



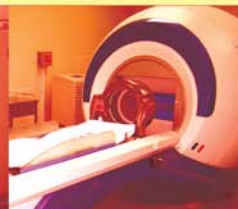
CHINA RENJI
Medical Group Ltd.

中國仁濟醫療集團有限公司

Stock Code: 648



2008



INTERIM REPORT

2008 INTERIM REPORT

For the six months ended 30 June 2008

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:

YANG Yifei (*Chairman*)

SHENG Yang (*Vice Chairman*)

YU Chung Hang, Lucian (*Chief Executive Officer*)

DUAN Xuzhen

Non-executive Directors:

WONG Sin Just

BAI Yongrui

WANG Yongchang

Independent Non-executive Directors:

NG Sau Kei, Wilfred

LI Yang

PANG Wai Hong

AUDIT COMMITTEE

PANG Wai Hong

NG Sau Kei, Wilfred

WONG Sin Just

REMUNERATION COMMITTEE

PANG Wai Hong

NG Sau Kei, Wilfred

WONG Sin Just

EXECUTIVE COMMITTEE

YANG Yifei

SHENG Yang

YU Chung Hang, Lucian

DUAN Xuzhen

COMPANY SECRETARY

FORK Siu Lun, Tommy CPA, FCCA

QUALIFIED ACCOUNTANT

LAU Miu Man CPA, CPA (Aust.)

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited

Industrial and Commercial Bank of
China (Asia) Ltd

Mizuho Corporate Bank, Ltd

AUDITOR

Shu Lun Pan Horwath Hong Kong CPA Limited

SHARE REGISTRARS

Tricor Tengis Limited

26th Floor, Tesbury Centre

28 Queen's Road East, Wanchai
Hong Kong

REGISTERED OFFICE

4th & 5th Floors

SBI Centre

56 Des Voeux Road Central
Hong Kong

WEBSITE

www.renjimedical.com

STOCK CODE

648

MANAGEMENT COMMENTARY

TO THE SHAREHOLDERS

On behalf of the board of directors (the “**Board**”) of China Renji Medical Group Limited (the “**Company**”), I am pleased to present the unaudited interim results of the Company and its subsidiaries (the “**Group**”), for the six months ended 30 June 2008.

FINANCIAL REVIEW

During the reporting period, the Group is principally engaged in medical network business which includes leasing of medical equipment and provision of consultancy services for operation of medical centres in the People’s Republic of China (the “**PRC**” or “**China**”).

Revenue

For the six months ended 30 June 2008, the Group recorded a revenue of approximately HK\$87,229,000 from its continuing operations, representing an increase of 6,980.28% from approximately HK\$1,232,000 for the corresponding period last year. The revenue for the reporting period was derived from the medical network business operated by the Group following its strategic re-focus. During the reporting period, the Group did not generate any revenue from other continuing operations. The revenue for the corresponding period last year was derived mainly from investment holding business.

Gross profit

For the six months ended 30 June 2008, the Group recorded a gross margin of approximately HK\$68,359,000 or 78.37% from its medical network business, which included an amortisation charge of intangible assets of approximately HK\$8,401,000. When excluding the said amortisation charge, the gross margin of the Group’s medical network business for the reporting period was approximately HK\$76,760,000 or 88.00%.

Profit from discontinued operations

For the six months ended 30 June 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. The profit from discontinued operations for the corresponding period last year was derived from the Group’s discontinued financial services, garment manufacturing and property holding and other business segments.

Profit for the period

The profit attributable to equity holders of the Company for the six months ended 30 June 2008 was approximately HK\$28,295,000, representing an improvement of approximately HK\$68,111,000 from a loss of approximately HK\$39,816,000 for the corresponding period last year. This was mainly attributable to the revenue and profit generated from the medical network business acquired by the Group since July 2007.

Basic earnings per share was approximately HK0.2453 cents. This represents a substantial improvement from a loss per share of approximately HK0.7648 cents for the corresponding period last year.

Earnings before interest, taxation, depreciation and amortisation (EBITDA)

The Group reports EBITDA of approximately HK67,933,000 for the six months ended 30 June 2008.

Dividend

The Board has resolved not to pay any dividend in respect of the six months ended 30 June 2008 (six months ended 30 June 2007: HK\$ nil).


The Board considers that the re-focusing of the Company's efforts and resources in the medical network business has resulted in a substantial growth in profit and is in the best interests of the Company and its shareholders. The Board believes the Company to hold substantial potential for sustainable financial growth, thus will continue to increase the value for the Company's shareholders.

BUSINESS REVIEW

Core business


The Group is principally engaged in medical network business which included leasing of medical equipment and provision of consultancy services for the operation of the medical centres specialising in the diagnosis and treatment of tumours / cancer in China. The Group has forged ahead with its roadmap to develop its existing network of medical centres, in an aggressive, yet calculated manner.

Pursuant to the announcement of the Company dated 23 January 2008, the Group entered into an acquisition agreement to acquire a further 49% and 24.5% interest, respectively, in the head and body gamma system, linear accelerator, CT scanner and tumour heat therapy system (collectively, the "**Gamma Medical Equipment**") and the Positron Emission Tomography ("**PET**") and Computed Tomography ("**CT**") equipment (collectively, the "**PET-CT Medical Equipment**") located in the Main Hospital of the Second Artillery Force of the People's Liberation Army of the PRC (the "**Main Hospital of the Second Artillery Force**"), Beijing, PRC for a consideration of RMB71.22 million (equivalent to approximately HK\$76.21 million). The consideration were satisfied as to RMB36.5 million (equivalent to approximately HK\$39.06 million) by cash and as to the remaining balance of RMB34.72 million (equivalent to approximately HK\$37.15 million) by the issuance of 148,600,000 new shares of the Company at the issue price of HK\$0.25 per share. The Group is entitled to a further profit guarantee of RMB9.8 million for 2008. This further acquisition has allowed the Group to control 100% interest in the Gamma Medical Equipment and 50% interest in the PET-CT Medical Equipment and enjoy the economic benefits arising from the operations of the said medical equipments. The acquisition was completed in February 2008.



Pursuant to the announcement of the Company dated 13 June 2008, the Group entered into an acquisition agreement pursuant to which it agreed to acquire the entire interest in a PET-CT machine for the diagnosis/detection of tumour and/or cancer related diseases, heart diseases and brain disorders for use in the First Associated Hospital of the Fourth Military Medical University (the “**Xijing Hospital**”). The consideration for the acquisition amounted to RMB50 million (equivalent to approximately HK\$56.30 million) and was satisfied in cash. The Group is entitled to profit guarantees of RMB10 million for each of the first and second year after completion. Xijing Hospital is a reputable “3A Grade” hospital established for over half a century, and is currently equipped with approximately 2,000 hospital beds and over 40 specialty centres. Xijing Hospital is located in Xian City, being one of the major cities in Shaanxi Province, China with a population of over 8 million which will potentially provide the Xijing Hospital with patients resources. The acquisition expands the geographic coverage of the Group’s tumour diagnosis and treatment business network into the northwest region of China. The acquisition was completed in July 2008.

Pursuant to the announcement of the Company dated 20 June 2008, the Group entered into an acquisition agreement pursuant to which it agreed to acquire the entire interest in one digital multi-function gamma-ray whole body stereotactic radiotherapy system (the “**Radiotherapy Asset**”) for use in the Shijiazhuang Hua Guang Tumour Hospital (the “**Shijiazhuang Hospital**”). The consideration for the acquisition amounted to RMB24 million (equivalent to approximately HK\$27.02 million) and was satisfied in cash. The Group is entitled to profit guarantees of RMB4 million for each of the first and second year after completion. Shijiazhuang Hospital is one of the earliest hospitals in China to provide Sino-Western integrated medical therapy for the treatment of tumours and has successfully provided such medical services to over 100,000 patients in China as well as patients from the United States of America, the French Republic and the Federal Democratic Republic of Ethiopia. Shijiazhuang Hospital is classified as a provincial key hospital and a designated unit under the government medical insurance scheme. In addition, Shijiazhuang City, being the capital city of Hebei Province with a population of over 9 million, will provide the Shijiazhuang Hospital with a significant source of potential clients. The acquisition has also further strengthened the geographic coverage of the Group’s tumour diagnosis and treatment business network in the northern region of China. The acquisition was completed in July 2008.



Pursuant to the announcement of the Company dated 22 July 2008, the Group entered into an acquisition agreement pursuant to which it agreed to acquire the entire interest in a head gamma-ray stereotactic radiotherapy system, which is primarily for the radiotherapy treatment of brain tumours, vascular malformations and functional disorders of the brain, for use in the Wuhan General Hospital, Guangzhou Military Area Command of Chinese People's Liberation Army (the "**Wuhan General Hospital**"). The consideration for the acquisition amounted to RMB27 million (equivalent to approximately HK\$29.92 million) and was satisfied in cash. The Group is entitled to profit guarantees of RMB4.5 million for each of the first and second year after completion. The Wuhan General Hospital is a "3A Grade" integrated hospital in central China offering leading specialty medical services, academic advancement, scientific research, prevention and health care services and first-aid services through its 42 therapy clinics and over 70 specialty units. In addition, Wuhan City, being one of the most populous cities in central China with a resident population of over 8 million, lies at the intersection of the Yangtze River and Han Water and is known as the "thoroughfare of nine provinces" for being a major transportation hub and central medical city for patients in nearby cities, with dozens of railways, roads and expressways passing through the city. The acquisition further enhances the geographic coverage of the Group's tumour diagnosis and treatment business network in the central region of China. The acquisition was completed in August 2008.

Pursuant to the announcement of the Company dated 1 August 2008, the Group entered into two separate acquisition agreements pursuant to which it agreed to acquire 51% interest in one head gamma-ray stereotactic radiotherapy system for use in the Shandong Ankang Hospital (the "**Shandong Radiotherapy Asset**") and 40% interest in one head gamma-ray stereotactic radiotherapy system for use in the Shenzhen Luohu People's Hospital (the "**Shenzhen Radiotherapy Asset**"). The consideration for the acquisition of the Shandong Radiotherapy Asset amounted to RMB12.5 million (equivalent to approximately HK\$13.85 million) and the consideration for the acquisition of the Shenzhen Radiotherapy Asset amounted to RMB18 million (equivalent to approximately HK\$19.94 million), both of which were satisfied in cash. The Group is entitled to profit guarantees of RMB2.5 million and RMB3 million in relation to the acquisitions of the Shandong Radiotherapy Asset and the Shenzhen Radiotherapy Asset, respectively, for each of the first and second year after the respective completion.

The Shandong Radiotherapy Asset is for use in the Shandong Ankang Hospital, which is a "3A Grade" hospital and is one of the top 500 large-scaled hospitals in China. Being one of the top 5 psychiatric hospitals in China, Shandong Ankang Hospital is a specialist hospital with strong foundations in neurosurgery, neurology and brain radiotherapy treatments. Its diagnosis on brain diseases is considered at a leading level in China. Jining City, being one of the six concentrated industrial cities in Shandong Province with a population of over 7 million, lies at the south of Shandong Province at the intersection of Shandong Province, Henan Province, Jiangsu Province and Anhui Province with a wide area of medical coverage. The acquisition of the Shandong Radiotherapy Asset has further enhanced the geographic coverage of the Group's tumour diagnosis and treatment business network in the northern region of China. The acquisition was completed in August 2008.

The Shenzhen Radiotherapy Asset is for use in the Shenzhen Luohu People's Hospital, one of the oldest hospitals in Shenzhen with over 49 years of history; it is an integrated hospital offering medical treatment, academic advancement and scientific research. It has a variety of high tech medical equipments, including but not limited to, electronic gastrointestinal endoscopes, arthroscope digital radiographic devices and automatic blood gas analyzers. In addition, Shenzhen, being the first special economic zone established in China, is considered to be southern China's major financial centre with a population over 14 million, which provides a significant source of potential patients. The Gamma Knife Treatment Centre of the Shenzhen Luohu People's Hospital, being one of the earliest specialty medical centres in Shenzhen providing specialist brain tumour treatment, is renowned for its radiotherapy treatment during craniotomy. This acquisition has further expanded the geographic coverage of the Group's tumour diagnosis and treatment network into the southern region of China. The acquisition was completed in August 2008.

Through the series of acquisitions, the advanced medical equipment portfolio of the Group has been further strengthened, thereby increasing its core competitiveness in the China medical market. In addition, the Group's brand name and expertise has been further enhanced and the Group is better positioned to tap into the growing medical market of tumour diagnosis and radiotherapy in PRC.

Discontinued business

During the reporting period, the Group continued to dispose of its non-core businesses. In January 2008, the Group entered into an agreement for the disposal of its 49% jointly controlled entity, SBI E2-Capital Limited, at a consideration of HK\$81 million. The consideration was satisfied by a promissory note with 1.5% interest per annum with maturity period of 2 years. Prior to the disposal, SBI E2-Capital Limited carried out all of the Group's financial service business. The disposal was completed in April 2008.

PROSPECTS

Based on published statistics, the research and experience of our medical experts, as well as socio-economic and demographic indicators, the Group maintains its belief that the demand for cancer diagnosis and treatment will continue to increase in China, where its main operations are based. Having considered that cancer related diseases have been exacerbated in China by an ageing population, as well as the increase in smoking, drinking, environmental problems and unhealthy eating habits, and become one of the major causes of death, the Group believes that its strategy to expand its existing network of medical centres into the affluent coastal and other major cities across China will not only benefit the community, but also will ultimately reap significant rewards for the Group. With China's scarce medical facilities and a high incidence of cancer, cancer related treatments and expertise are in high demand.

Since the end of 2007, The Group's medical network has been expanded from 7 to 12 centres. While the expansion in the recent past has been aggressive, it has also been calculated and considered. The Group has maintained its strategy of ensuring profit warranties and guarantees with each acquisition. The Board has worked hard to maintain and build upon the Group's position as the leading player in China, operating and managing an extensive nationwide network of cancer diagnostics and treatment centres.

That said, we are experiencing highly volatile global and local markets, with the subprime crisis in America continuing to affect the global economy and poor local market sentiment being exacerbated by increasing oil prices and the highest inflation rate in recent history. While this has not taken a direct impact on the Group and its core business, it has nonetheless affected market sentiment and the market price of the Company's shares. Having said that, management are pleased to announce that the Group successfully recorded a profit of approximately HK\$28,295,000 for the six months ended 30 June 2008, reinforcing the fact that the Group's strategy and vision is continuing to bear fruit.

The Group will continue to incur significant capital expenditures in the coming years and will actively accelerate the development of medical network based on the principles of commercial viability. The Group will also consider its expansion strategy into the areas of medical equipment development and operation of hospitals specialising in tumours/cancer diagnosis and treatment. The Company expects to finance the capital expenditures through internal funding, future debts financing, operating cash flows and the issuance of new share capital when the market conditions are appropriate.

We will strive to build upon our existing strength in the medical sector while further expanding our network to well populated areas with developed economy, as well as to continue promoting the China Renji name.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's major financial resources were derived from the cash generated from operating activities of approximately HK\$72,677,000 during the six months ended 30 June 2008 (six months ended 30 June 2007: net cash outflow of HK\$19,263,000). The significant improvement of the cash generated from operating activities was contributed by the Group's medical network business. The revenue generated from the medical network business for the reporting period was approximately HK\$87,229,000 and the net profit attributable to the Group for the same period was approximately HK\$28,295,000. The net profit of the Group was arrived at after deducting the non-cash expenses of depreciation of property, plant and equipment of approximately HK\$10,114,000, amortisation of intangible assets (net of deferred taxation) of approximately HK\$6,301,000, share-based payments expenses of approximately HK\$8,998,000 and imputed interest expenses of the promissory notes included in the finance cost of approximately HK\$9,943,000.

For the six months ended 30 June 2008, the net cash used in investing activities amounted to approximately HK\$187,313,000 (six months ended 30 June 2007: net cash outflow of HK\$74,090,000) and the net cash used in financing activities amounted to approximately HK\$69,242,000 (six months ended 30 June 2007: net cash inflow of HK\$152,140,000). As a result of the cumulative effect described above, the Group recorded for the six months ended 30 June 2008 a net cash outflow of approximately HK\$183,878,000 (six months ended 30 June 2007: net cash inflow of HK\$58,787,000). The cash outflow in investing and financing activities mainly resulted from capital expenditure for acquisition of medical equipment in China amounting to approximately HK\$101,530,000 as mentioned above, the net cash outflow from disposal of a jointly controlled entity of approximately HK\$102,611,000, dividend income received from a jointly controlled entity of approximately HK\$14,700,000 and the partial repayment of promissory notes of approximately HK\$70,000,000.

As at 30 June 2008, the Group maintained bank balances and cash amounting to approximately HK\$93,373,000 (31 December 2007: HK\$270,773,000 comprised of bank balances and cash included in assets classified as held for sales of approximately HK\$102,611,000).

As at 30 June 2008, the Group's total borrowings amounted to approximately HK\$128,921,000 (31 December 2007: HK\$191,229,000) which included borrowings of approximately HK\$77,143,000 (31 December 2007: HK\$73,360,000), guaranteed convertible notes of approximately HK\$3,883,000 (31 December 2007: HK\$7,698,000) and promissory notes payable of approximately HK\$47,895,000 (31 December 2007: HK\$110,171,000) with approximately HK\$2,883,000 (31 December 2007: HK\$78,251,000) repayable within one year and approximately HK\$126,038,000 (31 December 2007: HK\$112,978,000) repayable after one year. The borrowings are denominated in Hong Kong dollars and Japanese Yen. The Board expects that all such borrowings will either be repaid by internally generated funds or rolled over upon maturity and will continued to provide funding to the Group's operations.

As at 30 June 2008, the Group's net asset value was approximately HK\$1,324,127,000 (31 December 2007: HK\$1,251,484,000), with a liquidity ratio (calculated on the basis of the Group's current assets to current liabilities) strengthen to 4.79 times as at 30 June 2008 compared to 2.64 times as at 31 December 2007. The Group's gearing ratio (calculated on the basis of the Group's total borrowings, guaranteed convertible notes and promissory notes payable to the equity attributable to the equity holders of the Company) was 9.74% (31 December 2007: 15.28%).

The decrease in gearing ratio was mainly attributable to the partial repayment of the promissory notes payable amounting to HK\$70,000,000, conversion of guarantee convertible notes of HK\$4,000,000 and profits generated from the Group's medical network business.

The Group has continued to maintain low gearing levels. 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.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

The Group's cash flow from operations is mainly denominated in Renminbi and Hong Kong dollars; whilst the assets held 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.

CHARGES ON GROUP ASSETS

As at 30 June 2008 and 31 December 2007, no assets were pledged by the Group.

GUARANTEES AND COUNTER-INDEMNITIES

As at 30 June 2008, no guarantees and counter-indemnities were issued by the Group. Details are set out in Note 14 to the condensed consolidated financial statements.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2008, the total number of employees of the Group was approximately 40. 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.

SHARE OPTION SCHEME

On 30 October 2001, at the annual general meeting, the Company adopted a share option scheme (the "Scheme") under which the Board may, at its discretion, invite any full time and part time employees, directors, consultants or advisors of any of the companies within the Group to take up options to subscribe for ordinary shares of the Company at any time during ten years from the date of adoption. The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company shall not exceed such number of shares as shall represent 30% of the issued share capital of the Company from time to time. Other details of the Scheme were disclosed in the circular of the Company dated 28 September 2001.

OPTIONS GRANTED UNDER THE SHARE OPTION SCHEME

Details of the movements in share options granted under the Scheme during the period were as follows:

Grantee	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options				At 30 June 2008
				At 1 January 2008	Granted during the period	Exercised during the period	Lapsed during the period	
Directors								
Wong Sin Just	21-02-2002	21-02-2002 to 20-02-2012	0.280	24,402,000	—	—	—	24,402,000
	03-11-2003	03-11-2003 to 02-11-2013	0.100	35,000,000	—	—	—	35,000,000
	24-05-2004	24-05-2004 to 23-05-2014	0.100	1,632,000	—	—	—	1,632,000
	10-04-2006	10-04-2006 to 09-04-2016	0.100	43,112,000	—	—	—	43,112,000
Sheng Yang	07-03-2008	07-03-2008 to 06-03-2018	0.130	—	109,332,000 ²	—	—	109,332,000
Yu Chung Hang, Lucian	29-03-2005	29-03-2005 to 28-03-2015	0.100	10,000,000	—	—	—	10,000,000
	10-04-2006	10-04-2006 to 09-04-2016	0.100	43,112,000	—	—	—	43,112,000
Duan Xuzhen	07-03-2008	07-03-2008 to 06-03-2018	0.130	—	30,000,000 ²	—	—	30,000,000
Yu Kam Yuen, Lincoln (ex-Director)	24-05-2004	24-05-2004 to 23-05-2014	0.100	15,000,000	—	—	—	15,000,000
	10-04-2006	10-04-2006 to 09-04-2016	0.100	21,556,000	—	—	—	21,556,000
Lo Wing Yan, William (ex-Director)	03-11-2003	03-11-2003 to 02-11-2013	0.100	3,632,000	—	—	—	3,632,000
Raja Datuk Karib Shah bin Shahrudin (ex-Director)	10-04-2006	10-04-2006 to 15-01-2008 ⁵	0.100	4,310,000 ⁵	—	(4,310,000) ³	—	—
				201,756,000	139,332,000	(4,310,000)	—	336,778,000
Employees								
Employees	21-02-2002	21-02-2002 to 20-02-2012	0.280	3,600,000 ⁶	—	—	(1,200,000)	2,400,000
	10-04-2006	10-04-2006 to 09-04-2016	0.100	29,000,000	—	(3,500,000) ⁴	—	25,500,000
	26-04-2007	26-04-2007 to 25-04-2017	0.200	44,400,000	—	—	(12,600,000)	31,800,000
	07-03-2008	07-03-2008 to 06-03-2018	0.130	—	139,332,000 ²	—	—	139,332,000
				77,000,000	139,332,000	(3,500,000)	(13,800,000)	199,032,000
Consultants/ Advisors								
Consultants/ Advisors	21-02-2002	21-02-2002 to 20-02-2012	0.280	38,002,000 ⁷	—	—	—	38,002,000
	03-11-2003	03-11-2003 to 02-11-2013	0.100	49,000,000 ⁷	—	—	—	49,000,000
	24-05-2004	24-05-2004 to 23-05-2014	0.100	27,632,000 ⁷	—	—	—	27,632,000
	10-04-2006	10-04-2006 to 09-04-2016	0.100	120,470,000 ⁷	—	—	—	120,470,000
	26-04-2007	26-04-2007 to 25-04-2017	0.200	50,300,000	—	—	—	50,300,000
	06-11-2007	06-11-2007 to 05-11-2017	0.202	100,000,000	—	—	—	100,000,000
	07-03-2008	07-03-2008 to 06-03-2018	0.130	—	126,906,000 ²	—	—	126,906,000
					385,404,000	126,906,000	—	—
TOTAL :				664,160,000	405,570,000	(7,810,000)	(13,800,000)	1,048,120,000

Notes:

- (1) No share option was cancelled during the period under review.
- (2) At the date immediately before these options were granted, the closing price per share was HK\$0.112.
- (3) The weighted average closing price of the shares immediately before the respective exercise date of the options was HK\$0.156.
- (4) The weighted average closing price of the shares immediately before the respective exercise date of the options was HK\$0.117.
- (5) The exercisable period in respect of the options held by Raja Datuk Karib Shah bin Shahrudin was shortened from 9 April 2016 to 15 January 2008 as a result of his resignation as Director of the Company on 16 October 2007.
- (6) 1,500,000 options (granted on 21 February 2002) previously classified under "Directors" were re-classified under "Employees" as a result of the retirement of Ms Sun Huali as Director of the Company on 22 May 2008 and her appointment as employee of the Company immediately thereafter.
- (7) 6,000,000 options (granted on 21 February 2002), 35,000,000 options (granted on 3 November 2003), 1,632,000 options (granted on 24 May 2004) and 43,112,000 (granted 10 April 2006) previously classified under "Directors" were re-classified under "Consultants/Advisors" as a result of the retirement of Mr Wong Kean Li as Director of the Company on 22 May 2008 and his appointment as consultant of the Company immediately thereafter.
- (8) Options granted to Directors are immediately vested on the date of grant or on a later date in which the grantee became a Director of the Company (as the case may be) except that options granted to certain Directors on 7 March 2008 are vested as follows:

On 1st anniversary of the date of grant	50% vested
On 2nd anniversary of the date of grant	remaining 50% vested

- (9) Options granted to employees are vested as follows:

Date of grant	Date of vesting	No. of share options vested
21-02-2002	21-02-2002	375,000
	01-11-2002	375,000
	21-02-2003	525,000
	01-11-2003	750,000
	21-02-2004	525,000
	21-02-2005	1,050,000
10-04-2006	10-04-2006	3,750,000
	10-04-2007	3,750,000
	02-10-2007	21,500,000
26-04-2007	26-04-2007	13,800,000
	26-04-2008	10,200,000
	26-04-2009	20,400,000
07-03-2008	07-03-2008	7,500,000
	07-03-2009	62,166,000
	07-03-2010	69,666,000

(10) Options granted to consultants/advisors are vested as follows:

Date of grant	Date of vesting	No. of share options vested
21-02-2002	21-02-2002	24,402,000
	05-03-2002	1,500,000
	03-08-2002	2,000,000
	19-09-2002	4,500,000
	21-02-2003	1,400,000
	21-02-2004	1,400,000
	21-02-2005	2,800,000
03-11-2003	03-11-2003	38,500,000
	03-11-2004	3,500,000
	03-11-2005	7,000,000
24-05-2004	24-05-2004	27,632,000
10-04-2006	10-04-2006	105,535,500
	10-04-2007	4,811,500
	10-04-2008	10,123,000
26-04-2007	26-04-2007	48,950,000
	26-04-2008	450,000
	26-04-2009	900,000
06-11-2007	01-01-2008	50,000,000
	01-07-2009	50,000,000
07-03-2008	07-03-2010	63,453,000
	07-03-2011	63,453,000

(11) In assessing the fair value of the share options granted during the period, the Black-Scholes option pricing model (the “**Black-Scholes Model**”) has been used. The Black-Scholes Model is one of the generally accepted methodologies used to calculate the fair value of options and is one of the recommended option pricing models set out in Chapter 17 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). The variables of the Black-Scholes Model include expected life of the options, risk-free rate, expected volatility and expected dividend rate (if any) of the Company’s shares.

The variables of the Black-Scholes Model used in assessing the fair value of the share options granted during the period and the estimated fair values are listed as follows:

Grantee	Date of grant	Date of vesting	Expected life	Risk-free rate	Expected volatility	Expected dividend yield	Estimated fair value per option HK\$
Directors	07-03-2008	07-03-2009	5.5 years	2.103%	33.156%	0%	0.0301
		07-03-2010	6 years	2.204%	34.200%	0%	0.0331
Employees	07-03-2008	07-03-2008	5 years	2.001%	33.524%	0%	0.0284
		07-03-2009	5.5 years	2.103%	33.156%	0%	0.0301
		07-03-2010	6 years	2.204%	34.200%	0%	0.0331
Consultants/ Advisors	07-03-2008	07-03-2010	6 years	2.204%	34.200%	0%	0.0331
		07-03-2011	6.5 years	2.306%	34.638%	0%	0.0356

- (a) The expected life is measured from the date of grant (the “**Measurement Date**”).
- (b) The risk-free rate applied to the Black-Scholes Model represents the yield of the Hong Kong Exchange Fund Notes at the Measurement Date corresponding to the expected life of the options as at the Measurement Date.
- (c) According to the announcement dated 13 July 2007, there was an acquisition of a network of medical centres by the Company. The Company’s principal engagement has been transformed from an investment holding involving the businesses of (a) provision of financial services; (b) provision of media, consulting, marketing and technology services; (c) garment manufacturing; and (d) property holding to the management and operation of a network of medical centres specializing in the diagnosis and treatment of tumours/cancer in the PRC. Due to the recent business transform of the Company, the expected volatility used in the calculation is based on the average annualized standard deviations of the continuously compounded rates of return on the average share price of two comparable companies with similar businesses.
- (d) Based on historic pattern, it is assumed that no dividend would be paid out during the expected life of the options.

Using the Black-Scholes Model in assessing the fair value of share options granted during the period, the options would have an aggregate estimated fair value of approximately HK\$13,152,000, calculated as follows:

Grantee	Date of grant	Date of vesting	No. of share options granted during the period	Estimated fair value of options granted during the period HK\$
Directors				
Sheng Yang	07-03-2008	07-03-2009	54,666,000	1,645,000
		07-03-2010	54,666,000	1,809,000
Duan Xuzhen	07-03-2008	07-03-2009	15,000,000	452,000
		07-03-2010	15,000,000	497,000
Employees	07-03-2008	07-03-2008	7,500,000	213,000
		07-03-2009	62,166,000	1,871,000
		07-03-2010	69,666,000	2,306,000
Consultants/ Advisors	07-03-2008	07-03-2010	63,453,000	2,100,000
		07-03-2011	63,453,000	2,259,000
			Total	13,152,000

In assessing the aggregate estimated fair value of the share options, no adjustment has been made for possible future forfeiture of the options. Prior to 1 January 2005, no amounts were recognised when grantees were granted share options to acquire shares of the Company. If the grantees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1 January 2005, in order to comply with Hong Kong Financial Reporting Standard ("HKFRS") 2, the Company recognises the fair value of such share options as an expense in the profit and loss account. A corresponding increase is recognised in the share option reserve under equity. Where the grantees are required to meet vesting conditions before they become entitled to the share options, the Group recognises the fair value of the share options granted as an expense over the vesting period.

If a grantee chooses to exercise options, the respective amount in the share option reserve is transferred to share capital and share premium, together with the exercise price. If the options lapse unexercised, the related share option reserve is transferred directly to another equity to reflect that the share options are no longer outstanding.

The new accounting policy has been applied retrospectively with comparatives restated in accordance with HKFRS 2, except that the Company has taken advantage of the transitional provisions set out in paragraph 53 of HKFRS 2 under which the new recognition and measurement policies have not been applied to the following grants of options:

- (i) all options granted to grantees on or before 7 November 2002; and
- (ii) all options granted to grantees after 7 November 2002 but which had vested before 1 January 2005.

It should be noted that the value of options calculated using the Black-Scholes Model is based on various assumptions and is only an estimate of the fair value of share options granted during the period. It is possible that the financial benefit accruing to the grantee of an option will be considerably different from the value estimated using the Black-Scholes Model at the Measurement Date.

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

As at 30 June 2008, the following Directors of the Company were interested in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) as recorded in the register kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies:

(1) Shares of the Company (long position)

Name of Director	Capacity	Nature of interest	Number of ordinary shares of HK\$0.10 each	Approximate percentage of the issued shares
Yu Kam Yuen, Lincoln (ex-Director)	beneficial owner	personal	12,083,885	0.10%
Wong Sin Just	beneficial owner	personal	6,502,000	0.06%
Ng Sau Kei, Wilfred	beneficial owner	personal	5,458,000	0.05%
Sheng Yang	beneficial owner	personal	4,000,000	0.03%
Yu Chung Hang, Lucian	beneficial owner	personal	3,500,000	0.03%

(2) Share options of the Company (long position)

Details of the share options granted to the Directors by the Company and outstanding as at 30 June 2008 are set out under the section headed “Options granted under the share option scheme” above.

Save as disclosed above, as at 30 June 2008, none of the Directors or chief executives of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as regarded in the register kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2008, the following persons had an interest in the shares and underlying shares of the Company as recorded in the register kept by the Company under section 336 of the SFO, being 5% or more of the issued shares of the Company:

Name of substantial shareholder	Capacity	Number of ordinary shares of HK\$0.10 each held (long position)	Approximate percentage of the issued shares
Li Juewen	beneficial owner	2,710,000,000	23.37%
Martin Currie (Holdings) Limited	interest of corporation controlled	818,014,000	7.05%

Save as disclosed above, as at 30 June 2008, no person (other than Directors of the Company as disclosed above) had any interest or short position in any shares or underlying shares of the Company as recorded in the register kept under section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2008, neither the Company nor any of its subsidiaries purchased, sold or redeemed any shares of the Company.

CODE ON CORPORATE GOVERNANCE PRACTICES

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 Listing Rules during the six months ended 30 June 2008, 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 unaudited interim condensed financial statements of the Group for the six months ended 30 June 2008.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules (the “**Model Code**”) 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 six months ended 30 June 2008.

By Order of the Board

YANG YIFEI

Chairman

Hong Kong, 19 September 2008

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the board of directors of China Renji Medical Group Limited

INTRODUCTION

We have reviewed the interim financial information set out on pages 20 to 42, which comprises the condensed consolidated balance sheet of China Renji Medical Group Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) as at 30 June 2008 and the related condensed consolidated income statement, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on the interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“**HKAS 34**”) issued by the Hong Kong Institute of Certified Public Accountants.

The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2400 “Engagements to Review Financial Statements” issued by the Hong Kong Institute of Certified Public Accountants. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the interim financial information is free of material misstatement. A review is limited primarily to inquiries of the Group’s personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material aspects, in accordance with HKAS 34.

SHU LUN PAN HORWATH HONG KONG CPA LIMITED
Certified Public Accountants

19 September 2008

Chan Kam Wing, Clement
Practising Certificate number P02038

20th Floor, Central Plaza
18 Harbour Road
Wanchai
Hong Kong

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2008

	NOTES	For the six months ended 30 June	
		2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Continuing operations:			
Revenue	3	87,229	1,232
Cost of services provided	6	(18,870)	—
Gross profit		68,359	1,232
Other income		2,942	8,115
Gain on disposal of available-for-sale investments		33	3,791
Administrative expenses	6	(23,705)	(21,593)
Impairment losses on available-for-sale investments		—	(42,640)
Other expenses		—	(674)
Finance costs		(12,342)	(3,660)
Share of results of associates		—	(69)
Profit/(loss) before income tax		35,287	(55,498)
Income tax	4&5	(8,781)	—
Profit/(loss) for the period from continuing operations		26,506	(55,498)
Discontinued operations:			
Profit for the period from discontinued operations	5	1,789	17,543
Profit/(loss) for the period	6	28,295	(37,955)
Attributable to:			
Equity holders of the Company		28,295	(39,816)
Minority interests		—	1,861
		28,295	(37,955)
Dividend		—	—
Earnings/(loss) per share, in HK cents	7		
Continuing and discontinued operations:			
Basic		0.2453	(0.7648)
Diluted		0.2449	N/A
Continuing operations:			
Basic		0.2298	(1.1017)
Diluted		0.2295	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2008

	<i>NOTES</i>	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	8	308,260	242,335
Goodwill		578,946	578,946
Intangible assets	8	324,052	332,453
Promissory note receivable	9	75,365	—
Deposits paid for acquisition of property, plant and equipment	8	56,364	—
		1,342,987	1,153,734
CURRENT ASSETS			
Trade receivables	10	33,986	11,277
Other receivables, prepayments and deposits paid		110,526	153,630
Available-for-sale investments		—	2,095
Bank balances and cash		93,373	168,162
		237,885	335,164
Assets classified as held for sale	11	—	175,887
		237,885	511,051
CURRENT LIABILITIES			
Accrued expenses and deposits received		17,409	33,959
Income tax liabilities		29,402	18,780
Borrowings		—	73,360
Guaranteed convertible notes		2,883	4,891
		49,694	130,990
Liabilities directly associated with assets classified as held for sale	11	—	62,844
		49,694	193,834
NET CURRENT ASSETS			
		188,191	317,217
TOTAL ASSETS LESS CURRENT LIABILITIES			
		1,531,178	1,470,951

	NOTES	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
CAPITAL AND RESERVES			
Share capital	12	1,159,511	1,140,234
Reserves		164,616	111,250
Equity attributable to equity holders of the Company		1,324,127	1,251,484
Minority interests	11	—	23,376
TOTAL EQUITY		1,324,127	1,274,860
NON-CURRENT LIABILITIES			
Guaranteed convertible notes		1,000	2,807
Promissory notes payable	13	47,895	110,171
Deferred tax liabilities		81,013	83,113
Borrowings		77,143	—
		207,051	196,091
TOTAL EQUITY AND NON-CURRENT LIABILITIES		1,531,178	1,470,951

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2007

Attributable to equity holders of the Company

	Share capital HK\$'000 (Note 12)	Share premium HK\$'000	Capital redemption reserve HK\$'000	Other properties revaluation reserve HK\$'000	Investment revaluation reserves HK\$'000	Share option reserve HK\$'000	Exchange translation reserve HK\$'000	Convertible notes- equity component HK\$'000	Accumulated losses HK\$'000	Subtotal HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 January 2007	497,629	646,322	1,899	235	38,256	19,585	(3,765)	2,248	(985,262)	217,147	32,207	249,354
Fair value loss- available-for-sale investments	—	—	—	—	(12,057)	—	—	—	—	(12,057)	—	(12,057)
Fair value loss - available-for-sale investments held by an associate	—	—	—	—	(7,295)	—	—	—	—	(7,295)	—	(7,295)
Currency translation difference	—	—	—	—	—	—	829	—	—	829	1,074	1,903
Total income and expense recognised directly in equity	—	—	—	—	(19,352)	—	829	—	—	(18,523)	1,074	(17,449)
Loss for the period	—	—	—	—	—	—	—	—	(39,816)	(39,816)	1,861	(37,955)
Impairment loss on available-for-sale investments	—	—	—	—	990	—	—	—	—	990	—	990
Investment revaluation reserve released upon disposal of available-for-sale investments	—	—	—	—	(4,015)	—	—	—	—	(4,015)	—	(4,015)
Total recognised income/(expense) for the period	—	—	—	—	(22,377)	—	829	—	(39,816)	(61,364)	2,935	(58,429)
Share issue expenses	—	(7)	—	—	—	—	—	—	—	(7)	—	(7)
Conversion of guaranteed convertible notes	60,000	385	—	—	—	—	—	(6,064)	—	54,321	—	54,321
Issue of guaranteed convertible notes	—	—	—	—	—	—	—	8,845	—	8,845	—	8,845
Fair value of share options credited to share option reserve	—	—	—	—	—	5,249	—	—	—	5,249	—	5,249
Exercise of share options	37,633	11,516	—	—	—	(10,585)	—	—	—	38,564	—	38,564
Lapse of share options	—	—	—	—	—	(683)	—	—	683	—	—	—
Capital contribution	—	—	—	—	—	—	—	—	—	—	10,378	10,378
Deemed disposal of partial interest in a jointly-controlled entity's subsidiary	—	—	—	—	—	—	—	—	—	—	1,480	1,480
At 30 June 2007 (unaudited)	595,262	658,216	1,899	235	15,879	13,566	(2,936)	5,029	(1,024,395)	262,755	47,000	309,755

FOR THE SIX MONTHS ENDED 30 JUNE 2008

Attributable to equity holders of the Company

	Share capital	Share premium	Capital redemption reserve	Other properties revaluation reserve	Investment revaluation reserves	Share option reserve	Exchange translation reserve	Convertible notes-equity component	Accumulated losses	Subtotal	Minority interests	Total
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
At 1 January 2008	1,140,234	1,048,315	1,899	—	—	22,618	8,427	684	(970,693)	1,251,484	23,376	1,274,860
Currency translation difference and total income recognised directly in equity	—	—	—	—	—	—	17,365	—	—	17,365	—	17,365
Profit for the period	—	—	—	—	—	—	—	—	28,295	28,295	—	28,295
Released on disposal of a jointly-controlled entity under proportionate consolidation	—	—	—	—	—	—	(2,442)	—	—	(2,442)	(23,376)	(25,818)
Total recognised income/(expense) for the period	—	—	—	—	—	—	14,923	—	28,295	43,218	(23,376)	19,842
Transaction costs on issue of shares	—	(23)	—	—	—	—	—	—	—	(23)	—	(23)
New shares issued for acquisition of property, plant and equipment	14,860	892	—	—	—	—	—	—	—	15,752	—	15,752
Conversion of guaranteed convertible notes	3,636	745	—	—	—	—	—	(464)	—	3,917	—	3,917
Fair value of share options credited to share option reserve	—	—	—	—	—	8,998	—	—	—	8,998	—	8,998
Exercise of share options	781	201	—	—	—	(201)	—	—	—	781	—	781
Lapse of share options	—	—	—	—	—	(677)	—	—	677	—	—	—
At 30 June 2008 (unaudited)	1,159,511	1,050,130	1,899	—	—	30,738	23,350	220	(941,721)	1,324,127	—	1,324,127

(Note 12)

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2008

	For the six months ended 30 June	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Net cash generated from/(used in) operating activities	72,677	(19,263)
Net cash used in investing activities		
Increase in deposit and advance for acquisition of a subsidiary	—	(78,000)
Payment for acquisition of property, plant and equipment	(45,166)	—
Deposits paid for acquisition of property, plant and equipment	(56,364)	—
Arising from disposal of a jointly-controlled entity	(102,611)	—
Dividend received from a jointly-controlled entity	14,700	—
Proceeds from disposal of an available-for-sale investment	2,128	—
Other investing cash flows (net)	—	3,910
	(187,313)	(74,090)
Net cash (used in)/generated from financing activities		
New borrowing obtained	—	17,370
Payment for redemption of promissory notes	(70,000)	—
Repayment of borrowings	—	(103)
Issue of convertible notes (net of issue expenses)	—	85,938
Issue of shares (net of issue expenses)	758	38,557
Capital injection by minority shareholders	—	10,378
	(69,242)	152,140
Net (decrease)/increase in cash and cash equivalents	(183,878)	58,787
Effect of foreign exchange rate changes	6,478	—
Cash and cash equivalents at beginning of period	270,773	96,838
Cash and cash equivalents at end of period	93,373	155,625
Analysis of the balances of cash and cash equivalents at end of period		
Bank balances and cash	93,373	126,434
Bank balances and cash included in assets classified as held for sale	—	29,191
	93,373	155,625

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2008

1. BASIS OF PREPARATION

These unaudited condensed consolidated financial statements of China Renji Medical Group Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2008 have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

2. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared under the historical cost basis except for certain investment properties and certain financial instruments, which are measured at fair values, as appropriate.

These unaudited condensed consolidated financial statements should be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2007. The accounting policies and method of computation used in the preparation of these condensed consolidated financial statements are consistent with those followed in the preparation of the annual financial statements of the Group for the year ended 31 December 2007, except for the changes in accounting estimates as further explained below.

During the current interim period, there are following changes in accounting estimates on useful lives of certain items of property, plant and equipment and intangible assets of the Group:

- (i) In 2008, the Group carried out review on the useful lives, depreciation method and residual values of the Group’s property, plant and equipment. In the course of the review, the Group noted changes in the previous assumptions used in estimation of the useful lives of the Group’s medical equipment. With effect from 1 January 2008, following the reappraisal by management of the estimated useful lives of items of property, plant and equipment, the estimated useful lives of certain medical equipment with net book value of HK\$238,230,000 as at 1 January 2008 increased from 14 years to the shorter of 20 years or the respective terms of the relevant co-operative contracts relating to the operation of the medical equipment. The changes in estimated useful lives of the above items of property, plant and equipment resulted in a decrease in depreciation charge and an increase in income tax of HK\$1,951,000 and HK\$390,000 respectively, with a net increase in the profit of HK\$1,561,000 for the six months ended 30 June 2008; and

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

- (ii) With effect from 1 January 2008, following amendments of the underlying lease contracts and consultancy services contracts, management has reassessed estimated useful lives of the underlying intangible assets of the Group with net book value of HK\$332,453,000 as at 1 January 2008. As a result, the estimated useful lives of the intangible assets increased from 5 to 10 years to 14 to 25 years. The lease contracts and consultancy services contracts entitled the Group to receive rental income and consultancy services fee income by leasing the gamma knife machines and related medical equipment to medical centres and provision of consultancy services on the operation of gamma knife machines and related medical equipment. The changes in estimated useful lives of the intangible assets resulted in a decrease in amortisation charge of intangible assets and an increase in income tax of HK\$18,533,000 and HK\$4,634,000 respectively, with a net increase in the profit of HK\$13,899,000 for the six months ended 30 June 2008.

In the current interim period, the Group has applied, for the first time, new standards, amendment and interpretations (“**new HKFRSs**”) issued by the HKICPA, which are effective for the Group’s financial year beginning 1 January 2008. The adoption of the new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied any of the new standards or interpretations that have been issued but are not yet effective. The Group is in the process of making an assessment of what the impact of these new or revised standards or interpretations is expected to be in the period of their initial application.

3. REVENUE AND SEGMENT INFORMATION

For management purposes, the Group is organised into the following three major operating divisions during the current interim period. These divisions are the basis on which the Group reports its primary segment information.

Principal operating divisions are as follows:

Medical network	—	Leasing of medical equipment and provision of consultancy services on the operation of medical equipment in the People’s Republic of China (the “ PRC ”)
Investment holding	—	Holding of investment securities
Media, consulting, marketing and technology services	—	Provision of media, consulting, marketing and technology services

As further explained in Note 5, the Group was also engaged in the business of (i) provision of financial services (financial services segment); (ii) garment manufacturing (garment manufacturing segment) and (iii) leasing of investment property and country club operation (property holding and others segment) during the prior interim period. Those operations were discontinued during the year ended 31 December 2007 and current interim period and the corresponding business segments were classified as discontinued operations accordingly.

3. REVENUE AND SEGMENT INFORMATION (Continued)

During the six months ended 30 June 2008, the Group is only engaged in medical network business which included leasing of medical equipment and provision of consultancy services on operation of medical equipment and has not generated revenue from other continuing operations. Accordingly no segment analysis is presented for the current interim period. Segment information by businesses for the prior interim period is presented below:

Six months ended 30 June 2007

	Continuing operations				Discontinued operations					
	Investment holding HK\$'000	Media, consulting, marketing and technology services HK\$'000	Elimination HK\$'000	Subtotal HK\$'000	Financial services HK\$'000	Garment manufacturing HK\$'000	Property holding and others HK\$'000	Elimination HK\$'000	Subtotal HK\$'000	Total HK\$'000
REVENUE										
External	1,172	60	—	1,232	53,830	37,696	3,581	—	95,107	96,339
Inter-segment	2,045	31	(2,076)	—	1,706	—	—	(1,706)	—	—
	<u>3,217</u>	<u>91</u>	<u>(2,076)</u>	<u>1,232</u>	<u>55,536</u>	<u>37,696</u>	<u>3,581</u>	<u>(1,706)</u>	<u>95,107</u>	<u>96,339</u>
SEGMENT RESULTS	<u>(43,102)</u>	<u>(621)</u>	<u>—</u>	<u>(43,723)</u>	<u>12,686</u>	<u>819</u>	<u>6,441</u>	<u>—</u>	<u>19,946</u>	<u>(23,777)</u>
Unallocated corporate income				2,884					62	2,946
Unallocated corporate expenses				(10,930)					—	(10,930)
Finance costs				(3,660)					(1,012)	(4,672)
Share of results of associates				(69)					—	(69)
(Loss)/profit before income tax				<u>(55,498)</u>					<u>18,996</u>	<u>(36,502)</u>
Income tax				—					(1,453)	(1,453)
(Loss)/profit for the period				<u>(55,498)</u>					<u>17,543</u>	<u>(37,955)</u>

4. INCOME TAX

	Continuing operations		Discontinued operations		Total	
	For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
The charge/(credit) comprises:						
Hong Kong profits tax						
– Current period	—	—	—	980	—	980
– Overprovision in prior periods	—	—	—	(6)	—	(6)
PRC enterprises income tax	10,881	—	—	155	10,881	155
Overseas taxation	—	—	—	324	—	324
Deferred taxation	(2,100)	—	—	—	(2,100)	—
	<u>8,781</u>	<u>—</u>	<u>—</u>	<u>1,453</u>	<u>8,781</u>	<u>1,453</u>

Hong Kong profits tax is calculated at 16.5% (six months ended 30 June 2007: 17.5%) of the estimated assessable profit for the six months ended 30 June 2008.

Taxation arising in other jurisdictions is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used is 24% for the six months ended 30 June 2008 (six months ended 30 June 2007: 30%).

5. DISCONTINUED OPERATIONS

In the second half of 2007, the Group's business segments of garment manufacturing and property holding and others were discontinued upon the completion of disposal of certain subsidiaries of the Group. Moreover, during 2007, management of the Company committed a plan to dispose of its 49% equity interest in a jointly-controlled entity and also actively located potential buyers. The jointly-controlled entity carried out all of the Group's financial services business segment and was accounted for by the Group under proportionate consolidation method. In accordance with Hong Kong Financial Reporting Standard 5 "Non-Current Assets Held For Sale and Discontinued Operations" ("HKFRS 5") issued by the HKICPA, the business segment of financial services was required to be presented as discontinued operations in the prior interim period and the related assets and liabilities as at 31 December 2007 were classified as assets classified as held for sale and liabilities directly associated with assets classified as held for sale, respectively. During the six months ended 30 June 2008, the jointly-controlled entity has been disposed of and the net profit arising therefrom of HK\$1,789,000 was included in the profit for the current interim period from the discontinued operations.

The carrying amount of assets and liabilities relating to financial services segment as at 31 December 2007 are set out in Note 11 to these condensed consolidated financial statements. The results of the discontinued operations for the current and prior interim periods, which have been included in the condensed consolidated income statement, were as follows:

	For the six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
	(Unaudited)	<i>(Unaudited)</i>
Revenue	—	95,107
Cost of sales	—	(42,020)
Gross profit	—	53,087
Other income	—	5,912
Dividend income from a jointly-controlled entity	14,700	—
Loss on disposal of a jointly-controlled entity	(12,911)	—
Gain on disposal of available-for-sale investments	—	224
Gain on change in fair value of investment properties	—	6,409
Distribution costs	—	(46)
Administrative expenses	—	(45,539)
Other expenses	—	(39)
Finance costs	—	(1,012)
Profit before income tax	1,789	18,996
Income tax (<i>Note 4</i>)	—	(1,453)
Profit for the period from discontinued operations	1,789	17,543

5. DISCONTINUED OPERATIONS (Continued)

The cash flows of the discontinued operations were as follows:

	For the six months ended 30 June	
	2008 HK\$'000	2007 HK\$'000
Net cash used in operating activities	—	(21,014)
Net cash generated from/(used in) investing activities	14,700	(21,618)
Net cash from financing activities	—	83,429
	14,700	40,797

6. PROFIT/(LOSS) FOR THE PERIOD

Profit/(loss) for the period has been arrived at after charging:

	Continuing operations		Discontinued operations		Total	
	For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Depreciation of property, plant and equipment	10,114	111	—	1,762	10,114	1,873
Amortisation of leasehold land and land use rights	—	—	—	179	—	179
Amortisation of intangible assets (included in cost of services provided)	8,401	—	—	—	8,401	—
Interest on:						
Loans from a former intermediate holding company and a former fellow subsidiary wholly repayable within five years	1,052	921	—	—	1,052	921
Guaranteed convertible notes	206	2,495	—	—	206	2,495
Promissory notes payable	11,084	—	—	—	11,084	—
Share-based payment expenses (included in administrative expenses)	8,998	5,249	—	—	8,998	5,249

6. PROFIT/(LOSS) FOR THE PERIOD (Continued)

and crediting:

	Continuing operations		Discontinued operations		Total	
	For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Dividend income from available -for-sale investments	—	1,138	—	—	—	1,138
Net gain on fair value changes of financial assets at fair value through profit or loss	—	5,308	—	4,026	—	9,334
Net exchange gains	1,750	1,787	—	347	1,750	2,134
Promissory note interest income	1,051	—	—	—	1,051	—
Government subsidy	1,427	—	—	—	1,427	—
Dividend income from a jointly-controlled entity	—	—	14,700	—	14,700	—
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

7. EARNINGS/(LOSS) PER SHARE*For continuing and discontinued operations*

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

Earnings/(loss)

	For the six months ended 30 June	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Profit/(loss) for the purposes of basic and dilutive earnings/(loss) per share (Profit/(loss) for the period attributable to equity holders of the Company)	<u>28,295**</u>	<u>(39,816)*</u>

7. EARNINGS/(LOSS) PER SHARE *(Continued)***Number of shares**

	For the six months ended 30 June	
	2008	2007
	'000	'000
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	11,535,936	5,206,385
Effect of dilutive potential ordinary shares:		
– share options	17,323**	—*
Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share	<u>11,553,259</u>	<u>5,206,385</u>

From continuing operations

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

	For the six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit/(loss) for the period attributable to equity holders of the Company	28,295	(39,816)
Less: profit for the period from discontinued operations attributable to equity holders of the Company	(1,789)	(17,543)
Profit/(loss) for the purpose of basic earnings/(loss) per share from continuing operations	<u>26,506</u>	<u>(57,359)</u>

7. EARNINGS/(LOSS) PER SHARE *(Continued)*

Earnings per share arising from discontinued operations, HK cents:

	For the six months ended 30 June	
	2008 <i>(Unaudited)</i>	2007 <i>(Unaudited)</i>
Basic	<u>0.0155</u>	<u>0.3369</u>
Diluted	<u>0.0154</u>	<u>N/A*</u>

* *Diluted loss per share for the six months ended 30 June 2007 has not been disclosed, as guaranteed convertible notes and share options outstanding during the prior interim period had an anti-dilutive effect on the basic loss per share for that period.*

** *Because the diluted earnings per share amount is increased when taking guaranteed convertible notes into account, the guaranteed convertible notes have an anti-dilutive effect on the basic earnings per share for the six months ended 30 June 2008. Accordingly, the effect of the guaranteed convertible notes was not included in the calculation of diluted earnings per share for the six months ended 30 June 2008.*

8. PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND DEPOSITS PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

The total cost of additions to the property, plant and equipment of the Group during the six months ended 30 June 2008 was HK\$60,918,000 (six months ended 30 June 2007: HK\$790,000). The aggregated net book value of disposals of property, plant and equipment during the six months ended 30 June 2008 was HK\$nil (six months ended 30 June 2007: HK\$nil).

There was no addition to the intangible assets of the Group during the six months ended 30 June 2008 (six months ended 30 June 2007: HK\$nil).

The non-current deposits paid for acquisition of certain items of property, plant and equipment outstanding as at 30 June 2008 were utilised on the completion of the acquisitions subsequent to 30 June 2008.

9. PROMISSORY NOTE RECEIVABLE

The Group entered into a conditional agreement in January 2008 to dispose of its entire interest of 49% in the jointly-controlled entity at a consideration of HK\$81,000,000 which is satisfied by a promissory note with 1.5% coupon interest per annum and a maturity period of 2 years. The carrying value of the promissory notes receivable as at 30 June 2008 represented the fair value of the promissory note at the time of initial recognition and the interest receivable as at 30 June 2008. The effective interest rate of the promissory note receivable is 6.18% per annum.

10. TRADE RECEIVABLES

The Group generally allows an average credit period of 30 days to 90 days (2007: 30 days to 90 days) to its trade customers. The following is an aged analysis of trade receivables at the balance sheet date:

	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
0-30 days	15,630	11,277
31-90 days	16,652	—
91-180 days	1,704	—
	<u>33,986</u>	<u>11,277</u>

11. ASSETS CLASSIFIED AS HELD FOR SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE

As explained in Note 5, assets classified as held for sale and liabilities directly associated with assets classified as held for sale in relation to the jointly-controlled entity at 31 December 2007, which have been presented separately in the condensed consolidated balance sheet under proportionate consolidation method, comprised the following:

	31 December 2007 HK\$'000 (Audited)
Property, plant and equipment	1,212
Interests in associates	1,607
Other assets	25
Financial assets at fair value through profit or loss	8,934
Trade and other receivables	69,092
Bank balances and cash	102,611
	<hr/>
	183,481
Less: Impairment loss	(7,594)
	<hr/>
Total assets classified as held for sale	<u>175,887</u>
Trade and other payables	61,516
Income tax liabilities	1,328
	<hr/>
Total liabilities directly associated with assets classified as held for sale	<u>62,844</u>
Minority interests	<u>23,376</u>

During the current interim period, the jointly-controlled entity has been disposed of.

12. SHARE CAPITAL

	Number of shares '000	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 31 December 2007 and 30 June 2008	<u>20,000,000</u>	<u>2,000,000</u>
Issued and fully paid:		
At 1 January 2008 (audited)	11,402,339	1,140,234
Issue of shares upon conversion of guaranteed convertible notes (<i>Note a</i>)	36,364	3,636
Issue of shares for acquisition of property, plant and equipment (<i>Note b</i>)	148,600	14,860
Issue of shares upon exercise of share options (<i>Note c</i>)	<u>7,810</u>	<u>781</u>
At 30 June 2008 (unaudited)	<u>11,595,113</u>	<u>1,159,511</u>

Notes:

- (a) During the period, guaranteed convertible notes with principal amount of HK\$4,000,000 were converted into 36,363,636 ordinary shares of HK\$0.10 each at a conversion price of HK\$0.11 per share.
- (b) During the period, 148,600,000 ordinary shares of HK\$0.10 each were issued at an aggregate gross price of HK\$15,752,000 for the acquisition of property, plant and equipment of which HK\$14,860,000 was credited to share capital and the remaining balance of HK\$892,000 was credited to share premium account.
- (c) During the period, 7,810,000 ordinary shares of HK\$0.10 each were issued at the exercise price of HK\$0.10 per share as a result of exercise of share options.

All shares issued during the period rank pari passu with the then existing shares in all respects.

13. PROMISSORY NOTES PAYABLE

The movement of promissory notes payable during the current interim period is set out below:

	<i>HK\$'000</i> <i>(Unaudited)</i>
At 1 January 2008	110,171
Interest expenses	11,084
Interest paid	(3,360)
Redemption of promissory notes	<u>(70,000)</u>
At 30 June 2008	<u><u>47,895</u></u>

The promissory notes bear interest at 3% per annum. The maturity date of the promissory notes is 13 July 2010. Interest is payable semi-annually. Pursuant to the terms of promissory notes, the Company has the right to early repay the whole or part of the principal amount of the promissory notes at par. The amount of promissory notes is initially recognised at fair value, which is determined based on the present value of the estimated future cash outflow discounted at the effective interest rate of 6.32% per annum.

14. GUARANTEES AND COUNTER-INDEMNITIES

- (a) In 2004, E2-Capital (Holdings) Limited (“**E2-Capital**”, renamed as CIAM Group Limited with effect from 27 June 2008), a related party of the Group, provided a guarantee to a bank for a maximum amount of HK\$143,000,000 in relation to banking facilities granted by the bank to certain subsidiaries of SBI E2-Capital Limited, a former jointly-controlled entity of the Group. The Company provided a counter-indemnity to E2-Capital for a maximum limit of HK\$49,049,000, representing the Group’s 34.3% shareholding in these companies as at the date of the banking facilities granted. As at 31 December 2007, there was no utilisation of such banking facilities by SBI E2-Capital Limited. In April 2008, the above guarantee and counter-indemnity were released.

14. GUARANTEES AND COUNTER-INDEMNITIES *(Continued)*

- (b) In August 2005, E2-Capital provided a corporate guarantee to a bank for a maximum amount of S\$25,000,000 plus any overdue interest and expense incurred by the bank in enforcing the corporate guarantee under a guarantee to be provided by the bank in favour of The Monetary Authority of Singapore (“MAS”) for SBI E2-Capital Asia Securities Pte Ltd (“SECA Securities”, a subsidiary of SBI E2-Capital Limited) to comply with the regulatory requirement of the MAS. The Company provided a counter-indemnity to E2-Capital for a maximum limit of S\$7,350,000, representing the Group’s 29.4% shareholding in SECA Securities as at the date of the counter-indemnity, plus 29.4% of any interest and expenses actually incurred on or paid by E2-Capital in respect of the corporate guarantee. Subsequently in January 2007, such counter-indemnity has been replaced by a new counter-indemnity for a lower limit of approximately S\$3,716,000, representing the Group’s 28.54% shareholding in SECA Securities as at the date of the new counter-indemnity, plus 28.54% of any interest and expenses actually incurred on or paid by E2-Capital in respect of the new corporate guarantee provided by E2-Capital to the bank for a maximum amount of S\$13,020,000. As at 31 December 2007, there was no utilisation of such new counter-indemnity. In April 2008, the above guarantee and new counter-indemnity were released.

15. CAPITAL COMMITMENTS

	30 June 2008 HK\$’000 (Unaudited)	31 December 2007 HK\$’000 (Audited)
Contracted but not provided for in respect of acquisition of medical equipment	27,727	—

16. SHARE-BASED PAYMENT TRANSACTIONS

The Company has a share option scheme for eligible persons of the Group. Details of the movements during the current interim period are as follows:

	Number of share options
Outstanding at 1 January 2008	1,039,730,000
Granted during the period	30,000,000
Exercised during the period	(7,810,000)
Lapsed during the period	(13,800,000)
	<hr/>
Outstanding at 30 June 2008	1,048,120,000
	<hr/> <hr/>

The fair value of the share options granted during the current interim period was calculated using the Black-Scholes Option Pricing Model (the “**Model**”) carried out by Greater China Appraisal Limited, an independent valuer with no connection with the Group.

The fair value of the options granted is as follows:

Date of grant	7 March 2008
Fair value of share options per share	HK\$0.0284 to HK\$0.0331

The fair value was calculated using the Model. The inputs into the Model were as follows:

Weighted average share price	HK\$0.108
Exercise price	HK\$0.130
Expected share volatility	33.156% to 34.20%
Expected life	5 to 6 years
Weighted average risk-free rate	2.001% to 2.204%
Expected dividend yield	0%

The Model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors’ best estimate. The value of an option varies with different variables of certain subjective assumptions.

The Group amortised the fair value of the share options calculated above over the relevant vesting period. Accordingly, an amount of HK\$8,998,000 was charged as an equity-settled expense for the six months ended 30 June 2008 (six months ended 30 June 2007: HK\$5,249,000).

During the year ended 31 December 2007, 377,570,000 share options were cancelled and replaced by 375,570,000 share options with a lower exercise price. The incremental fair value of HK\$13,484,000 arising therefrom is expensed over the remaining vesting period of 2 or 3 years.

17. RELATED PARTY DISCLOSURES

		For the six months ended 30 June	
		2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
(a)	(i) Rental payments to a related party		
	Rental payments to Fung Choi Properties Limited ("Fung Choi") (Note 1)	531	797
		<u>531</u>	<u>797</u>
	(ii) Dividend income from a jointly-controlled entity	14,700	—
		<u>14,700</u>	<u>—</u>

Note 1: Fung Choi is beneficially owned as to 19.8% by Mr Yu Kam Yuen, Lincoln, a non-executive director of the Company up to 1 August 2008, while the remaining shareholdings are beneficially owned by his two brothers, including 60.4% owned indirectly by Mr Yu Kam Kee, Lawrence, a senior advisor of the Company and father of Mr Yu Chung Hang, Lucian, an executive director of the Company.

(b) Guaranteed convertible notes held by and interest payments to a related party

		30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
	Carrying value of the guaranteed convertible notes held by a subsidiary of E2 Capital (Note 2)	—	4,891
		<u>—</u>	<u>4,891</u>

		For the six months ended 30 June	
		2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
	Interest payments to a subsidiary of E2-Capital	161	549
		<u>161</u>	<u>549</u>

Note 2: E2-Capital is a company incorporated in Bermuda and listed on The Stock Exchange of Hong Kong Limited. An executive director of the Company (who was re-designated as a non-executive director of the Company on 1 August 2008), Dato' Dr Wong Sin Just, was also an executive director (up to 30 May 2008) and a substantial shareholder (up to 7 April 2008) of E2-Capital.

17. RELATED PARTY DISCLOSURES (Continued)(c) **Amount due from a related party**

	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
Amount due from a related party (Note 3)	<u>27,862</u>	<u>27,862</u>

Note 3: The balance represents the amount of tax indemnity given by the vendor, who is also a substantial shareholder of the Company, pursuant to the sales and purchase agreement in respect of the acquisition in July 2007.

The remuneration of directors of the Company and key executives of the Group, as determined by the Remuneration Committee, having regard to the performance of individual and market trends, amounted to HK\$4,372,000 (six months ended 30 June 2007: HK\$4,458,000).

18. MAJOR POST BALANCE SHEET DATE EVENT

Subsequent to 30 June 2008, the Group has entered into conditional agreements with vendors to acquire certain interests in radiotherapy assets in the PRC at the aggregate cash consideration of RMB57,500,000 (equivalent to approximately HK\$63,710,000). Further details are set out in the Company's announcements dated 22 July and 1 August 2008 and the Company's circular dated 12 August 2008.