銘源醫療

Mingyuan Medicare Development Company Limited

(Incorporated in Bermuda with limited liability)

Stock Code : 00233

Annual Report 2010

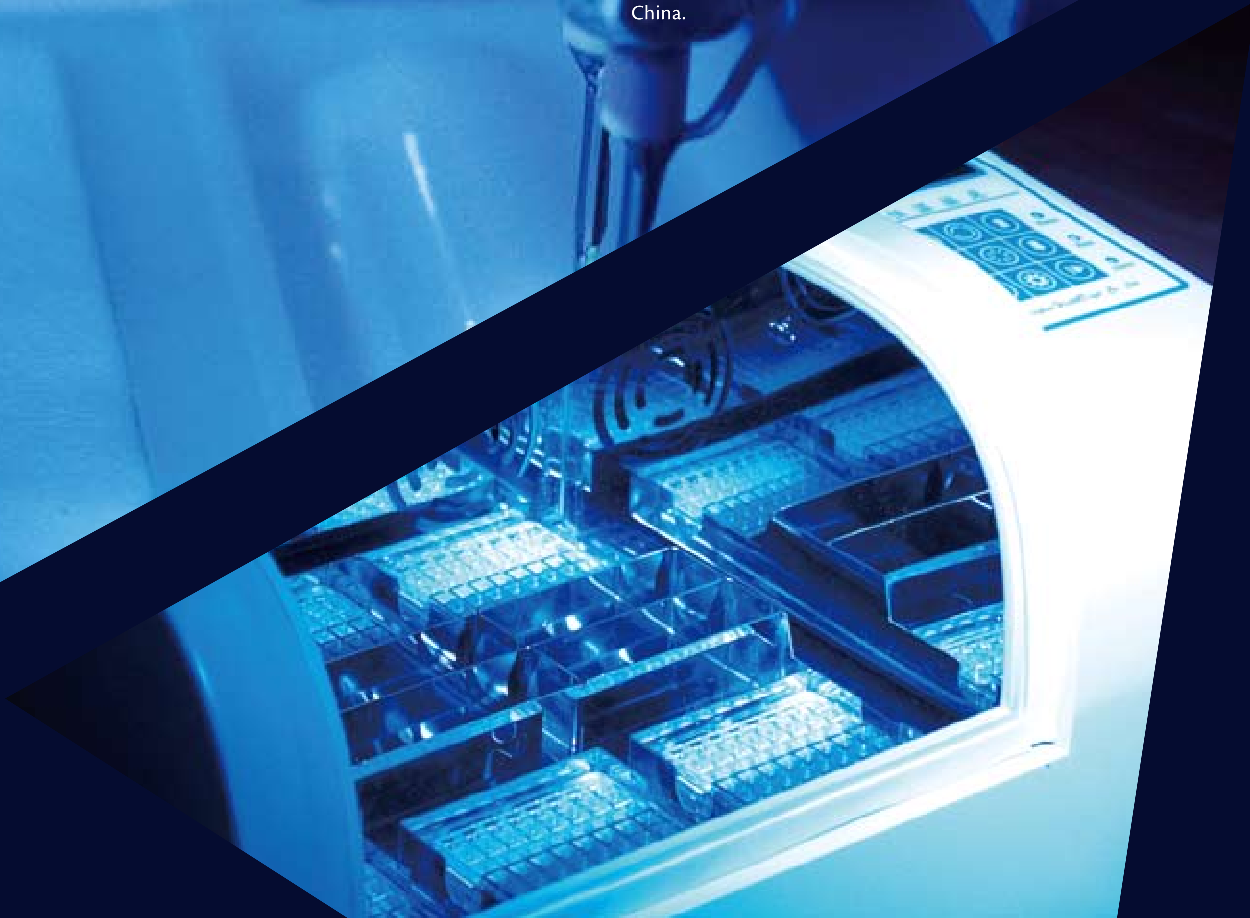
MISSION

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.



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. Yao Yuan
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
Mr. Yang Yan Qin

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

Appleby
Stephenson Harwood & Lo

PRINCIPAL BANKERS

Bank of Communications Co., Ltd. Hong Kong Branch
CCB International Asset Management Limited
CITIC Bank International Limited
Citibank, N.A., Hong Kong Branch
The Hongkong and Shanghai Banking Corporation Limited

PRINCIPAL SHARE REGISTRARS

Butterfield Fulcrum Group (Bermuda) Limited
11 Bermudiana Road, Pembroke HM 08, Bermuda

BRANCH SHARE REGISTRARS IN HONG KONG

Central Registration Hong Kong Limited
46th Floor, Hopewell Centre,
183 Queen's Road East,
Wanchai, Hong Kong

REGISTERED OFFICE

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Hamilton HM 12, Bermuda

PRINCIPAL PLACE OF BUSINESS

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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

CHAIRMAN'S STATEMENT

THERE is only one world for healthcare and we believe that today's advancement in biotechnology can offers patients more and better healthcare choices. Our corporate mission is to provide a viable and effective 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 for the Chinese population.

As a pioneer and believer that new, innovative diagnostics and biological therapies are changing the ways that human diseases are prevented and/or are treated, we are expanding our early screening and detection products to include cervical cancer and tuberculosis diseases, and gradually establishing a bio-drug platform to provide for biological therapies for life threatening diseases.

Globally, countries are increasingly switching medical resources from reactive care to preventative care and are placing strong emphasis on disease prevention. While committing to an objective of providing healthcare insurance and quality healthcare services to all Chinese citizens by 2020, China recognizes prevention and early detection of diseases to be extremely important for improving the quality of healthcare as well as controlling costs. It is widely accepted that early screening can identify diseases earlier, and hence subsequent treatment can be more effective and cost less, and at the same time rewards lifestyle choices and behaviours.

Our drive to leverage on advanced 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 catalog in certain provinces including and the Shanghai Municipality, will rapidly strengthen the concept of early screening major diseases 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 that share our corporate mission to bring a diversity of cost effective disease screening products and solutions to our customers both at home and abroad. 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 the diversification of our reach to medical screening services and bio drugs 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

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

With the economic stimulus package in effect to drive investments and domestic spending, the gross domestic product in China rose 10.3 percent in 2010 from a year ago to RMB39.80 trillion (US$6.07 trillion) and became the first few countries in the world to record a strong economic growth. Nevertheless, the National Bureau of Statistics of China most recently issued a note of caution that the China's economy will continue to face difficulties and challenges, and that the economy recovery has yet to achieve long term sustainability.

In the last five years, the China economy have grown over 80 percent with an average annual growth of 11.2 percent and the China economy is currently the third largest economy in the world, behind the US and Japan. Confronting economic complexity both at home and abroad, the China Government successfully engaged 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.

Most recently at the Fourth Session of the 11th National People's Congress, the China Government has reaffirmed its commitment 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 and to maintain its GDP growth to at least 8 percent in 2010 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. While the global economy is slowly recovering, the China Government continue to engage on strategic and fundamental changes in the economic structure of the country and to place more emphasis on building a sustainable domestic economy based on heavy investments and strong domestic spending.

In pursuit of its landmark healthcare reform plan backed by a significant budget of RMB850 billion to be spent before 2011, the China Government is committed to provide basic medical security to all Chinese in both urban and rural areas, improve the quality of medical services, and make medical services more accessible and affordable for ordinary people and to pave the road for further medical reforms in the healthcare industry.

With the healthcare reform in full momentum, the healthcare industry in China will continue to be modernised 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 and will invariably drive up strong demands for medical products and services in the coming decade.

Equally important is the increase in State Basic Medical Insurance population for urban residents. According to the National Bureau of Statistics of China, the eligible participants have grown from 43.3 million in 2000 to 432 million in 2010, representing an increase of over 388.7 million participants with annual averages of 27.3 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 at the end of 2009, the urban population reached 46.6 percent of the total population. 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

The Group currently maintain two business units, namely the PMD and the MCM units. PMD stands for "Product, Manufacturing and Distribution" and is the traditional principal business segment of high margin sector of in vitro diagnostic products ("IVD"). This business segment consists of the Protein Chips Division and the Healthcare Division. MCM stands for "Medical Centres Management", and represents the business of health screening and management. MCM also provides a new and direct sales channel for the Company's IVD products.

On 5th January, 2010, the Group established a new business unit named Bio Drugs ("BDS") business unit based on biomedical drugs by announcing that SHMY HealthDigit Biochips Company Limited, a wholly-owned subsidiary of the Company, had entered into a milestone Technology Transfer Agreement with the National Institute for the Control of Pharmaceutical and Biological Products for the development, production and commercialisation of a new generation of non-specific nanotechnology immunomodulatory drugs known as non-cell corynebacterium pavum products.

During the year, the Group diversified its biomedical product series for the second generation of C-12 (referred to as "C-12A Protein Chip"), and Tuberculosis Screening Chip (referred to as "TBS Chip).

In November, the Group strengthen its sales network significantly by entered into a strategic co-operation agreement with Shanghai Pharmaceuticals Co., Ltd ("SPC"), SPC becomes a principal distributor for the Company's bio-medical products in China.

Major Events and Issues in 2010:

Major corporate activities undertaken in 2010 were summarised as follows:

January The Group established a new business segment named Bio Drugs business segment or to be referred more commonly as BDS business segment by announcing that it will engaged in the development, production and commercialisation of a new generation of non-specific nanotechnology immunomodulatory drugs known as non-cell corynebacterium pavum products (the "NCPP Drugs") following the acquisition of the relevant intellectual property rights relating to the NCPP Drugs from the National Institute for the Control of Pharmaceutical and Biological Products which is a an affiliated agency of the State Food and Drug Administration in China (or more commonly referred to as "SFDA"). The Group believes that there is a huge therapeutic market for major diseases and that this business segment is a natural progression of the existing business operations.

March The Company's C-12A Protein Chip, the second generation of C-12 Protein Chip was certified by the SFDA as a medical device for in vitro diagnosis which quantitatively measures twelve different kinds of tumor markers. The C-12A is an improved version of the flagship C-12 product and is useful for assisting cancer diagnosis and for clinical screening for cancers for people who are cancer suspects or at high risk for cancer.

November The Group entered into a strategic co-operation agreement with SPC under which SPC would become a principal distributor of the Company's bio-medical products in China. SPC has one of the most prominent nation-wide distribution and retail network for a wide range of medical products.

December In the third successive year, the Company was awarded "Hong Kong Outstanding Enterprises Parade 2010" 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.

MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

Mission Statement – Innovative Medicare Solutions Partnership

The Group is a leading pioneer in commercialising new diagnostics technologies and is a leading supplier of biomedical solutions in China and has sold cumulatively more than 15 million protein chips for cancer screening.

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 continue to 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.

Product Manufacturing and Distribution ("PMD")

Protein Chips Division

Currently, the Group manufactures and distributes its C-12 products to hospitals, medical centres and life insurance companies in China. The C-12 product is capable of detecting up to twelve tumor markers simultaneously and assisting in early detection of ten prevalent cancer tumor types. As a proven and leading supplier of protein chips in China, the Group has been supplying C-12 products to China Life Insurance Company, Shanghai Branch ("CLS"), for the pre-screening and general health appraisal of life and cancer policy applicants. C-12 products have been listed on the Basic Medical Insurance System ("BMIS") as a reimbursable drug in several provinces of China and on the BMIS of Shanghai Municipality in October 2009. The Group believes that more provinces and municipalities will include C-12 products on their BMIS. Despite a weak and unstable global economy and limited export sales, the Group expects the overall growth for the protein chips sales based on domestic demand to be promising and sustainable in the future.

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 hybridisation, and DNA microarray genotyping of amplified DNA products.

The HPV DNA testing kits offer superior sensitivity (>95%) for early screening of cervical cancer compared with conventional pap-smear test (50-60%). Besides, it does not require a large upfront capital investment on specialised equipment, and is only a fraction of the costs of other competitive products.

According to the World Health Organisation, 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.

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

The division is principally 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 division 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.

FINANCIAL PERFORMANCE

The net profit attributable to shareholders amounted to HK$123.5 million (2009: HK$75.6 million), representing a increase of 63.4 percent over that of last corresponding year. Earnings per share was 3.41 HK cents (2009: 2.49 HK cents), representing a increase of approximately 36.9 percent.

Protein Chips Division

Turnover contributed by the sale of the proprietary C-12 products amounted to HK$319.4 million (2009: HK$319.2 million), slightly over last year. Segment profit of this division amounted to HK$204.4 million (2009: HK$217.6 million), representing a decrease of approximately 6 percent over that of last year.

Despite an unstable year of economic circumstances, the Group sold a total of 3.13 million protein chips (2009: 3.10 million), slightly over last year. During the year, the Group continued its commitment to implement its sales plan that includes the expansion of sales network, optimisation of chipreader utilisation 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$63.9 million (2009: HK$44.8 million). The division incurred a loss of HK$6.2 million for the year (2009: loss of HK$4.5 million). The loss was due to the amortisation of technical know-how arising on acquisition of Genetal BVI in the amount of HK$10.7 million.

Cervical Cancer Care Unit

In 2010, the Group sold more than 294,000 kits (2009: 155,000 kits), representing an increase of 89.6 percent over last corresponding year.

Hospital 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.

Medical Centres Management

Turnover contributed by this new division amounted to HK$37.5 million (2009: HK$30.2 million). Segment profit of this division amounted to HK$6.4 million (2009: HK$3.6 million).

PROSPECTS

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. 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.

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 BMIS of several provinces and the Shanghai Municipality, the continual expansion in the distribution of the HPV DNA testing kits for cervical cancer in over 160 hospitals, and the set up of the unique sales arrangement with China Life Insurance Company, Shanghai Branch, for its Cancer Care Insurance Policy which will continue to be expanded to other cities gradually.

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

MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

The Group applies 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 weaker economy and tighter national budgets, 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 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.

Being a leading supplier of protein chips and solutions for early detection of diseases in the high growth healthcare industry in China, the Group has successfully expanded its business segments to include medical centres management and bio drugs to enable the Group to be a more self contained and diversified medicare solutions provider. Nevertheless, 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 2011.

The Group owes its success to its shareholders who have been truly supportive and patience during this challenging period and, having carefully considered its capital expenditure plans in the coming years, will establish a steady and progressive dividend policy to share its operational success with the shareholders based on past and existing dividend payout record. Besides engaging in a more direct way of rewarding the shareholders for their trust and loyalty, the Group also plans to cultivate a stronger base of shareholders who share the Group's corporate mission to be a leader in the biomedical industry in China.

PLEDGE OF ASSETS

At the end of the reporting period, the following assets were pledged to secure general banking and credit facilities granted to the Group:

	2010 HK$'000	**2009 HK$'000**
Prepaid lease payments	**43,486**	43,083
Buildings	**285,194**	161,539
Buildings under construction	**–**	209,405
Held for trading investments	**–**	4,011
Pledged bank deposits	**–**	11,358
	328,680	429,396

At 31st December, 2009, the Group's equity interests in certain subsidiaries have been pledged to secure the 2011 Bonds (on 8 April 2009, the Company issued HK$77,524,000 9% series A convertible bonds ("2011 Series A Bond") and HK$155,048,000 9% series B convertible bonds ("2011 Series B Bond") due 2011 both at par value of HK$232,572,000 in aggregate and issued in conjunction with detachable warrants of face value amounting to HK$60,136,000 (the "Warrants"), (2011 Series A Bond, 2011 Series B Bond and the Warrants are collectively known as "2011 Bonds").

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, 2010 the Group had cash and bank balances of HK$742.8 million (2009: HK$468.8 million). The Group's gearing ratio as at 31st December, 2010 was 12.5 percent (2009: 21.1 percent), based on bank and other borrowings of HK$225.5 million (2009: HK$299.1 million) and shareholders' fund of HK$1,800.4 million (2009: HK$1,419.1 million).

The Group's bank borrowings were denominated in Hong Kong Dollars and Renminbi. Bank borrowings totaling HK$225.5 million were outstanding as at 31st December, 2010 (2009: HK$219.5 million). The range of effective interest rates on the bank borrowings as at 31st December, 2010 was approximately 1.73 percent to 9.00 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, 2010 and 2009, the Group did not have any significant contingent liabilities.

EVENTS AFTER THE REPORTING PERIOD

On 28th February, 2011, the Company, Ming Yuan Investments Group Limited (the "Vendor") and Pacific Foundation Securities Limited ("Placing Agent") entered into an agreement, pursuant to which the Placing Agent has agreed, as agent of the Vendor to sell up to 320,000,000 existing shares at placing price of HK$0.81 per share. In addition the Vendor also agreed to subscribe new shares equivalent to the number of placing shares at subscription price equivalent to the placing price of HK$0.81 per share. The subscription of 294,000,000 new shares representing approximately 7.2% of the issued share capital of the Company as enlarged by the subscription, at a total consideration of HK$238.1 million. The transaction was completed at the date of this announcement. Details of these are disclosed in an announcement of the Company dated 10th March, 2011.

DIVIDEND

	2010 HK$'000	2009 HK$'000
Dividends recognised as distribution during the year:		
2009 final dividend of HK$0.01 per share	35,158	–

The Directors do not recommend the payment of a final dividend (2009: HK$0.01 per share) for 2010.

EMPLOYEES

At 31st December, 2010, the Group had a total of 1,097 employees (2009: 951 employees) in Hong Kong and the PRC. The increase in the number of employees of the Group was due to the fact that various sales and support teams were built to strengthen the distribution channels and after-sales support services of the operation. 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 THE COMPANY'S LISTED SECURITIES

During the year, neither the Company, its subsidiaries nor its jointly controlled entities has purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

The Stock Exchange of Hong Kong Limited ("Stock Exchange") introduced the Code on Corporate Governance Practices (the "GCP Code") as set out in Appendix 14 of the Listing Rules effective from 1st 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:

MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

Provision A.4.1 of the CGP Code requires that every 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 31st December, 2010, a non-executive director will serve on the board for a term of about two years until he 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 year ended 31st December, 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 consolidated financial statements for the year ended 31st December, 2010 in conjunction with the Group's auditors.

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) to disseminate shareholder information electronically on a timely basis.

PROFILES OF DIRECTORS

MR. YAO YUAN

Mr. YAO Yuan, aged 55, 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 a committee member of Shanghai Federation of Industry and Commerce(上海工商联合会).

MR. CHIEN HOE YONG, HENRY

Mr. CHIEN Hoe Yong, Henry, aged 47, 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 69, is currently an Executive Director of the Company. Mr. Hu has over 40 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 59, is currently an 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.

MR. YANG ZHEN HUA

Mr. Yang Zhen Hua, aged 75, 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. Mr. Yang also holds positions as Honorary President of the Chinese Society of Laboratory Medicine, Advisor 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.

PROFILES OF DIRECTORS *(CONTINUED)*

MR. MA YONG WEI

Mr. Ma Yong Wei, aged 68, 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. Lam Lee G., aged 51, is currently an Independent Non-executive Director of the Company since 13th September, 2002. He 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 U.K., a PCLL in law from the City University of Hong Kong, a Certificate in Professional Accountancy from the Chinese University of Hong Kong SCS, a LLM in law from the University of Wolverhampton in the U.K., and a Doctor of Philosophy from the University of Hong Kong. Dr. Lam has over 28 years of multinational general management, strategy consulting, corporate governance, investment banking, and direct investment experience. He is Chairman of Monte Jade Science and Technology Association of Hong Kong, and serves on board 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 Jilin Province Committee of the Chinese People's Political Consultative Committee, 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 Member of the Chief Executives Organization, a Fellow of the Hong Kong Institute of Directors, a Fellow of the Hong Kong Institute of Arbitrators, a Member of the General Committee and the Corporate Governance Committee of the Chamber of Hong Kong Listed Companies, a Vice President of the Hong Kong Association for the Advancement of Real Estate and Construction Technology, a founding Board Member and the Honorary Treasurer of the Hong Kong-Vietnam Chamber of Commerce, and a Visiting Professor (in corporate governance and investment banking) at the School of Economics & Management of Tsinghua University in Beijing.

MR. HU JIN HUA

Mr. HU Jin Hua, aged 68, 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 42, is currently an 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 22 years of experience in international accounting and financial planning.

MR. TANG YAN QIN

Mr. TANG Yan Qin, aged 65, is currently an Independent Non-Executive Director of the Company. Mr. Tang graduated from Tianjin University with a Bachelor Degree of Engineering in 1970. Mr. Tang has rich experience in the area of economic, finance and company listing. He had held positions as head of the office of the marketing division and the finance & commercial division of Tianjin Municipal Party Committee, director of the organization division of the Planning and Work Committee of Tianjin Municipal Party Committee, deputy secretary of the Planning and Work Committee of Tianjin Municipal Party Committee, deputy officer of Tianjin Planning Committee, deputy secretary-general of Tianjin Municipal People's Government, head of Tianjin Municipal Labour and Social Security Bureau, secretary of the Party Leadership Group, chairman of TEDA International Holding (Group) Co., Ltd. and party chief of the Communist Party of China. Mr. Tang is currently the vice president of China Association for Labour Studies, vice president of China Health Insurance Research Association, chairman of Lianhe Credit Information Service Co., Ltd. and chairman of Robeco TEDA (Tianjin) Equity Investment Management Company Limited.

PROFILES OF SENIOR MANAGEMENT

MR. LAU YUEN SUN, ADRIAN

Mr. LAU Yuen Sun, Adrian, aged 56, 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 29 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 had also served directorships in various listed companies in Hong Kong. Mr. Lau is the Vice President of the Company.

MR. LU XIQIANG

Mr. LU Xiqiang, 49 years old, 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 43, 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 and Chairman of the Kang Pei Medical Biotechnology Co., Ltd.

MR. POON KWONG WAI

Mr. POON Kwong Wai, aged 54, 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 49, 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 Director for Business Development at Shanghai HealthDigit Company Limited.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the "Board") 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.

Throughout the year ended 31st December, 2010, 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 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 four Executive Directors, two Non-Executive Directors and four Independent Non-Executive Directors. During the year, five 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, 2010 is set out below:

	Attendance/Number of Meetings		
Directors	Board	Audit Committee	Remuneration Committee
Executive Directors			
Mr. Yao Yuan (*Chairman*)	5/5	N/A	N/A
Mr. Chien Hoe Yong, Henry (*Chief Executive Officer*)	5/5	N/A	1/1
Mr. Hu Jun	4/5	N/A	N/A
Mr. Yu Tin Jun	5/5	N/A	N/A
Mr. Iu Chung (resigned on 15th February, 2011)	5/5	N/A	N/A
Non-Executive Directors			
Mr. Yang Zhen Hua	3/5	N/A	N/A
Mr. Ma Yong Wei	3/5	N/A	N/A
Independent Non-Executive Directors			
Dr. Lam Lee G.	3/5	2/2	1/1
Mr. Hu Jin Hua	3/5	2/2	N/A
Mr. Lee Sze Ho, Henry	3/5	2/2	1/1
Mr. Tang Yan Qin (appointed on 4th March, 2011)	N/A	N/A	N/A

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.

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, the Chief Executive Officer, 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.

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, 2010, 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

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

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, 2010, 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 is comprised of four 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.

The Audit Committee had two meetings with the Financial Controller during the year ended 31st December, 2010 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, 2010 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 once 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.

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$2,100,000 (2009: HK$2,100,000) was charged to the 2010 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$420,000 (2009: HK$450,000).

The responsibilities of the external auditor with respect to financial reporting are set out in the section of "Auditor's Report".

COMMUNICATION WITH SHAREHOLDERS

The Company establishes and maintains different communication channels with its shareholders through the publication of annual and interim reports and press announcements. Also, the corporate website is maintained to disseminate financial and non-financial information on the timely manner.

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.

At the Company's 2010 Annual General Meeting held on 22nd June, 2010, all votings were conducted by poll in accordance with the requirements of the Listing Rules.

DIRECTORS' REPORT

The directors present their annual report and the audited consolidated financial statements for the year ended 31st December, 2010.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries and jointly controlled entities are set out in notes 42 and 20 respectively to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2010 are set out in the consolidated statement of comprehensive income on page 25.

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

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 29 to the consolidated financial statements.

DISTRIBUTABLE RESERVE OF THE COMPANY

As at 31st December, 2010, the Company's reserves available for distribution consisted of contributed surplus of HK$12,804,000 (2009: HK$12,804,000).

In addition to accumulated profits, under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account is also available for distribution. 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.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 49% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 15% of the Group's total sales. The aggregate purchases attributable to the Group's five largest suppliers comprised approximately 56% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 36% 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 (resigned on 15th February, 2011)

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
Mr. Tang Yan Qin (appointed on 4th March, 2011)

In accordance with Bye-law 109 of the Company, Mr. Hu Jun and Mr. Hu Jin Hua will retire from the office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

In accordance with Bye-law 100 of the Company, Mr. Tang Yan Qin will retire from the office and, being eligible, offer himself for re-election at the forthcoming annual general meeting of the Company.

DIRECTORS' REPORT *(CONTINUED)*

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' INTERESTS IN SHARES

As at 31st December, 2010, 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 issued ordinary shares held	Position	Percentage of the issued share capital of the Company
Mr. Yao Yuan	Held by controlled corporation	946,169,075 (Note (i))	Long	25.25%
Mr. Iu Chung	Held by controlled corporation and beneficial owner	947,509,075 (Note (ii))	Long	25.28%
Mr. Chien Hoe Yong, Henry	Beneficial owner	12,600,000	Long	0.34%
Mr. Yu Ti Jun	Beneficial owner	3,600,000	Long	0.10%

Note:

(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 1,340,000 shares and the corporate interest held by Ming Yuan Investments Group Limited of 946,169,075 shares.

Other than as disclosed above, 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 as at 31st December, 2010.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in Note 32 to the consolidated financial statements.

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

					Number of share options				
	Date of grant	Exercise price	Vesting period	Exercisable period	Outstanding at 1.1.2010	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2010
Directors									
Mr. Chien Hoe Yong, Henry	8.4.2005	HK$0.728	8.4.2005 – 7.4.2007	8.4.2007 – 7.4.2010	2,900,000	–	(2,900,000)	–	–
			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)	–	–
					13,500,000	–	(13,500,000)	–	–
Mr. Yu Ti Jun	8.4.2005	HK$0.728	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)	–	–
					10,400,000	–	(10,400,000)	–	–
Total for directors					23,900,000	–	(23,900,000)	–	–
Employees									
Employees	8.4.2005	HK$0.728	8.4.2005 – 7.4.2008	8.4.2008 – 7.4.2010	760,000	–	(160,000)	(600,000)	–
	–	–	8.4.2005 – 7.4.2009	8.4.2009 – 7.4.2010	3,700,000	–	(3,100,000)	(600,000)	–
	27.4.2007	HK$0.78	27.4.2007 – 26.4.2008	27.4.2008 – 7.4.2010	900,000	–	–	(900,000)	–
	–	–	27.4.2007 – 26.4.2009	27.4.2009 – 7.4.2010	1,550,000	–	(650,000)	(900,000)	–
	9.10.2009	HK$0.802	N/A	9.10.2009 – 30.5.2014	111,800,000	–	(93,500,000)	–	18,300,000
Total for employees					118,710,000	–	(97,410,000)	(3,000,000)	18,300,000
Total for directors and employees					142,610,000	–	(121,310,000)	(3,000,000)	18,300,000

The weighted average closing price of the Company's share immediately before the dates on which the share options were exercised was HK$1.184.

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, 2010, 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 and short positions 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	946,169,075	(i)	25.25%
Ming Yuan Holdings Limited	Held by controlled corporation	946,169,075	(i)	25.25%
Mr. Yao Yuan	Held by controlled corporation	946,169,075	(i)	25.25%
Mr. Iu Chung	Beneficial owner and held by controlled corporation	947,509,075	(i)&(ii)	25.28%

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 13,340,000 shares and the corporate interest held by Ming Yuan Investments Group Limited of 946,169,075 shares.

Other than as disclosed above, the Company has 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, 2010.

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.

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 32 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2010.

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.

EVENT AFTER THE REPORTING PERIOD

Details of a significant event occurring after the reporting period 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

31st March, 2011

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE MEMBERS OF
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 25 to 92, which comprise the consolidated statement of financial position as at 31st December, 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 of the consolidated financial statements that give a true and fair view 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, 2010 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
31st March, 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December, 2010

	NOTES	2010 HK$'000	2009 HK$'000
Revenue	7	**420,786**	394,288
Cost of sales		**(83,060)**	(74,959)
Gross profit		**337,726**	319,329
Other income	9a	**17,758**	12,343
Other gains and losses	9b	**(454)**	5,168
Distribution and selling expenses		**(55,146)**	(42,162)
Administrative expenses		**(71,982)**	(118,715)
Other expenses		**(30,455)**	(23,929)
Share of result of a jointly controlled entity	20	**(10,760)**	(5,981)
Finance costs	10	**(23,303)**	(48,990)
Profit before tax		**163,384**	97,063
Income tax expense	11	**(39,862)**	(21,420)
Profit for the year	12	**123,522**	75,643
Other comprehensive income			
Exchange differences arising on translation		**49,249**	5,085
Revaluation surplus arising from business combination achieved in stages		**–**	10,354
Other comprehensive income for the year		**49,249**	15,439
Total comprehensive income for the year		**172,771**	91,082
Profit for the year attributable to:			
Owners of the Company		**122,438**	76,758
Non-controlling interests		**1,084**	(1,115)
		123,522	75,643
Total comprehensive income attributable to:			
Owners of the Company		**171,687**	92,198
Non-controlling interests		**1,084**	(1,116)
		172,771	91,082
EARNINGS PER SHARE	15		
Basic		**3.41 HK cents**	2.49 HK cents
Diluted		**3.37 HK cents**	2.48 HK cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2010

	NOTES	2010 HK$'000	2009 HK$'000
Non-Current Assets			
Property, plant and equipment	16	**467,002**	435,863
Prepaid lease payments	17	**70,094**	69,950
Goodwill	18	**420,982**	420,982
Other intangible assets	19	**312,867**	326,918
Interest in a jointly controlled entity	20	**9,514**	20,140
Available-for-sale investments	21	**1,192**	–
Deposits paid for acquisition of property, plant and equipment	22	**1,955**	203
		1,283,606	1,274,056
Current Assets			
Inventories	23	**16,740**	13,751
Prepaid lease payments	17	**1,617**	1,577
Trade and other receivables, deposits and prepayments	24	**207,663**	165,955
Amounts due from related companies	27	**3,279**	3,096
Amounts due from subsidiaries of a jointly controlled entity	27	**35,904**	45,133
Held for trading investments	21	**62**	4,201
Pledged bank deposits	25	**–**	11,358
Bank balances and cash	25	**742,837**	457,406
		1,008,102	702,477
Current Liabilities			
Trade and other payables	26	**40,986**	81,338
Amount due to a related company	27	**33,740**	978
Bank borrowings – due within one year	28	**202,086**	139,444
Convertible bonds	30	**–**	79,627
Taxation payable		**24,992**	17,534
		301,804	318,921
Net Current Assets		**706,298**	383,556
Total Assets less Current Liabilities		**1,989,904**	1,657,612

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(CONTINUED)*

At 31st December, 2010

	NOTES	2010 HK$'000	2009 HK$'000
Capital and Reserves			
Share capital	29	**187,417**	170,525
Reserves		**1,613,009**	1,248,535
Equity attributable to owners of the Company		**1,800,426**	1,419,060
Non-controlling interests		**43,072**	41,988
Total Equity		**1,843,498**	1,461,048
Non-Current Liabilities			
Deferred tax liabilities	31	**122,966**	116,490
Bank borrowings – due after one year	28	**23,440**	80,074
		146,406	196,564
		1,989,904	1,657,612

The consolidated financial statements on pages 25 to 92 were approved and authorised for issue by the Board of Directors on 31st March, 2011 and are signed on its behalf by:

DIRECTOR *DIRECTOR*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2010

	Attributable to owners of the Company										
	Share capital HK$'000	Share premium HK$'000	Convertible options and warrants reserve HK$'000	Share option reserve HK$'000	Assets revaluation reserve HK$'000	Contributed surplus HK$'000 (NOTE)	Translation reserve HK$'000	Accumulated profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1st January, 2009	146,731	327,818	3,560	13,116	–	12,804	117,677	393,218	1,014,924	5,106	1,020,030
Profit for the year	–	–	–	–	–	–	–	76,758	76,758	(1,115)	75,643
Other comprehensive income for the year	–	–	–	–	10,354	–	5,086	–	15,440	(1)	15,439
Total comprehensive income for the year	–	–	–	–	10,354	–	5,086	76,758	92,198	(1,116)	91,082
Recognition of equity components of convertible bonds and warrants	–	–	25,578	–	–	–	–	–	25,578	–	25,578
Deferred tax liability on recognition of equity components of convertible bonds	–	–	(4,220)	–	–	–	–	–	(4,220)	–	(4,220)
Recognition of equity settled share based payments	–	–	–	38,897	–	–	–	–	38,897	–	38,897
Conversion of convertible bonds	20,101	201,237	(22,287)	–	–	–	–	–	199,051	–	199,051
Exercise of share options	3,940	63,910	–	(9,594)	–	–	–	–	58,256	–	58,256
Release of deferred tax liability upon conversion of convertible bonds	–	(3,090)	3,090	–	–	–	–	–	–	–	–
Shares repurchased	(247)	(5,377)	–	–	–	–	–	–	(5,624)	–	(5,624)
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	37,998	37,998
At 31st December, 2009	170,525	584,498	5,721	42,419	10,354	12,804	122,763	469,976	1,419,060	41,988	1,461,048
Profit for the year	–	–	–	–	–	–	–	122,438	122,438	1,084	123,522
Other comprehensive income for the year	–	–	–	–	–	–	49,249	–	49,249	–	49,249
Total comprehensive income for the year	–	–	–	–	–	–	49,249	122,438	171,687	1,084	172,771
Conversion of convertible bonds	5,709	90,451	(6,851)	–	–	–	–	–	89,309	–	89,309
Exercise of warrants	5,117	55,019	–	–	–	–	–	–	60,136	–	60,136
Exercise of share options	6,066	124,353	–	(35,027)	–	–	–	–	95,392	–	95,392
Lapse of share options	–	–	–	(1,067)	–	–	–	1,067	–	–	–
Release of deferred tax liability upon conversion of convertible bonds	–	(1,130)	1,130	–	–	–	–	–	–	–	–
Dividends recognised as distribution (note 14)	–	–	–	–	–	–	–	(35,158)	(35,158)	–	(35,158)
At 31st December, 2010	187,417	853,191	–	6,325	10,354	12,804	172,012	558,323	1,800,426	43,072	1,843,498

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 STATEMENT OF CASH FLOWS

For the year ended 31st December, 2010

	NOTES	2010 HK$'000	2009 HK$'000
OPERATING ACTIVITIES			
Profit before tax		**163,384**	97,063
Adjustments for:			
Finance costs		**23,303**	48,990
Interest income		**(6,240)**	(5,025)
Depreciation of property, plant and equipment		**25,683**	23,730
Amortisation of prepaid lease payments		**952**	939
Amortisation of other intangible assets		**25,186**	17,493
Share-based payment expenses		**–**	38,897
Gain on disposal of property, plant and equipment		**(434)**	(3,425)
Loss on disposal of interest in a subsidiary		**638**	–
Share of result of a jointly controlled entity		**10,760**	5,981
Operating cash flows before movements in working capital		**243,232**	224,643
(Increase) decrease in inventories		**(2,552)**	5,673
Increase in trade and other receivables, deposits and prepayments		**(33,916)**	(14,832)
Decrease (increase) in held for trading investments		**4,139**	(1,734)
(Decrease) increase in trade and other payables		**(29,156)**	17,228
Cash generated from operations		**181,747**	230,978
Income taxes paid (net of refund)		**(25,928)**	(17,537)
Interest paid		**(14,222)**	(14,865)
NET CASH FROM OPERATING ACTIVITIES		**141,597**	198,576
INVESTING ACTIVITIES			
Additions of property, plant and equipment		**(58,686)**	(63,483)
Deposits paid for acquisition of property, plant and equipment		**(1,916)**	(203)
Advance to related companies		**(83)**	(2,658)
Decrease in pledged bank deposits		**11,720**	5,565
Repayment from subsidiaries of a jointly controlled entity		**10,969**	6,536
Interest received		**6,240**	5,025
Proceeds from disposal of a subsidiary (net of cash and cash equivalents disposed of)	34	**2,298**	–
Proceeds on disposal of property, plant and equipment		**1,165**	6,922
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	33	**–**	(571,210)
Capital injection to jointly controlled entities		**–**	(14,198)
NET CASH USED IN INVESTING ACTIVITIES		**(28,293)**	(627,704)
FINANCING ACTIVITIES			
New bank loans raised		**178,018**	45,817
Proceeds from issue of shares by exercise of share options		**95,392**	58,256
Proceeds from issue of shares by exercise of warrants		**60,136**	–
Advance from (repayment to) a related company		**32,121**	(28,239)
Repayments of bank borrowings		**(177,621)**	(27,447)
Dividends paid		**(35,158)**	–
Proceeds on issue of convertible bonds		**–**	232,572
NET CASH FROM FINANCING ACTIVITIES		**152,888**	280,959
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**266,192**	(148,169)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**457,406**	602,917
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**19,239**	2,658
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**742,837**	457,406

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

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 functional currency of the Company is Renminbi. 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 principal subsidiaries and jointly controlled entities at 31st December, 2010 are set out in Notes 42 and 20 respectively.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised standards, amendments and interpretations ("new and revised Standards and Interpretations") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (as revised in 2008)	Business Combinations
HKAS 27 (as revised in 2008)	Consolidated and Separate Financial Statements
HKAS 39 (Amendments)	Eligible Hedged Items
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners
HK – Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Except as described below, the application of the new and revised Standards and Interpretations in the current year has had no material effect on the consolidated financial statements.

(a) HKFRS 3 (as required in 2008) Business Combinations

The Group applies HKFRS 3 (as revised in 2008) Business Combinations prospectively to business combinations for which the acquisition date is on or after 1st January, 2010. HKFRS 3 (as revised in 2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as 'minority' interests) either at fair value or at the non-controlling interests' share of recognised identifiable net assets of the acquiree. As there was no transaction during the current year in which HKFRS 3 (as revised in 2008) is applicable, the application of HKFRS 3 (Revised 2008) had no effect on the consolidated financial statements of the Group for the current period. Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (as revised in 2008) and the consequential amendments to the other HKFRSs are applicable.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

(b) Amendments to HKAS 17 Leases

As part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. Before the amendment to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendment to HKAS 17 has removed such a requirement. The amendment requires that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

In accordance with the transitional provisions set out in the amendment to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1st January, 2010 based on information that existed at the inception of the leases. The directors of the Company consider the application of amendments to HKAS 17 had no effect on the consolidated financial statements of the Group for the current or prior accounting period.

(c) HKAS 27 (as revised in 2008) Consolidated and Separate Financial Statements

The application of HKAS 27 (as revised in 2008) has resulted in changes in the Group's accounting policies for changes in ownership interests in subsidiaries of the Group.

Specifically, the revised Standard has affected the Group's accounting policies regarding changes in the Group's ownership interests in its subsidiaries that do not result in loss of control. In prior years, in the absence of specific requirements in HKFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised, when appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under HKAS 27 (as revised in 2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised Standard requires the Group to derecognise all assets, liabilities and non-controlling interests at their carrying amounts and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss.

These changes have been applied prospectively from 1st January, 2010 in accordance with the relevant transitional provisions. The Group disposed of 71.15% interest in 上海文中门诊部有限公司 with details in note 34 and interest of 28.85% was retained by the Group and there is no significant impact from such changes of accounting policy, since the amount involved is not significant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31st December, 2010

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

New and revised Standards and Interpretations issued but not yet effective

The Group has not early applied the following new and revised Standards and Interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[3]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[5]
HKFRS 9	Financial Instruments[7]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[6]
HKAS 24 (as revised in 2009)	Related Party Disclosures[4]
HKAS 32 (Amendments)	Classification of Rights Issues[1]
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[4]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]

[1] Effective for annual periods beginning on or after 1st February, 2010.
[2] Effective for annual periods beginning on or after 1st July, 2010.
[3] Effective for annual periods beginning on or after 1st July, 2010 or 1st January, 2011, as appropriate.
[4] Effective for annual periods beginning on or after 1st January, 2011.
[5] Effective for annual periods beginning on or after 1st July, 2011.
[6] Effective for annual periods beginning on or after 1st January, 2012.
[7] Effective for annual periods beginning on or after 1st January, 2013.

HKFRS 9 "Financial Instruments" (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 "Financial Instruments" (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1st January, 2013, with earlier application permitted.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

New and revised Standards and Interpretations issued but not yet effective **(CONTINUED)**

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for financial year ending 31st December, 2013. Based on the Group's financial assets and financial liabilities, the directors anticipate that the application of the new Standard is not expected to have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities.

The directors of the Company anticipate that the application of the other new and revised Standards and Interpretations will have no material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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 and by the Hong Kong Companies Ordinance.

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. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

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 an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and 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 in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31st December, 2010

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (CONTINUED)

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1st January, 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries on or after 1st January, 2010

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 "Financial Instruments: Recognition and Measurement" or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Changes in the Group's ownership interests in existing subsidiaries prior to 1st January, 2010

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (CONTINUED)

Business combinations that took place prior to 1st January, 2010

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was 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 met the relevant conditions for recognition were generally recognised at their fair value at the acquisition date.

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the recognised amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition, the excess was recognised immediately in profit or loss.

The non-controlling interest in the acquiree was initially measured at the non-controlling interest's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit 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 profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31st December, 2010

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Joint ventures

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which ventures have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the jointly controlled entities. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a jointly controlled entity. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

From 1st January, 2010 onwards, upon disposal of a jointly controlled entity that results in the Group losing joint control over that jointly controlled entity, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the jointly controlled entity attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the jointly controlled entity. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that jointly controlled entity on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that jointly controlled entity would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses joint control over that jointly controlled entity.

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group' consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of goods is 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 recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. 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 on initial recognition.

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 losses.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Buildings under development for future owner-occupied purpose

When the buildings are in the course of development for production or for administrative purposes, the amortisation of prepaid lease payments provided during the construction period 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31st December, 2010

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

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 the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of foreign operation. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, 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 in other comprehensive income and accumulated in equity (translation reserve).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (CONTINUED)

From 1st January, 2010 onwards, on the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1st January, 2005 are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in the translation reserve.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as 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.

Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefits costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as expenses when employees have rendered service entitling them to the contributions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31st December, 2010

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 statement of comprehensive income 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 end of the reporting period.

Deferred tax is recognised on temporary 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. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those 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 associated with investments in subsidiaries and interest in a jointly controlled entity, 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

– the technical feasibility of completing the intangible asset so that it will be available for use or sale;

– the intention to complete the intangible asset and use or sell it;

– the ability to use or sell the intangible asset;

– how the intangible asset will generate probable future economic benefits;

– the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

– the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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 listed above. 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 measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with finite useful lives are carried at cost 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. If the contractual or other legal rights of an intangible asset are conveyed for a limited term that can be renewed, the useful life of the intangible asset will include the renewal periods only if there is evidence to support renewal without significant cost. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on assets other than goodwill below).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31st December, 2010

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position 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 or 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. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. 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 paid 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 to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

Financial assets at fair value through profit or loss

Financial assets at FVTPL includes 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.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (CONTINUED)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from related companies, amounts due from subsidiaries of a jointly controlled entity, 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 of financial assets below).

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, loans and receivables or held-to-maturity investments.

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 the end of the reporting period (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. 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; or
- the disappearance of an active market for the financial asset because of financial difficulties.

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. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days to 270 days, observable changes in national or local economic conditions that correlate with default on receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31st December, 2010

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (CONTINUED)

Impairment of financial assets **(CONTINUED)**

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 other comprehensive income and accumulated in investment revaluation reserve.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (CONTINUED)

Financial liabilities and equity **(CONTINUED)**

Convertible bonds

Convertible bonds issued by the Company that contain liability, conversion option and early redemption component. 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. Early redemption option embedded in non-derivative host liability component with risks and characteristics that are closely related to the liability component is not separated from the liability component.

On initial recognition, the fair value of the liability component (including early redemption option which is closely related) is determined using the prevailing market interest rate 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 bonds into equity, is included in equity (convertible options and warrants 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 options and warrants reserve until the embedded option is exercised (in which case the balance stated in convertible options and warrants reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible options and warrants 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 gross 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.

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.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31st December, 2010

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (CONTINUED)

Financial liabilities and equity **(CONTINUED)**

Warrants

Warrants issued by the Company that will be settled by the exchange of a fixed number of the Company's own equity instruments are classified as an equity instrument. For warrants issued to subscribers of the Company's convertible bond, the fair value of warrants on the date of issue is recognised in equity (convertible options and warrants reserve). The convertible options and warrants reserve will be transferred to share capital and share premium upon exercise of the warrants. Where the warrants remain unexercised at the expiry date, the amount previously recognised in convertible options and warrants reserve will be transferred to the retained profits.

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 in its entirety, 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 in other comprehensive income 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.

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 the end of the reporting period, the Group revises its estimates of number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, 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 share option reserve will be transferred to accumulated profits.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment losses on assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. 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 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.

Key sources of estimation uncertainty

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Useful life of other intangible assets – technical know-how

Other intangible assets – technical know-how, have a legal life of 2 years but are renewable every 2 years at minimal costs. The directors of the Company are of the opinion that the technical know-how has useful life of 15 years from the date of acquisition, as described in Note 19. The 15 years period is the period which the technical know-how is expected to be available for use by the Group.

Other intangible assets – technical know-how is amortised over their useful economic lives. The assessment of estimated useful lives is a matter of judgment based on the experience of the Group, taking into account factors such as the ability to legally renew the technical know-how, technological progress and changes in market demand. Useful lives are periodically reviewed for continued appropriateness. Due to long lives of assets, changes to the estimates used can result in variations in their carrying value. At 31st December, 2010 carrying amount of the technical know-how is HK$255,766,000 (2009: HK$265,376,000) and during the year ended 31st December, 2010, amortisation of the technical know-how amounting to HK$18,407,000 (2009: HK$10,738,000) is charged to profit or loss. Details of this other intangible asset are set out in Note 19.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31st December, 2010

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty (CONTINUED)

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, 2010, goodwill were amounted to HK$420,982,000 (2009: HK$420,982,000), and management of the Group determined that there was no impairment on goodwill. Details of the calculation of recoverable amount are disclosed in Note 18.

Estimated impairment of other intangible assets

Determining whether other intangible assets are impaired requires an estimation of the value in use of the cash-generating units to which other intangible asset 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, 2010, other intangible assets were amounted to HK$312,867,000 (2009: HK$326,918,000) and management of the Group determined that there was no impairment on other intangible assets. Details of the calculation of recoverable amount are disclosed in Note 19.

Estimated impairment of trade receivables

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, 2010, the carrying amount of trade receivables is HK$194,777,000 (2009: HK$151,350,000), net of allowance for doubtful debts of HK$2,297,000 (2009: HK$2,226,000).

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 shareholders 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 net debt, which includes the bank borrowings disclosed in Note 28 and convertible bonds disclosed in Note 30, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, various reserves and accumulated profits.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31st December, 2010

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

	2010 HK$'000	2009 HK$'000
Financial assets		
Financial assets designated at fair value through profit or loss		
– Held for trading investments	**62**	4,201
Loans and receivables		
– Trade and other receivables	**194,962**	158,199
– Amounts due from related companies	**3,279**	3,096
– Amounts due from subsidiaries of a jointly controlled entity	**35,904**	45,133
– Pledged bank deposits	**–**	11,358
– Bank balances and cash	**742,837**	457,406
	976,982	675,192
Available-for-sale investments	**1,192**	–
	978,236	679,393
Financial liabilities		
Amortised cost		
– Trade and other payables	**14,793**	40,123
– Amount due to a related company	**33,740**	978
– Bank borrowings	**225,526**	219,518
– Convertible bonds	**–**	79,627
	274,059	340,246

6b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amounts due from related companies, amounts due from subsidiaries of a jointly controlled entity, held for trading investments, pledged bank deposits, bank balances and cash, available-for-sale investments, 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 and 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31st December, 2010

6. FINANCIAL INSTRUMENTS (CONTINUED)

6b. Financial risk management objectives and policies (CONTINUED)

Market risk

(i) Currency risk

The Group mainly operates in the People's 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 ("HK dollar") and United States dollar ("US dollar") exchange rates in the Group's US dollar and HK dollar denominated bank balances and borrowings against Renminbi ("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 foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		**Liabilities**	
	2010 HK$'000	**2009 HK$'000**	**2010 HK$'000**	**2009 HK$'000**
US dollar	**55**	250	**–**	–
HK dollar	**323**	6,818	**15,000**	27,000

Sensitivity analysis

The Group is mainly exposed to US dollar and HK dollar. No sensitive analysis was prepared since the directors of the Company are of the opinion that the impact of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is not significant.

(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 Notes 25 and 28 for details of bank balances and bank borrowings 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 bank borrowings and convertible bonds (see Notes 28 and 30 for details of bank borrowings and convertible bonds respectively).

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

6. FINANCIAL INSTRUMENTS (CONTINUED)

6b. Financial risk management objectives and policies (CONTINUED)

Market risk **(CONTINUED)**

(ii) Interest rate risk (CONTINUED)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rate for variable-rate bank balances and bank borrowings. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis points (2009: 50 basis points) 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 (2009: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31st December, 2010 would decrease/increase by HK$842,000 (2009: decrease/increase by HK$1,029,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

Credit risk

As at 31st December, 2010, 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 statement of financial position.

In order to minimise the credit risk, 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 the end of the reporting period 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.

The Group has concentration of credit risk as 15% (2009: 18%) and 49% (2009: 54%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively within the protein chips segment. By reviewing the regular subsequent statements of trade receivables from the five largest customers, the directors are of opinion that the default risk of these trade receivables are manageable. Other than that, the Group does not have any other significant concentration of credit risk.

Other than the concentration of credit risk on trade receivables and liquid funds which are deposited with several banks with high credit rating, the Group does not have any other significant concentration of credit risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31st December, 2010

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 also 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 financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent the interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

Liquidity tables

2010

	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$'000	Carrying amount at 31.12.2010 HK$'000
Non-derivative financial liabilities							
Trade and other payables	–	13,082	1,711	–	–	14,793	14,793
Bank borrowings							
– fixed rate	9	–	–	624	–	624	586
– variable rate	5.07	15,000	29,927	162,797	25,905	233,629	224,940
Amount due to a related company	–	33,740	–	–	–	33,740	33,740
		61,822	31,638	163,421	25,905	282,786	274,059

6. FINANCIAL INSTRUMENTS (CONTINUED)

6b. Financial risk management objectives and policies (CONTINUED)

***Liquidity risk* (CONTINUED)**

Liquidity tables (CONTINUED)

2009

	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$'000	Carrying amount at 31.12.2009 HK$'000
Non-derivative financial liabilities							
Trade and other payables	–	35,428	4,695	–	–	40,123	40,123
Convertible bonds	35.4	85,234	–		–	85,234	79,627
Bank borrowings							
– fixed rate	9	–	–	–	660	660	568
– variable rate	5.7	15,000	33,299	94,837	91,392	234,528	218,950
Amount due to a related company	–	978	–	–	–	978	978
		136,640	37,994	94,837	92,052	361,523	340,246

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

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.

The Group's held for trading investments are measured at fair value subsequent to initial recognition, and grouped into Level 1 fair value measurement, which the fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets. There were no transfer between any level of fair value measurement during the year.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31st December, 2010

7. REVENUE

An analysis of the Group's revenue for the year is as follows:

	2010 HK$'000	2009 HK$'000
Sales from protein chips division	**319,440**	319,241
Hospital operation and trading of Human Papilloma Viruses ("HPV") detection products and related equipments	**63,855**	44,835
Medical centres management operation	**37,491**	30,212
	420,786	394,288

8. SEGMENT INFORMATION

Information reported to the Board of Directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

The Group's operating and reportable segments under HKFRS 8 are therefore as follows:

Protein chips division	–	Manufacture and trading of protein chips and related equipments
Health care division	–	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) ("Hospital Operation")
	–	Manufacture and trading of HPV detection products and related equipments
Medical centres management	–	Provision of medical diagnostic, health check and medical appraisal services

8. SEGMENT INFORMATION (CONTINUED)

Segment revenue and results

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

	Protein chips division HK$'000	Health care division HK$'000	Medical centres management HK$'000	Consolidated HK$'000
For the year ended 31st December, 2010				
REVENUE				
External sales	**319,440**	**63,855**	**37,491**	**420,786**
Segment profit (loss)	**204,385**	**(6,210)**	**6,410**	**204,585**
Unallocated expenses				**(12,490)**
Interest income				**6,240**
Share of result of a jointly controlled entity				**(10,760)**
Loss on disposal of interest in a subsidiary				**(638)**
Change in fair value of held for trading investments				**(250)**
Finance costs				**(23,303)**
Profit before tax				**163,384**
For the year ended 31st December, 2009				
REVENUE				
External sales	319,241	44,835	30,212	394,288
Segment profit (loss)	217,555	(4,452)	3,623	216,726
Unallocated expenses				(71,460)
Interest income				5,025
Share of result of a jointly controlled entity				(5,981)
Change in fair value of held for trading investments				1,743
Finance costs				(48,990)
Profit before tax				97,063

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3. Segment profit (loss) represents the profit (loss) earned by each segment without allocation of central administration costs, directors' salaries, share of results of jointly controlled entities, change in fair value of held for trading investments, investment income and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

For the purpose of assessment by the chief operating decision maker, the amortisation of other intangible assets were included in segment profit (loss) while the corresponding other intangible assets have not included in the segment assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31st December, 2010

8. SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

	2010 HK$'000	2009 HK$'000
ASSETS		
Segment assets		
– protein chips division	**578,756**	519,294
– health care division	**149,047**	140,748
– medical centres management	**36,435**	24,643
	764,238	684,685
Goodwill	**420,982**	420,982
Other intangible assets	**312,867**	326,918
Unallocated assets	**793,621**	543,948
Consolidated total assets	**2,291,708**	1,976,533
LIABILITIES		
Segment liabilities		
– protein chips division	**24,610**	41,320
– health care division	**9,908**	22,319
– medical centres management	**4,008**	5,323
	38,526	68,962
Unallocated liabilities	**409,684**	446,523
Consolidated total liabilities	**448,210**	515,485

For the purposes of monitoring segment performances and allocating resources between segments:

– all assets are allocated to operating segments, other than goodwill, interests in a jointly controlled entity, other intangible assets, available-for-sale investments, amounts due from related companies, amounts due from subsidiaries of a jointly controlled entity, pledged bank deposits, bank balances and cash and other unallocated corporate assets; and

– segment liabilities included trade and other payables attributed to segments.

8. SEGMENT INFORMATION (CONTINUED)

Other segment information

Amounts included in the measure of segment profit or loss or segment assets:

	Protein chips division HK$'000	Health care division HK$'000	Medical centres management HK$'000	Segment total HK$'000	Unallocated HK$'000	Consolidated HK$'000
For the year ended 31st December, 2010						
Additions to non-current assets (Note)	**41,100**	**6,696**	**285**	**48,081**	**–**	**48,081**
Depreciation of property, plant and equipment	**20,649**	**2,820**	**2,195**	**25,664**	**19**	**25,683**
Gain on disposal of property, plant and equipment	**423**	**11**	**–**	**434**	**–**	**434**
Amortisation of prepaid lease payments	**952**	**–**	**–**	**952**	**–**	**952**
Amortisation of other intangible assets	**–**	**18,588**	**6,598**	**25,186**	**–**	**25,186**
For the year ended 31st December, 2009						
Additions to non-current assets (Note)	38,521	49,339	13,755	101,615	32	101,647
Depreciation of property, plant and equipment	19,081	1,735	2,887	23,703	27	23,730
Gain (loss) on disposal of property, plant and equipment	3,439	2	(16)	3,425	–	3,425
Amortisation of prepaid lease payments	939	–	–	939	–	939
Amortisation of other intangible assets	–	10,895	6,598	17,493	–	17,493

Note: Non-current assets excluded goodwill, other intangible assets and financial instruments.

Amounts not included in the measure of segment profit or loss or segment assets but regularly reviewed by the chief operating decision maker:

	Protein chips division HK$'000	Health care division HK$'000	Medical centres management HK$'000	Segment total HK$'000	Unallocated HK$'000	Consolidated HK$'000
For the year ended 31st December, 2009						
Additions to other intangible assets	–	276,114	65,976	342,090	–	342,090
Additions to goodwill	–	79,910	236,832	316,742	–	316,742
Share-based payments	–	–	–	–	38,897	38,897

There is no analysis for amounts not included in the measure of segment profit or loss or segment assets but regularly reviewed by the chief operating decision maker for the year ended 31st December, 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31st December, 2010

8. SEGMENT INFORMATION (CONTINUED)

Revenue from major products and services

The following is an analysis of the Group's revenue from its major products and services:

	2010 HK$'000	2009 HK$'000
Protein chips	**319,440**	319,241
HPV detection products	**13,792**	7,845
Hospital Operation	**50,063**	36,990
Medical diagnostic, health check and medical appraisal services	**37,491**	30,212
	420,786	394,288

Geographical information

Around 99% (2009: 99%) of the Group's revenue are derived from the operation in the PRC and around 99% (2009: 99%) of the Group's non-current assets excluded financial instruments are located in the PRC, therefore, no geographical information is presented.

Information about major customers

Revenues from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2010 HK$'000	2009 HK$'000
Customer A	**63,315**	65,461
Customer B (Note)	**45,793**	–
Customer C (Note 1)	**–**	56,689
Customer D (Note 1)	**–**	40,018

Revenue from the above customers are all from the protein chips division.

Note: Revenue from this customer for the year ended 31st December, 2009 contributed less than 10% of the total sales of the Group.

Note 1: Revenue from these customers for the year ended 31st December, 2010 contributed less than 10% of the total sales of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31st December, 2010

9a. OTHER INCOME

	2010 HK$'000	2009 HK$'000
Interest income	**6,240**	5,025
Government subsidy (Note)	**9,285**	6,202
Others	**2,233**	1,116
	17,758	12,343

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.

9b. OTHER GAINS AND LOSSES

	2010 HK$'000	2009 HK$'000
Gain on disposal of property, plant and equipment	**434**	3,425
Loss on disposal of interest in a subsidiary	**(638)**	–
Change in fair value of held for trading investments	**(250)**	1,743
	(454)	5,168

10. FINANCE COSTS

	2010 HK$'000	2009 HK$'000
Interest on bank borrowings wholly repayable within five years	**11,419**	11,712
Effective interest expenses on convertible bonds	**12,485**	37,569
Total borrowing costs	**23,904**	49,281
Less: amounts capitalised (capitalised in buildings under construction in Note 16 at a capitalisation rate of 5.58% per annum)	**(601)**	(291)
	23,303	48,990

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31st December, 2010

11. INCOME TAX EXPENSE

	2010 HK$'000	2009 HK$'000
PRC Enterprise Income Tax		
– Current year	**34,220**	19,759
– (Over)underprovision in prior year	**(834)**	1,606
	33,386	21,365
Deferred tax (Note 31)		
– Current year	**6,476**	7,894
– Overprovision in prior year	**–**	(7,839)
	6,476	55
	39,862	21,420

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

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Pursuant to the relevant laws and regulations in the PRC, one of the Group's PRC subsidiary is exempted from PRC income tax for two years starting from its first profit-making year, followed by a 50% reduction for the next three years. The first profit-making year is 2008 and the applicable tax rate for 2010 is 12.5% (2009: Nil).

The Group's another PRC subsidiary, 湖州數康生物科技有限公司 was approved as a "high-new technology enterprise" and became eligible to enjoy a preferential enterprise income tax rate of 15% for both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31st December, 2010

11. INCOME TAX EXPENSE (CONTINUED)

The tax charge for the year can be reconciled to the profit before tax per the consolidated statement of comprehensive income as follows:

	2010 **HK$'000**	**2009** **HK$'000**
Profit before tax	**163,384**	97,063
Tax at the domestic income tax rate at 25% (2009: 25%) (Note i)	**40,846**	24,266
Tax effect of income not taxable for tax purpose	**(1,516)**	(1,440)
Tax effect of expenses not deductible for tax purpose	**6,011**	22,924
Tax effect of tax losses not recognised (Note ii)	**2,556**	–
Effect of tax exemptions granted to PRC subsidiaries	**(9,217)**	(21,596)
Income tax on concessionary rate	**(10,481)**	(11,440)
Utilisation of tax losses previously not recognised (Note ii)	**(1,501)**	(710)
(Over) underprovision in prior year	**(834)**	1,606
Tax effect of withholding tax on the undistributed profits of PRC subsidiaries	**13,998**	7,810
Income tax expense for the year	**39,862**	21,420

Notes:

(i) Being tax rate in the PRC where the operations of the Group are substantially based.

(ii) As at 31st December, 2010, the Group had unused tax losses of HK$55,971,000 (2009: HK$51,749,000) 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. As at 31st December, 2009, tax losses of HK$6,000,000 was carried forward for 2010. The remaining tax losses can be carried forward indefinitely.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31st December, 2010

12. PROFIT FOR THE YEAR

	2010 HK$'000	2009 HK$'000
Profit for the year has been arrived at after charging:		
Depreciation of property, plant and equipment	**25,683**	23,730
Amortisation of prepaid lease payments	**1,593**	1,575
Less: amount capitalised (included in buildings under construction in Note 16)	**(641)**	(636)
	952	939
Amortisation of other intangible assets (included in other expenses)	**25,186**	17,493
Staff costs		
– directors' emoluments (Note 13(i))	**5,721**	5,173
– other staff costs	**44,251**	33,892
– share-based payments, excluding directors	**–**	38,805
– retirement benefits scheme contributions, excluding directors	**449**	298
Total staff costs	**50,421**	78,168
Auditor's remuneration	**2,541**	2,463
Cost of inventories recognised as expenses	**83,060**	74,959
Research and development expenditure (included in other expenses)	**5,269**	6,436

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(i) DIRECTORS' EMOLUMENTS

	2010 HK$'000	2009 HK$'000
Directors' fees:		
(a) Executive		
– Yao Yuan	**1,342**	1,266
– Chien Hoe Yong, Henry	**234**	845
– Hu Jun	**–**	–
– Yu Ti Jun	**120**	120
– Iu Chung	**1,140**	1,129
	2,836	3,360
(b) Independent non-executive		
– Lam Lee G.	**120**	120
– Lee Sze Ho, Henry	**120**	120
– Hu Jin Hua	**120**	120
	360	360
(c) Non-executive		
– Yang Zhen Hua	**120**	120
– Ma Yong Wei	**–**	–
	120	120
Total directors' fees	**3,316**	3,840

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31st December, 2010

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)

(i) DIRECTORS' EMOLUMENTS (CONTINUED)

	2010 HK$'000	2009 HK$'000
Other emoluments of executive directors:		
(a) Salaries and other benefits		
– Yao Yuan	**458**	534
– Chien Hoe Yong, Henry	**1,251**	–
– Hu Jun	**–**	–
– Yu Ti Jun	**–**	–
– Iu Chung	**660**	671
	2,369	1,205
(b) Retirement benefits scheme contributions		
– 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	**–**	22
– Hu Jun	**–**	8
– Yu Ti Jun	**–**	36
– Iu Chung	**–**	–
	–	66
Total other emoluments of executive directors	**2,405**	1,307
Other emoluments of non-executive directors:		
(a) Share-based payments		
– Lam Lee G.	**–**	26
Total directors' emoluments	**5,721**	5,173

No director had waived any emoluments during either year.

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)

(ii) EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2009: three) were directors of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining two (2009: two) individuals were as follows:

	2010 HK$'000	2009 HK$'000
Salaries, allowances and benefits in kind	**964**	964
Retirement benefits scheme contributions	**24**	24
Share-based payments	**–**	9
	988	997

Their emoluments were within the following bands:

	2010 Number of employees	2009 Number of employees
Nil to HK$1,000,000	**2**	2

14. DIVIDENDS

	2010 HK$'000	2009 HK$'000
Dividends recognised as distribution during the year:		
2009 Final dividend of HK$0.01 per share	**35,158**	–

The Directors do not recommend the payment of a final dividend (2009: HK$0.01 per share) for 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31st December, 2010

15. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2010 HK$'000	2009 HK$'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to the owners of the Company)	122,438	76,758

	2010	2009
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	3,590,871,850	3,082,579,777
Effect of dilutive potential ordinary shares:		
– Share options	14,431,545	12,570,843
– Warrants	26,728,648	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	3,632,032,043	3,095,150,620

No adjustment for convertible bonds was made in calculating diluted earnings per share for both years as the conversion of convertible bonds would result in an increase in earnings per share.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Plant and equipment HK$'000	Office equipment HK$'000	Motor vehicles HK$'000	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Buildings under construction HK$'000	Total HK$'000
COST								
At 1st January, 2009	184,208	73,936	2,402	8,353	3,454	2,411	125,254	400,018
Exchange adjustments	1,216	370	14	43	24	30	1,949	3,646
Acquisition of subsidiaries	–	9,765	744	650	4,221	187	–	15,567
Additions	413	2,732	123	124	77	157	82,454	86,080
Disposals	–	(5,333)	(217)	(912)	–	(75)	–	(6,537)
At 31st December, 2009	185,837	81,470	3,066	8,258	7,776	2,710	209,657	498,774
Exchange adjustments	8,194	3,778	91	189	156	152	3,573	16,133
Additions	2,020	32,342	153	407	–	572	12,587	48,081
Transfer	124,055	–	–	–	–	–	(124,055)	–
Disposal of a subsidiary	–	(2,472)	–	(840)	(3,481)	(386)	–	(7,179)
Disposals	–	(1,779)	(10)	(953)	–	(318)	–	(3,060)
At 31st December, 2010	320,106	113,339	3,300	7,061	4,451	2,730	101,762	552,749
DEPRECIATION								
At 1st January, 2009	10,610	21,998	1,776	4,679	1,922	858	–	41,843
Exchange adjustments	96	247	(11)	19	7	20	–	378
Provided for the year	8,283	13,073	324	1,184	364	502	–	23,730
Eliminated on disposals	–	(2,186)	(214)	(592)	–	(48)	–	(3,040)
At 31st December, 2009	18,989	33,132	1,875	5,290	2,293	1,332	–	62,911
Exchange adjustments	815	1,562	64	164	104	111	–	2,820
Provided for the year	9,805	13,485	355	1,046	378	614	–	25,683
Eliminated on disposal of a subsidiary	–	(2,275)	–	(718)	–	(345)	–	(3,338)
Eliminated on disposals	–	(1,142)	(8)	(865)	–	(314)	–	(2,329)
At 31st December, 2010	29,609	44,762	2,286	4,917	2,775	1,398	–	85,747
CARRYING VALUES								
At 31st December, 2010	290,497	68,577	1,014	2,144	1,676	1,332	101,762	467,002
At 31st December, 2009	166,848	48,338	1,191	2,968	5,483	1,378	209,657	435,863

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2010

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The above items of property, plant and equipment, except for buildings under construction, 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% – 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 were held under medium-term lease located in the PRC.

17. PREPAID LEASE PAYMENTS

	2010 HK$'000	2009 HK$'000
Analysed for reporting purpose as:		
Current asset	1,617	1,577
Non-current asset	70,094	69,950
	71,711	71,527

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, 2010 was HK$28,226,000 (2009: HK$28,444,000).

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, 2009	104,240
Arising on acquisition of subsidiaries (Note 33)	316,742
At 31st December, 2009 and 2010	420,982

18. GOODWILL (CONTINUED)

Particulars regarding impairment testing on goodwill are disclosed below:

For the purpose of impairment testing, the carrying amount of goodwill has been allocated to the following cash generating units:

	HK$'000
Segment of protein chips division	47,115
Segment of health care division – hospital operation	57,125
Segment of health care division – manufacturing and trading of HPV products	79,910
Segment of medical centres management	236,832
At 31st December, 2009 and 2010	420,982

During each of the two years ended 31st December, 2010 and 2009, management of the Group determined that there was no impairment in any of these cash generating units containing goodwill.

The basis of the recoverable amounts of the 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 using a discount rate of 15% (2009: 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 based on the unit's past performance and management's expectations for the market development.

Cash generating unit for segment of health care division – hospital 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 using a discount rate of 9.9% (2009: 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.

Cash generating unit for segment of health care division – manufacturing and trading of HPV products

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 financial budgets approved by management for the coming year and using a discount rate of 15.2% (2009: 14.4%), and the cash flow in 2nd to 5th year are extrapolated using a growth rate of 20% and the cash flow beyond 5 years are extrapolated using a zero growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. 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, 2010

18. GOODWILL (CONTINUED)

Cash generating unit for segment of medical centres management

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 financial budgets approved by management for the coming year and using a discount rate of 14.8% (2009: 13.7%) and the cash flow in 2nd to 5th year are extrapolated using a growth rate of 10% and the cash flow beyond 5 years are extrapolated using a zero growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. 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.

19. OTHER INTANGIBLE ASSETS

	Distribution right HK$'000 (Note i)	Customer base HK$'000 (Note ii)	Technical know-how HK$'000 (Note ii)	Total HK$'000
COST				
At 1st January, 2009	2,627	–	–	2,627
Exchange adjustments	47	–	–	47
Arising on acquisition of subsidiaries	–	65,976	276,114	342,090
At 31st December, 2009	2,674	65,976	276,114	344,764
Exchange adjustments	220	2,118	8,797	11,135
At 31st December, 2010	2,894	68,094	284,911	355,899
AMORTISATION				
At 1st January, 2009	353	–	–	353
Charge for the year	157	6,598	10,738	17,493
At 31st December, 2009	510	6,598	10,738	17,846
Charge for the year	181	6,598	18,407	25,186
At 31st December, 2010	691	13,196	29,145	43,032
CARRYING VALUES				
At 31st December, 2010	2,203	54,898	255,766	312,867
At 31st December, 2009	2,164	59,378	265,376	326,918

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31st December, 2010

19. OTHER INTANGIBLE ASSETS (CONTINUED)

Notes:

(i) The 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.

(ii) The customer base and technical know-how were acquired through acquisition of subsidiaries during the year ended 31st December, 2009. Details of these are set out in Note 33. The customer base is being amortised on a straight-line basis over 10 years. The technical know-how represents design, development, production, sale and distributions of certain HPV detection products registered for use in various countries. The technical know-how has a legal life of 2 years. The directors are of the opinion that the Group would be able to renew the technical know-how continuously at minimal costs. In the opinion of the directors, the technical know-how has a useful life of 15 years and they are being amortised on a straight-line basis over 15 years.

20. INTEREST IN A JOINTLY CONTROLLED ENTITY

	2010 HK$'000	2009 HK$'000
Cost of unlisted investment in a jointly controlled entity	**26,049**	26,049
Exchange adjustments	**206**	72
Share of post-acquisition results and other comprehensive income	**(16,741)**	(5,981)
	9,514	20,140

During the year ended 31st December, 2009, interest in a jointly controlled entity was acquired as part of the acquisition of subsidiaries as set out in Note 33.

As at the end of the reporting period, the Group had interest in the following jointly controlled entity:

Name of entity	Place of establishment and operation	Paid up registered capital	Proportion of nominal value of registered capital held by the Group directly 2010	2009	Principal activities
天津红鬃马医院投资管理有限公司 (formerly known as 上海红鬃马医院投资管理有限公司)	PRC	RMB40,000,000	50%	50%	Investing holding and its subsidiaries are engaged in provision of medical diagnostic, health check and medical appraisal services

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2010

20. INTEREST IN A JOINTLY CONTROLLED ENTITY (CONTINUED)

The summarised financial information in respect of the Group's interest in the jointly controlled entity which are accounted for using the equity method is set out below:

	2010 HK$'000	2009 HK$'000
Current assets	**15,249**	31,303
Non-current assets	**29,613**	45,322
Current liabilities	**35,348**	56,485
Group's share of net assets of a jointly controlled entity	**9,514**	20,140
Revenue recognised in profit or loss	**24,354**	23,332
Expenses recognised in profit or loss	**35,114**	29,313
Group's share of loss of a jointly controlled entity for the year	**(10,760)**	(5,981)

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

	2010 HK$'000	2009 HK$'000
Available-for-sale investment		
Unlisted investments – at cost	**1,192**	–
Held for trading investments		
Equity securities listed in Hong Kong – at fair value	**62**	4,201

The unlisted investments of available-for-sale investment represents the Group's 28.85% interest in a PRC entity. Management of the Group are not able to participate in the operating and financing policy decision making of the investee according to the agreement between the shareholders of the investee. The directors are of the opinion that, no influence can be exercised by the Group significantly over the operating and financing activities of the investee and therefore, the amount is classified as available-for-sale investment at cost, subject to impairment.

22. DEPOSITS PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

The amounts represent 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

	2010 HK$'000	2009 HK$'000
Raw materials	**8,331**	7,796
Work in progress	**4,418**	2,464
Finished goods	**3,991**	3,491
	16,740	13,751

24. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2010 HK$'000	2009 HK$'000
Trade receivables	**197,074**	153,576
Less: Allowance for doubtful debts	**(2,297)**	(2,226)
	194,777	151,350
Consideration receivable for disposal of property, plant and equipment	**–**	2,590
VAT recoverable	**541**	–
Prepayments	**1,616**	2,427
Others	**10,729**	9,588
	207,663	165,955

The Group normally allows a credit period of 30 to 270 days to its trade customers. The following is an aged analysis of the trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period:

	2010 HK$'000	2009 HK$'000
0-60 days	**133,293**	110,964
61-90 days	**30,123**	31,151
91-180 days	**31,232**	6,477
181-270 days	**129**	2,758
	194,777	151,350

At 31st December, 2010 and 31st December, 2009, all trade receivables were neither past due nor impaired. 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, 2010

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

Movement in the allowance for doubtful debts

	2010 HK$'000	2009 HK$'000
1st January	**2,226**	2,211
Exchange adjustment	**71**	15
31st December	**2,297**	2,226

Before accepting any new customers, the Group assesses and understands the potential customer's credit quality and defines credit limits by customer. Credit limits attributed to each customer are reviewed regularly. The impairment losses recognised (if any) 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 represented 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 the year ended 31st December, 2009, the pledged deposits carried variable interest at 4.78% per annum. During the year, the amount was released upon the settlement of relevant bank borrowings.

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 the year, the bank deposits carried interest at prevailing market rate of 0.36% (2009: 0.36%) per annum.

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

	US dollar HK$'000	HK dollar HK$'000
At 31st December, 2010		
Bank balances and cash	55	323
At 31st December, 2009		
Bank balances and cash	250	6,818

26. TRADE AND OTHER PAYABLES

	2010 HK$'000	2009 HK$'000
Trade payables	**7,059**	8,936
Receipts in advance	**8,600**	7,444
Accrued expenses	**7,392**	25,442
Payable for construction in progress	**1,758**	13,603
Other tax payable	**6,342**	7,922
Others	**9,835**	17,991
	40,986	81,338

The following is an aged analysis of the trade payables presented based on the invoice date at the end of the reporting period:

	2010 HK$'000	2009 HK$'000
0-60 days	**5,348**	8,054
61-90 days	**370**	20
Over 90 days	**1,341**	862
	7,059	8,936

27. AMOUNTS DUE FROM (TO) RELATED COMPANIES/SUBSIDIARIES OF A JOINTLY CONTROLLED ENTITY

Details of the amounts due from (to) related companies and subsidiaries of a jointly controlled entity are set out below:

		NOTES	2010 HK$'000	2009 HK$'000
(a)	Amounts due from related companies			
	– 上海铭源酒店管理有限公司	(i)	**153**	230
	– 上海铭康商务资讯咨询有限公司	(ii)	**1,173**	2,866
	– 上海铭源度假村有限公司	(i)	**1,953**	–
			3,279	3,096
(b)	Amounts due from subsidiaries of a jointly controlled entity		**35,904**	45,133
(c)	Amount due to a related company			
	– 上海铭源实业集团有限公司 ("上海铭源实业")	(i)	**33,740**	978

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31st December, 2010

27. AMOUNTS DUE FROM (TO) RELATED COMPANIES/SUBSIDIARIES OF A JOINTLY CONTROLLED ENTITY (CONTINUED)

Notes:

(i) 上海铭源实业 is a company in which a shareholder with significant influence has beneficial interests. 上海铭源酒店管理有限公司 and 上海铭源度假村有限公司 are subsidiaries of 上海铭源实业.

(ii) A non-controlling interest of a subsidiary of the Company.

The above amounts are unsecured, non-interest bearing and are repayable on demand.

Details of the Group's transactions with related parties are set out in Note 40.

28. BANK BORROWINGS

	2010 HK$'000	2009 HK$'000
Secured bank borrowings	**141,716**	191,950
Unsecured bank borrowings	**83,810**	27,568
	225,526	219,518
Carrying amount repayable:		
– Within one year	**202,086**	139,444
– More than one year but not exceeding two years	**–**	57,358
– More than two years but not more than five years	**23,440**	22,716
	225,526	219,518
Less: Amounts due within one year under current liabilities	**(202,086)**	(139,444)
Amounts due after one year	**23,440**	80,074

The exposure of the Group's fixed-rate borrowings and the contractual maturity date are as follows:

	2010 HK$'000	2009 HK$'000
Fixed-rate bank borrowings which due in more than one year but not exceeding two years	**586**	568

28. BANK BORROWINGS (CONTINUED)

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

	2010	2009
Effective interest rate:		
Fixed-rate borrowings	9.00%	9.00%
Variable-rate borrowings	1.73% – 6.67%	1.55% – 7.31%

At the end of the reporting period, the Group's bank borrowings that were denominated in currencies other than the functional currency of the relevant group entities are set out below:

	2010 HK$'000	2009 HK$'000
HK dollar denominated bank borrowings	15,000	27,000

During the year, the Group obtained new loans in the amount of HK$178,018,000 (2009: HK$45,817,000). The loans bear interest at market rates and will be repayable in 1 to 3 years. The proceeds were used to finance the operation of the Group.

29. SHARE CAPITAL

	Number of shares	Value HK$'000
Ordinary shares of HK$0.05 each		
Authorised:		
At 1st January, 2009 and 31st December, 2009	4,000,000,000	200,000
Increase in authorised share capital (note a)	2,000,000,000	100,000
At 31st December, 2010	6,000,000,000	300,000
Issued and fully paid:		
Ordinary shares of HK$0.05 each		
At 1st January, 2009	2,934,616,551	146,731
Conversion of convertible bonds (note b)	402,010,184	20,101
Exercise of share options (note b)	78,810,000	3,940
Shares repurchased (note c)	(4,930,000)	(247)
At 31st December, 2009	3,410,506,735	170,525
Conversion of convertible bonds (note d)	114,178,885	5,709
Exercise of warrants (note d)	102,345,213	5,117
Exercise of share options (note d)	121,310,000	6,066
At 31st December, 2010	3,748,340,833	187,417

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31st December, 2010

29. SHARE CAPITAL (CONTINUED)

Notes:

(a) Pursuant to a resolution passed at a special general meeting on 20th August, 2010, the authorised share capital of the Company was increased from HK$200,000,000 to HK$300,000,000 by the creation of additional 2,000,000,000 ordinary shares of HK$0.05 each.

(b) During the year ended 31st December, 2009, 402,010,184 and 78,810,000 ordinary shares of HK$0.05 each in the Company were issued as a result of conversion of convertible bonds and exercise of share options respectively.

(c) During the year ended 31st December, 2009, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	Ordinary shares of HK$0.05 each	Price per share Highest HK$	Price per share Lowest HK$	Aggregate consideration paid HK$'000
April 2009	4,930,000	1.19	1.05	5,624

The above shares were cancelled upon repurchase.

(d) During the year ended 31st December, 2010, 114,178,885, 102,345,213 and 121,310,000 ordinary shares of HK$0.05 each in the Company were issued as a result of conversion of convertible bonds and warrants (see Note 30) and exercise of share options respectively.

All the shares issued during the year ranked pari passu with the then existing shares in all respects.

30. CONVERTIBLE BONDS

	2010 HK$'000	2009 HK$'000
Convertible bonds 2011	–	79,627

Convertible bonds 2011

On 8th April, 2009, the Company issued HK$77,524,000 9% series A convertible bonds ("2011 Series A Bond") and HK$155,048,000 9% series B convertible bonds ("2011 Series B Bond") due 2011 both at par value of HK$232,572,000 in aggregate and issued in conjunction with detachable warrants of face value amounting to HK$60,136,000 (the "Warrants", 2011 Series A Bond, 2011 Series B Bond and the Warrants are collectively known as "2011 Bonds"). On the same date, a supplementary agreement was entered into between the Company and the holder that the exchange rate of Renminbi to Hong Kong dollar applied to the whole agreements are fixed at the date of issue of the 2011 Bonds.

30. CONVERTIBLE BONDS (CONTINUED)

2011 Series A Bond and 2011 Series B Bond

Both 2011 Series A Bond and 2011 Series B Bond bear interest at the rate of 9% per annum on the principal amount. Interest is payable semi-annually in arrear on 8th April and 8th October in each year commencing on 8th April, 2009. The initial conversion prices of the 2011 Series A Bond and 2011 Series B Bond are HK$0.42 per share (equivalent to RMB0.37) and HK$0.55 per share (equivalent to RMB0.48), respectively, subject to anti-dilutive adjustments.

The 2011 Series A Bond and 2011 Series B Bond entitles the holders to convert their bonds into ordinary shares of HK$0.05 (equivalent to RMB0.04) each in the Company at any time for the period up to the close of 15 business days prior to the maturity date on 7th April, 2011.

At any time after 15 months from the issue of the 2011 Series A Bond, but not less than seven business days prior to the maturity date of the 2011 Series A Bond, the Company may, having given 90 days' prior notice, redeem the 2011 Series A Bond in whole or in part at a redemption price equal to their early redemption amount (an amount which represents a gross yield to maturity of 25% per annum) on the redemption date, together with accrued but unpaid interest, if the closing price of the Company's shares, for a period of 20 consecutive trading days, where (i) the first day of such 20-trading day period shall commence at any time after 15 months from the 2011 Series A Bond and (ii) the last day of such 20-trading day period falls on the trading day immediately prior to the date upon which notice of such redemption is given, was at least 155% of the applicable 2011 Series A Bond's conversion price.

The Company may redeem 2011 Series B Bond at its option, having given 180 days' prior notice, redeem the 2011 Series B Bond in whole or in part at a redemption price equal to their early redemption amount (an amount which represents a gross yield to maturity of 25% per annum) on the redemption date, together with accrued but unpaid interest if the closing price of the Company's share, for a period of 20 consecutive trading days, where (i) the first day of such 20-trading day period shall commence at any time after 15 months from the issue of 2011 Series B Bond and (ii) the last day of such 20-trading day period falls on the trading day immediately prior to the date upon which notice of such redemption is given, was at least 145% of the applicable conversion price of the 2011 Series B Bond.

Unless previously cancelled or converted, the Company will redeem each of 2011 Series A Bond and 2011 Series B Bond at 138.52% of its principal amount on the maturity date, 7th April, 2011.

During the year ended 31st December, 2009, principal amounts of HK$77,524,000 (equivalent to approximately RMB68,636,000) of the 2011 Series A Bond were converted into ordinary shares of HK$0.05 (equivalent to RMB0.04) each in the Company. The entire 2011 series A Bond was fully converted as at 31st December, 2009.

During the year ended 31st December, 2010, principal amounts of HK$62,296,000 (equivalent to approximately RMB70,363,000) (2009: principal amounts of HK$92,752,000 (equivalent to approximately RMB82,118,000)) of the 2011 Series B Bond were converted into ordinary shares of HK$0.05 (equivalent to RMB0.04) each in the Company. No 2011 Series B Bond were outstanding as at 31st December, 2010.

Both 2011 Series A Bond and 2011 Series B Bond contain two components – the equity and liability components. The equity component is presented in equity heading "Convertible options and warrants reserve". The effective interest rate of the liability component is 35.42% per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2010

30. CONVERTIBLE BONDS (CONTINUED)

Warrants

Warrants entitles the holder to subscribe for ordinary shares of HK$0.05 (equivalent to RMB0.04) each in the Company at any time for period up to the close of 15 business days prior to the maturity date on 7th April, 2011. The initial subscription price of the Warrants is HK$0.59 per share (equivalent to RMB0.52), subject to anti-dilutive adjustments. The Warrants are equity instruments and presented in equity heading "Convertible options and warrants reserve". The fair value of Warrants at initial recognition was amounted to approximately HK$16,000,000. During the year ended 31st December, 2010, all warrants were exercised.

The movement of the liability component of the 2011 Bonds for the year is set out below:

	2010 HK$'000	2009 HK$'000
Carrying amount at the beginning of the year	**79,627**	–
Issue of 2011 Bonds	**–**	206,994
Conversion of convertible bonds	**(89,309)**	(160,838)
Interest charged (Note 10)	**12,485**	36,274
Interest paid	**(2,803)**	(2,803)
Carrying amount at the end of the year	**–**	79,627

At 31st December, 2009, the Group's equity interests in certain subsidiaries have been pledged to secure the 2011 Bonds.

31. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities recognised and movements thereon during the current and prior years:

	Withholding tax on undistributed profits of PRC subsidiaries HK$'000	Fair value adjustment on other intangible assets from business combination HK$'000	Fair value adjustment on property, plant and equipment and prepaid lease payments from business combination HK$'000	Convertible bonds HK$'000	Total HK$'000
At 1st January, 2009	20,555	–	6,138	–	26,693
Arising on acquisition of subsidiaries	–	85,522	–	–	85,522
Charge to equity for the year	–	–	–	4,220	4,220
Charge (credit) to profit or loss	7,810	(4,525)	(140)	(3,090)	55
At 31st December, 2009	28,365	80,997	5,998	1,130	116,490
Charge (credit) to profit or loss	13,998	(6,252)	(140)	(1,130)	6,476
At 31st December, 2010	42,363	74,745	5,858	–	122,966

31. DEFERRED TAX LIABILITIES (CONTINUED)

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1st January, 2008 onwards. For the year ended 31st December, 2008, the tax rate applicable for the withholding tax on the undistributed profits of the PRC subsidiaries was 10%. During the year ended 31st December, 2009, one of the PRC subsidiaries of the Group successfully claimed relief under the "Arrangement between the Mainland of China ("Mainland") and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income" in respect of its income derived from the Mainland on or after 1st January, 2008. Accordingly, the tax rate applicable for the withholding tax on the undistributed profits of this subsidiary become 5% after the successful application and applied 5% rate on the profit earned since 1st January, 2008. Included in the charge of HK$7,810,000 for the year ended 31st December, 2009, there was HK$7,839,000 overprovision related to this change in withholding tax rate. As at 31st December, 2010 and 31st December, 2009, deferred taxation has been provided in full in respect of temporary differences attributable to such accumulated profits.

32. 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, 2010, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 18,300,000 (2009: 142,610,000) representing 0.49% (2009: 4.18%) 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.

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 exercisable period. Options may be exercised at any time from the date of grant of the share option (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 directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares. The directors of the Company has final discretion on the exercise price.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31st December, 2010

32. SHARE OPTIONS (CONTINUED)

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

2010

	Date of grant	Exercise price	Vesting period	Exercisable period	Number of share options: Outstanding at 1.1.2010	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2010
Directors	8.4.2005	HK$0.728	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	4,900,000	–	(4,900,000)	–	–
			8.4.2005 – 7.4.2008	8.4.2008 – 7.4.2010	7,300,000	–	(7,300,000)	–	–
			8.4.2005 – 7.4.2009	8.4.2009 – 7.4.2010	7,300,000	–	(7,300,000)	–	–
	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)	–	–
					23,900,000	–	(23,900,000)	–	–
Employees	8.4.2005	HK$0.728	8.4.2005 – 7.4.2008	8.4.2008 – 7.4.2010	760,000	–	(160,000)	(600,000)	–
			8.4.2005 – 7.4.2009	8.4.2009 – 7.4.2010	3,700,000	–	(3,100,000)	(600,000)	–
	27.4.2007	HK$0.78	27.4.2007 – 26.4.2008	27.4.2008 – 7.4.2010	900,000	–	–	(900,000)	–
			27.4.2007 – 26.4.2009	27.4.2009 – 7.4.2010	1,550,000	–	(650,000)	(900,000)	–
	9.10.2009	HK$0.802	N/A	9.10.2009 – 30.5.2014	111,800,000	–	(93,500,000)	–	18,300,000
					118,710,000	–	(97,410,000)	(3,000,000)	18,300,000
Total					142,610,000	–	(121,310,000)	(3,000,000)	18,300,000
Exercisable at 31st December, 2010									18,300,000

32. SHARE OPTIONS (CONTINUED)

2009

	Date of grant	Exercise price	Vesting period	Exercisable period	Number of share options: Outstanding at 1.1.2009	Granted during the year	Exercised during the year	Outstanding at 31.12.2009
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	–	(7,300,000)	2,000,000
			8.4.2005 – 7.4.2007	8.4.2007 – 7.4.2010	9,300,000	–	(4,400,000)	4,900,000
			8.4.2005 – 7.4.2008	8.4.2008 – 7.4.2010	9,300,000	–	(2,000,000)	7,300,000
			8.4.2005 – 7.4.2009	8.4.2009 – 7.4.2010	9,300,000	–	(2,000,000)	7,300,000
	27.4.2007	HK$0.78	N/A	27.4.2007 – 7.4.2010	1,600,000	–	(800,000)	800,000
			27.4.2007 – 26.4.2008	27.4.2008 – 7.4.2010	1,600,000	–	(800,000)	800,000
			27.4.2007 – 26.4.2009	27.4.2009 – 7.4.2010	1,600,000	–	(800,000)	800,000
					51,300,000	–	(27,400,000)	23,900,000
Employees	8.4.2005	HK$0.728	N/A	8.4.2005 – 7.4.2010	600,000	–	(600,000)	–
			8.4.2005 – 7.4.2006	8.4.2006 – 7.4.2010	2,600,000	–	(2,600,000)	–
			8.4.2005 – 7.4.2007	8.4.2007 – 7.4.2010	6,800,000	–	(6,800,000)	–
			8.4.2005 – 7.4.2008	8.4.2008 – 7.4.2010	14,400,000	–	(13,640,000)	760,000
			8.4.2005 – 7.4.2009	8.4.2009 – 7.4.2010	16,900,000	–	(13,200,000)	3,700,000
	27.4.2007	HK$0.78	N/A	27.4.2007 – 7.4.2010	2,900,000	–	(2,900,000)	–
			27.4.2007 – 26.4.2008	27.4.2008 – 7.4.2010	7,060,000	–	(6,160,000)	900,000
			27.4.2007 – 26.4.2009	27.4.2009 – 7.4.2010	7,060,000	–	(5,510,000)	1,550,000
	9.10.2009	HK$0.802	N/A	9.10.2009 – 30.5.2014	–	111,800,000	–	111,800,000
					58,320,000	111,800,000	(51,410,000)	118,710,000
Total					109,620,000	111,800,000	(78,810,000)	142,610,000
Exercisable at 31st December, 2009								142,610,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31st December, 2010

32. SHARE OPTIONS (CONTINUED)

During the year ended 31st December, 2009, options were granted on 9th October, 2009 (the "Grant Date"). The estimated fair value of the options granted on that date was HK$0.3143 per share. These fair values were calculated using the Black-Scholes Option Pricing Model. The inputs into the model were as follows:

Closing price per share at the Grant Date	HK$0.84
Exercise price	HK$0.802
Expected share volatility	60.43%
Expected life	2.3 years
Weighted average risk-free rate	0.604%
Expected dividend yield	Nil

The Black-Scholes Option Pricing Model was used to estimate the fair value of the options. The model provided a closed-form solution to option value based on such parameters as risk-free rate, prevailing price of the underlying stock, exercise price, volatility of the underlying share prices and term to maturity.

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 has been 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$38,897,000 was charged as an equity-settled expense for the year ended 31st December, 2009.

In respect of the share options exercised during the year ended 31st December, 2010, the weighted average share price at the date of exercise is HK$1.184 (2009: HK$1.072).

33. ACQUISITION OF SUBSIDIARIES

For the year ended 31st December, 2009

(i) On 12th January, 2009, the Group acquired 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) from an independent third party. This acquisition has been accounted for using the purchase method. Shanghai Kang Pei and its subsidiaries and jointly controlled entity are principally engaged in the business of providing medical diagnostic, health check and medical appraisal services to clients in the PRC. The amount of goodwill arising as a result of this acquisition was HK$236,832,000.

(ii) On 16th May, 2009, the Group acquired 95% equity interest in Genetel Biotech (BVI) Limited ("Genetel BVI") for a consideration of HK$280,000,000, from an independent third party. Previously, the Group held 5% equity interest in Genetel BVI and accounted for it as available-for-sale investment. Genetel BVI and its subsidiaries are engaged in manufacturing and trading of HPV detection kits and related equipments in the PRC. The transaction for acquiring other intangible assets has been accounted for using the purchase method. The amount of goodwill arising as a result of this acquisition was HK$79,910,000.

33. ACQUISITION OF SUBSIDIARIES (CONTINUED)

The net assets acquired in the transactions, and the goodwill arising, in 2009 were as follows:

	Shanghai Kang Pei			Genetel BVI			
	Carrying amount before combination HK$'000	Fair value adjustments HK$'000	Fair value HK$'000	Carrying amount before combination HK$'000	Fair value adjustments HK$'000 (Note)	Fair value HK$'000	Total HK$'000
Net assets acquired:							
Property, plant and equipment	13,620	–	13,620	1,947	–	1,947	15,567
Other intangible assets	–	65,976	65,976	–	276,114	276,114	342,090
Interest in a jointly controlled entity	11,851	–	11,851	–	–	–	11,851
Inventories	224	–	224	615	–	615	839
Trade and other receivables	31,314	–	31,314	997	–	997	32,311
Amounts due from subsidiaries of a jointly controlled entity	51,669	–	51,669	–	–	–	51,669
Amount due from an immediate holding company	438	–	438	–	–	–	438
Bank balances and cash	814	–	814	1,308	–	1,308	2,122
Trade and other payables	(4,933)	–	(4,933)	(981)	–	(981)	(5,914)
Taxation payable	(3,571)	–	(3,571)	–	–	–	(3,571)
Deferred tax liabilities	–	(16,494)	(16,494)	–	(69,028)	(69,028)	(85,522)
	101,426	49,482	150,908	3,886	207,086	210,972	361,880
Non-controlling interests			(37,998)			–	(37,998)
			112,910			210,972	323,882
Less: Available-for-sale investment			–			(10,882)	(10,882)
Goodwill (Note 18)			236,832			79,910	316,742
Total consideration			349,742			280,000	629,742

Satisfied by:	
Cash	573,332
Deposits paid in previous year	56,410
	629,742
Net cash outflow arising on acquisition:	
Cash consideration paid	(573,332)
Bank balances and cash acquired	2,122
	(571,210)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31st December, 2010

33. ACQUISITION OF SUBSIDIARIES (CONTINUED)

Note:

The initial accounting for the acquisition of Genetel BVI has been determined provisionally in 2009, as the Company was awaiting for the receipt of professional valuation in relation to other intangible assets of Genetel BVI during the year of acquisition in 2009. The Company obtained the final professional valuation report during the year and, no adjustment was made by the Group for the previous provisional amounts.

During the year ended 31st December, 2009, Shanghai Kang Pei and Genetel BVI contributed HK$5,789,000 and HK$2,840,000 respectively to the Group's profit for the period between the date of acquisition and 31st December, 2009.

Shanghai Kang Pei did not make any significant revenue, results or cash flows to the Group from 1st January, 2009 to date of acquisition. For Genetel BVI, the directors are of the view that it is impracticable to disclose the revenue and the results of Genetel BVI for the period from 1st January, 2009 to 31st December, 2009 as if the acquisition had been effected at 1st January, 2009 since such financial information was not provided by the vendor.

34. DISPOSAL OF A SUBSIDIARY

On 12th February, 2010, the Group disposed of its 71.15% equity interest in 上海文中门诊部有限公司, at a cash consideration of RMB2,000,000 (equivalent to HK$2,300,000) to an independent third party. Details are set out below:

	HK$'000
Net assets disposed of:	
Property, plant and equipment	3,841
Inventories	49
Trade and other receivables	1,176
Bank balances	2
Trade and other payables	(938)
	4,130
Remeasurement of retained interest as available-for-sale investments	(1,192)
Loss on disposal of interest in a subsidiary	(638)
Total consideration	2,300
Satisfied by:	
Cash	2,300
Net cash inflow arising on disposal:	
Cash consideration received	2,300
Bank balances disposed of	(2)
	2,298

The subsidiary disposed of during the year did not contribute significantly to the revenue and the results of the Group. The cash flows contributed or utilised by the subsidiary disposed of during the year was not significant.

35. CAPITAL COMMITMENTS

	2010 HK$'000	2009 HK$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**57,639**	56,269

36. OPERATING LEASE COMMITMENTS

The Group as lessee

During the year, the Group made minimum lease payments under operating leases of HK$9,083,000 (2009: HK$4,535,000) in respect of its office properties and staff quarter.

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which would fall due as follows:

	2010 HK$'000	2009 HK$'000
Within one year	**7,539**	11,188
In the second to fifth year inclusive	**14,912**	8,552
	22,451	19,740

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 and rentals are fixed for an average of two years.

37. CONTINGENT LIABILITIES

As at 31st December, 2010 and 2009, the Group did not have any significant contingent liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31st December, 2010

38. RETIREMENT BENEFIT PLANS

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 profit or loss of HK$485,000 (2009: HK$334,000) represents contributions payable to these schemes by the Group in respect of the current accounting period. As at 31st December, 2010 and 31st December, 2009, no contribution was due and unpaid.

39. PLEDGE OF ASSETS

At the end of the reporting period, the following assets were pledged to secure general banking and credit facilities granted to the Group:

	2010 HK$'000	2009 HK$'000
Prepaid lease payments	**43,486**	43,083
Buildings	**285,194**	161,539
Buildings under construction	**–**	209,405
Held for trading investments	**–**	4,011
Pledged bank deposits	**–**	11,358
	328,680	429,396

At 31st December, 2009, the Group's equity interests in certain subsidiaries have been pledged to secure the 2011 Bonds.

40. RELATED PARTY DISCLOSURES

During the year, the Group received rental income of HK$1,953,000 (2009: Nil) from 上海铭源度假村有限公司 and paid rental expense and service management expense of HK$568,000 (2009: HK$529,000) and HK$380,000 (2009: HK$346,000) to 上海铭源房地产开发经营有限公司 ("上海铭源房地产") and 上海铭源酒店管理有限公司, respectively, which are subsidiaries of 上海铭源实业, a substantial shareholder of the Company.

During the year, two directors of the Company gave personal guarantees to the total aggregate amounts of RMB150,000,000 (equivalent to HK$175,800,000) (2009: RMB170,000,000 (equivalent to HK$193,086,000)) to two banks to secure the banking facilities granted to the Group, of which HK$23,440,000 (2009: HK$79,506,000) has been utilised.

During the year ended 31st December, 2009, 上海铭源实业 and 上海铭源房地产 gave corporate guarantee to the aggregate amounts of RMB20,000,000 (equivalent to HK$22,716,000) and RMB9,600,000 (equivalent to HK$10,904,000) to a bank to secure the banking facilities granted to the Group, of which HK$22,716,000 has been utilised.

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

	2010 HK$'000	2009 HK$'000
Short-term benefits	**7,044**	5,199
Post-employment benefits	**72**	72
Share-based payments	**–**	122
	7,116	5,393

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.

41. EVENTS AFTER THE REPORTING PERIOD

On 28th February, 2011, the Company, Ming Yuan Investments Group Limited (the "Vendor") and Pacific Foundation Securities Limited ("Placing Agent") entered into an agreement, pursuant to which the Placing Agent has agreed, as agent of the Vendor to sell up to 320,000,000 existing shares at placing price of HK$0.81 per share. In addition the Vendor also agreed to subscribe new shares equivalent to the number of placing shares at subscription price equivalent to the placing price of HK$0.81 per share. The subscription of 294,000,000 new shares representing approximately 7.2% of the issued share capital of the Company as enlarged by the subscription, at a total consideration of HK$238.1 million. The transaction was completed at the date of this announcement. Details of these are disclosed in an announcement of the Company dated 10th March, 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2010

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Particulars of the Company's principal subsidiaries 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 2010	Direct 2009	Indirect 2010	Indirect 2009	Principal activities
MY Technology Limited	British Virgin Islands	US$1	**–**	–	**100%**	100%	Inactive
HD Global Limited	British Virgin Islands	US$2,000,000	**–**	–	**100%**	100%	Investment holding
上海数康生物科技有限公司 (note i)	PRC	RMB40,000,000	**–**	–	**100%**	100%	Research and development activities
湖洲数康 (note i)	PRC	RMB10,000,000	**–**	–	**100%**	100%	Manufacturing and trading of protein chips and related equipments
上海铭源数康生物芯片有限公司 (note i)	PRC	US$29,800,000	**–**	–	**100%**	100%	Manufacturing and trading of protein chips and related equipments
上海唯依医院投资管理有限公司 (note iii)	PRC	RMB15,000,000	**–**	–	**51%**	51%	Investment holding
上海市虹口区妇幼保健院 (note ii)	PRC	N/A	**–**	–	**51%**	51%	Provision of woman and child health care services
Shanghai Kang Pei (note iii)	PRC	RMB10,000,000	**–**	–	**75%**	75%	Provision of medical diagnostic, health check and medical appraisal services
Genetel Pharmaceuticals (Shenzhen) Company Limited (note i)	PRC	RMB8,027,700	**–**	–	**100%**	100%	Manufacturing and trading of HPV chips and related equipments

Notes:

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

(ii) This company is registered in the form of 事业法人.

(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 reporting period or at any time during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31st December, 2010

43. SUMMARISED FINANCIAL POSITION OF THE COMPANY

The Company's summarised financial position at the end of the reporting period are as follows:

	2010 HK$'000	2009 HK$'000
Total Assets		
Property, plant and equipment	**6**	24
Investment in subsidiaries	**1**	1
Trade and other receivables, deposit and prepayments	**1,487**	2,168
Amounts due from subsidiaries	**953,929**	845,801
Held for trading investments	**–**	4,012
Bank balances and cash	**71**	5,282
	955,494	857,288
Total Liabilities		
Trade and other payables	**2,309**	12,226
Amounts due to subsidiaries	**74,476**	71,800
Convertible bonds	**–**	79,627
Deferred tax liabilities	**–**	1,130
	76,785	164,783
	878,709	692,505
Capital and Reserves		
Share capital	**187,417**	170,525
Reserves (Note)	**691,292**	521,980
	878,709	692,505

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31st December, 2010

43. SUMMARISED FINANCIAL POSITION 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 losses HK$'000	Total HK$'000
At 1st January, 2009	327,817	3,560	13,116	12,804	(19,582)	337,715
Loss for the year	–	–	–	–	(103,879)	(103,879)
Total comprehensive income for the year	–	–	–	–	(103,879)	(103,879)
Recognition of equity components of convertible bonds and warrants	–	25,578	–	–	–	25,578
Deferred tax liability on recognition of equity components of convertible bonds	–	(4,220)	–	–	–	(4,220)
Recognition of equity settled share based payments	–	–	38,897	–	–	38,897
Conversion of convertible bonds	201,237	(22,287)	–	–	–	178,950
Exercise of share options	63,910	–	(9,594)	–	–	54,316
Release of deferred tax liability upon conversion of convertible bonds	(3,090)	3,090	–	–	–	–
Share repurchased	(5,377)	–	–	–	–	(5,377)
At 31st December, 2009	584,497	5,721	42,419	12,804	(123,461)	521,980
Loss for the year	–	–	–	–	(23,475)	(23,475)
Other comprehensive income for the year	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	(23,475)	(23,475)
Conversion of convertible bonds	90,451	(6,851)	–	–	–	83,600
Exercise of warrants	55,019	–	–	–	–	55,019
Exercise of share options	124,353	–	(35,027)	–	–	89,326
Lapse of share options	–	–	(1,067)	–	1,067	–
Release of deferred tax liability upon conversion of convertible bonds	(1,130)	1,130	–	–	–	–
Dividends recognised as distribution	–	–	–	–	(35,158)	(35,158)
At 31st December, 2010	853,190	–	6,325	12,804	(181,027)	691,292

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

	For the year ended 31st December,				
	2006 HK$'000	2007 HK$'000	2008 HK$'000	2009 HK$'000	**2010** **HK$'000**
Continuing operations					
Revenue	160,835	256,474	326,066	394,288	**420,786**
Profit before tax	95,051	150,293	176,285	97,063	**163,384**
Income tax expense	(18,933)	(23,411)	(25,440)	(21,420)	**(39,862)**
Profit for the year from continuing operations	76,118	126,882	150,845	75,643	**123,522**
Discontinued operations					
Loss for the year from discontinued operations	(3,156)	–	–	–	**–**
Profit for the year	72,962	126,882	150,845	75,643	**123,522**
Dividends recognised as distribution during the year	26,881	56,214	29,346	–	**35,158**
Attributable to:					
Owners of the Company	73,559	125,282	150,102	76,758	**122,438**
Non-controlling interests	(597)	1,600	743	(1,115)	**1,084**
	72,962	126,882	150,845	75,643	**123,522**

FINANCIAL SUMMARY *(CONTINUED)*

(B) ASSETS AND LIABILITIES/EQUITY

	At 31st December,				
	2006	**2007**	**2008**	**2009**	**2010**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
Total assets	925,202	1,101,692	1,381,344	1,976,533	**2,291,708**
Total liabilities	(354,345)	(269,890)	(361,314)	(515,485)	**(448,210)**
	570,857	831,802	1,020,030	1,461,048	**1,843,498**
Equity attributable to owners of the Company	568,094	827,439	1,014,924	1,419,060	**1,800,426**
Non-controlling interests	2,763	4,363	5,106	41,988	**43,072**
	570,857	831,802	1,020,030	1,461,048	**1,843,498**