CHINA RENJI MEDICAL GROUP LIMITED

中國仁濟醫療集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 648)

2009 FINAL RESULTS

The board of directors (the "Board" or the "Directors") of **China Renji Medical Group Limited** (the "Company") hereby present the audited consolidated final results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2009 as follows:

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

	NOTES	**2009**	2008
		HK$'000	*HK$'000*
Continuing operations			
Turnover	2	**180,834**	207,600
Cost of services		**(63,974)**	(44,573)
Gross profit		**116,860**	163,027
Other income and gains and losses		**2,234**	14,261
Administrative expenses		**(49,852)**	(61,866)
Impairment loss on goodwill	8	**(550,000)**	—
Write-off of/impairment loss on other intangible assets		**(6,624)**	(40,384)
Impairment loss on promissory note receivable	9	**(81,449)**	—
Gain on disposal of subsidiaries		**5,278**	—
Finance costs		**(3,782)**	(17,001)
(Loss)/profit before taxation		**(567,335)**	58,037
Income tax	4	**6,355**	(5,915)
(Loss)/profit for the year from continuing operations		**(560,980)**	52,122

	NOTES	2009 HK$'000	2008 HK$'000
Discontinued operations			
Profit for the year from discontinued operations		**—**	1,789
(Loss)/profit for the year attributable to owners of the Company	5	**(560,980)**	53,911
(Loss)/earnings per share attributable to owners of the Company, in HK cents	7		
— Continuing and discontinued operations			
Basic		**(4.54)**	0.47
Diluted		**(4.54)**	0.47
— Continuing operations			
Basic		**(4.54)**	0.45
Diluted		**(4.54)**	0.45

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2009

	2009	2008
	HK$'000	*HK$'000*
(Loss)/profit for the year	**(560,980)**	53,911
Other comprehensive income:		
Exchange differences arising on translation of foreign operations	—	62,910
Less: Reclassification adjustment of exchange reserve on disposal of jointly-controlled entities under proportionate consolidation	—	(2,442)
Total comprehensive income for the year attributable to owners of the Company	**(560,980)**	114,379

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2009

	NOTES	**2009**	2008
		HK$'000	*HK$'000*
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**516,131**	475,878
Land use right		**3,812**	3,892
Goodwill	8	**87,246**	637,246
Other intangible assets		**442,578**	273,736
Promissory notes receivables	9	**395**	77,075
Deposits paid for acquisition of property, plant and equipment		**49,910**	—
		1,100,072	1,467,827
Current assets			
Land use right		**80**	80
Promissory note receivable	9	**—**	—
Trade receivables	10	**47,764**	71,698
Other receivables, prepayments and deposits		**3,588**	54,074
Bank balances and cash		**91,766**	78,157
		143,198	204,009
Current liabilities			
Other payables and accruals		**48,244**	20,412
Income tax liabilities		**632**	36,845
Borrowings		**13,636**	—
Guaranteed convertible notes		**—**	2,963
		62,512	60,220
Net current assets		**80,686**	143,789
Total assets less current liabilities		**1,180,758**	1,611,616
Non-current liabilities			
Borrowings		**103,983**	90,281
Guaranteed convertible notes		**980**	968
Promissory note payable		**—**	9,535
Deferred tax liabilities		**64,545**	75,324
		169,508	176,108
Net assets		**1,011,250**	1,435,508
CAPITAL AND RESERVES			
Share capital		**1,354,511**	1,159,511
Reserves		**(343,261)**	275,997
Total equity		**1,011,250**	1,435,508

Notes:

1. **BASIS OF PREPARATION OF FINANCIAL STATEMENTS**

The consolidated financial statements have been prepared under the historical cost convention.

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") and the Hong Kong Companies Ordinance.

The financial statements also include applicable disclosure required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

In the current year, the Group has adopted all of the new and revised HKFRSs, which in collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are relevant to its operations and effective for the current accounting period of the Group and the Company.

The adoption of these new and revised HKFRSs had no material effect on the reported results or financial position of the Group and the Company for both the current and prior reporting periods, except for certain presentational change as a result of adopting HKAS 1 (Revised). Comparative figures have been restated or included in these financial statements in order to achieve a consistent presentation. The statements of financial position, previously known as balance sheets, at the beginning of the year ended 31 December 2008 have not been presented as there was no change to the originally published statements.

At the date of authorisation of these financial statements, the following HKFRSs that are potentially relevant to the Group, were in issue but not yet effective and have not been early adopted:

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
Amendments to HKFRS 2	Share-based Payment — Group Cash-settled Share-based Payment Transactions[3]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKFRS 3 (Revised)	Business Combinations[1]
HK(IFRIC) — Interpretation 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC) — Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments[4]
HKAS 24 (Revised)	Related Party Disclosures[5]
HKFRS 9	Financial Instruments[6]

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate
3 Effective for annual periods beginning on or after 1 January 2010
4 Effective for annual periods beginning on or after 1 July 2010
5 Effective for annual periods beginning on or after 1 January 2011
6 Effective for annual periods beginning on or after 1 January 2013

The adoption of HKFRS 3 (Revised) may affect the Group's accounting for business combinations for which the acquisition dates are on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. Changes in the Group's ownership interest that do not result in loss of control of the subsidiary will be accounted for as equity transactions.

The amendment to HKAS 17 made under "Improvements to HKFRSs 2009", mandatory for accounting periods beginning on or after 1 January 2010, removes the specific guidance which stated that land held under a lease should be classified as an operating lease unless title to the land is expected to pass at the end of the lease term. It provides new guidance which indicates that entity should use judgement to decide whether the lease transfers the significant risks and rewards of ownership of the land in accordance with the criteria set out in HKAS 17. The Group will reassess the classification of land elements of unexpired leases at the date it adopts the amendment on the basis of information existing at the inception of the lease and recognise a lease newly classified as a finance lease retrospectively if the criteria of a finance lease is met. If the information necessary to apply the amendment retrospectively is not available, the Group will recognise the related asset and liability at their fair values on the date of adoption and recognise the difference in retained earnings.

The Group is in the process of making an assessment of the potential impact of other new/revised HKFRSs and the Directors so far concluded that the application of the other new/revised HKFRSs will have no material impact on the results and the financial position of the Group.

2. TURNOVER

Turnover, which is also revenue, represents the amounts received and receivable for services provided, net of discounts and sales related taxes, by the Group to outside customers.

All of the Group's turnover for the years ended 31 December 2008 and 2009 represented the leasing and service income from operations of medical equipment.

3. SEGMENT INFORMATION

During the years ended 31 December 2008 and 2009, the Group is only engaged in medical network business which included leasing and operation of medical equipment and provision of services on operation of medical equipment in the People Republic of China ("PRC" or "China") and most of the assets of the Group are located in the PRC as at 31 December 2008 and 2009.

There were 3 customers with whom transactions have exceeded 10% of the Group's revenues, representing respective sales of HK$44,181,000, HK$37,611,000 and HK$24,002,000 for the year.

4. INCOME TAX

	Continuing operations	
	2009	2008
	HK$'000	*HK$'000*
PRC tax	**4,424**	19,875
Deferred taxation	**(10,779)**	(13,960)
	(6,355)	5,915

No Hong Kong profits tax has been provided as the Group did not have assessable profits arising in Hong Kong during the year (2008: HK$Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The applicable PRC enterprise income tax rate is 25% for the years ended 31 December 2008 and 2009. Pursuant to the relevant laws and regulations in the PRC, one major subsidiary of the Company is exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years.

5. (LOSS)/PROFIT FOR THE YEAR

	Continuing operations	
	2009	2008
	HK$'000	*HK$'000*
This has been arrived at after charging/(crediting):		
Depreciation of property, plant and equipment	**30,090**	21,082
Depreciation of jointly-controlled assets	**10,038**	3,446
Amortisation of other intangible assets included in cost of services	**16,369**	16,526
Amortisation of land use right	**80**	—
Total depreciation and amortisation	**56,577**	41,054
Auditors' remuneration	**1,434**	1,621
Write-off of property, plant and equipment	**467**	—
Net exchange (gains)/losses	**(2,172)**	11,823
Employee benefit expenses, including directors' emoluments:		
— salaries and other benefits	**22,400**	18,232
— share-based payment expense	**5,330**	11,922
	27,730	30,154

6. DIVIDEND

The Board does not recommend the payment of any dividend for the year ended 31 December 2009 (2008: HK$Nil).

7. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic (loss)/earnings per share is based on the (loss)/profit for the year attributable to owners of the Company, and the weighted average number of ordinary shares in issue during the year.

The calculation of diluted (loss)/earnings per share is based on the (loss)/profit for the year attributable to owners of the Company, adjusted to reflect the interest on the guaranteed convertible notes, where applicable (see below). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic (loss)/earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

From continuing and discontinued operations

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

(Loss)/earnings

	2009	2008
	HK$'000	*HK$'000*
(Loss)/profit for the purpose of basic (loss)/earnings per share	**(560,980)**	53,911
Interest on guaranteed convertible notes	**—***	—*
(Loss)/profit for the purpose of diluted (loss)/earnings per share	**(560,980)**	53,911

Number of shares

	2009	2008
	'000	*'000*
Weighted average number of ordinary shares for the purposes of basic (loss)/earnings per share	**12,343,058**	11,582,667
Effect of dilutive potential ordinary shares:		
— Share options	**—***	849
— Guaranteed convertible notes	**—***	—*
Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share	**12,343,058**	11,583,516

From continuing operations

The calculation of the basic and diluted (loss)/earnings per share from continuing operations attributable to owners of the Company is based on the following data:

(Loss)/profit figures are calculated as follows:

	2009	2008
	HK$'000	*HK$'000*
(Loss)/profit for the year attributable to owners of the Company	**(560,980)**	53,911
Less: Profit for the year from discontinued operations attributable to owners of the Company	**—**	(1,789)
(Loss)/profit for the purpose of basic (loss)/earnings per share from continuing operations	**(560,980)**	52,122

* The guaranteed convertible notes and share options have an anti-dilutive effect on the basic (loss)/earnings per share of the Group from continuing and discontinued operations for the years ended 31 December 2008 and 2009, and for the year ended 31 December 2009, respectively. Accordingly, the effect of the guaranteed convertible notes and share options was not included in the calculation of diluted (loss)/earnings per share from continuing and discontinued operations for the years ended 31 December 2008 and 2009, and for the year ended 31 December 2009, respectively.

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

From discontinued operations

For the year ended 31 December 2008, the basic and diluted earnings per share for the discontinued operations are HK0.02 cents, based on the earnings for the year from the discontinued operations of HK$1,789,000.

8. GOODWILL

	HK$'000
COST	
At 1 January 2008	602,739
Exchange realignment	36,199
At 31 December 2008 and 2009	638,938
ACCUMULATED IMPAIRMENT	
At 1 January 2008 and 31 December 2008	(1,692)
Impairment loss recognised	(550,000)
At 31 December 2009	(551,692)
CARRYING AMOUNT	
At 31 December 2009	87,246
At 31 December 2008	637,246

Goodwill acquired in a business combination is allocated to the cash-generating unit ("CGU") that is expected to benefit from that business combination. The carrying amount of goodwill is allocated to the medical network of the Group.

The basis of the recoverable amounts of this CGU and their major underlying assumptions are summarised below:

CGU of medical network

The recoverable amount of this CGU has been determined based on a value-in-use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 4-year period, and discount rate of 18.8% per annum. The cash flows beyond the 4-year period are extrapolated using an annual growth rate of 3%. Other key assumptions for the value-in-use calculations relate to the estimation of cash inflows/outflows which include budgeted leasing and service income and gross margin, such estimation is based on the CGU's past performance and management's expectations for the market development.

The Directors reassessed the recoverable amount of goodwill as at 31 December 2009 by reference to the valuation as at 31 December 2009 performed by Greater China Appraisal Limited, an independent firm of professionally qualified valuers. The recoverable amount of the CGU was determined by the professional valuers based on the present value of the expected future revenue arising from the operations of the underlying assets of the CGU. In determining the value-in-use amount, the Group took into account the effects of the under-utilisation of certain items of the underlying assets and the slower economic growth of the PRC, and the recoverable amount of the relevant CGU has been determined on the basis of their value in use with reference to the probable discounted cash flows from all the underlying assets, resulting in impairment loss on goodwill of approximately HK$550,000,000 recognised for the year.

9. PROMISSORY NOTES RECEIVABLES

In 2008, the Group disposed of its interests in the jointly-controlled entities at an aggregate consideration of HK$81,384,000 which was satisfied by promissory notes of HK$81,000,000 and HK$384,000 to the Company with 1.5% and 5% coupon interest per annum and maturity periods of 2 and 5 years, i.e. payable on 8 April 2010 and 31 January 2013 respectively. The carrying amount of the promissory notes receivables as at 31 December 2009 represented the fair value of the promissory notes at the time of initial recognition of HK$73,970,000 and HK$344,000 respectively and the net interest receivables of the Company of HK$7,479,000 (2008: HK$2,736,000) and HK$51,000 (2008: HK$25,000) respectively as at 31 December 2009. The average effective interest rate of the promissory notes receivables is 6.18% per annum (2008: 6.18% per annum).

Clear Smart Enterprises Limited, the issuer of the promissory note with principal amount of HK$81,000,000 and 1.5% coupon interest per annum which was due on 8 April 2010, has defaulted on the payment upon maturity, details of which are set out in the announcements of the Company dated 21 April 2010 and 27 April 2010. A provision for impairment loss of HK$81,449,000 has been charged to the consolidated income statement for the year.

10. TRADE RECEIVABLES

	2009	2008
	HK$'000	*HK$'000*
Trade receivables	**47,764**	71,698

The Group generally allows an average credit period of 90 days (2008: 90 days) to its trade customers. The following is an ageing analysis of trade receivables by due date as at the end of reporting period which are neither individually nor collectively considered to be impaired:

	2009	2008
	HK$'000	*HK$'000*
Neither past due nor impaired	**38,745**	59,170
1 to 3 months past due	**8,615**	12,528
4 to 6 months past due	**229**	—
7 to 12 months past due	**175**	—
	47,764	71,698

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Group is principally engaged in medical network business which includes leasing of medical equipment and provision of services for the operation of medical centres specialising in the diagnosis and treatment of tumours and/or cancer related diseases, by applying advance radiotherapy technologies, in China, spanning 11 cities across 11 provinces and administrative regions in China (including Shanghai, Beijing, Hefei, Shenyang, Xian, Shijiazhuang, Wuhan, Jining, Shenzhen, Urumqi and Zhengzhou).

We grow our business by expanding our network of diagnostic imaging and radiotherapy centres through (1) purchasing new equipments, acquiring and investing in hospitals and entering into new agreements with other business partners, (2) acquiring equipments which are already in use and the associated contract rights from other players in the market, and (3) swapping equipments which are already in use and the associated contract rights with other players in the market.

The turnover of the Group derives from leasing and service income from operation of medical equipment. The principal cost of services comprises (1) equipment and facility costs, which comprise mainly of depreciation and amortisation costs; and (2) the salaries and service costs of the physician and technical staff.

FINAL RESULTS REVIEW

Turnover

For the year ended 31 December 2009, the Group recorded a turnover of approximately HK$180,834,000 (2008: HK$207,600,000), representing a decrease of approximately 12.89% from last year. The turnover for the year was derived from the medical business operated by the Group. The decline in turnover was primarily due to the decrease in average turnover per treatment as a result of price adjustments exercised by certain local government authorities and increasing competitive operating environment.

Gross profit

For the year ended 31 December 2009, the Group recorded a gross profit of approximately HK$116,860,000 (2008: HK$163,027,000) and a gross profit ratio of approximately 64.62% (2008: 78.53%) from its medical network business, which included an amortisation charge of other intangible assets of approximately HK$16,369,000 (2008: HK$16,526,000). When excluding the said amortisation charge, the gross profit and gross profit ratio of the Group's medical network business for the year would have been approximately HK$133,229,000 (2008: HK$179,553,000) and 73.67% (2008: 86.49%). The decrease in gross profit was primarily attributable to the decrease in turnover and the decline in gross margin due to the increase in equipment depreciation and amortisation resulting from the Group's continued investment in new medical centres.

Impairment loss on goodwill

The Group reassessed the recoverable amount of goodwill as at 31 December 2009 by considering the effects of the under-utilisation of certain items of the underlying assets and the slower economic growth of China, and recorded an impairment loss on goodwill of approximately HK$550,000,000 for the year ended 31 December 2009 (2008: HK$Nil).

Impairment loss on promissory note receivable

As detailed in the announcements of the Company dated 21 April 2010 and 27 April 2010, Clear Smart Enterprises Limited, the issuer of a HK$81,000,000 non-convertible bond payable to the Group which was due on 8 April 2010, has defaulted on the payment upon maturity. A provision for impairment loss of HK$81,449,000 has been charged to the consolidated income statement for the year ended 31 December 2009 (2008: HK$Nil).

(Loss)/profit from continuing operations

For the year ended 31 December 2009, the Group recorded a loss from continuing operations of approximately HK$560,980,000 (2008: a profit of HK$52,122,000). This was mainly attributable to the significant impairment losses on goodwill and promissory note receivable.

Profit from discontinued operations

For the year ended 31 December 2009, there was no discontinued operation. For the year ended 31 December 2008, the Group recorded a profit from discontinued operations of approximately HK$1,789,000, which represented the net gain on disposal of the Group's financial services business.

(Loss)/profit for the year

The loss attributable to owners of the Company for the year ended 31 December 2009 was approximately HK$560,980,000 (2008: a profit of HK$53,911,000). This was mainly attributable to the significant impairment losses on goodwill and promissory note receivable.

Basic loss per share for the year was approximately HK4.54 cents (2008: earnings per share of HK0.47 cents).

BUSINESS REVIEW

The Group is principally engaged in provision of medical equipment and services for the operation of the medical centre network specialising in the diagnosis and treatment of tumours/cancer in China. During the year, the Group further expanded and strengthened its medical network by pursuing the following significant medical assets acquisitions.

In January 2009, the Group entered into a swap agreement pursuant to which it agreed to acquire the entire interest in a body gamma knife and a head gamma knife used in Xinjiang Hospital of Cardio-Cerebral Vascular Diseases. The nominal consideration for the acquisition amounted to RMB21 million (equivalent to approximately HK$23.86 million) and was satisfied by 32% and 30% of the Group's interests, respectively, in the gamma knife and the related medical equipment used in two medical centres in Shanghai. The swap was completed in January 2009.

In March 2009, the Group entered into an acquisition agreement pursuant to which it agreed to acquire the entire interest in a gamma-knife machine and a stereotactic treatment planning system for use in Hebei General Hospital. The consideration for the acquisition amounted to RMB19.60 million (equivalent to approximately HK$22.27 million) and was satisfied in cash. The acquisition was completed in March 2009.

In July 2009, the Group entered into a swap agreement for the acquisition of the entire interest in a head gamma knife and a body gamma knife located in Zhengzhou Renji Tumour Hospital at a nominal consideration of RMB46.42 million (equivalent to approximately HK$52.73 million), which was satisfied by the Group's entire interest in a head gamma knife and a body gamma knife located in Tianjin Anjie Hospital. The swap was completed in July 2009.

Also in July 2009, the Group entered into a business operating agreement pursuant to which the Group would become a provider of management services in respect of Shanghai Renji Hospital Radiotherapy Centre located at Shanghai Renji Hospital and is entitled to share its net income. The Group, in return, had issued 1,950,000,000 new shares of the Company to a nominee of the vendor (which amounted to approximately HK$128.70 million based on the closing price of the Company's shares of HK$0.066 per share as of the date of the relevant announcement issued by the Company) as consideration under the business operating agreement. The transaction was completed in August 2009.

In December 2009, the Group entered into a business management agreement pursuant to which the Group would become a provider of the management services to the PET-CT Diagnosis Centre and the IGRT Treatment Centre located at the Cancer Treatment Hospital in Beijing and is entitled to share its net income. The consideration under the business management agreement amounted to RMB90 million (equivalent to approximately HK$102.24 million) and was satisfied in cash. The transaction was completed in December 2009.

Our ability to expand our network of centres is one of the most important factors affecting our results of operation and financial condition. Historically, our business growth has been primarily driven by developing new centres through acquisitions from third parties and we expect this to continue to be the key driver for our future growth. Each additional centre that we develop increases the number of patient cases treated in our network and contributes to our long term revenue growth. However, certain new centres developed involved a ramp-up period during which time the operating efficiency of such centres may be lower than that of our established centres, which may negatively affect our profitability.

In addition, our industry is greatly supported by the Chinese government. While the Chinese medical system is undergoing the deepened reform, under supervision of the government authorities, various kinds of systems are being improved. The application for the necessary licences/approvals by certain medical centres of our medical network would gain care and support from all levels of government authorities. We will be active and serious in dealing with the risks in the business development.

PROSPECTS

With the implementation of an economic stimulus policy together with a loose monetary policy by the PRC government in 2009, there is improvement of operating conditions in China. The PRC healthcare reform pronounced in the first half of 2009 has laid down clear direction and guidance for the medical sector in China. This allows for the Group's stable and continuous business development in the long run. However, the healthcare reform also leads to new price adjustments implemented by certain local government authorities and brings along increasing competition to the industry. This decreases the Group's average turnover per treatment and has a negative impact on its growth in the short-term. The Group will minimise the effect by (1) further expanding its medical network, (2) enhancing the utilisation rate and cost efficiency of its existing medical centres, (3) exploring other forms of radiotherapy tumour treatment to diversify its technology base, and (4) accelerating its expansion strategy into the Chinese specialised hospital service market. Given the ever increasing incidence rate of cancer in China and awareness among physicians and patients and their adoption of advanced diagnosis and radiotherapy technologies, we expect long term growth on our medical network business. The Group will continue to provide quality healthcare services for cancer patients in China and believes that it will ultimately reap significant rewards for its shareholders.

FINANCIAL REVIEW

Liquidity and financial resources

The Group's major financial resources were derived from cash generated from operating activities of approximately HK$176,989,000 for the year ended 31 December 2009 (2008: HK$173,520,000). The net cash generated from operating activities was derived primarily from cash received from our medical network business, decrease in trade and other receivables and increase in other payables.

For the year ended 31 December 2009, the net cash used in investing activities amounted to approximately HK$179,925,000 (2008:HK$299,582,000) and the net cash inflow in financing activities amounted to approximately HK$16,545,000 (2008: net cash outflow of HK$69,242,000). The cash outflow in investing activities mainly resulted from capital expenditure for acquisition of medical equipment and management operation rights in China. The cash inflow in financing activities mainly resulted from the advance of a new bank loan after netting off the final redemption of promissory note and guaranteed convertible notes.

As a result of the cumulative effect described above, the Group recorded for the year ended 31 December 2009 a net cash inflow of approximately HK$13,609,000 (2008: net cash outflow of HK$195,304,000).

As at 31 December 2009, the Group maintained bank balances and cash amounting to approximately HK$91,766,000 (2008: HK$78,157,000).

As at 31 December 2009, the Group's total borrowings amounted to approximately HK$118,599,000 (2008: HK$103,747,000) which included borrowings of HK$117,619,000 (2008:HK$90,281,000), guaranteed convertible notes of approximately HK$980,000 (2008: HK$3,931,000). There was no outstanding promissory note payable as at 31 December 2009 (2008: HK$9,535,000). The borrowings of HK$13,636,000 were repayable within one year (2008: HK$2,963,000) and HK$104,963,000 were repayable over one year (2008: HK$100,784,000).

The borrowings are denominated in Hong Kong dollars, Japanese Yen and Renminbi. The Board expects that all such borrowings will either be repaid by internally generated funds or rolled over upon maturity and will continue to provide funding to the Group's operations.

As at 31 December 2009, the Group's net asset value was approximately HK$1,011,250,000 (2008: HK$1,435,508,000) with a liquidity ratio (calculated on the basis of the Group's current assets to current liabilities) of 2.29 times (2008: 3.39 times). The Group's gearing ratio (calculated on the basis of the Group's total borrowings, guarantee convertible notes and promissory notes payable to the equity attributable to the owners of the Company) was 11.73% (2008: 7.23%). The increase in gearing ratio was mainly due to advance of a bank loan and after netting off the final redemption of the promissory note and guaranteed convertible notes and loss incurred during the year.

The Group continued to maintain low gearing level. As a consequence, the high level of liquidity and available funds will enable the Group to meet its expected future working capital requirements and to take advantage of growth opportunities for the business.

Capital structure

During the year, the Company issued 1,950,000,000 new ordinary shares to an independent vendor (via its nominee) at an issue price of HK$0.1 per share in August 2009 as consideration for entering into a business operating agreement pursuant to which the Group would become the provider of management services in respect of Shanghai Renji Hospital Radiotherapy Center located at Shanghai Renji Hospital and is entitled to share its net income.

Exposure to fluctuation in exchange rates

The Group's cash flow from operation is mainly denominated in Renminbi and Hong Kong dollars; whilst the assets are mostly denominated in Renminbi and Hong Kong dollars, and liabilities held are mainly denominated in Japanese Yen. Therefore, the impact of continued Renminbi appreciation may lower the costs for the repayment of foreign debts. The Group currently does not have a foreign hedging policy. However, management does and will continue to monitor the foreign exchange exposure closely and will consider hedging if there is significant foreign currency exposure.

Charge on group assets

As at 31 December 2009, certain of the Group's medical equipment with aggregate carrying amount of HK$78,196,000 were pledged to secure general banking facilities granted to the Group. As at 31 December 2008, no asset was pledged by the Group.

EXTRACT OF INDEPENDENT AUDITORS' REPORT

The following is an extract from the report issued by BDO Limited on the financial statements:

Basis for disclaimer of opinion

(1) As disclosed in Note 30(a) to the financial statements, an impairment review has been performed by the directors of Company on the promissory note receivable from Clear Smart Enterprises Limited ("Clear Smart") of HK$81,449,000 (the "PN") which was due on 8 April 2010 but remained unsettled. The directors of the Company consider that, after taking into consideration the latest available information on Clear Smart, it would be prudent to recognise an impairment loss of the entire amount of the PN in the financial statements. However, we have not been able to obtain sufficient appropriate audit evidence to satisfy ourselves whether the recognition of the impairment loss of the entire amount of the PN of HK$81,449,000 in the financial statements is appropriate.

(2) As disclosed in Note 19 to the financial statements, an impairment review of the Group's cash-generating unit of medical network has been performed by the directors of the Company. As a result of the review, an impairment loss on goodwill of HK$550,000,000 has been recognised in the financial statements. This impairment review has been performed on the assumption that the necessary licences can be obtained for certain medical equipment of the Group and those medical equipment which underlie the value of the related other intangible assets of the Group as disclosed in Notes 17 and 20 to the financial statements and penalty will not be imposed by the relevant local government authority because of the lack of such licences. However, we are not able to obtain sufficient appropriate audit evidence or to carry out other satisfactory procedures to satisfy ourselves the basis upon which the directors of the Company have formed their opinion. Accordingly, we have not been able to determine whether the recognition of impairment loss of goodwill of HK$550,000,000 in the financial statements is appropriate or adequate; whether the carrying amounts of the assets of the cash-generating unit, including the remaining goodwill of HK$87,246,000, other intangible assets of HK$442,578,000, property, plant and equipment of HK$516,131,000 and deposits paid for acquisition of property, plant and equipment of HK$49,910,000, and deferred tax liabilities of HK$64,545,000 as at 31 December 2009 were fairly stated; whether any provision or contingent liability for penalty should have been recognised or disclosed respectively as at 31 December 2009; and whether the recognition of impairment loss of totalling HK$121,634,000 for the investments in subsidiaries and amounts due from subsidiaries recognised in the financial statements of the Company for the year is appropriate or adequate, and the aggregate carrying amount of investments in subsidiaries and amounts due from subsidiaries of HK$1,126,793,000 as at 31 December 2009 is fairly stated.

(3) During the course of our audit, we are not able to carry out audit procedures that we considered necessary concerning the completeness and accuracy of related parties and transactions with such parties. As a result, we have not been able to determine whether the financial statements have fully complied with the requirements of Hong Kong Accounting Standard 24 *Related Party Disclosures*, the Hong Kong Companies Ordinance and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Any adjustments or additional disclosures found to be necessary in respect of the above matters, including any related tax impact, will have a consequential significant effect on the financial position of Company and the Group as at 31 December 2009 and the financial performance and cash flows of the Group for the year then ended, and the related disclosures in the financial statements.

Disclaimer of opinion: Disclaimer on view given by financial statements

Because of the significance of the matters described in the basis for disclaimer of opinion paragraph, we do not express an opinion on the financial statements as to whether they give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of Group's financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and the Hong Kong Companies Ordinance.

Report on matters under sections 141(4) and 141(6) of the Hong Kong Companies Ordinance

In respect alone of the limitation on our work relating to matters as described in the basis for disclaimer of opinion paragraph:

— we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and

— we were unable to determine whether proper books of account had been kept.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2009, the total number of employees of the Group was 63. The employees are offered discretionary bonuses based on merit and performance. The Group also encourages and subsidises employees to enrol in external training courses and seminars organised by professional bodies. Employees of the Group are eligible to be granted share options under the Company's share option scheme at the discretion of the Board. The Group also provides other benefits to the employees including retirement benefits and medical scheme.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 31 December 2009, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any shares of the Company.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving and maintaining a high standard of corporate governance. During the year ended 31 December 2009, the Company has complied with all the code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") except for the following deviation:

Code provision A.4.1

Under code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term and subject to re-election.

None of the existing Non-executive Directors of the Company are appointed for a specific term. This constitutes a deviation from the code provision. However, all the Non-executive Directors of the Company are subject to retirement by rotation at the annual general meetings pursuant to the articles of association of the Company. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the audited consolidated financial statements for the year ended 31 December 2009.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors.

Having made specific enquiry of all Directors, each of them has confirmed that they have complied with the required standard as set out in the Model Code during the year ended 31 December 2009.

ANNUAL REPORT

The 2009 annual report of the Company will be dispatched to shareholders and published on the website of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.renjimedical.com) as soon as possible and in any event no later than 14 May 2010.

By Order of the Board
China Renji Medical Group Limited
Li Juewen
Chairman

Hong Kong, 2 May 2010

As at the date of this announcement, the Board comprises three Executive Directors, namely Mr. Li Juewen, Mr. Yu Chung Hang, Lucian and Mr. Guo Bao Ping; and three Non-executive Directors, namely Professor Wang Yongchang, Mr. Wu Zhenfang and Mr. Wang Hai; and three Independent Non-executive Directors, namely Mr. Pang Wai Hong, Dr. Li Wing Chiu and Mr. Li Tieliu.