



INTERIM REPORT 2010



CHINA RENJI
Medical Group Ltd.

中國仁濟醫療集團有限公司

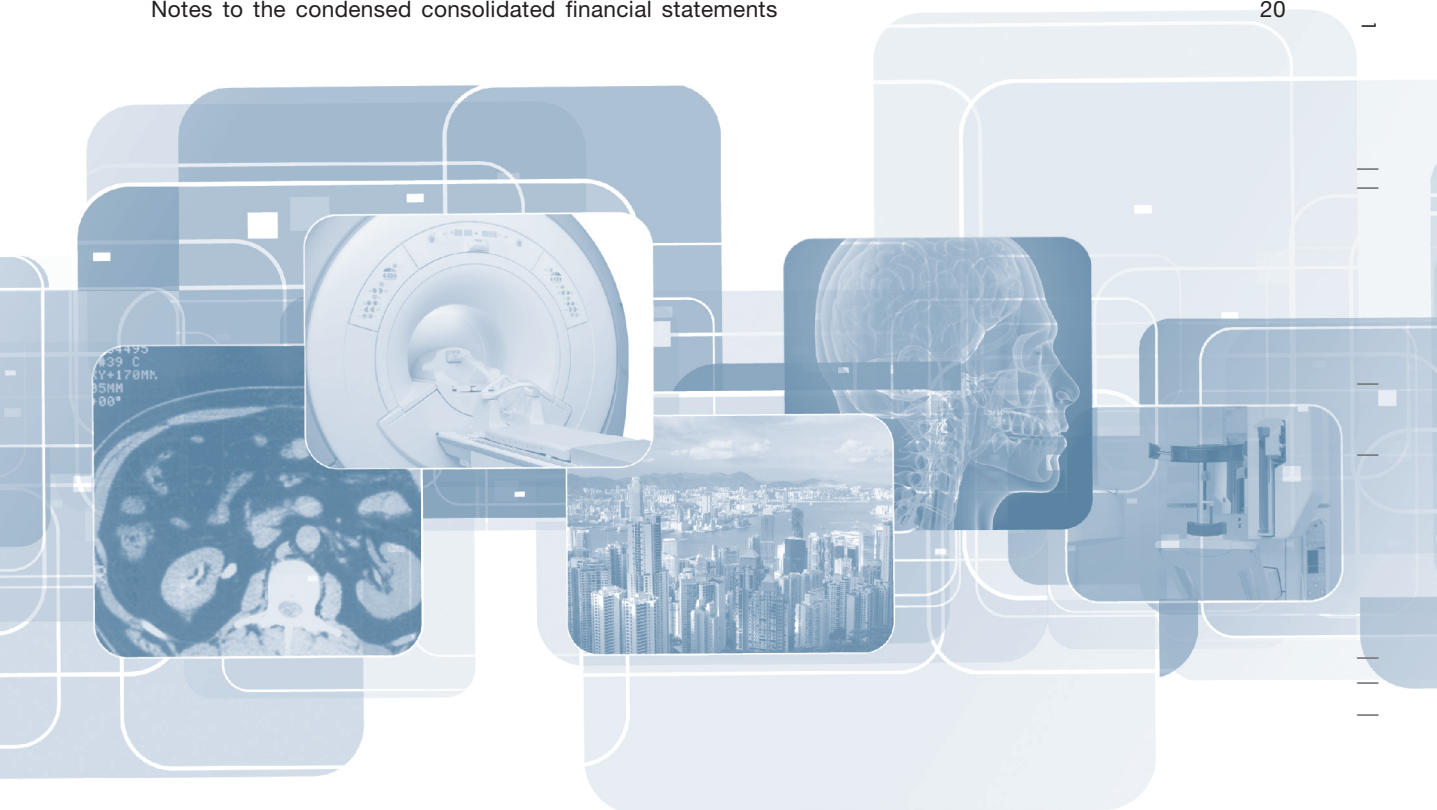
(Stock Code: 648)

2010 INTERIM REPORT

For the six months ended 30 June 2010

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:

SUI Xueqing (*Chairman*)

WANG Jianjun

Non-executive Directors:

WANG Yongchang

WU Zhenfang

DING Nan

Independent Non-executive Directors:

PANG Wai Hong

LI Wing Chiu

GENG Xiaobing

AUDIT COMMITTEE

PANG Wai Hong

LI Wing Chiu

WANG Yongchang

GENG Xiaobing

REMUNERATION COMMITTEE

PANG Wai Hong

LI Wing Chiu

WANG Yongchang

GENG Xiaobing

COMPANY SECRETARY

SENG Sze Ka Mee, Natalia FCIS, FCS(PE), FHKIoD, EMBA

PRINCIPAL BANKERS

The Hongkong and Shanghai
Banking Corporation Limited
Wuhu YangZi Rural Commercial Bank
Company Limited

AUDITORS

BDO Limited

SHARE REGISTRARS

Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East, Wanchai
Hong Kong

REGISTERED OFFICE

28/F., Sunshine Plaza
353 Lockhart Road
Wanchai
Hong Kong

WEBSITE

www.renjimedical.com

STOCK CODE

648

MANAGEMENT COMMENTARY

TO THE SHAREHOLDERS

On behalf of the board of directors (the “**Board**” or “**Directors**”) of China Renji Medical Group Limited (the “**Company**”), I am pleased to present the interim report of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2010.

INTERIM RESULTS REVIEW

During the reporting period, the Group continued to be principally engaged in medical network business specialising in the diagnosis and treatment of tumours and/or cancer related diseases, by applying advanced radiotherapy technology, in the People’s Republic of China (the “**PRC**” or “**China**”).

Turnover

For the six months ended 30 June 2010, the Group recorded a turnover of approximately HK\$91,141,000 (30 June 2009: HK\$94,540,000), representing a decrease of approximately 3.60% from the corresponding period last year. The turnover for the period 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 six months ended 30 June 2010, the Group recorded a gross profit of approximately HK\$47,980,000 (30 June 2009: HK\$67,293,000) and a gross profit ratio of approximately 52.64% (30 June 2009: 71.18%) from its medical network business, which included an amortisation charge of other intangible assets of approximately HK\$15,822,000 (30 June 2009: HK\$6,248,000). When excluding the said amortisation charge, the gross profit and gross profit ratio of the Group’s medical network business for the reporting period would have been approximately HK\$63,802,000 (30 June 2009: HK\$73,541,000) and 70.00% (30 June 2009: 77.79%). 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.

Profit for the period attributable to owners of the Company

The profit for the period attributable to owners of the Company for the six months ended 30 June 2010 was approximately HK\$10,791,000 (30 June 2009: HK\$42,651,000). The decline in profit for the interim period was primarily due to the decrease in contribution from the Group’s medical network business as well as the exchange losses resulting from the appreciation of Japanese Yen during the period.

Basic earnings per share for the reporting period was approximately HK0.0797 cents (30 June 2009: HK0.3678 cents).

BUSINESS REVIEW

The Group is principally engaged in the provision of medical equipment and consultancy services for the operation of medical center network specializing in the diagnosis and treatment of tumours/cancer in China. During the reporting period, the Group has been focusing on rationalisation of internal management system, integration of newly acquired medical assets and consolidation of its existing medical network. During the reporting period and up to the date of this report, there were changes to the Group's medical network as described below.

In July 2010, the Group's gamma knife center in the People's Liberation Army No. 5 Hospital ("**PLA 5 Hospital**") located in Yinchuan City, which has been equipped with a body gamma knife and a head gamma knife, commenced trial operation. The said medical assets were acquired by the Group in previous year at a consideration of RMB23,400,000 (equivalent to approximately HK\$26,591,000). PLA 5 Hospital, located in Yinchuan City in Ningxia Hui Autonomous Region, is a "Class 3A" comprehensive hospital. Yinchuan City, the capital city of Ningxia Hui Autonomous Region and one of the principal cities in the western region of China, has a population of about 2 million and will provide significant potential sources of patients for PLA 5 Hospital. Through the gamma knife center in PLA 5 Hospital, the Group is able to expand its medical network into the western region of China. The gamma knife center at PLA 5 Hospital is expected to commencing contribution to the Group in the second half of 2010.

In July 2010, the Group entered into an acquisition agreement pursuant to which it agreed to acquire the entire interest in a whole body gamma knife for use in the People's Liberation Army No. 94 Hospital ("**PLA 94 Hospital**") located in Nanchang City in Jiangxi Province. The consideration for the acquisition amounted to RMB13,000,000 (equivalent to approximately HK\$14,773,000) and was settled in cash. The Group is entitled to profit guarantees of not less than RMB2,600,000 for each of the three years since the date of completion. PLA 94 Hospital, located in Nanchang City in Jiangxi Province, is a "Class 3A" comprehensive hospital. Nanchang City is the political, economical and cultural center of Jiangxi Province. It has a population of about 4 million and will provide significant potential sources of patients for PLA 94 Hospital. Through the gamma knife center in PLA 94 Hospital, the Group is able to further strengthen its medical network in the central region of China. The acquisition was completed in August 2010. The gamma knife center at PLA 94 Hospital is expected to commencing contribution to the Group in the second half of 2010.

In addition, as Shijiazhuang Hua Guang Tumour Hospital is reforming into a comprehensive hospital and will not be engaged in tumours/cancer diagnosis and treatment and related business, the Group's medical equipments for use in Shijiazhuang Hua Guang Tumour Hospital Holy Digital Radiation Therapy Center has ceased operation. In July 2010, the Group entered into a termination agreement with the original vendor of the said medical assets pursuant to which it agreed to return the said medical assets to the original vendor at a consideration of RMB19,890,000 (equivalent to approximately HK\$22,602,000). As a result of this transaction, the Group will incur a loss of approximately HK\$6,470,000, which has been charged to the interim condensed consolidated income statement for the six months ended 30 June 2010. Upon the completion of transaction, the Group will still maintain in Shijiazhuang City the Hebei General Hospital Gamma Knife Treatment and Research Center. The Group will continue to scout for suitable medical asset project in order to strengthen its medical center network in the northern region of China.

As at the date of this report, there are 15 centers in the Group's medical network, covering the central, eastern, southern, northern, northeastern, northwestern and western regions of China.

As disclosed in the Company's 2009 annual report, Clear Smart Enterprises Limited had defaulted on its HK\$81,000,000 non-convertible bond (the "**Bond**") due 2010 to the Company. For the sake of prudence, the Group had recognised an impairment loss of the entire amount of the Bond in the consolidated income statement for the year ended 31 December 2009. The Group will continue to actively seeking legal advice as to the appropriate actions to be taken in order to safeguard the interest of the Group.

PROSPECTS

The PRC healthcare reform pronounced in last year has laid down clear direction and guidance for the medical sector in China. During the reporting period, industry regulators keep on delivering encouraging signals to the market. On 7 May 2010, the Chinese State Council issued a new statement reiterating its intention to enhance the scope and quality of healthcare services by attracting more private investments. This further reinforces the market conditions for the continuous growth of the Group's business in the long run. Although, in the short run, the Group will continue to suffer from the pressure of increasing competition during the initial phrase of health care reform, the Group will face the challenge actively: improving the internal management system, accelerating the integration of newly acquired medical assets, and developing its medical center network and implementing its expansion strategy into the Chinese specialized hospital service market at a calculated manner. Given the favourable market environment supported by medical reform policies and the ever increasing demand for excellent tumours/cancer diagnosis and treatment, the Group believes that its medical center network business will ultimately reap significant rewards for its shareholders.

FINANCIAL REVIEW

Liquidity and financial resources

For the six months ended 30 June 2010, the net cash used in operating activities amounted to approximately HK\$16,683,000 (30 June 2009: cash inflow of HK\$103,721,000). The cash outflow in operating activities mainly resulted from the settlement of the acquisition of other intangible assets and increase in trade receivables.

The net cash used in investing activities amounted to approximately HK\$13,169,000 (30 June 2009: HK\$129,133,000) and the net cash used in financing activities amounted to approximately HK\$4,552,000 (30 June 2009: HK\$13,000,000) during the six months ended 30 June 2010. The cash outflow in investing and financing activities mainly resulted from capital expenditure for acquisition of medical equipment in China and the repayment of bank loan.

As a result of the cumulative effect described above, the Group recorded for the period ended 30 June 2010, a net cash outflow of approximately of HK\$34,404,000 (30 June 2009: HK\$38,412,000).

As at 30 June 2010, the Group maintained bank balances and cash amounted to approximately HK\$57,362,000(31 December 2009: HK\$91,766,000).

As at 30 June 2010, the Group's total borrowings amounted to approximately HK\$118,683,000 (31 December 2009: HK\$118,599,000) which included borrowings of HK\$117,698,000 (31 December 2009: HK\$117,619,000), guaranteed convertible notes of approximately HK\$985,000 (31 December 2009: HK\$980,000). The borrowings of HK\$13,636,000 were repayable within one year (31 December 2009: HK\$13,636,000) and HK\$105,047,000 were repayable over one year (31 December 2009: HK\$104,963,000).

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 30 June 2010, the Group's net asset value was approximately HK\$1,024,207,000 (31 December 2009: HK\$1,011,250,000) with a liquidity ratio (calculated on the basis of the Group's current assets to current liabilities) strengthened to 5.04 times as at 30 June 2010 compared to 2.29 times as at 31 December 2009. The Group's gearing ratio (calculated on the basis of the Group's total borrowings and guaranteed convertible notes to the equity attributable to the owners of the Company) was 11.59% (31 December 2009: 11.73%). The slight decrease in gearing ratio was mainly due to partial repayment of a bank loan and profit incurred during the period.

The Group continued to maintain a low gearing level together with the high level of liquidity and available funds, the Group is able 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 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 30 June 2010, certain of the Group's medical equipment with aggregate carrying amount of HK\$81,976,000 were pledged to secure general banking facilities granted to the Group (31 December 2009: HK\$78,196,000).

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2010, the total number of employees of the Group was 65. The employees are offered discretionary bonuses based on merit and performance. The Group also encourages and subsidises employees to enroll in external training courses and seminars organized 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 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 1 January 2010	Granted during the period	Exercised during the period	Lapsed during the period	At 30 June 2010
Directors								
Yu Chung Hang, Lucian (ex-Director)	29-03-2005	29-03-2005 to 13-05-2010 ¹	0.100	10,000,000	—	—	(10,000,000)	—
	10-04-2006	10-04-2006 to 13-05-2010 ¹	0.100	43,112,000	—	—	(43,112,000)	—
Wong Sin Just (ex-Director)	21-02-2002	21-02-2002 to 07-03-2010 ²	0.280	24,402,000	—	—	(24,402,000)	—
	03-11-2003	03-11-2003 to 07-03-2010 ²	0.100	35,000,000	—	—	(35,000,000)	—
	24-05-2004	24-05-2004 to 07-03-2010 ²	0.100	1,632,000	—	—	(1,632,000)	—
	10-04-2006	10-04-2006 to 07-03-2010 ²	0.100	43,112,000	—	—	(43,112,000)	—
				157,258,000	—	—	(157,258,000)	—
Employees								
	21-02-2002	21-02-2002 to 20-02-2012	0.280	2,100,000	—	—	—	2,100,000
	10-04-2006	10-04-2006 to 09-04-2016	0.100	5,000,000	—	—	—	5,000,000
	26-04-2007	26-04-2007 to 25-04-2017	0.200	14,400,000	—	—	—	14,400,000
	07-03-2008	07-03-2008 to 06-03-2018	0.130	169,332,000	—	—	—	169,332,000
				190,832,000	—	—	—	190,832,000
Consultants/Advisors								
	21-02-2002	21-02-2002 to 20-02-2012	0.280	38,002,000	—	—	—	38,002,000
	03-11-2003	03-11-2003 to 02-11-2013	0.100	52,632,000	—	—	—	52,632,000
	24-05-2004	24-05-2004 to 23-05-2014	0.100	42,632,000	—	—	—	42,632,000
	10-04-2006	10-04-2006 to 09-04-2016	0.100	142,026,000	—	—	—	142,026,000
	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	—	—	—	126,906,000
				552,498,000	—	—	—	552,498,000
				TOTAL :	900,588,000	—	(157,258,000)	743,330,000

Notes:

- (1) The exercisable period in respect of the options held by Mr. Yu Chung Hang, Lucian was terminated as a result of his removal as Executive Director and Chief Executive Officer of the Company on 13 May 2010.
- (2) The exercisable period in respect of the options held by Dato Dr. Wong Sin Just was shortened to 7 March 2010 as a result of his resignation as Director of the Company on 8 December 2009.
- (3) 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).
- (4) 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	150,000
	01-11-2002	150,000
	21-02-2003	375,000
	01-11-2003	300,000
	21-02-2004	375,000
	21-02-2005	750,000
10-04-2006	02-10-2007	5,000,000
26-04-2007	26-04-2007	3,600,000
	26-04-2008	3,600,000
	26-04-2009	7,200,000
07-03-2008	07-03-2008	7,500,000
	07-03-2009	77,166,000
	07-03-2010	84,666,000

- (5) 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	42,132,000
	03-11-2004	3,500,000
	03-11-2005	7,000,000
24-05-2004	24-05-2004	42,632,000
10-04-2006	10-04-2006	127,091,500
	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

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

At 30 June 2010, 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 required to be 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 contained in the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”):

(1) Shares of the Company (long position)

Name of Director	Capacity	Nature of interest	Number of ordinary shares of HK\$0.10 each held	Approximate percentage of the issued shares
Li Juewen	beneficial owner	personal	2,710,000,000	20.007%
Guo Bao Ping	beneficial owner	personal	500,000	0.004%

(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 2010 are set out under the section headed “Options granted under the share option scheme” above.

Save as disclosed above, as at 30 June 2010, 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 SHAREHOLDER

As at 30 June 2010, the following person 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
蕪湖隆源投資有限公司 (Wuhu Longyuan Investment Company Limited*)	beneficial owner	1,950,000,000	14.40%

* for identification purpose only

Save as disclosed above, as at 30 June 2010, 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 2010, neither the Company nor any of its subsidiaries purchased, sold or redeemed any shares of the Company.

UPDATE ON DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

Wu Zhenfang

(Non-executive Director)

Mr. Wu Zhenfang was re-nominated to be a candidate of an Independent Director of Shanghai Xinmei Real Estate Co., Ltd. (上海新梅置業股份有限公司) (listed on the Shanghai Stock Exchange) and he was appointed as the Independent Director after a resolution was passed in shareholders' meeting held on 22 June 2010. In addition, Mr. Wu has ceased to be the chairman of Wuhu Longyuan Investment Company Limited (蕪湖隆源投資有限公司), a substantial shareholder of the Company, since 5 August 2010.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving and maintaining a high standard of corporate governance. During the six months ended 30 June 2010, 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 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 2010.

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 for the six months ended 30 June 2010.

NON-COMPLIANCE WITH RULE 3.10(1) OF THE LISTING RULES

Following the retirement of Mr. Li Tielu as an Independent Non-executive Director of the Company at the conclusion of the 2010 AGM held on 17 June 2010. The Company has only two Independent Non-executive Directors, the number of which falls below the minimum number required under Rule 3.10(1) of the Listing Rules. The Company is looking for a suitable candidate to fill the vacancy and to meet the minimum required number of Independent Non-executive Directors under the Listing Rules as soon as practicable and on or before 17 September 2010 (i.e. within 3 months from the date failing to meet such requirement).

The Company will make announcement regarding the appointment of any new Independent Non-executive Director of the Company as and when appropriate.

By Order of the Board

LI JUEWEN

Chairman

Hong Kong, 27 August 2010

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2010

	NOTES	For the six months ended 30 June	
		2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
Turnover	3	91,141	94,540
Cost of services		(43,161)	(27,247)
Gross profit		47,980	67,293
Other income and gains and losses		110	5,540
Administrative expenses		(25,056)	(27,472)
Impairment losses on other intangible assets	8	—	(6,625)
Impairment losses arising from adjustment to fair value less costs to sell	13	(6,470)	—
Gain on disposal of subsidiaries	12	—	5,278
Finance costs		(1,936)	(1,919)
Profit before taxation		14,628	42,095
Income tax	4	(3,837)	556
Profit for the period attributable to owners of the Company	5	10,791	42,651
Earnings per share attributable to owners of the Company, in HK cents	7		
Basic		0.0797	0.3678
Diluted		0.0797	0.3678

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2010

	For the six months ended 30 June	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
Profit for the period	10,791	42,651
Other comprehensive income	—	—
Total comprehensive income for the period attributable to owners of the Company	<u>10,791</u>	<u>42,651</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2010

	NOTES	30 June 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	8	517,078	516,131
Land use right	8	3,772	3,812
Goodwill		84,976	87,246
Other intangible assets	8	426,756	442,578
Promissory note receivable	9	409	395
Deposits paid for acquisition of property, plant and equipment		16,636	49,910
		1,049,627	1,100,072
Current assets			
Land use right	8	80	80
Promissory note receivable	9	—	—
Trade receivables	10	94,372	47,764
Other receivables, prepayments and deposits		3,696	3,588
Bank balances and cash		57,362	91,766
		155,510	143,198
Assets classified as held for sale	13	22,159	—
		177,669	143,198
Current liabilities			
Other payables and accruals		19,794	48,244
Income tax liabilities		1,820	632
Borrowings		13,636	13,636
		35,250	62,512
Net current assets		142,419	80,686
Total assets less current liabilities		1,192,046	1,180,758

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2010

	<i>NOTE</i>	30 June 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
Non-current liabilities			
Borrowings		104,062	103,983
Guaranteed convertible notes		985	980
Deferred tax liabilities		62,792	64,545
		<u>167,839</u>	<u>169,508</u>
Net assets		<u>1,024,207</u>	<u>1,011,250</u>
CAPITAL AND RESERVES			
Share capital	11	1,354,511	1,354,511
Reserves		<u>(330,304)</u>	<u>(343,261)</u>
Total equity		<u>1,024,207</u>	<u>1,011,250</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2010

	Attributable to owners of the Company							
	Share capital HK\$'000 (Note 11)	Share premium HK\$'000	Capital redemption reserve HK\$'000	Share option reserve HK\$'000	Exchange translation reserve HK\$'000	Guaranteed convertible notes – equity component reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2009 (audited)	1,159,511	1,050,130	1,899	38,736	100,515	140	(915,423)	1,435,508
Total comprehensive income for the period	–	–	–	–	–	–	42,651	42,651
Reserves released upon maturity of guaranteed convertible notes	–	–	–	–	–	(104)	104	–
Fair value of share options credited to share option reserve	–	–	–	7,002	–	–	–	7,002
Lapse of share options	–	–	–	(1,076)	–	–	1,076	–
At 30 June 2009 (unaudited)	1,159,511	1,050,130	1,899	44,662	100,515	36	(871,592)	1,485,161
At 1 January 2010 (audited)	1,354,511	981,880	1,899	39,674	100,515	36	(1,467,265)	1,011,250
Total comprehensive income for the period	–	–	–	–	–	–	10,791	10,791
Expenses for issuance of ordinary shares in prior year	–	(7)	–	–	–	–	–	(7)
Fair value of share options credited to share option reserve	–	–	–	2,173	–	–	–	2,173
Lapse of share options	–	–	–	(3,896)	–	–	3,896	–
At 30 June 2010 (unaudited)	1,354,511	981,873	1,899	37,951	100,515	36	(1,452,578)	1,024,207

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2010

	NOTE	For the six months ended 30 June	
		2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES		(16,683)	103,721
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(669)	(28,374)
Deposits paid for acquisition of property, plant and equipment		(12,500)	(97,091)
Net cash outflow from disposal of subsidiaries	12	—	(3,670)
Proceeds from disposal of property, plant and equipment		—	2
NET CASH USED IN INVESTING ACTIVITIES		(13,169)	(129,133)
FINANCING ACTIVITIES			
Redemption of promissory note payable		—	(10,000)
Redemption of guaranteed convertible notes		—	(3,000)
Repayment of bank loan		(4,545)	—
Expenses on issue of shares		(7)	—
NET CASH USED IN FINANCING ACTIVITIES		(4,552)	(13,000)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(34,404)	(38,412)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		91,766	78,157
CASH AND CASH EQUIVALENTS AT END OF PERIOD		57,362	39,745
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS AT END OF PERIOD			
Bank balances and cash		57,362	39,745

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2010

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 2010 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**”) and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”)

2. PRINCIPAL ACCOUNTING POLICIES

These unaudited condensed consolidated financial statements have been prepared under the historical cost convention.

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 2009. The accounting policies and methods 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 2009.

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

The adoption of these new and revised HKFRSs had no material effect on the reported results or financial position of the Group for both the current and prior reporting periods.

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. TURNOVER AND SEGMENT INFORMATION

During the six months ended 30 June 2010 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's Republic of China (the "PRC") and most of the assets of the Group are located in the PRC as at 30 June 2010 and 31 December 2009.

4. INCOME TAX

	For the six months ended 30 June	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
Current tax – PRC	5,590	3,067
Deferred tax – PRC	(1,753)	(3,623)
Income tax	<u>3,837</u>	<u>(556)</u>

No Hong Kong profits tax has been provided as the Group did not have assessable profits arising in Hong Kong for both periods. 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 enterprises income tax rate is 25% for both periods. Pursuant to the relevant laws and regulations in the PRC, one major subsidiary of the Company is exempted from the PRC enterprises income tax for the years 2008 and 2009, followed by a 50% reduction in the following three years commencing from 2010.

5. PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY

Profit for the period attributable to owners of the Company has been arrived at after charging/ (crediting):

	For the six months ended 30 June	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
Depreciation of property, plant and equipment	17,173	13,284
Depreciation of jointly-controlled assets	5,946	3,775
Amortisation of land use right	40	40
Amortisation of other intangible assets included in cost of services	15,822	6,248
Loss on swap of assets	—	3,190
Interest on:		
Bank loan wholly repayable within five years	824	—
Loans from a former intermediate holding company and a former fellow subsidiary wholly repayable within five years	1,081	1,248
Guaranteed convertible notes	31	117
Promissory note payable	—	554
Employee benefit expenses, including directors' emoluments:		
Salaries and other benefits	9,668	9,888
Share-based payment expense	1,146	3,547
Net exchange losses/(gains)	4,870	(5,833)
Promissory notes interest income	(14)	(2,365)
Government subsidy	—	(387)

6. DIVIDEND

The board of directors did not recommend the payment of any dividend for the six months ended 30 June 2010 and 2009.

7. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

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

The calculation of diluted earnings per share is based on the profit for the period attributable to owners of the Company, adjusted to reflect the interest on the guaranteed convertible note, 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 period, as used in the basic 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.

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

Earnings

	For the six months ended 30 June	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
Profit for the purpose of basic earnings per share	10,791	42,651
Interest on guaranteed convertible notes	* —	*30
Profit for the purpose of diluted earnings per share	10,791	42,681

Number of shares

	For the six months ended 30 June	
	2010 '000 (Unaudited)	2009 '000 (Unaudited)
Weighted average number of ordinary shares for the purpose of basic earnings per share	13,545,113	11,595,113
Effect of dilutive potential ordinary shares:		
— Guaranteed convertible notes	* —	*9,091
Weighted average number of ordinary shares for the purpose of diluted earnings per share	13,545,113	11,604,204

* Certain guaranteed convertible notes have an anti-dilutive effect on the basic earnings per share of the Group for the six months ended 30 June 2010 and 2009. Accordingly, the effect of such guaranteed convertible notes was not included in the calculation of diluted earnings per share for the six months ended 30 June 2010 and 2009.

8. PROPERTY, PLANT AND EQUIPMENT, LAND USE RIGHT AND OTHER INTANGIBLE ASSETS

The total cost of additions to the property, plant and equipment of the Group during the six months ended 30 June 2010 was HK\$48,039,000 (six months ended 30 June 2009: HK\$82,579,000). The aggregated net carrying amount of property, plant and equipment disposal of during the six months ended 30 June 2010 was HK\$Nil (six months ended 30 June 2009: HK\$20,216,000). As at 30 June 2010, an aggregated net carrying amount of property, plant and equipment of HK\$23,973,000 was transferred to assets classified as held for sale (Note 13).

There was no addition to the other intangible assets of the Group during the six months ended 30 June 2010 and 2009. The aggregated net carrying amount of other intangible assets disposed of during the six months ended 30 June 2010 was HK\$Nil (six months ended 30 June 2009: HK\$37,187,000). An impairment of other intangible assets of HK\$Nil was recognised in profit or loss during the six months ended 30 June 2010 (six months ended 30 June 2009: HK\$6,625,000).

There was no addition to the land use right of the Group during the six months ended 30 June 2010 and 2009.

9. PROMISSORY NOTES RECEIVABLES

In 2008, the Group disposed of its interests in 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.

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, had 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 full provision for impairment loss of HK\$81,449,000 had been charged to the consolidated income statement for the year ended 31 December 2009.

The carrying amount of the promissory note receivable as at 30 June 2010 represented the fair value of the promissory note with principal amount of HK\$384,000 and 5% coupon interest rate per annum at the time of initial recognition of HK\$344,000 and the net interest receivable of the Company of HK\$65,000 as at 30 June 2010 (at 31 December 2009: HK\$51,000). The effective interest rate of the promissory note receivable is 6.68% per annum.

10. TRADE RECEIVABLES

The Group generally allows an average credit period of 90 days (2009: 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:

	30 June 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
Neither past due nor impaired	46,534	38,745
1 to 3 months past due	34,016	8,615
4 to 6 months past due	13,822	229
7 to 12 months past due	—	175
	<u>94,372</u>	<u>47,764</u>

As at 30 June 2010, an amount of HK\$2,386,000 of trade receivables was transferred to assets classified as held for sale (Note 13).

11. SHARE CAPITAL

	Number of shares '000	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 30 June 2010 and 31 December 2009	<u>20,000,000</u>	<u>2,000,000</u>
Issued and fully paid:		
At 30 June 2010 (unaudited) and 31 December 2009 (audited)	<u>13,545,113</u>	<u>1,354,511</u>

12. DISPOSAL OF SUBSIDIARIES

During the six months ended 30 June 2009, Shanghai Anping Medical Treatment Technology Co., Ltd. (“**Shanghai Anping**”), the Company’s wholly-owned subsidiary, disposed of its 100% direct interest in Shanghai Hangyi Medical Management Co., Ltd. for a consideration of RMB5,000,000, equivalent to approximately HK\$5,682,000 which is included in the other receivables of Shanghai Anping. During the same period, the Group subsequently disposed of 100% interest in Shanghai Anping for a consideration of RMB5,000,000, equivalent to approximately HK\$5,682,000. Accordingly, the effective consideration received by the Group for the disposals was considered as HK\$5,682,000.

Details of the aggregate assets and liabilities of and attributable to the subsidiaries disposed of at date of disposal were as follows:

	<i>HK\$'000</i>
Property, plant and equipment	2
Trade receivables	1,634
Other receivables	9,017
Bank balances and cash	9,352
Other payables	(8,204)
Income tax liabilities	(39,259)
	<hr/>
Net liabilities disposed of	(27,458)
Release of tax indemnity receivable attributable to the subsidiaries disposed of (<i>Note</i>)	27,862
Gain on disposal of subsidiaries	5,278
	<hr/>
	5,682
	<hr/> <hr/>
Satisfied by:	
Cash consideration	5,682
	<hr/> <hr/>
Net cash outflow arising on disposal:	
Cash consideration	5,682
Bank balances and cash disposed of	(9,352)
	<hr/>
	(3,670)
	<hr/> <hr/>

Note: The amount represented tax indemnity given by the vendor, Li Juewen, pursuant to a sale and purchase agreement in respect of the Group’s acquisition of Shanghai Anping and its subsidiaries (collectively the “**Anping Medical Group**”) during the year ended 31 December 2007. The amount was unsecured, interest-free and repayable upon the request of payment from the relevant PRC tax bureau. As the Group’s entire interest in the entities within the Anping Medical Group has been disposed of during the prior interim period, such amount was also derecognised and included in the calculation of gain on disposal of the subsidiaries during the prior interim period.

13. ASSETS CLASSIFIED AS HELD FOR SALE

During the interim period, the management has initiated a plan to dispose of a medical equipment and the related trade receivables to the vendor after the Group's purchase in 2008. The carrying amounts of the medical equipment, trade receivables and other attributable assets (collectively referred as to the "Disposal Assets") have been classified as held for sale in the condensed consolidated statement of financial position and written down to fair value less costs to sell as at 30 June 2010. The board of directors anticipated that the disposal will complete within one year after the end of the reporting period.

	<i>Notes</i>	<i>HK\$'000</i> <i>(Unaudited)</i>
Goodwill		2,270
Property, plant and equipment	8	23,973
Trade receivables	10	2,386
Impairment loss arising from adjustment to fair value less costs to sell		<u>(6,470)</u>
Assets classified as held for sale as at 30 June 2010		<u><u>22,159</u></u>

The Disposal Assets did not contribute any cash flow to the Group during the current interim period. The above operation does not constitute a discontinued operation as it does not represent a major line of business or geographical area of operation.

14. CAPITAL COMMITMENTS

	30 June 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
Contracted for but not provided in respect of acquisition of property, plant and equipment	<u><u>19,147</u></u>	<u><u>16,664</u></u>

15. SHARE-BASED PAYMENTS

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 2010 (audited)	900,588,000
Lapsed during the period	<u>(157,258,000)</u>
Outstanding at 30 June 2010 (unaudited)	<u>743,330,000</u>
Exercisable at 30 June 2010	<u>679,877,000</u>

The Group amortises the fair value of the share options previously granted, which was calculated using Black-Scholes Option Pricing Model over the relevant vesting period. Accordingly, an amount of HK\$2,173,000 was charged as an equity-settled share-based payment expense for the six months ended 30 June 2010 (six months ended 30 June 2009: HK\$7,002,000) of which HK\$1,146,000 (six months ended 30 June 2009: HK\$3,547,000) and HK\$1,027,000 (six months ended 30 June 2009: HK\$3,455,000) are attributable to the share options granted to employees and other eligible persons providing similar services, respectively.

16. RELATED PARTY DISCLOSURES

	For the six months ended 30 June	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
(a) Rental paid to a related party		
Rental payments to Fung Choi Properties Limited ("Fung Choi") (Note)	<u>434</u>	<u>594</u>

Note: Fung Choi is beneficially owned as to 19.8% by 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 Yu Kam Kee, Lawrence, a senior advisor of the Company and father of Yu Chung Hang, Lucian, an executive director of the Company up to 12 May 2010.

(b) Compensation of key management personnel of the Group

The remuneration of members of key management, comprised only of the directors whose remuneration as determined by the Remuneration Committee, having regard to the performance of individual and market trends, amounted to HK\$1,869,000 (six months ended 30 June 2009: HK\$3,394,000).

(c) Included in the borrowings, a bank loan of HK\$25,000,000 as at 30 June 2010 was secured by the Group's medical equipment with the aggregate carrying value of HK\$81,976,000 (31 December 2009: HK\$78,196,000) and personal guarantees of (i) an ex-director of a subsidiary who is also the current member of senior management of the subsidiary; and (ii) a director of the Company.