4.2005 – 7.4.2008	8.4.2008 – 7.4.2010	-	22,100,000	-	22,100,000
			8.4.2005 – 7.4.2009	8.4.2009 – 7.4.2010	-	22,100,000	-	22,100,000
Total for employees					-	110,500,000	-	110,500,000
Total for directors and employees					-	157,000,000	-	157,000,000

The closing price of the Company's shares immediately before 8th April, 2005, the date of grant of the options, was HK\$0.72.

### ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company, its holding company 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.

## Directors' Report

### SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2005, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Future Ordinance shows that at 31st December, 2005 the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

#### Long positions

Name	Capacity	Number of shares	Notes	Shareholding percentage
Ming Yuan Investments Group Limited	Beneficial owner	1,272,969,075	(i)	47.36%
Ming Yuan Holdings Limited	Held by controlled corporation	1,272,969,075	(i)	47.36%
Mr. Yao Yuan	Held by controlled corporation	1,272,969,075	(i)	47.36%
Mr. lu Chung	Beneficial owner and held by controlled corporation	1,294,189,075	(i)&(ii)	48.14%
J.P. Morgan Fleming Asset Management Limited ("JPMF Management")	Beneficial owner	214,240,000	(iii)	7.97%
J.P. Morgan Fleming Asset Management (Asia) Inc. ("JPMF Asia")	Held by controlled corporation	214,240,000	(iii)	7.97%
J.P. Morgan Fleming Asset Management Holdings Inc. ("JPMF Holdings")	Held by controlled corporation	214,240,000	(iii)	7.97%
J.P. Morgan Chase & Co. ("JPM Chase")	Held by controlled corporation	214,240,000	(iii)	7.97%
Success Invest Developments Limited ("Success Invest")	Beneficial owner	186,580,000	(iv)	6.94%
CITIC Capital Active Partner Fund Limited ("CITIC Capital")	Held by controlled corporation	186,580,000	(iv)	6.94%
CITIC Capital Markets Holdings Limited ("CITIC Capital Markets")	Held by controlled corporation	186,580,000	(iv)	6.94%
CITIC International Financial Holdings Limited ("CITIC International")	Held by controlled corporation	186,580,000	(iv)	6.94%
Forever Glory Holdings Limited ("Forever Glory")	Held by controlled corporation	186,580,000	(iv)	6.94%
Golden Gateway Enterprises Inc. ("Golden Gateway")	Held by controlled corporation	186,580,000	(iv)	6.94%
CITIC Pacific Limited ("CITIC Pacific")	Held by controlled corporation	186,580,000	(iv)	6.94%
China Life Trustee Limited	Beneficial owner	134,430,000	(v)	5.00%
China Life Insurance (Overseas) Co. Ltd.	Held by controlled corporation	134,430,000	(v)	5.00%

#### Notes:

- (i) The shares were held by Ming Yuan Investments Group Limited, a wholly-owned subsidiary of Ming Yuan Holdings Limited, which in turn is owned as to 50% and 50% by Mr. Yao Yuan and Mr. lu Chung respectively.
- (ii) Being the aggregate of personal interest held by Mr. lu Chung of 21,220,000 shares and the corporate interest held by Ming Yuan Investments Group Limited of 1,272,969,075 shares.
- (iii) The shares were held by JPMF Management, a 99.99% subsidiary of JPMF Asia. JPM Chase owns the entire interest in JPMF Holdings which in turn owns the 99.99% interest in JPMF Asia. Accordingly, JPM Chase, JPMF Holdings and JPMF Asia are deemed to be interested in 214,240,000 ordinary shares in the Company which were held by JPMF Management.
- (iv) The shares were held by Success Invest, a 100% subsidiary of CITIC Capital, CITIC Capital Markets owns 45.6% interest in CITIC Capital. CITIC Capital Markets were owned as to 50% and 50% by Forever Glory and CITIC International respectively. Forever Glory is a 100% subsidiary of Golden Gateway, which in turn wholly-owned by CITIC Pacific. Accordingly, CITIC Pacific, Golden Gateway, Forever Glory, CITIC International, CITIC Capital Markets, CITIC Capital are deemed to be interested in 186,580,000 ordinary shares in the Company which were held by Success Invest.
- (v) The shares were held by China Life Trustee Limited, a wholly-owned subsidiary of China Life Insurance (Overseas) Co. Ltd.

## Directors' Report

Save as disclosed above, the Company had not been notified of any other interests representing 5 percent or more in the issued share capital of the Company as at 31st December, 2005.

### 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 Securities on the Stock Exchange of Hong Kong Limited. The Company considers all of the independent non-executive directors are independent.

### SUFFICIENCY OF PUBLIC FLOAT

The Company maintained a sufficient public float throughout the year ended 31st December, 2005.

### PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year, neither the Company nor any of the subsidiaries purchased, sold or redeemed any of the Company's listed securities.

### PRE-EMPTIVE RIGHTS

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

### AUDITORS

Messrs. Deloitte Touche Tohmatsu have acted as auditors of the Company for the past three financial years. A resolution will be submitted at the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

**Mr. Yao Yuan**

*Executive Chairman*

27th March, 2006