



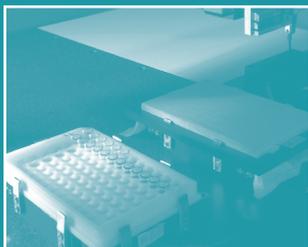
MINGYUAN MEDICARE

DEVELOPMENT COMPANY LIMITED

(INCORPORATED IN BERMUDA WITH LIMITED LIABILITY)

STOCK CODE : 00233

INNOVATIVE  
MEDICARE



OUR VISION

Interim Report 2014

The Board of Directors (the “Board”) of Mingyuan Medicare Development Company Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2014, together with the comparative figures for the corresponding period of 2013 as follows:

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Six Months Ended 30 June 2014

	Notes	Unaudited Six months ended 30 June	
		2014 HK\$'000	2013 HK\$'000
Revenue	2	203,049	182,197
Cost of sales		(73,721)	(63,665)
Gross Profit		129,328	118,532
Other income	3	6,083	4,454
Other gains	4	496,347	10,622
Selling and distribution expenses		(44,536)	(43,937)
Administrative expenses		(32,746)	(36,690)
Other expenses		(41,416)	(23,779)
Share of profit of a joint venture		781	371
Share of profit (loss) of an associate		53	(2,272)
Finance costs	5	(6,702)	(7,742)
Profit before taxation		507,192	19,559
Income tax expense	6	(3,703)	(3,139)
Profit for the period	7	503,489	16,420
Other comprehensive income			
Exchange differences arising on translation of foreign subsidiaries, an associate and a joint venture (that may be reclassified subsequently to profit or loss)		13,443	19,294
Total comprehensive income for the period		516,932	35,714

		<b>Unaudited</b>	
		<b>Six months ended 30 June</b>	
		<b>2014</b>	2013
	<i>Notes</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
Profit for the period attributable to owners of the Company		<b>507,151</b>	21,790
(Loss) for the period attributable to non-controlling interests		<b>(3,662)</b>	(5,370)
		<b>503,489</b>	16,420
Total comprehensive income for the period attributable to:			
Owners of the Company		<b>520,594</b>	41,084
Non-controlling Interests		<b>(3,662)</b>	(5,370)
		<b>516,932</b>	35,714
Earnings per share			
Basic	8	<b>HK\$0.12</b>	0.50 HK cents
Diluted	8	<b>HK\$0.12</b>	0.50 HK cents

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

At 30 June 2014

	Notes	<b>30 June 2014 HK\$'000 (Unaudited)</b>	31 December 2013 HK\$'000 (Audited)
<b>Non-Current Assets</b>			
Property, plant and equipment		<b>316,395</b>	337,123
Prepaid lease payments		<b>41,698</b>	43,283
Goodwill		<b>47,115</b>	47,115
Other intangible assets		<b>747,118</b>	807,379
Interest in a joint venture		<b>15,548</b>	14,765
Interest in an associate		<b>55,729</b>	58,754
Deposit paid for the acquisition of property, plant and equipment		<b>979</b>	2,030
		<b>1,224,582</b>	1,310,449
<b>Current Assets</b>			
Inventories		<b>25,699</b>	24,631
Prepaid lease payments		<b>1,034</b>	1,060
Loan receivable		–	118,000
Trade and other receivables, deposits and prepayments	9	<b>212,397</b>	193,404
Amount due from a director		<b>625</b>	640
Amount due from related companies		<b>6,244</b>	18,942
Amount due from subsidiaries of a joint venture		<b>336</b>	721
Pledged bank deposits		<b>31,230</b>	35,863
Bank balances and cash		<b>662,153</b>	49,726
		<b>939,718</b>	442,987

		<b>30 June 2014</b>	31 December 2013
	<i>Notes</i>	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
		<b>(Unaudited)</b>	(Audited)
<b>Current Liabilities</b>			
Trade and other payables	10	<b>70,432</b>	72,158
Amount due to related companies		<b>2,848</b>	2,930
Amount due to a subsidiary of a joint venture		<b>3,996</b>	10,519
Bank borrowings – due within one year		<b>196,187</b>	208,834
Taxation payable		<b>21,776</b>	27,024
		<b>295,239</b>	321,465
<b>Net Current Assets</b>			
		<b>644,479</b>	121,522
<b>Total Assets less Current Liabilities</b>			
		<b>1,869,061</b>	1,431,971
<b>Capital and Reserves</b>			
Share capital		<b>219,211</b>	219,195
Reserves		<b>1,407,866</b>	965,244
Equity attributable to owners of the Company		<b>1,627,077</b>	1,184,439
Non-controlling interests		<b>48,941</b>	54,490
<b>Total Equity</b>			
		<b>1,676,018</b>	1,238,929
<b>Non-Current Liabilities</b>			
Deferred tax liabilities		<b>193,043</b>	193,042
		<b>1,869,061</b>	1,431,971

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the parent										
	Share capital HK\$'000	Share premium HK\$'000	Convertible bonds equity reserve HK\$'000	Share option reserve HK\$'000	Assets revaluation reserve HK\$'000 (Note i)	Contributed surplus HK\$'000 (Note ii)	Translation reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000	Minority Interest HK\$'000	Total HK\$'000
At 31 December 2012	219,211	1,177,668	-	1,140	10,354	12,804	291,891	488,839	2,201,907	181,897	2,383,804
Repurchase of shares	(16)	(345)	-	-	-	-	-	-	(361)	-	(361)
Loss for the year	-	-	-	-	-	-	-	(1,056,705)	(1,056,705)	(131,437)	(1,188,142)
Exchange differences arising on translation of foreign subsidiaries, an associate and a joint venture	-	-	-	-	-	-	39,598	-	39,598	4,030	43,628
Total comprehensive income (expense) for the year	-	-	-	-	-	-	39,598	(1,056,705)	(1,017,107)	(127,407)	(1,144,514)
At 31 December 2013	219,195	1,177,323	-	1,140	10,354	12,804	331,489	(567,866)	1,184,439	54,490	1,238,929
Profit (loss) for the period	-	-	-	-	-	-	-	507,151	507,151	(3,662)	503,489
Exchange differences arising on translation of foreign subsidiaries, an associate and a joint venture	-	-	-	-	-	-	(64,513)	-	(64,513)	(1,887)	(66,400)
Total comprehensive income (expense) for the period	-	-	-	-	-	-	(64,513)	507,151	442,638	(5,549)	437,089
Transfer	16	-	-	-	-	-	(16)	-	-	-	-
At 30 June 2014	219,211	1,177,323	-	1,140	10,354	12,804	266,960	(60,715)	1,627,077	48,941	1,676,018

## Notes:

- (i) The assets revaluation reserve of the Group represents the revaluation surplus arising from business combination in 2009.
- (ii) 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**

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
Net cash generated from operating activities	<b>516,714</b>	111,040
Net cash from investing activities	<b>10,675</b>	3,587
Net cash from (used in) financing activities	<b>85,353</b>	(39,258)
Net increase in cash and cash equivalent	<b>612,742</b>	75,369
Cash and cash equivalents at beginning of period	<b>49,726</b>	286,259
Effect of foreign exchange rate changes	<b>(315)</b>	(757)
Cash and cash equivalents at end of period	<b>662,153</b>	360,871

## 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 (“HKFRSs”) 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”).

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 2013.

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

Amendments to HKFRS 1	Presentation of Items of Other Comprehensive Income
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
HK(IFRIC) – Int 21	Levies

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 periods 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 molecular 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 HK\$'000	Health care division HK\$'000	Medical centres management HK\$'000	Individualised target therapy division HK\$'000	Bio-drugs division HK\$'000	Consolidated HK\$'000
<i>For the six months ended</i>						
<i>30 June 2014</i>						
REVENUE						
External sales	<u>142,726</u>	<u>15,759</u>	<u>28,661</u>	<u>15,383</u>	<u>520</u>	<u>203,049</u>
Segment profit (loss)	<u>67,383</u>	<u>(2,026)</u>	<u>(5,427)</u>	<u>(21,693)</u>	<u>(18,180)</u>	<u>20,057</u>
Unallocated expenses						(9,427)
Interest income						6,083
Other gain						496,347
Share of profit of a joint venture						781
Share of profit of an associate						53
Finance costs						<u>(6,702)</u>
Profit before tax						<u>507,192</u>
<i>For the six months ended</i>						
<i>30 June 2013</i>						
REVENUE						
External sales	<u>139,117</u>	<u>7,680</u>	<u>24,691</u>	<u>10,634</u>	<u>75</u>	<u>182,197</u>
Segment profit (loss)	<u>67,101</u>	<u>(9,867)</u>	<u>(2,431)</u>	<u>(21,898)</u>	<u>(124)</u>	<u>32,781</u>
Unallocated expenses						(8,033)
Interest income						4,454
Share of result of a joint venture						371
Share of result of an associate						(2,272)
Finance costs						<u>(7,742)</u>
Profit before tax from continuing operations						<u>19,559</u>

## 2. SEGMENT INFORMATION *(Continued)*

### Segment revenues and results *(Continued)*

Segment results represent the profit and loss of each segment without allocation of central administration costs, directors' salaries, share of results of a joint venture and an associate, investment income and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resources allocation and performance assessment.

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

### Geographical information

Around 99% (2013: 99%) of the Group's turnover are derived from the operation in the PRC and around 99% (2013: 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

	Unaudited	
	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
Interest income		
– on bank deposits	2,572	943
– on loan receivable	3,511	3,511
	<b>6,083</b>	<b>4,454</b>

## 4. OTHER GAINS

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
Recovery of other receivable previously written off (Note)	<b>496,347</b>	–
Gain on disposal of intellectual property	<u>–</u>	<u>10,622</u>
	<b>496,347</b>	<b>10,622</b>

*Note:* During the year 2013, the Group deposited RMB396 million to an unrelated entity incorporated in the PRC for some treasury arrangement. The amount is interest-free, unsecured and repayable on demand. As at 31 December, 2013, the Directors were still in the negotiation with such entity in relation to the repayment of such deposit but no agreement has yet to conclude. Despite the Directors are of the view that such advance can be recoverable but for prudence sake, the entire amount of the advance has been impaired during the year 2013.

The full amount of the deposit was recovered from the entity during the period and hence a gain is recognized.

## 5. FINANCE COSTS

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
Interest on bank borrowings wholly repayable within five years	<b>6,702</b>	7,742

## 6. INCOME TAX EXPENSE

	Unaudited	
	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
PRC Enterprise Income Tax	9,089	7,927
Deferred tax	(5,386)	(4,788)
	<b>3,703</b>	<b>3,139</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 periods.

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%.

Pursuant to the relevant laws and regulations in the PRC, one of the Group's PRC subsidiary, 上海銘源數康生物芯片有限公司 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 was 12.5%. The subsidiary was then approved as a "high and new technology enterprise" and become eligible to enjoy a preferential enterprise income tax rate of 15% starting from the year 2013 until 2015.

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% until 2013.

Taxation arising in other jurisdiction is calculated at the rate prevailing in the relevant jurisdiction.

## 7. PROFIT FOR THE PERIOD

	Unaudited Six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
Profit for the period has been arrived at after charging:		
Depreciation of property, plant and equipment	20,697	18,573
Amortisation of prepaid lease payments	519	518
Amortisation of other intangible assets (included in other expenses)	41,416	23,555
Amortisation of other intangible assets (included in cost of sales)	10,883	18,872
Staff costs		
– directors' remuneration	1,699	1,977
– other staff costs	20,573	17,864
– retirement benefits scheme contributions, excluding directors	2,267	223
Total staff costs	24,539	20,064
Auditors' remuneration	800	800
Cost of inventories recognised as expenses	45,838	40,110
Research and development expenditure	4,632	3,586

## 8. EARNINGS PER SHARE

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

	Unaudited Six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
<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)	507,151	21,790
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	4,383,892,800	4,383,892,800

For both period, the computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options because the exercise price of those options is higher than the average market price of the Company's shares for both periods.

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

	<b>30 June 2014 HK\$'000 (Unaudited)</b>	31 December 2013 HK\$'000 (Audited)
Trade receivables	<b>183,006</b>	184,718
Bill receivable	–	2,094
Less: allowance for doubtful debt	<b>(15,050)</b>	(15,050)
	<b>167,956</b>	171,762
VAT recoverable	<b>1,562</b>	2,848
Prepayments	<b>3,600</b>	5,241
Others	<b>39,279</b>	13,553
	<b>212,397</b>	193,404

The Group normally allows a credit period of 30 days to 270 days to its trade customers, and may be extended to selected customers depending on their trade volume and settlement with the Group.

The following is an aged analysis of the trade and bills receivables, net of allowance for doubtful debts presented based on the invoice date at the end of reporting period:

	<b>30 June 2014 HK\$'000 (Unaudited)</b>	31 December 2013 HK\$'000 (Audited)
0 – 60 days	<b>80,581</b>	78,237
61 – 90 days	<b>41,239</b>	25,308
91 – 180 days	<b>25,193</b>	43,630
181 – 270 days	<b>13,436</b>	15,142
Over 270 days	<b>7,507</b>	9,445
	<b>167,956</b>	171,762

In determining the recoverability of trade and bills and other receivables, the Group considers any change in the credit quality of the trade and bills receivables, and other receivables from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited as the customer base is large and unrelated. The directors believe that there is no further credit provision required in excess of the allowance for doubtful debts already provided for in the consolidated financial statements.

## 10. TRADE AND OTHER PAYABLES

	<b>30 June 2014 HK\$'000 (Unaudited)</b>	31 December 2013 HK\$'000 (Audited)
Trade payables	<b>21,037</b>	10,256
Receipts in advance	<b>18,378</b>	15,168
Accrued expenses	<b>4,457</b>	4,889
Other tax payable	<b>8,567</b>	12,828
Other payable (Note)	<b>6,385</b>	5,203
Other loans	<b>–</b>	3,842
Others	<b>11,608</b>	19,972
	<b>70,432</b>	72,158

Note: The amount relates to payables to the agents in relation to the marketing activities and after-sales services provided by the agents on behalf of the Group to the end users which are charged back to the Group for reimbursement.

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

	<b>30 June 2014 HK\$'000 (Unaudited)</b>	31 December 2013 HK\$'000 (Audited)
0 – 60 days	<b>11,571</b>	5,074
61 – 90 days	<b>6,311</b>	410
Over 90 days	<b>3,155</b>	4,772
	<b>21,037</b>	10,256

## MANAGEMENT DISCUSSION AND ANALYSIS

### OVERVIEW

The Group is one of China's leading bio-medical companies in the area of early screening and detection of major diseases. C-12 protein chips, the Group's most profitable product, HPV DNA testing kits, and the new specialized molecular diagnostic kits for leukemia, lymphoma and individualized target cancer therapy provide a very wide range of products for early screening and detection of major diseases.

Global economic growth in China remained quite subdued during the first six months of 2014, as the growth of the emerging market economies continued to disappoint investors. This was mainly due to infrastructure bottlenecks, capacity constraints, decelerating external demand growth, lowering commodity prices and weakening policy support.

Under this subdued environment, the Group still managed to record a very steady turnover. Total turnover of the Group in the first half of 2014 was HK\$203.0 million, representing an increase of 12.0% as compared to the total revenue of HK\$182.2 million in the first half of 2013. Gross profit increased from HK\$118.5 million to HK\$129.3 million, representing an increase of 9.11%.

The Gross profit margin decreased from 65.06% in 2013 to 63.69% in 2014. The Group recorded a profit of HK\$503.5 million in the first half of 2014 as compared to a profit of HK\$16.4 million in the first half of 2013. The increase in profit was due to recovery of a deposit of RMB396 million previously written off in the year 2013.

We remain confident in China's economic growth over the longer run, which we believe will continue to underpin demand for enhanced healthcare supports. As the leading brand and provider of medical solutions in the area of early screening and detection of major diseases products in China, we will continue to maintain and strengthen our long-term competitive advantages, such as national distribution and sales network as well as innovative research and development. We will stick to our well-established business strategy and business objectives of satisfying consumers' demand for better life, better health.

### MARKET REVIEW

In the last five years, the China economy have grown 67 percent with an average annual growth of 8.9 percent and the China economy is currently the second 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.

## MARKET REVIEW *(Continued)*

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.

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 one of the fastest growing healthcare markets in the world. 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 573 million in 2013, representing an increase of over 529.7 million participants with annual growth average of 23.3 percent. Under the 12th Five Year Plan, it is estimated that at the end of 2015 the urban population in China will increase to 51.5 percent of total population, and at the end of 2013, the urban population reached 53.7 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 operates five business segments, namely the protein chips division, healthcare division, medical centres management division, individualized target therapy division, and biodrugs division.

## BUSINESS REVIEW *(Continued)*

### Protein Chips Division

The Group manufactures and distributes its C-12 protein chips to hospitals, medical centres and life insurance companies in China. The C-12 protein chip is capable of detecting up to twelve tumor markers simultaneously and assisting in early detection of ten prevalent cancer tumor types. During the first half of 2014, the Group continued to experience steady demand for C-12 protein chips. C-12 protein chips 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. Despite a weak and unstable global economy and limited export sales, the Group expects the overall growth for the protein chips sales to be promising and sustainable in the future.

Turnover contributed by the sale of the C-12 protein chips for the first half of 2014 amounted to HK\$142.7 million (first half of 2013: HK\$139.1 million), representing an increase of approximately 2.6 percent. Despite the slow economy, sales of C-12 protein chips remained rather steady and the board is confident that sales of C-12 protein chips would maintain a steady growth rate in the next few years.

### Healthcare Division

Under this division, the Group launched a coordinated and nationwide sales and marketing campaign for its HPV DNA testing kits and had made important progress by registering 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. 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 significant increase in sales of the HPV DNA testing kits for the first half of 2014. Total sales recorded for the first half of 2014 amounted to HK\$15.8 million (first half of 2013: HK\$7.7 million), representing an increase of 105.2%. The increase in turnover was mainly due to the fact that HPV DNA testing kits had successfully increase its market share in the business by proving to the market that HPV DNA testing kits are more superior and more reliable than most of other products that are in the market.

## **BUSINESS REVIEW** *(Continued)*

### **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 Group to expand its existing operations in China, to introduce new screening and diagnostic kits more effectively and to provide a more comprehensive servicing coverage for customer loyalty orientation.

Turnover contributed by this division for the first half of 2014 amounted to HK\$28.7 million (first half of 2013: HK\$24.7 million), representing an increase of approximately 16.1 percent. The increase in turnover was a result of the general recognition of our services as more corporate clients with higher average pricing were served by the division during the period under review. The division experienced severe competition in the health care market in Shanghai during the first half of 2014 and yet was able to increase its turnover.

### **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.

The division successful obtained four new drug licenses from the SDFA of China in the later part of 2012. The Board is confident that the division would be one of the major profit contributors to the Group in the next few years.

Sales contributed by this new division for the first half of 2014 amounted to HK\$15.4 million (first half of 2013: HK\$10.6 million), representing an increase of approximately 30.9 percent.

## 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.

## FINANCIAL REVIEW

Profit for the first half of 2014 amounted to HK\$503.5 million (first half of 2013: HK\$16.4 million), representing a significant increase of HK\$487.1 million. Earnings per share for the first half of 2014 was HK\$0.12 (first half of 2013: 0.50 HK cents). The significant increase in profit was because of recovery of a deposit of RMB396 million that the Group had previously written off. The deposit was placed with an unrelated entity incorporated in the PRC for some treasury arrangement in the year 2013 and was written off in the year 2013 for prudence sake. Other than this significant gain on recovery of amount previously written off, the Group, however, faced a combination of (i) slight decrease in gross profit margin due to slight increase in material and labour costs during the period; and (ii) significant increase in other expenses due to increase in amortization of other intangible assets. Amortization of other intangible assets amounted to HK\$41.4 million (first half of 2013: HK\$23.6 million). In the first half of 2013, only a portion of other intangible assets was being amortized whereas in the first half of 2014, the full amount of other intangible assets was being amortized.

Total selling and distribution expenses, administrative expenses for the first half of 2014 amounted to HK\$77.3 million (first half of 2013: HK\$80.6 million), representing a decrease of 4.1 percent. Selling and distribution expenses increased from HK\$43.9 million to HK\$44.5 million, representing a slight increase of 1.4%. The slight increase in selling and distribution expenses was a combination of control effort that the Group implemented in the latter part of the year 2013 to ensure that (i) sales and promotion activities were conducted more effectively; and (ii) to monitor sales commission/rebate to sales agents in order to maintain a steady level of turnover under this subdued environment. The increase in selling and distribution expenses was compensated by a reduction in the administrative expenses and other expenses. The reduction in administrative expenses was a result of better costs control and cost management. Administrative expenses decreased from HK\$36.9 million to HK\$32.7 million, representing a decrease of 10.7%.

## FINANCIAL REVIEW (Continued)

### Protein Chips Division

Turnover contributed by the sale of the proprietary C-12 protein chips for the first half of 2014 amounted to HK\$142.7 million (first half of 2013: HK\$139.1 million), representing an increase of approximately 2.6 percent. Segment profit of this division amounted to HK\$67.4 million (first half of 2013: HK\$67.1 million), representing an increase of approximately 0.4 percent. Segment profit of the division was affected by (i) increase in material and labour cost; (ii) decrease in average market price of the C-12 protein chips in the Shanghai region by about 5 percent; and (iii) increase in selling and distribution expenses in order to maintain a steady level of turnover for C-12 protein chips under the subdued environment.

The Group sold a total of 870,000 units of protein chips during the first half of 2013 (first half of 2013: 800,000 units), representing an increase of 8.8 percent. During the six months ended 30 June 2014, the Group continued its commitment to implement its sales plan that includes the expansion of sales network, optimization of chipreader utilisation rate and diversification of chipset packaging.

### Healthcare Division

Turnover contributed by this division amounted to HK\$15.8 million (first half of 2013: HK\$7.7 million). The division recorded a loss of HK\$2.0 million for the first half of 2014 (first half of 2013: loss of HK\$9.9 million). The loss was due to amortization of technical know-how arising on acquisition of HPV DNA technology in the amount of HK\$2.2 million for first half of 2014 (first half of 2013: HK\$10.2 million). A significant portion of the technical know-how arising on acquisition of HPV DNA technology, i.e. HK\$170 million, was impaired in the year 2013 and the remaining net book value of approximately HK\$45 million is to be amortized over a period of 10 years starting from 2014.

### Medical Centres Management

Turnover contributed by this division amounted to HK\$28.7 million for the first half of 2014 (first half of 2013: HK\$24.7 million) representing an increase of approximately 16.1 percent. The increase in turnover was a result of the a slight increase in average pricing experienced in the health care market in Shanghai during the first half of 2014 and increase in number of corporate clients being served. The division recorded a loss of HK\$5.4 million for the first half of 2014 (first half of 2013: loss of HK\$2.4 million). The loss was due to amortization of intangible assets arising on acquisition of the medical centre operation in the amount of HK\$3.7 million for first half of 2013 (first half of 2013: HK\$3.7 million).

## FINANCIAL REVIEW (Continued)

### Individualized Target Therapy Division

Turnover contributed by this division amounted to HK\$15.4 million for the first half of 2014 (first half of 2013: HK\$10.6 million). The division successfully obtained four new drug licenses from the SFDA of China in the later part of 2012. Sales of this division had increased over the years steadily and the Group is committed to invest further resources to expedite the development of this division to take advantage as the first mover in this business.

The division recorded a loss of HK\$21.7 million for the first half of 2014 (first half of 2013: loss of HK\$21.9 million). The loss was due to the amortization of technical know-how arising on acquisition of Shanghai Yuanqi Bio-Pharmaceutical Company Limited in the amount of HK\$23.5 million for the first half of 2014 (first half of 2013: HK\$23.6 million).

## PROSPECTS

The Group prides itself as one of China's leading bio-medical companies in the area of early screening and detection of diseases. 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 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.

## PLEDGE OF ASSETS

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

	<b>30 June 2014 HK\$'000 (Unaudited)</b>	31 December 2013 HK\$'000 (Audited)
Prepaid lease payments	<b>42,732</b>	44,343
Buildings	<b>260,634</b>	269,202
Pledged bank deposits	<b>31,230</b>	35,863
	<b>334,596</b>	349,408

## 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 2014, the Group had cash and bank balances of HK\$693.4 million (31 December 2013: HK\$85.6 million). The Group's gearing ratio as at 30 June 2014 was 11.7 percent (31 December 2013: 16.9 percent), based on bank and other borrowings of HK\$196.2 million (31 December 2013: HK\$208.8 million) and shareholders' fund of HK\$1,676.0 million (31 December 2013: HK\$1,238.9 million).

The Group's bank borrowings were denominated in Renminbi. Bank borrowings totaling HK\$196.2 million were outstanding as at 30 June 2014 (31 December 2013: HK\$208.8 million). The range of effective interest rates on the fixed-rate bank borrowings as at 30 June 2014 was approximately 5.6% to 6.2% per annum (31 December 2013 was approximately 6.0% to 6.6% per annum) and the range of effective interest rates on the variable-rate bank borrowings as at 30 June 2014 was approximately 5.90% to 6.8% per annum (31 December, 2013 was approximately 6.0% percent to 7.98% 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 30 June 2014 and 31 December 2013, 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 2014 (six months ended 30 June 2013: Nil).

## EMPLOYEES

At 30 June 2014, the Group had a total of 1,165 employees (31 December 2013: 1,186 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. The emolument of the directors of the Company is determined by the Remuneration Committee, having regard to the operating results of the Company, individual performance and comparable market statistics. Staff benefits include contributions to the Mandatory Provident Fund Schemes and discretionary bonus payments which is linked to the profitability of the Group and individual performances.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

At 30 June 2014, 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

<u>Name of Director</u>	<u>Capacity</u>	<u>Number of ordinary shares held</u>	<u>Position</u>	<u>Approximate % of shareholding</u>
Mr. Yao Yuan	Held by controlled corporation	946,169,075 (Note (i))	Long	21.58%

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. Lu Chung respectively.

Save as disclosed above, none of the directors or chief executives of the Company or their associates had, as at 30 June 2014, 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 2014, 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 2014.

## PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2014, neither the Company, its subsidiaries nor its joint ventures has purchased, sold or redeemed any of the Company's listed securities.

## CORPORATE GOVERNANCE

The Board of the Company 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 period ended 30 June 2014, the Company has applied the principles and complied with the requirements of the Code of Corporate Governance Practices (the "Code") listed out in appendix 14 of the Listing Rules, except for following deviation:

Under Code provision A.4.1, non-executive directors should be appointed for a specific term and subject to re-election. The existing non-executive Directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provision of the bye-laws of the Company. The Board does not believe that arbitrary term limits on the Directors' services are appropriate given that Directors ought to be committed to representing the long-term interests of the shareholders. The board is reviewing the situation and will, where appropriate, take necessary steps including amendment of the Company's bye laws to ensure compliance with the Code.

## COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. Having made specific enquiries of all Directors, they have confirmed their compliance with the required standard as set out in the Model Code throughout the six months period ended 30 June 2014.

## AUDIT COMMITTEE

The audit committee should be 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. Due to retirement of one of the independent non-executive director and that one other independent non-executive director was not approved by shareholders of the Company to be re-appointed during the last general meeting of the Company on 12 June 2014, the Company has only one independent non-executive director, the number of which has fallen below the minimum number under the Listing Rules. The Company is in the course of identifying appropriate candidates to fill the vacancies with a view to comply with the requirement of the Listing Rules as soon as practicable.

Due to insufficient committee members, the audit committee has not reviewed the Group's unaudited consolidated financial statements for the six months ended 30 June 2014.

## PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This results announcement is published on the websites of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) and the Company ([www.mymedicare.com.hk](http://www.mymedicare.com.hk)). The interim report of the Company for the six months ended 30 June 2014 containing all the information required by the Listing Rules will be dispatched to the Company's shareholders and published on the above websites in due course.

On behalf of the Board

**Yao Yuan**

*Chairman & CEO*

Hong Kong, 29 August 2014