



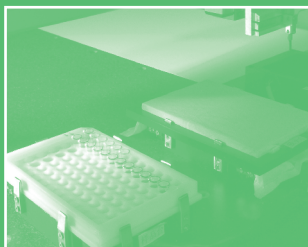
MINGYUAN MEDICARE

DEVELOPMENT COMPANY LIMITED

(INCORPORATED IN BERMUDA WITH LIMITED LIABILITY)

STOCK CODE : 00233

INNOVATIVE  
MEDICARE



OUR VISION

Interim Report 2012

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME***For the Six Months Ended 30 June 2012*

		<b>Unaudited</b>	
		<b>Six months ended 30 June</b>	
		<b>2012</b>	<b>2011</b>
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Continuing operations</b>			
Revenue	2	<b>181,287</b>	181,535
Cost of sales		<b>(40,905)</b>	(32,282)
Gross Profit		<b>140,382</b>	149,253
Other income	3	<b>8,359</b>	3,614
Other gains and losses	4	<b>12,418</b>	–
Selling and distribution expenses		<b>(32,694)</b>	(27,011)
Administrative expenses		<b>(40,047)</b>	(31,890)
Other expenses		<b>(48,522)</b>	(12,593)
Share of result of a jointly controlled entity		<b>1,229</b>	1,192
Finance costs	5	<b>(5,452)</b>	(3,118)
Profit before taxation		<b>35,673</b>	79,447
Income tax expense	6	<b>(2,131)</b>	(14,207)
Profit for the period from continuing operations	7	<b>33,542</b>	65,240
<b>Discontinued operation</b>			
Profit for the period from discontinued operation		<b>–</b>	3,033
Profit for the period		<b>33,542</b>	68,273
Other comprehensive (loss) income for the period			
Exchange differences arising on translation		<b>(10,690)</b>	78,926
Total comprehensive income for the period		<b>22,852</b>	147,199

		Unaudited	
		Six months ended 30 June	
		2012	2011
		HK\$'000	HK\$'000
Notes			
Profit for the period attributable to owners of the Company			
– from continuing operations		42,714	64,984
– from discontinued operation		–	1,547
		<b>42,714</b>	<b>66,531</b>
(Loss) profit for the period attributable to non-controlling interests			
– from continuing operations		(9,172)	256
– from discontinued operation		–	1,486
		<b>(9,172)</b>	<b>1,742</b>
Profit (loss) for the year attributable to:			
Owners of the Company		42,714	66,531
Non-controlling interests		(9,172)	1,742
		<b>33,542</b>	<b>68,273</b>
Total comprehensive income (loss) for the period attributable to:			
Owners of the Company		32,024	145,457
Non-controlling Interests		(9,172)	1,742
		<b>22,852</b>	<b>147,199</b>
Earnings per share			
From continuing and discontinued operations			
Basic	8	<b>0.97 HK cents</b>	<b>1.69 HK cents</b>
Diluted	8	<b>0.97 HK cents</b>	<b>1.69 HK cents</b>
From continuing operations			
Basic	8	<b>0.97 HK cents</b>	<b>1.65 HK cents</b>
Diluted	8	<b>0.97 HK cents</b>	<b>1.65 HK cents</b>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

At 30 June 2012

	Notes	30 June 2012 HK\$'000 (Unaudited)	31 December 2011 HK\$'000 (Audited)
<b>Non-Current Assets</b>			
Property, plant and equipment		347,248	349,192
Prepaid lease payments		42,763	43,670
Goodwill		511,334	511,334
Other intangible assets		1,130,911	1,149,318
Interest in a jointly controlled entity		11,459	13,650
Interest in an associate		97,903	98,554
Deposit paid for the acquisition of property, plant and equipment		96,126	101,851
Deposits paid for acquisition of intangible assets		–	40,000
Loan receivable		118,000	118,000
		<b>2,355,744</b>	<b>2,425,569</b>
<b>Current Assets</b>			
Inventories		35,198	23,511
Prepaid lease payments		1,010	1,020
Trade and other receivables, deposits and prepayments	9	255,984	188,420
Amount due from related companies		7,527	7,597
Amount due from subsidiaries of a jointly controlled entity		36,334	36,672
Held for trading investments		17	17
Bank balances and cash		337,872	144,819
		<b>673,942</b>	<b>402,056</b>
Assets classified as held for sale		–	246,131
		<b>673,942</b>	<b>648,187</b>

		30 June 2012 HK\$'000 (Unaudited)	31 December 2011 HK\$'000 (Audited)
	Notes		
<b>Current Liabilities</b>			
Trade and other payables	10	48,883	43,116
Amount due to a subsidiary of a jointly controlled entity		–	4,129
Bank borrowings – due within one year		245,407	172,033
Amount due to a shareholder		–	61,596
Taxation payable		16,577	18,554
		<b>310,867</b>	299,428
Liabilities associated with assets classified as held for sale		–	64,250
		<b>310,867</b>	363,678
<b>Net Current Assets</b>		<b>363,075</b>	284,509
<b>Total Assets less Current Liabilities</b>		<b>2,718,819</b>	2,710,078
<b>Capital and Reserves</b>			
Share capital		219,211	219,211
Reserves		2,100,608	2,068,586
Equity attributable to owners of the Company		2,319,819	2,287,797
Non-controlling interests		188,821	206,235
Total Equity		2,508,640	2,494,032
<b>Non-Current Liabilities</b>			
Deferred tax liabilities		210,179	216,046
		<b>2,718,819</b>	2,710,078

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the parent										Minority Interest	Total
	Share capital	Share premium	Convertible bonds equity reserve	Share option reserve	Assets revaluation reserve	Contributed surplus	Translation reserve	Accumulated profits	Total			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
						(Note)						
At 31 December 2010	187,417	853,191	–	6,325	10,354	12,804	172,012	558,323	1,800,426	43,072	1,843,498	
Profit for the year	–	–	–	–	–	–	–	49,662	49,662	(3,151)	46,511	
Other comprehensive income for the year	–	–	–	–	–	–	86,623	–	86,623	–	86,623	
Total comprehensive income for the year	–	–	–	–	–	–	86,623	49,662	136,285	(3,151)	133,134	
Exercise of share options	750	16,464	–	(5,185)	–	–	–	–	12,029	–	12,029	
Placement of shares	14,700	223,440	–	–	–	–	–	–	238,140	–	238,140	
Transactions costs attributable to issue of shares	–	(3,683)	–	–	–	–	–	–	(3,683)	–	(3,683)	
Shares issued upon acquisition of a business	16,344	88,256	–	–	–	–	–	–	104,600	–	104,600	
Acquisition of a business	–	–	–	–	–	–	–	–	–	90,859	90,859	
Acquisition of assets through acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	75,455	75,455	
At 31 December 2011	219,211	1,177,668	–	1,140	10,354	12,804	258,635	607,985	2,287,797	206,235	2,494,032	
Profit (loss) for the period	–	–	–	–	–	–	–	42,714	42,714	(9,172)	33,542	
Exchange realignment	–	–	–	–	–	–	(10,690)	–	(10,690)	–	(10,690)	
Total comprehensive income for the period	–	–	–	–	–	–	(10,690)	42,714	32,024	(9,172)	22,852	
Release on disposal of a subsidiary	–	–	–	–	–	–	–	–	–	(8,242)	(8,242)	
Rounding adjustment	–	–	–	–	–	–	–	(2)	(2)	–	(2)	
At 30 June 2012	219,211	1,177,668	–	1,140	10,354	12,804	247,945	650,697	2,319,819	188,821	2,508,640	

**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.

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited	
	Six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
Net cash generated from operating activities	<b>94,980</b>	192,294
Net cash (used in) investing activities	<b>(10,420)</b>	(38,335)
Net cash from financing activities	<b>108,619</b>	268,749
Net increase in cash and cash equivalent	<b>193,179</b>	422,708
Cash and cash equivalents at beginning of period	<b>144,819</b>	742,837
Effect of foreign exchange rate changes	<b>(126)</b>	20,294
Cash and cash equivalents at end of period	<b>337,872</b>	1,185,839

## NOTES TO THE FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION

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

The accounting policies adopted for the preparation of the condensed consolidated financial statements are consistent with those used in the Group’s annual audited financial statements for the year ended 31 December 2011.

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

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK(IFRIC) – Int 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of new and revised HKFRSs in the current period has had no material effect on the Group’s financial performance and positions for the current period and prior years and/or on the disclosures set out in these financial statements.

### 2. SEGMENT INFORMATION

Information reported to the Executive 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.

Specially, the Group’s operating segments under HKFRS 8 are therefore as follows:

Protein chips division	– Manufacturing and trading of protein chips and related equipments
Health care division	– Manufacturing and trading of HPV detection products and related equipment
Medical centres management	– Provision of medical diagnostic, health check and medical appraisal services
Individualised target therapy division	– Research, development and trading of individualised molecular diagnostic products
Bio-drugs division	– Research, development and trading of specialized monoclonal antibody drugs



## 2. SEGMENT INFORMATION (Continued)

### Segment revenues and results

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

	Protein chips division <i>HK\$'000</i>	Health care division <i>HK\$'000</i>	Medical centres management <i>HK\$'000</i>	Individualised target therapy division <i>HK\$'000</i>	Bio-drugs division <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<i>For the six months ended 30 June 2012</i>						
REVENUE						
External sales	<u>137,938</u>	<u>7,552</u>	<u>29,766</u>	<u>6,031</u>	<u>–</u>	<u>181,287</u>
Segment profit (loss)	<u>79,863</u>	<u>(8,971)</u>	<u>(1,852)</u>	<u>(22,721)</u>	<u>(485)</u>	<u>45,834</u>
Unallocated expenses						(10,367)
Interest income						1,229
Share of result of a jointly controlled entity						1,229
Gain on disposal of interest in a subsidiary						3,200
Finance costs						<u>(5,452)</u>
Profit before tax from continuing operations						<u>35,673</u>

**2. SEGMENT INFORMATION** (Continued)**Segment revenues and results** (Continued)

	Protein chips division <i>HK\$'000</i>	Health care division <i>HK\$'000</i>	Medical centres management <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<i>For the six months ended 30 June 2011</i>				
REVENUE				
External sales	<u>154,912</u>	<u>10,798</u>	<u>15,825</u>	<u>181,535</u>
Segment profit (loss)	<u>100,922</u>	<u>(3,026)</u>	<u>194</u>	98,090
Unallocated expenses				(20,331)
Interest income				3,614
Share of result of a jointly controlled entity				1,192
Finance costs				(3,118)
Profit before tax from discontinued operation				<u>3,033</u>
Profit before tax from continuing operations				<u>82,480</u>

**Geographical information**

Around 99% (2011: 99%) of the Group's turnover are derived from the operation in the PRC and around 99% (2011: 99%) of the Group's non-current assets excluded financial instruments are located in the PRC, therefore, no geographical information is presented.

**3. OTHER INCOME**

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2012</b>	<b>2011</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Continuing operations		
Interest income		
– on bank deposits	1,229	3,614
– on loan receivable	3,530	–
Government subsidy	3,355	–
Others	245	–
	<b>8,359</b>	<b>3,614</b>

**4. OTHER GAINS AND LOSSES**

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2012</b>	<b>2011</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Continuing operations		
Gain on disposal of intellectual property	9,218	–
Gain on disposal of interest in a subsidiary	3,200	–
	<b>12,418</b>	<b>–</b>

**5. FINANCE COSTS**

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2012</b>	<b>2011</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Continuing operations		
Interest on bank borrowings wholly repayable within five years	5,452	3,118

## 6. INCOME TAX EXPENSE

	Unaudited Six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
Continuing operations		
PRC Enterprise Income Tax	7,033	16,577
Deferred tax	(4,902)	(2,370)
	<b>2,131</b>	<b>14,207</b>

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.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulations of the EIT Law, the tax rate for the PRC subsidiaries is 25% from 1 January 2008 onwards.

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 2012 is 12.5% (2011: 12.5%).

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 until 2014.

**7. PROFIT FOR THE PERIOD**

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2012</b>	<b>2011</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Profit for the period has been arrived at after charging:		
Continuing operations		
Depreciation of property, plant and equipment	<b>14,423</b>	11,422
Amortisation of prepaid lease payments	<b>508</b>	500
Amortisation of other intangible assets (included in other expenses)	<b>48,014</b>	12,593
Staff costs		
– directors' remuneration	<b>2,218</b>	2,866
– other staff costs	<b>14,123</b>	13,086
– retirement benefits scheme contributions, excluding directors	<b>227</b>	212
Total staff costs	<b>16,568</b>	16,164
Auditors' remuneration	<b>1,300</b>	1,556
Cost of inventories recognised as expenses	<b>40,905</b>	32,282
Research and development expenditure	<b>3,256</b>	2,965

## 8. EARNINGS PER SHARE

### For continuing and discontinued operations

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

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2012</b>	<b>2011</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Earnings</b>		
Earnings for the purposes of basic and diluted earnings per share (Profit for the period attributable to the owners of the Company)	<b>42,714</b>	66,531
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>4,383,892,800</b>	3,947,269,010
Effect of dilutive potential ordinary shares:		
– share options	–	68,342
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>4,383,892,800</b>	3,947,337,352

### For continuing operations

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

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2012</b>	<b>2011</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Earnings</b>		
Profit for the period attributable to the owners of the Company	<b>42,714</b>	66,531
Less: profit for the period from discontinued operation	–	(1,547)
Earnings for the purposes of basic and diluted earnings		
Per share from continuing operations	<b>42,714</b>	64,984

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

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

	30 June 2012 HK\$'000 (Unaudited)	31 December 2011 HK\$'000 (Audited)
Trade receivables	162,901	171,668
Bills receivable	–	1,355
Less: allowance for doubtful debt	(2,587)	(2,587)
	<b>160,314</b>	170,436
VAT recoverable	–	164
Prepayments	2,587	1,333
Others	93,083	19,522
	<b>255,984</b>	191,455
Reclassified as held for sale	–	(3,035)
	<b>255,984</b>	188,420

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 and bills receivables (including trade receivables reclassified as held for sale of HK\$1,805,000 for the year ended 31 December 2011), net of allowance for doubtful debt presented based on the invoice date at the end of reporting date:

	30 June 2012 HK\$'000 (Unaudited)	31 December 2011 HK\$'000 (Audited)
0 – 60 days	67,141	68,079
61 – 90 days	56,303	66,393
91 – 180 days	32,061	20,075
181 – 270 days	4,809	15,889
	<b>160,314</b>	170,436

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. The Group has provided fully for all receivables over 270 days because historical experience is such that receivables that are past due beyond 270 days are generally not recoverable. Other than these, the Group has not identified any credit risk on other trade receivables.

**10. TRADE AND OTHER PAYABLES**

	<b>30 June 2012 HK\$'000 (Unaudited)</b>	<b>31 December 2011 HK\$'000 (Audited)</b>
Trade payables	<b>13,153</b>	9,153
Receipts in advance	<b>14,246</b>	10,357
Accrued expenses	<b>3,176</b>	7,772
Other tax payable	<b>7,622</b>	10,263
Others	<b>10,686</b>	32,710
	<b>48,883</b>	70,255
Reclassified as held for sale	–	(27,139)
	<b>48,883</b>	43,116

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

	<b>30 June 2012 HK\$'000 (Unaudited)</b>	<b>31 December 2011 HK\$'000 (Audited)</b>
0 – 60 days	<b>6,918</b>	5,617
61 – 90 days	<b>3,894</b>	1,470
Over 90 days	<b>2,341</b>	2,066
	<b>13,153</b>	9,153



## MANAGEMENT DISCUSSION AND ANALYSIS

### Market Review

In the last five years, the China economy have grown 77 percent with an average annual growth of 10.5 percent and the China economy is currently the third largest economy in the world. Confronting economic complexity both at home and abroad, the China Government had 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.

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. 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.

According to the National Bureau of Statistics of China, the eligible participants in State Basic Medical Insurance program have grown from 43.3 million in 2000 to 472 million in 2011, representing an increase of over 428.7 million participants with annual averages of 25.6 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. 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 operates five business segments, namely the protein chips division, healthcare division, medical centres management division, individualized target therapy division, and bio-drugs division.

### Protein Chips Division

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. During the year, the Group continued to experience steady demand for C-12 products. 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.

Turnover contributed by the sale of the C-12 products amounted to HK\$137.9 million (2011: HK\$154.9 million), representing a decrease of approximately 11.0 percent over that of last corresponding period. The year 2011 was the first year that most of the distributors shift to sell the up-graded C-12 products instead of the old C-12 products. There will definitely be a learning period to get acquainted with this new up-graded C-12 products before the hospitals and medical centres could get back their momentum to increase sales on the C-12 products. At the same time, the tightened funding policies that the banks in China is adopting also put some pressure on the distributors and the distributors would be more careful in placing their orders on the C-12 products. Despite the slight decrease in sales of C-12 products when compared with the sales of C-12 products over the same period of last year. The board is confident that sales in the second half of 2012 would pick up and total sales for the year 2012 would be at least the same as that of the year 2011, if not more.

### Healthcare Division

Under this division, 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 female patients at hospitals nationwide.

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 specialized equipment.

## **Business Review** *(Continued)*

### **Healthcare Division** *(Continued)*

According to the World Health Organization, cervical cancer is fully preventable and curable if pre-cancerous lesions are detected and treated early. Cervical cancer is caused by a common virus called human papillomavirus ("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.

The division recorded total sales of HK\$7.6 million, representing a decrease of 30 percent over last corresponding period.

### **Medical Centres Management Division**

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.

Turnover contributed by this division for the 6 months ended 30 June 2012 amounted to HK\$29.8 million (1H2011: HK\$15.8 million), representing an increase of approximately 88.1 percent.

### **Individualized Target Therapy Division**

This new division was established following the acquisition of Shanghai Yuanqi Bio-Pharmaceutical Company Limited in August 2011. The division now has developed specialized molecular diagnostic kits for leukemia, lymphoma and individualized target cancer therapy. In recent years, targeted cancer therapies have become focus for treating cancer due to their efficacy. Targeted cancer therapies are agents that selectively destroy cancer cells, and leave normal cells alone, while producing less toxicity than traditional chemotherapy agents. Traditional chemotherapy agents do kill cancer cells but they also typically kill other normal cells. There are various hallmarks that drive the growth of cancer. Targeted cancer therapies are agents that involve monoclonal antibodies or small molecule drugs that block the growth and proliferation of cancer cells by altering their signaling pathway involved in growth and proliferation of cancer cells.

This new division contributed sales of HK\$6.0 million for the 6 months ended 30 June 2012. The Board is confident that sales would pick up in the near future and the division could be one of the major profit contributor to the Group in the next few years.

## Business Review *(Continued)*

### Bio-Drugs Division

This unit is principally engaged in the development, production and commercialization of a new generation of non-specific nanotechnology immunomodulatory drugs known as non-cell corynebacterium pavum products. The unit is further expanded by the acquisition of Shanghai Huipu Bio-Pharmaceutical Company Limited by the Group in December 2011. The unit is still in its early stage of development and is not expected to make significant contribution to the Group in the next couple years.

### PROSPECTS

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

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

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 this 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 products. 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 to come.

## FINANCIAL REVIEW

### Turnover

The Group's turnover for the six months ended 30 June 2012 amounted to HK\$181.2 million which was less than 0.2% lower than the same period last year. Total sales of our core operation, protein chips division decreased by 11.0% from HK\$154.9 million to HK\$137.9 million. Turnover of the medical centre management division increased by 88.1% to HK\$29.8 million from HK\$15.8 million in the same period of last year. The new division, individualised target therapy division, contributed HK\$6.0 million in the first half of 2012.

### Selling and Distribution and Administrative Expenses

Total selling and distribution, and administrative expenses increased by 23.5% in the first half of 2012 to HK\$72.7 million (1H2011: HK\$58.9 million). This was mainly due to the general increase in sales promotion activities and staff costs over the period.

### Other Expenses

Other expenses increased by 285% to HK\$48.5 million in the first half of 2012 (1H2011: HK\$12.6 million). The significant increase in other expenses was because of amortisation of various intangible assets acquired during the second half of 2011.

### Net Profit

Net profit for the period on continuing operations decreased by 48.6% to HK\$33.5 million compared to HK\$65.2 million for the same period last year. The significant decrease in net profit was due to the significant increase in other expenses as explained above.

### Pledge of Asset

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

	30 June 2012 HK\$'000 (Unaudited)	31 December 2011 HK\$'000 (Audited)
Prepaid lease payments	43,773	44,690
Buildings	274,970	282,020
	<b>318,743</b>	<b>326,710</b>

## Liquidity and Financing

The Group adopts a prudent approach in managing its liquidity and treasury function and sets out guidelines to achieve these objectives. These guidelines cover the Group's debt profile, financing horizon and interest rate risks management.

At 30 June 2012, the Group had cash and bank balances of HK\$337.9 million (31 December 2011: HK\$144.8 million). The Group's gearing ratio as at 30 June 2012 was 10.6 percent (31 December 2011: 7.6 percent), based on bank and other borrowings of HK\$245.4 million (31 December 2011: HK\$172.0 million) and shareholders' fund of HK\$2,319.8 million (31 December 2011: HK\$2,287.8 million).

The Group's bank borrowings were denominated in Hong Kong Dollars and Renminbi. Bank borrowings totaling HK\$245.4 million were outstanding as at 30 June 2012 (31 December 2011: HK\$172.0 million). The range of effective interest rates on the bank borrowings as at 30 June 2012 was approximately 1.95% to 8.67% per annum (31 December 2011: ranging from 1.55% to 7.59%).

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 30 June 2012 and 31 December 2011, the Group did not have any significant contingent liabilities.

## Dividend

The Directors has resolved not to declare an interim dividend in respect of the six months ended 30 June 2012 (six months ended 30 June 2011: Nil).

## EMPLOYEES

At 30 June 2012, the Group had a total of 875 employees (31 December 2011: 1,089 employees) in Hong Kong and China. Employee's remuneration, promotion and salary review are assessed based on job responsibilities, work performance, experience and prevailing industry practice.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

At 30 June 2012, the interests and short positions of the directors and chief executives or their associates in the shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Future Ordinance, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

### Ordinary shares of the Company

Name of Director	Capacity	Number of ordinary shares held	Position	Approximate % of shareholding
Mr. Yao Yuan	Held by controlled corporation	946,169,075 (Note (i))	Long	21.58%
Mr. Lu Chung	Held by controlled corporation and beneficial owner	947,509,075 (Note (ii))	Long	21.61%

Notes:

- (i) The shares were held by Ming Yuan Investments Group Limited, a wholly-owned subsidiary of Ming Yuan Holdings Limited, which in turn is owned as to 50% and 50% by Mr. Yao Yuan and Mr. Lu Chung respectively.
- (ii) Being the aggregate personal interest of 1,340,000 shares and the corporate interest held by Ming Yuan Investments Group Limited of 946,169,075 shares.

Save as disclosed above, none of the directors or chief executives of the Company or their associates had, as at 30 June 2012, had any interests or short positions in the shares of the Company or any of its associated corporations which were required to be recorded in the register required to be kept by the Company under Section 352 of the Securities and Future Ordinance, or as otherwise notified to the Company and the Stock Exchange pursuant to the Listing Rules.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the headings "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES" above, at no time during the period was the Company, its subsidiaries or its associated corporations a party to any arrangement to enable the directors and the chief executives of the Company to acquire benefits by means of an acquisition of shares in, or debentures of, the Company or its associated corporations, and neither the directors nor chief executives of the Company or any of their spouses or children under the age of 18 had any interest in, or had been granted, any right to subscribe for the shares in, or debentures of, the Company or its associated corporations, or had exercised any such right during the period.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2012, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Future Ordinance shows that the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

### Long positions

Name	Capacity	Number of shares	Notes	Shareholding percentage
Ming Yuan Investments Group Limited	Beneficial owner	946,169,075	(i)	21.58%
Ming Yuan Holdings Limited	Held by controlled corporation	946,169,075	(i)	21.58%
Mr. Yao Yuan	Held by controlled corporation	946,169,075	(i)	21.58%
Mr. Lu Chung	Beneficial owner and held by controlled corporation	947,509,075	(i)&(ii)	21.61%

### Notes:

- (i) The shares were held by Ming Yuan Investments Group Limited, a wholly-owned subsidiary of Ming Yuan Holdings Limited, which in turn is owned as to 50% and 50% by Mr. Yao Yuan and Mr. Lu Chung respectively.
- (ii) Being the aggregate of personal interest held by Mr. Lu Chung of 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, the Company has not been notified of any other relevant interests representing 5% or more in the issued share capital of the Company as at 30 June 2012.



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

During the six months ended 30 June 2012, 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 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. 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 period under review, in compliance with the Code on Corporate Governance Practices (the "CGP Code") as set out in Appendix 14 of the Listing Rules, except the followings:

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

Bye-law 109 of the Bye-laws of the Company provides that at each general meeting of the Company, with the exception of the executive chairman, one-third of the directors of the Company (or if their number is not three or a multiple of three, the then number nearest to but not exceeding one-third) who have been longest in office since their last election shall retire from office and the retiring directors shall be eligible for re-election.

Based on the number of directors as at 30 June 2012, 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.

## **COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

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

The Company made specific enquiries of each Director and member of the Senior Management, and each confirmed that he/she had fully complied with the Model Code during the six months ended 30 June 2012.

## AUDIT COMMITTEE

The committee was established 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.

On 28 August 2012, Mr. Lee Sze Ho, Henry was appointed as the chairman of the committee to replace Dr. Lam Lee G. and Mr. Tang Yan Qin was appointed as an additional member on 29 August 2012. Since then, the committee comprises three independent non-executive directors, namely Mr. Lee Sze Ho, Henry (Chairman), Mr. Hu Jin Hua and Mr. Tang Yan Qin.

The audit committee has reviewed the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2012.

## REMUNERATION COMMITTEE

The committee was set up to review and evaluate the remuneration packages of Directors and senior management and to make recommendations to the Board from time to time.

On 28 August 2012, Mr. Lee Sze Ho, Henry was appointed as the chairman of the committee to replace Dr. Lam Lee G. and Mr. Tang Yan Qin was appointed as an additional member. Since then, the committee comprises two independent non-executive directors, namely Mr. Lee Sze Ho, Henry (Chairman) and Mr. Tang Yan Qin and the CEO, Mr. Chien Hoe Yong, Henry.

## NOMINATION COMMITTEE

The committee was established on 30 March 2012 and Mr. Yao Yuan, Chairman of the Board, was appointed chairman of the committee, and Mr. Lee Sze Ho, Henry and Mr. Tang Yan Qin, both independent non-executive directors, were appointed members of the committee.

The committee reviews the structure, size and composition of the Board from time to time and makes recommendations to the Board on appointment of Directors and the succession plan for Directors.

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

The interim report for the six months ended 30 June 2012 containing all the information as required by the Listing Rules will be published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.mymedicare.com.hk>) respectively and copies of the interim report will be despatched to shareholders of the Company in due course.

By order of the Board

**Mingyuan Medicare Development Company Limited**

**Kenny Poon**

*Company Secretary*

Hong Kong, 31 August 2012