CHINA RENJI Medical Group Ltd.

中國仁濟醫療集團有限公司

Stock Code: 648

INTERIM REPORT 2011

2011 INTERIM REPORT

For the six months ended 30 June 2011

CONTENTS

	Pages
Corporate information	2
Management commentary	3
Condensed consolidated income statement	11
Condensed consolidated statement of comprehensive income	12
Condensed consolidated statement of financial position	13
Condensed consolidated statement of changes in equity	14
Condensed consolidated statement of cash flows	15
Notes to the condensed consolidated interim financial statements	16

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Director:

WANG Jianguo *(Chairman)*

Non-executive Directors:

WANG Yongchang
WU Zhenfang

Independent Non-executive Directors:

PANG Wai Hong
GENG Xiaobing
WU Yan

AUDIT COMMITTEE

PANG Wai Hong
WANG Yongchang
GENG Xiaobing
WU Yan

REMUNERATION COMMITTEE

PANG Wai Hong
WANG Yongchang
GENG Xiaobing

COMPANY SECRETARY

CHAN Chun Ho *CPA, BBA*

PRINCIPAL BANKERS

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

AUDITORS

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

SHARE REGISTRARS

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

REGISTERED OFFICE

Rm 3001, 30/F, Hopewell Centre,
183 Queen's Road East,
Wanchai, Hong Hong

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 2011.

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 2011, the Group recorded a turnover of approximately HK$69,520,000 (30 June 2010: HK$91,141,000), representing a decrease of approximately 23.72% 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 our contracted percentage of respective center's revenue net of specified operating expenses and the ever-increasing competitive operating environment.

Gross profit

For the six months ended 30 June 2011, the Group recorded a gross profit of approximately HK$38,388,000 (30 June 2010: HK$47,980,000) and a gross profit ratio of approximately 55.22% (30 June 2010: 52.64%) from its medical network business, which included an amortisation charge of other intangible assets of approximately HK$10,675,000 (30 June 2010: HK$15,822,000). 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$49,063,000 (30 June 2010: HK$63,802,000) and 70.57% (30 June 2010: 70.00%). The decrease in gross profit was primarily attributable to the decrease in turnover.

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 2011 was approximately HK$6,061,000 (30 June 2010: HK$10,791,000). The decline in profit for the interim period was primarily due to the decrease in contribution from the Group's medical network business during the period.

Basic earnings per share for the reporting period was approximately HK0.0447 cents (30 June 2010: HK0.0797 cents).

BUSINESS REVIEW

The Group is principally engaged in the provision of medical equipment and services for the operation of medical center network specialising in the diagnosis and treatment of tumours/cancer in China.

The reporting period is another challenging period for the Group. The healthcare reform policies implemented by the Chinese government since 2009 has led to the reduction in the examination fees and treatment fees for large medical equipment. This coupled with the ever-increasing inflation rate in the domestic market and the damaging effect of dispute between previous management has laid significant pressure on our financial performance and the growth pace of our medical network.

During the period and up to the date of this report, there were significant events in the operation of our medical business as described below.

In June 2011, the Group entered into an acquisition agreement pursuant to which it agreed to acquire the right to obtain 50% of the net income derived from the PET — CT machine used in the Shanghai No. 85 Hospital (the "**Shanghai 85 Hospital**") for a consideration of RMB25,000,000 (approximately HK$29,412,000). Shanghai 85 Hospital, located in Shanghai City, is a "Class 3A" comprehensive hospital with approximately 850 beds. Through the gamma knife center in Shanghai 85 Hospital, the Group is able to further consolidate its medical network in Shanghai and eastern region of China. The acquisition was completed in June 2011.

As disclosed in our 2010 annual report, the Group's medical equipment for use in Shijiazhuang Hua Guang Tumour Hospital Holy Digital Radiation Therapy Center has ceased operations. Pursuant to an arbitration made in March 2011, the Group has taken back the possession of the said medical equipment in March 2011.

In addition, as disclosed in our 2010 annual report, the Group's medical equipment for use in The Gamma Knife Treatment and Research Center of Xinjiang Hospital has also ceased operations. During the reporting period, the Group has seek legal advice and is taking appropriate actions to safeguard the interest of the Group.

As at the date of this report, there are 16 centers in the Group's medical network, covering the central, eastern, southern, northern, northeastern, northwestern and western regions of China.

As disclosed in the announcements of the Company dated 21 April 2010 and 27 April 2010 and the Company's 2009 and 2010 annual reports, Clear Smart Enterprises Limited had defaulted on the non-convertible bond (the "**Bond**") due 2010 to the Company. 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 is actively seeking legal advice as to the appropriate actions to be taken in order to safeguard the interest of the Group.

PROSPECTS

According to the healthcare reform plan promulgated by the Chinese government in 2009, the Chinese government is aiming to reduce examination and treatment fees for large medical equipment and provide more funding for hospitals to purchase their own equipment. This may have a material and adverse effect on our business, financial conditions and results of operations.

With the challenging operating environment, the Group will continue to take proactive strategies to maintain its competitiveness, including (1) improving the internal management system, (2) enhancing the utilization rate and cost efficiency of its existing medical centers, and (3) reviewing and implementing business development strategy to strengthen the Group's position in the Chinese specialized hospital service market in a cautious manner.

Looking forward, the Group will continue to actively but yet cautiously drive the development of its existing medical network and continue to seek investment/business expansion opportunities in other business areas with an aim to enhancing the Group's income base and improving its future financial performance.

FINANCIAL REVIEW

Liquidity and financial resources

For the six months ended 30 June 2011, the net cash generated from operating activities amounted to approximately HK$42,900,000 (30 June 2010: cash used in of HK$16,683,000). The cash inflow in operating activities mainly resulted from the decrease in trade receivables and other receivables.

The net cash used in investing activities amounted to approximately HK$57,098,000 (30 June 2010: HK$13,169,000) and the net cash used in financing activities amounted to approximately HK$4,706,000 (30 June 2010: HK$4,552,000) during the six months ended 30 June 2011. The cash outflow in investing and financing activities mainly resulted from capital expenditure for acquisition of medical assets 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 2011 a net cash outflow of approximately of HK$18,904,000 (30 June 2010: HK$34,404,000).

As at 30 June 2011, the Group maintained bank balances and cash amounted to approximately HK$41,183,000 (31 December 2010: HK$60,087,000).

As at 30 June 2011, the Group's total borrowings amounted to approximately HK$112,991,000 (31 December 2010: HK$117,181,000) which included borrowings of HK$111,993,000 (31 December 2010: HK$116,189,000), guaranteed convertible notes of approximately HK$998,000 (31 December 2010: HK$992,000). The borrowings of HK$112,991,000 were all repayable within one year (31 December 2010: HK$117,181,000).

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 continued to provide funding to the Group's operations.

As at 30 June 2011, the Group's net asset value was approximately HK$676,431,000 (31 December 2010: HK$670,370,000) with a liquidity ratio (calculated on the basis of the Group's current assets to current liabilities) weaken to 0.95 times as at 30 June 2011 compared to 1.27 times as at 31 December 2010. 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 16.70% (31 December 2010: 17.48%). The slightly decrease in gearing ratio was mainly due to partial repayment of a bank loan and profit derived during the period.

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 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 2011, certain of the Group's medical equipment with aggregate carrying amount of HK$52,929,000 were pledged to secure general banking facilities granted to the Group (31 December 2010: HK$55,233,000).

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2011, the total number of employees of the Group was 76. 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 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 2011	Granted during the period	Exercised during the period	Lapsed during the period	At 30 June 2011
Employees	21-02-2002	21-02-2002 to 20-02-2012	0.280	1,500,000	–	–	–	1,500,000
	26-04-2007	26-04-2007 to 25-04-2017	0.200	1,000,000	–	–	–	1,000,000
	07-03-2008	07-03-2008 to 06-03-2018	0.130	169,332,000	–	–	(30,000,000)	139,332,000
				171,832,000	–	–	(30,000,000)	141,832,000
Consultants/Advisors	21-02-2002	21-02-2002 to 20-02-2012	0.280	38,002,000	–	–	(24,402,000)	13,600,000
	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	–	–	(43,112,000)	98,914,000
	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	–	–	(67,514,000)	484,984,000
			TOTAL:	724,330,000	–	–	(97,514,000)	626,816,000

Notes:

(1) 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).

(2) Options granted to employees are vested as follows:

Date of grant	Date of vesting	No. of share options vested
21-02-2002	21-02-2003	375,000
	21-02-2004	375,000
	21-02-2005	750,000
26-04-2007	26-04-2007	250,000
	26-04-2008	250,000
	26-04-2009	500,000
07-03-2008	07-03-2008	7,500,000
	07-03-2009	77,166,000
	07-03-2010	84,666,000

(3) 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

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2011, 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 Securities and Futures Ordinance (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	corporate interest and beneficial owner	2,710,000,000 *(Note)*	20.01%
Renji Cancer Researching Found of China S.A. (the "**Cancer Researching Found**")	beneficial owner	2,439,000,000 *(Note)*	18.01%
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*

Note: Cancer Researching Found is wholly-owned by Li Juewen. By virtue of the SFO, Li Juewen is deemed to be interested in the shares held by Cancer Researching Found in the Company.

Save as disclosed above, as at 30 June 2011, no person 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 2011, 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 RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "**LISTING RULES**")

Wang Jianguo
(Chairman and Executive Director)

Mr. Wang, aged 47, is a qualified lawyer in China and is currently the vice president of Anping Medical Treatment Technology (Wuhu) Co., Ltd., a wholly-owned subsidiary of the Company. Prior to joining the Group, he was a practising lawyer at the Foreign Economy and Trade Law Firm in Wuhu City, Anhui Province, China and has served as a legal adviser to a number of prominent companies including Midea Electronics (Wuhu) Co., Ltd and Wuhu Construction Investment Co., Ltd. etc. Mr. Wang holds an EMBA degree from Nanjing University, China and the award as an Advanced Lawyer in Anhui Province.

Wu Yan
(Independent Non-executive Director)

Ms. Wu, aged 44, has over 20 years of experience in accounting and financial management and is currently the business manager of Tianjin Branch of China CITIC Bank Corporation Limited. Ms. Wu has served the managerial level of a number of Chinese companies including the manager of the finance department of Hearty Group (China) Investment Co., Ltd. (和泰集團有限公司), the manager of the accounting department of Xin Wu Zhou International Trading Company (新五洲國際貿易公司) and the accountant of Tianjin Ming You Wines Company (天津名優酒公司). Ms. Wu holds a master's degree in business administration from The University of Greenwich, the United Kingdom and holds a bachelor's degree in accounting from Stamford College, Malaysia.

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 2011, 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 condensed consolidated interim financial statements of the Group for the six months ended 30 June 2011.

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 2011.

SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company was suspended since 18 October 2010 and shall remain suspended until further notice.

By Order of the Board

WANG JIANGUO
Chairman

Hong Kong, 29 August 2011

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2011

		Six months ended 30 June	
	NOTES	**2011**	2010
		HK$'000	*HK$'000*
		(Unaudited)	*(Unaudited)*
Turnover	3	**69,520**	91,141
Cost of services		**(31,132)**	(43,161)
Gross profit		**38,388**	47,980
Other gains and losses		**103**	110
Administrative expenses		**(26,582)**	(25,056)
Impairment losses arising from adjustment to fair value less costs to sell		**–**	(6,470)
Finance costs		**(1,594)**	(1,936)
Profit before taxation		**10,315**	14,628
Income tax	4	**(4,254)**	(3,837)
Profit for the period attributable to owners of the Company	5	**6,061**	10,791
Earnings per share attributable to owners of the Company (HK cents)	7		
— Basic		**0.0447**	0.0797
— Diluted		**0.0447**	0.0797

The accompanying notes form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2011

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Profit for the period	**6,061**	10,791
Other comprehensive income for the period, net of tax	**–**	–
Total comprehensive income for the period attributable to owners of the Company	**6,061**	10,791

The accompanying notes form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2011

	NOTES	As at 30 June 2011 HK$'000 (Unaudited)	As at 31 December 2010 HK$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	8	**378,297**	354,849
Land use right	8	**3,866**	3,866
Other intangible assets	8	**288,898**	270,161
Promissory notes receivables	9	**436**	422
Deposits paid for acquisition of property, plant and equipment		**35,529**	26,588
		707,026	655,886
Current assets			
Land use right	8	**41**	82
Trade receivables	10	**63,677**	83,618
Other receivables, prepayments and deposits		**24,095**	44,658
Tax recoverable		**1,326**	333
Cash and bank balances		**41,183**	60,087
		130,322	188,778
Current liabilities			
Other payables and accruals		**24,175**	31,720
Borrowings		**111,993**	116,189
Guaranteed convertible notes		**998**	992
		137,166	148,901
Net current (liabilities)/assets		**(6,844)**	39,877
Total assets less current liabilities		**700,182**	695,763
Non-current liabilities			
Deferred tax liabilities		**23,751**	25,393
Net assets		**676,431**	670,370
CAPITAL AND RESERVES ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Share capital	11	**1,354,511**	1,354,511
Reserves		**(678,080)**	(684,141)
Total equity		**676,431**	670,370

The accompanying notes form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2011

	Equity attributable to owners of the Company							
	Share capital	**Share premium**	**Capital redemption reserve**	**Share option reserve**	**Exchange translation reserve**	**Guaranteed convertible notes-equity component reserve**	**Accumulated losses**	**Total**
	HK$'000 *(Note11)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As 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
Transaction cost attributable to issue 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	–
As at 30 June 2010 (Unaudited)	1,354,511	981,873	1,899	37,951	100,515	36	(1,452,578)	1,024,207
As at 1 January 2011 (Audited)	**1,354,511**	**981,866**	**1,899**	**37,462**	**132,597**	**36**	**(1,838,001)**	**670,370**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**–**	**6,061**	**6,061**
Lapse of share options	**–**	**–**	**–**	**(2,047)**	**–**	**–**	**2,047**	**–**
As at 30 June 2011 (Unaudited)	**1,354,511**	**981,866**	**1,899**	**35,415**	**132,597**	**36**	**(1,829,893)**	**676,431**

The accompanying notes form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Net cash generated from/(used in) operating activities	**42,900**	(16,683)
Cash flows from investing activities		
Purchase of property, plant and equipment	**(18,745)**	(669)
Purchase of intangible assets	**(2,824)**	—
Deposits paid for acquisition of property, plant and equipment	**(35,529)**	(12,500)
Net cash used in investing activities	**(57,098)**	(13,169)
Cash flows from financing activities		
Repayment of bank loan	**(4,706)**	(4,545)
Expenses on issue of shares	**—**	(7)
Net cash used in financing activities	**(4,706)**	(4,552)
Net decrease in cash and cash equivalents	**(18,904)**	(34,404)
Cash and cash equivalents at the beginning of the period	**60,087**	91,766
Cash and cash equivalents at the end of the period	**41,183**	57,362
Analysis of balances of cash and cash equivalents		
Cash and bank balances	**41,183**	57,362

The accompanying notes form an integral part of these condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

1. BASIS OF PREPARATION

The condensed consolidated interim financial statements for the six months ended 30 June 2011 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 disclosure requirements of Appendix 16 to the Listing Rules. They have been prepared under the historical cost convention, except for financial assets and financial liabilities, which are carried at fair value. The condensed consolidated interim financial statements are presented in Hong Kong Dollars (**"HK$"**) and all values are rounded to the nearest thousand except when otherwise indicated. The condensed consolidated interim financial statements are unaudited but have been reviewed by the Audit Committee.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in preparing the condensed consolidated interim financial statements are consistent with those adopted in the preparation of the Group's annual financial statements for the year ended 31 December 2010 except for the adoption of the new and revised Hong Kong Financial Reporting Standards (**"HKFRSs"**) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (**"HKASs"**) and Interpretations) issued by the HKICPA as discussed below.

In the current interim period, the Group has applied, for the first time, the following new or revised standards, amendments and interpretations (**"new and revised HKFRSs"**) issued by the HKICPA, which are effective for the Group's financial year beginning 1 January 2011.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HKAS 24 (as revised in 2009)	Related Party Disclosures
HKAS 32 (Amendments)	Classification of Rights Issues
HK(IFRIC) — Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK(IFRIC) — Int 19	Extinguishing Financial Liabilities with Equity Instruments

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The application of the above new and revised HKFRSs has no material effect on the results and financial positions of the Group for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters [1]
HKFRS 7 (Amendments)	Financial Instruments: Disclosures — Transfers of Financial Assets [1]
HKFRS 9	Financial Instruments [4]
HKFRS 10	Consolidated Financial Statements [4]
HKFRS 11	Joint Arrangements [4]
HKFRS 12	Disclosure of Interests in Other Entities [4]
HKFRS 13	Fair Value Measurement [4]
Amendments to HKAS 1 (Revised)	Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income [3]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets [2]
HKAS 19 (2011)	Employee Benefits [4]
HKAS 27 (2011)	Separate Financial Statements [4]
HKAS 28 (2011)	Investments in Associates and Joint Ventures [4]

[1] Effective for annual periods beginning on or after 1 July 2011

[2] Effective for annual periods beginning on or after 1 January 2012

[3] Effective for annual periods beginning on or after 1 July 2012

[4] Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of the above HKFRSs upon initial application but is not yet in a position to state whether the above HKFRSs would have a significant impact on the Group's results of operations and financial position.

3. TURNOVER AND SEGMENT INFORMATION

During the six months ended 30 June 2011 and 2010, 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 PRC and most of the assets of the Group are located in the PRC as at 30 June 2011 and 31 December 2010.

4. INCOME TAX

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Current tax — PRC	**5,896**	5,590
Deferred tax — PRC	**(1,642)**	(1,753)
	4,254	3,837

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):

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Depreciation of property, plant and equipment	**12,592**	17,173
Depreciation of jointly-controlled assets	**3,752**	5,946
Amortisation of land use right	**41**	40
Amortisation of other intangible assets included in cost of services	**10,675**	15,822
Interest on:		
Bank loan wholly repayable within five years	**481**	824
Loans from a former intermediate holding company and a former fellow subsidiary wholly repayable within five years	**1,082**	1,081
Guaranteed convertible notes	**31**	31
Employee benefit expenses, including directors' emoluments:		
Salaries and other benefits	**11,347**	9,668
Share-based payment expense	**—**	1,146
Net exchange losses	**462**	4,870
Promissory notes interest income	**(14)**	(14)

6. DIVIDENDS

The board of directors did not recommend the payment of any dividends for the six months ended 30 June 2011 and 2010.

7. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

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

EARNINGS

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Profit for the purpose of basic earnings per share	**6,061**	10,791
Interest on guaranteed convertible notes*	**—**	—
Profit for the purpose of diluted earnings per share	**6,061**	10,791

NUMBER OF SHARES

	Six months ended 30 June	
	2011	2010
	'000	*'000*
	(Unaudited)	*(Unaudited)*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**13,545,113**	13,545,113
Effect of dilutive potential ordinary shares:		
— Share options*	**—**	—
— Guaranteed convertible notes*	**—**	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**13,545,113**	13,545,113

* The guaranteed convertible notes and share options have an anti-dilutive effect on the basic earnings per share of the Group for the six months ended 30 June 2011 and 2010. Accordingly, the effect of the guaranteed convertible notes and share options was not included in the calculation of diluted earnings per share for the six months ended 30 June 2011 and 2010.

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 2011 was HK$39,792,000 (six months ended 30 June 2010: HK$48,039,000).

The total cost of additions to the other intangible assets of the Group during the six months ended 30 June 2011 was HK$29,412,000 (six months ended 30 June 2010: HK$Nil).

There was no addition to the land use right of the Group during the six months ended 30 June 2011 and 2010.

9. PROMISSORY NOTES RECEIVABLES

In 2008, the Group disposed of its interests in the jointly-controlled entities at an aggregate consideration of HK$81,384,000 which was satisfied by promissory notes of HK$81,000,000 and HK$384,000 to the Company with 1.5% and 5% coupon interest per annum and maturity periods of 2 and 5 years, i.e. payable on 8 April 2010 and 31 January 2013 respectively. The carrying amount of the promissory notes receivables as at 30 June 2011 represented the fair value of the promissory notes at the time of initial recognition of HK$73,970,000 and HK$344,000 respectively and the net interest receivables of the Company of HK$7,479,000 (31 December 2010: HK$7,479,000) and HK$92,000 (31 December 2010: HK$78,000) respectively as at 30 June 2011. The average effective interest rate of the promissory notes receivables is 6.18% per annum (31 December 2010: 6.18% per annum).

Clear Smart Enterprises Limited, the issuer of the promissory note with principal amount of HK$81,000,000 and 1.5% coupon interest rate 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 provision for impairment loss of HK$81,449,000 has been charged to the consolidated income statement for the year ended 31 December 2009.

10. TRADE RECEIVABLES

The Group generally allows an average credit period of 180 days (31 December 2010: 180 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:

	As at 30 June 2011 ***HK$'000*** ***(Unaudited)***	As at 31 December 2010 *HK$'000* *(Audited)*
Neither past due nor impaired	**62,054**	73,421
1 to 3 months past due	**1,623**	10,197
	63,677	83,618

11. SHARE CAPITAL

	Number of shares *'000*	**Amount** *HK$'000*
Ordinary shares of HK$0.10 each		
Authorised:		
At 30 June 2011 and 31 December 2010	20,000,000	2,000,000
Issued and fully paid:		
At 30 June 2011 (unaudited) and 31 December 2010 (audited)	13,545,113	1,354,511

12. COMMITMENTS

	As at 30 June 2011 HK$'000 (Unaudited)	As at 31 December 2010 HK$'000 (Audited)
Contracted for but not provided in respect of acquisition of property, plant and equipment	**29,619**	18,608

13. 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 2011 (audited)	724,330,000
Lapsed during the period	(97,514,000)
Outstanding at 30 June 2011 (unaudited)	**626,816,000**
Exercisable at 30 June 2011	**626,816,000**

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$Nil was charged as an equity-settled share-based payment expense (six months ended 30 June 2010: HK$2,173,000) of which HK$Nil (six months ended 30 June 2010: HK$1,146,000) and HK$Nil (six months ended 30 June 2010: HK$1,027,000) are attributable to the shares options granted to employees and other eligible persons providing similar services, respectively.

14. RELATED PARTY TRANSACTIONS

Except for disclosed elsewhere in the condensed consolidated interim financial statements, the Group also has the following related party transactions for the six months ended 30 June 2011 and 2010.

(a) RENTAL PAID TO A RELATED PARTY

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Rental payments to Fung Choi Properties Limited (**"Fung Choi"**) (Note)	–	434

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, an ex-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$1,446,000 (six months ended 30 June 2010: HK$1,869,000).

(c) The bank loan, denominated in RMB, is secured by the Group's medical equipment with the aggregate carrying value of HK$52,929,000 (31 December 2010: HK$55,233,000), by personal guarantees of Directors of the Company.

15. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The condensed consolidated interim financial statements were approved and authorised for issue by the Board of Directors on 29 August 2011.