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## MINGYUAN MEDICARE DEVELOPMENT COMPANY LIMITED

銘源醫療發展有限公司\*

(incorporated in Bermuda with limited liability)

(Stock Code: 0233)

### ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2010

The Board of Directors (the “Directors”) of Mingyuan Medicare Development Company Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2010, together with the comparative figures for the corresponding period of 2009 as follows:

#### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Six Months Ended 30 June 2010

		Unaudited	
		Six months ended 30 June	
	Notes	2010	2009
		HK\$'000	HK\$'000
Revenue	2	233,943	207,995
Cost of sales		(48,005)	(38,495)
Gross Profit		185,938	169,500
Other income	3	1,545	951
Other gains and losses	4	45	1,259
Selling and distribution expenses		(17,673)	(18,061)
Administrative expenses		(42,040)	(35,771)
Finance costs	5	(13,875)	(10,009)
Share of result of a jointly controlled entity		(1,096)	2,507
Profit before taxation		112,844	110,376
Income tax expense	6	(19,509)	(18,309)
Profit for the period	7	93,335	92,067
Other comprehensive income for the period			
Exchange differences arising on translation		2,623	2,289
Total comprehensive income for the period		95,958	94,356
Profit for the period attributable to:			
Owners of the Company		91,274	88,744
Non-controlling interests		2,061	3,323
		93,335	92,067
Total comprehensive income for the period attributable to:			
Owners of the Company		93,897	91,033
Non-controlling Interests		2,061	3,323
		95,958	94,356
Earnings per share			
Basic	8	2.63 HK cents	3.02 HK cents
Diluted	8	2.62 HK cents	2.73 HK cents

\* For identification purposes only

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2010

	<i>Notes</i>	<b>30 June 2010 HK\$'000 (Unaudited)</b>	31 December 2009 HK\$'000 (Audited)
<b>Non-Current Assets</b>			
Property, plant and equipment		432,464	435,863
Prepaid lease payments		69,928	69,950
Goodwill		420,982	420,982
Other intangible assets		314,413	326,918
Interest in a jointly controlled entity		19,221	20,140
Interest in an associate		1,867	–
Deposit paid for the acquisition of property, plant and equipment		871	203
		<u>1,259,746</u>	<u>1,274,056</u>
<b>Current Assets</b>			
Inventories		14,065	13,751
Prepaid lease payments		1,591	1,577
Trade and other receivables, deposits and prepayments	9	166,992	165,955
Amount due from related companies		–	3,096
Amount due from subsidiaries of a jointly controlled entity		45,663	45,133
Held for trading investments		104	4,201
Pledged bank deposit		11,358	11,358
Bank balances and cash		660,494	457,406
		<u>900,267</u>	<u>702,477</u>
<b>Current Liabilities</b>			
Trade and other payables	10	79,501	81,338
Amount due to related companies		–	978
Bank borrowings – due within one year		129,651	139,444
Convertible bonds		87,417	79,627
Taxation payable		24,661	17,534
		<u>321,230</u>	<u>318,921</u>
<b>Net Current Assets</b>		<u>579,037</u>	<u>383,556</u>
		<u>1,838,783</u>	<u>1,657,612</u>
<b>Capital and Reserves</b>			
Share capital		175,791	170,525
Reserves		1,420,124	1,248,535
Equity attributable to owners of the Company		<u>1,595,915</u>	<u>1,419,060</u>
Minority Interests		44,048	41,988
Total equity		<u>1,639,963</u>	<u>1,461,048</u>
<b>Non-Current Liabilities</b>			
Deferred tax liabilities		117,870	116,490
Bank borrowings – due after one year		80,950	80,074
		<u>198,820</u>	<u>196,564</u>
		<u>1,838,783</u>	<u>1,657,612</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants under the historical cost convention, except for certain financial instruments, which are measured at fair values. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and by the Hong Kong Companies Ordinance.

The accounting policies adopted for the preparation of the condensed consolidated financial statements are consistent with those used in the Group’s annual audited financial statements for the year ended 31 December 2009.

In the current period, the Group has applied the following new and revised standards, amendments and interpretations (“new and revised HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) – Int 18	Transfers of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

The adoption of these 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.

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 (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008 <sup>1</sup>
HKFRSs (Amendments)	Improvements to HKFRSs 2009 <sup>2</sup>
HKAS 24 (Revised)	Related Party Disclosures <sup>6</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>1</sup>
HKAS 32 (Amendment)	Classification of Rights Issues <sup>4</sup>
HKAS 39 (Amendment)	Eligible Hedged Items <sup>1</sup>
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters <sup>3</sup>
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters <sup>5</sup>
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions <sup>3</sup>
HKFRS 3 (Revised)	Business Combinations <sup>1</sup>
HKFRS 9	Financial Instruments <sup>7</sup>
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement <sup>6</sup>
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners <sup>1</sup>
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments <sup>5</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2009.

<sup>2</sup> Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2010.

<sup>4</sup> Effective for annual periods beginning on or after 1 February 2010.

<sup>5</sup> Effective for annual periods beginning on or after 1 July 2010.

<sup>6</sup> Effective for annual periods beginning on or after 1 January 2011.

<sup>7</sup> Effective for annual periods beginning on or after 1 January 2013.

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after 1st January, 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

HKFRS 9 "Financial Instruments" introduces new requirements for the classification and measurement of financial assets and will be effective from 1st January, 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The Directors anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

## 2. SEGMENT INFORMATION

The Group's operating and reportable segments are as follows:

- Protein chips division – Manufacturing and trading of protein chips and related equipments
- Health care division – Operation of Shanghai Woman and Child Healthcare Hospital of Hong-Kou District, Shanghai, PRC (上海市虹口區婦幼保健院)
- Manufacturing and trading of HPV detection products and related equipments
- Medial centres management – Provision of medical diagnostic, health check and Medical appraisal services

### Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment.

	<b>Protein chips division</b> <i>HK\$'000</i>	<b>Health care division</b> <i>HK\$'000</i>	<b>Medical centres management</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
<i>For the six months ended 30 June 2010</i>				
REVENUE				
External sales	<u>184,731</u>	<u>30,332</u>	<u>18,880</u>	<u>233,943</u>
Segment profit (loss)	<u>132,162</u>	<u>(3,814)</u>	<u>233</u>	<u>128,581</u>
Unallocated expenses				(2,103)
Interest income				1,545
Share of result of a jointly controlled entity				(1,096)
Change in fair value of held for trading investments				(208)
Finance costs				<u>(13,875)</u>
Profit before tax				<u>112,844</u>
Income tax expense				<u>(19,509)</u>
Profit for the year				<u><u>93,335</u></u>
<i>For the six months ended 30 June 2009</i>				
REVENUE				
External sales	<u>171,032</u>	<u>20,558</u>	<u>16,405</u>	<u>207,995</u>
Segment profit	<u>117,200</u>	<u>2,997</u>	<u>7,130</u>	<u>127,327</u>
Unallocated expenses				(7,680)
Interest income				738
Finance costs				<u>(10,009)</u>
Profit before tax				<u>110,376</u>
Income tax expense				<u>(18,309)</u>
Profit for the year				<u><u>92,067</u></u>

### Geographical segments

Over 95% 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.

### 3. OTHER INCOME

	Unaudited Six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
Interest income	1,545	738
Government grant	–	213
	<u>1,545</u>	<u>951</u>

### 4. OTHER GAINS AND LOSSES

	Unaudited Six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
Gain on disposal of property, plant and equipment	253	–
Change in fair value of held for trading investments	(208)	1,259
	<u>45</u>	<u>1,259</u>

### 5. FINANCE COSTS

	Unaudited Six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
Interest on bank borrowings wholly repayable within five years	3,282	5,688
Effective interest expenses on convertible bonds	10,593	4,321
	<u>13,875</u>	<u>10,009</u>

## 6. INCOME TAX EXPENSE

	Unaudited	
	Six months ended 30 June	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
PRC Enterprise Income Tax	18,270	12,171
Deferred tax	1,239	6,138
	<u>19,509</u>	<u>18,309</u>

No provision was made for Hong Kong profits tax as the Group had no assessable profit in Hong Kong for the six months ended 30 June 2010 (six months ended 30 June 2009: Nil).

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards. Pursuant to the relevant laws and regulations in the PRC, the Group's major PRC subsidiaries 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 EIT Law was implemented and will expire in 2009 to 2012.

## 7. PROFIT FOR THE PERIOD

	Unaudited	
	Six months ended 30 June	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period has been arrived at after charging:		
Depreciation of property, plant and equipment	12,340	8,960
Amortisation of prepaid lease payments	623	747
Amortisation of other intangible assets	12,581	–
Staff costs		
– directors' remuneration	2,686	3,020
– other staff costs	17,624	18,775
– share-based payments, excluding directors	–	520
– retirement benefits scheme contributions, excluding directors	155	60
Total staff costs	<u>20,465</u>	<u>22,375</u>
Auditors' remuneration	1,000	800
Cost of inventories recognised as expenses	48,005	38,495
Research and development expenditure	<u>3,347</u>	<u>2,522</u>

## 8. EARNINGS PER SHARE

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

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2010</b>	<b>2009</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<u>Earnings</u>		
Profit for the period attributable to the owners of the Company and earnings for the purpose of basic earnings per share	91,274	88,744
Effect of dilutive potential ordinary shares:		
– Interest on convertible bonds	–	4,326
	<u>91,274</u>	<u>93,070</u>
Earnings for the purpose of diluted earnings per share	<u><u>91,274</u></u>	<u><u>93,070</u></u>
<u>Number of shares</u>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	3,476,769,124	2,936,824,905
Effect of dilutive potential ordinary shares:		
– share options	11,404,809	–
– convertible bonds	–	468,891,776
	<u>3,488,173,933</u>	<u>3,405,716,681</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u><u>3,488,173,933</u></u>	<u><u>3,405,716,681</u></u>

No adjustment for convertible bonds and warrants was made in calculating diluted earnings per share for the 6 months ended 30 June 2010 as the conversion of convertible bonds and exercise of warrants would result in increase in earnings per share.

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

	<b>30 June</b>	<b>31 December</b>
	<b>2010</b>	<b>2009</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
Trade receivables	147,577	153,576
Less: allowance for doubtful debt	(2,226)	(2,226)
	<u>145,351</u>	<u>151,350</u>
Consideration receivable for disposal of property, plant and equipment	–	2,590
Prepayments	3,856	2,427
Others	17,785	9,588
	<u>166,992</u>	<u>165,955</u>
	<u><u>145,351</u></u>	<u><u>151,350</u></u>

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:

	<b>30 June</b>	<b>31 December</b>
	<b>2010</b>	<b>2009</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
0 – 60 days	102,746	110,964
61 – 90 days	33,884	31,151
91 – 180 days	7,268	6,477
181 – 270 days	1,453	2,758
	<u>145,351</u>	<u>151,350</u>
	<u><u>145,351</u></u>	<u><u>151,350</u></u>

## 10. TRADE AND OTHER PAYABLES

	<b>30 June 2010 HK\$'000 (Unaudited)</b>	31 December 2009 HK\$'000 (Audited)
Trade payables	7,329	8,936
Receipts in advance	2,252	7,444
Accrued expenses	23,355	25,442
Payables for construction in progress	12,867	13,603
Other tax payable	5,364	7,922
Others	28,334	17,991
	<hr/> <b>79,501</b> <hr/>	<hr/> <b>81,338</b> <hr/>

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

	<b>30 June 2010 HK\$'000 (Unaudited)</b>	31 December 2009 HK\$'000 (Audited)
0 – 60 days	5,863	8,054
61 – 90 days	1,466	20
Over 90 days	–	862
	<hr/> <b>7,329</b> <hr/>	<hr/> <b>8,936</b> <hr/>

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW, DISCUSSION AND ANALYSIS

#### Market Review

According to an economic outlook update in July this year issued by the International Monetary Fund, there is an upward revision compare with previous forecast. It reflects stronger activity during the first half of the year. Most of the economic indicators were strong and stabilize at a high level. The global economy expanded due to the powerful growth in Asia however recent financial turbulence tells us to be aware of the fiscal positions and competitiveness in Greece and other vulnerable euro area economies.

With the economic stimulus package in effect, the gross domestic product in China grew 11.1 percent over the first half of 2010 from the same period a year ago to 17.28 trillion yuan and became one of the few countries in the world that could maintain economic growth. Nevertheless, the National Bureau of Statistics most recently issued a note of caution that the China's economy is still facing difficulties and challenges, and that the economy rebound has yet to achieve stability.

Under the 11th Five-Year Plan from 2006 to 2010, the Chinese Government projected that its economy will grow at an annual rate of 8 percent and that the future economic development in China will continue to be fuelled by the growth of fixed asset investment, backed by the high savings, inflow of foreign investments and government economic stimulus measures.

The Chinese economy has enjoyed a period of unprecedented and sustainable growth from 2001 to 2009 with per capita income of urban and rural residents achieving annual growth averages of 9.9 percent and 6.6 percent respectively. In 2009, per capita income of urban and rural residents per year were approximately 17,175 yuan and 5,153 yuan respectively, representing a growth of 9.8 percent and 8.5 percent respectively over that of last year. This period of sustainable growth has led to a continual improvement in standard of living that led to a continual increase in expenditures on food, clothing, healthcare, transportation, telecommunications, education, entertainment and housing. The improved standard of living and the increase in healthcare consciousness have led to an increased spending on healthcare products and services.

## **Business Review**

During this period, the Group has maintained a prudent yet progressive approach towards its business agenda and financial management. The management took the view that 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 in China, the Group would maintain its existing business momentum and intends to further strengthen its cashflows and balance sheet while maintaining a flexible approach to review its financial policies from time to time.

The Group currently operates two business segments, namely the PMD business segment and the MCM business segment respectively. Both business segments offer strong cashflows and they provide synergy to one another and are complimentary to the development of the Group's new and pioneering IVD testing kits.

The net profit attributable to shareholders amounted to HK\$93.3 million (2009: HK\$92.1 million), representing an increase of 1.4 percent over that of last corresponding period. The increase was due to the overall increase in sales of its C-12 products from principally the existing sales network under the PMD business segment and revenue contribution from the MCM business segment. Earnings per share was HK2.63 cents (2009: HK3.02 cents), representing a decrease of approximately 12.9 percent.

### **The PMD Business Segment:**

PMD stands for "Product, Manufacturing and Distribution" and is the traditional principal business segment of high margin sector of vitro diagnostic products ("IVD testing kits"). This business segment consists 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\$184.7 million (2009: HK\$171.0 million), representing an increase of approximately 8.0 percent over that of last corresponding period. More importantly, profits of this division amounted to HK\$132.2 million (2009: HK\$117.2 million), representing an increase of approximately 12.8 percent over that of last corresponding period.

During the period, the Group maintain growth in the first half of this year and the Group sold a total of 1.64 million protein chips (2009: 1.61 million), representing an increase of 1.9 percent over that of last corresponding period. The Group is committed to implement its sales plan that includes the expansion of sales network, optimization of chipreader utilization rate and diversification of chipset packaging.

## *Healthcare Division*

This division currently consists of two units, namely the cervical cancer care and medical care units. Turnover contributed by this division amounted to HK\$30.3 million (2009: HK\$20.6 million). The segment loss of this division amounted to HK\$3.8 million (2009: profit HK\$3.0 million).

### *Cervical Cancer Care Unit*

The Group officially launched its HPV DNA diagnostic kits with the successful appointment of distributors in 18 provinces and sold more than 142,000 kits (2009: 45,560) in the first half of 2010, representing an increase of 212 percent over last corresponding period. To date, the HPV DNA diagnostic kits are already approved to sell in over 160 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.

The MCM Business Segment:

The MCM segment stands for “Medical Centres Management” and represents the business of health screening and management.

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 MCM centres by mergers and acquisition of existing independent medical centres, and forming business alliances with regional medical centres 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.

## **Corporate Review**

### *Bio Drugs (“BDS”)*

The Group believes that immunotherapy offers an innovative and attractive approach for treating life threatening diseases as the therapy often have fewer side effects, including less potential for creating resistance in microbial diseases and the new generation of non-specific nanotechnology immunomodulatory drugs provides a more effective and dynamic immunotherapeutic solution, than existing drugs.

On 5 January 2010, the Company is setting up a new business segment based on biomedical drugs by announcing that the Company had entered into a milestone Technology Transfer Agreement (the “TT Agreement”) with the National Institute for the Control of Pharmaceutical and Biological Products (the “NICPBP”) for the development, production and commercialization of a new generation of non-specific nanotechnology immunomodulatory drugs known as non-cell corynebacterium pavum products (the “NCPD Drugs”).

While vastly increasing the immunological ability of the corynebacterium pavum products (the “CPP”) at clinical environment, the innovative NCPD drugs will enhance the immunotherapeutic efficacy of the CPP to its fullest potential and to treat patients with life threatening diseases including influenza A (H1N1), tuberculosis, human immunodeficiency virus (HIV) and certain types of cancer more safely and effectively.

Under the TT Agreement, the NICPBP transferred all intellectual property rights together with the production know how of the NCPD Drugs to HealthDigit Biochips. HealthDigit Biochips will be responsible for (i) the registration of the NCPD Drugs with the SFDA; and (ii) the production and commercialization of the NCPD Drugs. NICPBP will remain as a technical advisor to the development and production of the NCPD Drugs, and work jointly with HealthDigit Biochips to further develop the clinical applications of NCPD Drugs for various other diseases.

Established in the 1950s as an affiliated agency of the SFDA, NICPBP is the highest level institute for the safety and quality control of pharmaceutical and biological products in China. NICPBP is also the Center for Drug Quality Assurance for World Health Organization, the National Center for Medical Culture Collections and the National Research Center for the Standardization of Pharmaceutical and Biological Drugs in China.

Both the Company and the NICPBP believes the new generation of nonspecific nanotechnology immunomodulatory drugs will contribute greatly to the treatment of life threatening diseases to all mankind.

#### *C-12A has been granted a medical device license*

C-12A, second generation of C-12 protein Chip has been granted a medical device license by the SFDA. The C-12A quantitatively measures twelve different kinds of tumor markers and is an improved version of the flagship C-12 product of the Group. 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.

#### *Medical Centres Management (“MCM”)*

The MCM expanded and now manage 14 centres nationwide. 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 Group’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 Group 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.

### *Corporate Governance and Investors Relation Strategy*

Unlike the more traditional form of business operations represented in the stock markets, the Group understands that its business nature is not easily understood by the investment community in Asia and believes that a more proactive channel of communication needs to be established to explain our business model and the potential of the market for early screening of diseases globally.

The Group continued with efforts to enhance investor relations during the first half of the year and the Group has established various means of communication channels in order that the Company's management philosophy, operations and future investment and development strategies are communicated to existing shareholders and the investment community.

During the first half of the year, representatives from the Group had met with the investors and relevant parties for a total attendance of 132. By category, those who attended included fund managers (80%); analysts (8%); bankers (11%) and media (1%). In addition, 1 roadshows and 2 investor forums were conducted with a total attendance of 50.

In the first half of the year, the Group has participated in corporate briefings to financial institutions organized by various international securities houses, including JP Morgan, and Credit Suisse.

The Board believes that an effective practice in corporate governance and a disciplined approach to build a platform of communication with the investment community for bio-medical companies could enhance better value for the Group similar to that in the biotech stocks globally in the long term and achieve better shareholders' value.

## **PROSPECTS**

The Group prides itself as one of China's leading bio-medical companies in the area of early screening and detection of diseases. The Group understands there are many challenges and risks associated with the industry, and is constantly reviewing and responding accordingly when implementing its business plans. While China represents one of the largest and rapidly growing markets for healthcare products and services, it is a very unique market that requires a comprehensive understanding of the existing medical industry, regulations and operational mechanism.

In May 2008, the Company announced that SHMY Healthdigit Biochips Company Limited ("Healthdigit"), a wholly owned subsidiary of the Company, has completed the development of its proprietary Diagnostic Kit for Multiple Antibodies to Mycobacterium Tuberculosis based on Dot Immunogold Filtration Assay ("TBS1 Testing Kit") for the rapid diagnosis of tuberculosis ("TB"). The TBS1 Testing Kit 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 is completed and granted a medical device license by the SFDA.

The TBS1 Testing Kit is the first product completed by Healthdigit with the technology developed at the Tuberculosis Research Laboratory of the PLA General Staff Department 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 PLA Hospital was founded in 1958. 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.

The Group is excited 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 ongoing expansion of sales arrangement with other branches of China Life and the successful inclusion of the C-12 products on the provincial reimbursement drug list.

The Group believes that the successful listing of its C-12 product on the Shanghai medical insurance catalogue would further raise the public awareness of cancer disease prevention and control, and would lead to further sales growth of its C-12 product in Shanghai. The Group is currently applying the National catalogue for inclusion of C-12 products as a reimbursable drug under Basic Medical Insurance System.

The Group continues to apply a methodical and disciplined approach towards the implementation of business plans in the KM2003 Objectives for 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 bio-medical products from both its proprietary and licensed platforms for the early detection of diseases.

The concept of a screening test is performed to detect potential health disorders or diseases in persons who do not have any symptoms of disease. The objective is early detection and lifestyle changes or surveillance, to reduce the risk of disease, or to detect it early enough to treat it most effectively. Screening test is increasingly important and serves the purpose of raising awareness in one’s health status. Screening tests are not considered diagnostic, but are utilized to identify a subset of the population who should have additional testing or diagnosis to determine the presence or absence of disease.

While minimizing unclear, ambiguous, or confusing results, a screening test is valuable in its ability to detect potential problems. While screening tests are not 100 percent accurate in all cases, it is more valuable to have the screening tests at the appropriate times, as recommended by a physician. Like in the situation of cancer tumors, it is demonstrated that early discovery of tumor presence could lead to early treatment and a higher probability of a cure or recovery.

The Group prides itself to offer a viable alternative to people who believe in early detection and prevention of diseases and in the past few years the Group has successfully developed a market demand that never existed before for cancer screening. At the same time, the Group has plans to develop diagnostic protein chips for specific cancer tumor type to broaden the coverage on cancer products and to further the promotion of HPV DNA detection kits for effective screening and diagnostic tool for the detection and prevention of cervical cancer.

## **FINANCIAL REVIEW**

### **Turnover**

The Group's turnover increased by 12.5% to HK\$234 million for the six months ended 30 June 2010 from HK\$208 million in the same period last year. Our core operation, protein chips division, continued to be the key growth driver. Total sales for the division increased by 8.0% to HK\$185 million from HK\$171 million in the same period last year. Turnover of the Healthcare division increased by 47.6% to HK\$30.3 million from HK\$20.6 million in the same period of last year. Turnover of the medical centre management division increased by 15.1% to HK\$18.9 million from HK\$16.4 million in the same period last year.

### **Expenses**

Total selling and distribution, and administrative expenses increased by 10.9% in the first half of 2010 to HK\$59.7 million (1H2009: HK\$53.8 million). This was mainly due to the amortisation of other intangible assets amounted to HK\$12.8 million (1H2009: Nil) due to acquisition of two groups of operation in the year 2009.

### **Finance Costs**

Finance costs amounted to HK\$13.9 million during the six months ended 30 June 2010 (1H2009: HK\$10.0 million). The increase was due to adjustment of the effective interest on the convertible bonds issued in March 2009.

### **Net Profit**

Net profit for the period increased by 1.4% to HK\$93.3 million compared to HK\$92.1 million for the same period last year.

## Pledge of Asset

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

	<b>30 June 2010 HK\$'000 (Unaudited)</b>	31 December 2009 HK\$'000 (Audited)
Prepaid lease payments	43,079	43,083
Buildings	157,163	161,539
Building under construction	217,984	209,450
Investments held for trading	–	4,011
Pledged bank deposit	11,358	11,358
	<u>429,584</u>	<u>429,396</u>

## 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 30 June 2010, the Group had cash and bank balances of HK\$671.9 million (31 December 2009: HK\$468.8 million). The Group's gearing ratio as at 30 June 2010 was 18.7 percent (31 December 2009: 21.1 percent), based on bank and other borrowings of HK\$298.0 million (31 December 2009: HK\$299.1 million) and shareholders' fund of HK\$1,595.9 million (31 December 2009: HK\$1,419.1 million)

The Group's bank borrowings were denominated in Hong Kong Dollars and Renminbi. Bank borrowings totaling HK\$210.6 million were outstanding as at 30 June 2010 (31 December 2009: HK\$219.5 million). The range of effective interest rates on the bank borrowings as at 30 June 2010 was approximately 1.7% to 8.3% per annum (31 December 2009: ranging from 1.6% to 9.0%).

Revenue generated from the 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 30 June 2010 and 31 December 2009, the Group did not have any significant contingent liabilities.

## Dividend

The Directors has resolved not to declare an interim dividend in respect of the six months ended 30 June 2010 (six months ended 30 June 2009: Nil).

## **EMPLOYEES**

At 30 June 2010, the Group had a total of 932 employees (31 December 2009: 951 employees) in Hong Kong and China. Employee's remuneration, promotion and salary review are assessed based on job responsibilities, work performance, experience and prevailing industry practice.

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

During the six months ended 30 June 2010, the Company did not redeem any of its shares. Neither the Company, its subsidiary nor its jointly controlled entity has purchased or sold any of the list securities of the Company during the six months ended 30 June 2010.

## **CORPORATE GOVERNANCE**

The Stock Exchange introduced the Code on Corporate Governance Practices (the "GCP Code") as set out in Appendix 14 of the Listing Rules effective from 1 January 2005. The Board took appropriate action to adopt the GC 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.

None of the directors of the Company is aware of information that would reasonably indicate the Company is not or was not for any part of the year under review, in compliance with the CGP Code, except the followings:

Provision A.4.1 of the CGP Code requires that every non-executive director should be appointed for a specific term, and subject to retirement by rotation at least every three years. During the year, the non-executive directors have not been appointed for a specific term and they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Bye-laws.

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.

Based on the number of directors as at 30 June 2010, a non-executive director will serve on the board for a term of about two years until he/she becomes due to retire from the board by rotation. In the opinion of the Directors, this arrangement meets the same objective as the CGP Code.

The Company adopts the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules as the code of conduct for Directors and Senior Management in their dealings in the Company's securities.

The Company made specific enquiries of each Director and member of the Senior Management, and each confirmed that he/she had fully complied with the Model Code during the six months ended 30 June 2010.

The Company has received, from each of the Independent Non-executive Directors, a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all the Independent Non-executive Directors are independent.

#### **AUDIT COMMITTEE**

The audit committee is comprised of three independent non-executive directors who together have substantial experience in fields of auditing, legal matters, business, accounting, corporate internal control and regulatory affairs.

The audit committee meets regularly to review the completeness, accuracy and fairness of the Company's financial statement. They consider the nature and scope of internal and external audit reviews. They also assess the effectiveness of the systems of internal control the Company has established to allow the board of directors to monitor the Group's overall financial position and to protect its assets.

The audit committee has reviewed the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2010.

#### **REMUNERATION COMMITTEE**

The remuneration committee currently comprises two independent non-executive directors, namely Dr. Lam Lee G., (Chairman) and Mr. Lee Sze Ho, Henry and the CEO, Mr. Chien Hoe Yong, Henry.

The remuneration committee is responsible for reviewing and evaluating the remuneration packages of Directors and senior management and making recommendations to the Board. The committee members normally hold meeting once a year.

#### **INVESTOR RELATIONS AND COMMUNICATION**

The Group adopts a proactive policy of promoting investor relations and communication by maintaining regular meetings with institutional investors and analysts. In order to further effective communication, the Company maintains a website ([www.mymedicare.com.hk](http://www.mymedicare.com.hk)) to disseminate shareholder information electronically on a timely basis.

#### **PUBLICATION OF INTERIM REPORT ON THE WEBSITE OF THE STOCK EXCHANGE**

The interim report for the six months ended 30 June 2010 containing all the information as required by the Listing Rules will be published on the websites of the Stock Exchange and the Company respectively and copies of the interim report will be despatched to shareholders of the Company in due course.

As at the date of this announcement, the executive directors are Mr. Yao Yuan (Chairman), Mr. Chien Hoe Yong, Henry (CEO), Mr. Iu Chung, Mr. Hu Jun, and Mr. Yu Ti Jun; the non-executive directors are Mr. Yang Zhen Hua and Mr. Ma Yong Wei; the independent non-executive directors are Dr. Lam Lee G., Mr. Hu Jin Hua and Mr. Lee Sze Ho, Henry.

On behalf of the Board  
**Chien Hoe Yong, Henry**  
*CEO and Executive Director*

Hong Kong, 30 August 2010