China Renji Medical Group Ltd.

Stock Code: 648

仁濟

China Renji

2012 Interim Report

CHINA RENJI
Medical Group Ltd.
中國仁濟醫療集團有限公司

2012 INTERIM REPORT

For the six months ended 30 June 2012

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:

TANG Chi Chiu *(Chairman)*
WANG Jianguo

Independent Non-executive Directors:

KWOK Chung On
WU Chi Keung
WU Yan

AUDIT COMMITTEE

WU Chi Keung *(Chairman)*
KWOK Chung On
WU Yan

REMUNERATION COMMITTEE

WU Chi Keung *(Chairman)*
KWOK Chung On

NOMINATION COMMITTEE

WU Chi Keung *(Chairman)*
KWOK Chung On

CORPORATE GOVERNANCE COMMITTEE

WU Chi Keung *(Chairman)*
KWOK Chung On
TANG Chi Chiu
WANG Jianguo
WU Yan

COMPANY SECRETARY

CHAN Chun Ho *CPA, BBA*

PRINCIPAL BANKERS

Bank of Communications Co., Ltd
Wuhu Yangzi Rural Commercial Bank
Company Limited

AUDITORS

HLB Hodgson Impey Cheng Limited
Chartered Accountants
Certified Public Accountants

SHARE REGISTRARS

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

REGISTERED OFFICE

Unit 3001, 30/F., Hopewell Centre
183 Queen's Road East
Hong Kong

WEBSITE

www.renjimedical.com

STOCK CODE

648

MANAGEMENT DISCUSSION AND ANALYSIS

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 2012.

INTERIM RESULTS REVIEW

Overview

The Group is principally engaged in the provision of medical equipment and services for the operation of its medical center network specialising in the diagnosis and treatment of tumours and/or cancer related diseases in the People's Republic of China (the "**PRC**" or "**China**") through the application of advanced radiotherapy technology.

Turnover

For the six months ended 30 June 2012, the Group recorded a turnover of approximately HK$71.32 million (six months ended 30 June 2011: HK$69.52 million), representing a slight increase of approximately 2.59% from the corresponding period last year. The turnover for the period was derived from the medical business operated by the Group.

Gross profit

For the six months ended 30 June 2012, the Group recorded a gross profit of approximately HK$54.59 million (six months ended 30 June 2011: HK$38.39 million) and a gross profit margin of approximately 76.53% (six months ended 30 June 2011: 55.22%) from its medical network business. The increase in gross profit was attributable to the Group's successful implementation of its business plan during late 2011 and 2012 to dispose of the medical assets underlying its medical network which did not possess the necessary licenses (as detailed in the Company's annual report for the year ended 31 December 2011) to the effect that the depreciation and amortization expenses in connection with the Group's medical assets and other intangible assets have been significantly decreased.

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 2012 was approximately HK$35.69 million (six months ended 30 June 2011: HK$6.06 million). The increase in profit for the interim period was attributable to the decrease in depreciation and amortisation expenses as well as the deferred tax liabilities in connection with the Group's medical assets and other intangible assets resulting from the above-mentioned disposal; the exchange gain relating to Japanese Yen-denominated loans of the Group; and the reduction in operating costs as a result of the implementation of the Group's various cost control measures.

Basic earnings per share for the reporting period was approximately HK0.2635 cents (six months ended 30 June 2011: HK0.0447 cents).

BUSINESS REVIEW

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

As at the date of this report, there are 13 centers in the Group's medical network throughout China.

For the six months ended 30 June 2012, and as disclosed in the Company's annual report for the year ended 31 December 2011, the Group still faced a number of challenges including new rounds of healthcare reform policies implemented by the PRC government including the promulgation of new rules and regulations as well as the tightening implementation of the existing rules and regulations, which have led to an increasingly challenging operating environment for the Group's medical network business, such as the reduction in the examination fees and treatment fees charged to patients by large medical equipment, the increase in operating expenses of the medical centers and the lowering of the Group's contracted revenue sharing percentages with the Group's hospital and business partners. In addition, such tightening implementation of the existing rules and regulations has also casted uncertainties to the business models of the Group's medical business. Non-profit civilian medical institutions in the PRC are not permitted to enter into cooperation agreements with third parties to set up for-profit centers, but these institutions are permitted to lease medical equipment from their partners at market rates if they do not have adequate funds to purchase the medical equipment. Like other market players, most of the centers in the Group's network are established through long-term lease and management service arrangements entered into with hospital and/or other business partners. Although the market in general operates the same/similar business models as/to ours, the Group's current business model may be exposed to challenges if the relevant health departments at the national or local levels have different interpretation that such lease and management contracts are still not in compliance with such regulations. This, coupled with the lasting domestic inflation, the ravaging effect on the Group's reputation, credibility and trade secrets from the echoed disputes among its previous management and shareholders as well as suspension in the trading in the shares of the Company for nearly two years, have laid significant pressure on the growth of our medical network business and thus the Group's overall financial performance.

As disclosed in the Company's annual report for the year ended 31 December 2011, during 2011, the Group has implemented a plan to dispose of those medical assets (comprising property, plant and equipment and the related other intangible assets) underlying the Group's medical network which do not possess the necessary licenses (the "Non-licensed Medical Assets"). As at 30 June 2012, the carrying amount of these Non-licensed Medical Assets amounted to approximately HK$37.04 million (31 December 2011: approximately HK$142.59 million) and an amount of approximately HK$42.60 million outstanding consideration receivable from the disposal of such Non-licensed Medical Assets was included in the Group's other receivables, prepayments and deposits. It is anticipated that the disposal of the remaining Non-Licensed Medical Assets will be completed during the second half of 2012.

During first half of 2012, the Group entered into two acquisition agreements to acquire two target companies respectively. However, since the due diligence reviews on these companies have not been to the Group's satisfactions, the Company entered into the deeds of termination in September 2012 to terminate the aforesaid acquisition agreements.

PROSPECTS

Given the challenging operating environment, the Group will continue to formulate strategies to maintain its competitiveness, including (i) improving the internal management system, (ii) enhancing the utilization rate and cost efficiency (such as cost saving measures) of its existing medical centers, whilst at the same time, continue to monitor and strengthen the Group's financial position.

Looking forward, the Group will continue to actively, but yet cautiously, drive the development of its existing medical network and seek investment/business expansion opportunities in other business areas so as to maintain the growth momentum of the Group including opportunities in the areas of advanced medical equipment, clinics and hospitals as well as companies in green/recyclable businesses (which are businesses/industries encouraged by the prevailing Chinese government policies) in China.

FINANCIAL REVIEW

Liquidity and financial resources

For the six months ended 30 June 2012, the net cash used in operating activities amounted to approximately HK$41.86 million (six months ended 30 June 2011: net cash inflow of approximately HK$42.90 million). The net cash outflow in operating activities is mainly attributable to the increase in other receivables, prepayments and deposits which comprised the outstanding consideration receivable from the disposal of the Non-licensed Medical Assets and deposits and prepayments for, among other things, facilitating/securing the above-mentioned investment opportunities and replacing the various key parts/components of the Group's medical assets in operation.

The net cash inflow from investing activities amounted to approximately HK$18.47 million (six months ended 30 June 2011: net cash outflow of approximately HK$57.10 million) and the net cash inflow from financing activities amounted to approximately HK$25.56 million (six months ended 30 June 2011: net cash outflow of approximately HK$4.71 million) during the six months ended 30 June 2012. The net cash inflow from investing and financing activities mainly resulted from the proceeds of disposal of the Non-licensed Medical Assets and capital contribution from a non-controlling shareholder of a subsidiary, respectively.

As a result from the above, the Group recorded a net cash inflow of approximately of HK$2.16 million for the six months ended 30 June 2012 (six months ended 30 June 2011: net cash outflow of approximately HK$18.90 million).

As at 30 June 2012, the Group maintained cash and bank balances amounted to approximately HK$51.87 million (31 December 2011: HK$49.71 million).

As at 30 June 2012, the Group's total borrowings amounted to approximately HK$101.98 million (31 December 2011: approximately HK$106.03 million) which included borrowings of approximately HK$100.98 million (31 December 2011: approximately HK$105.03 million), guaranteed convertible note of approximately HK$1.00 million (31 December 2011: approximately HK$1.00 million). Borrowings of approximately HK$101.98 million were repayable within one year (31 December 2011: approximately HK$106.03 million).

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 continue to provide funding to the Group's operations.

As at 30 June 2012, the Group's net asset value was approximately HK$501.24 million (31 December 2011: HK$434.44 million) with a liquidity ratio (calculated based on the Group's current assets to current liabilities) of approximately 2.15 times as at 30 June 2012 (as compared to approximately 1.90 times as at 31 December 2011). The Group's gearing ratio (calculated based on the Group's total borrowings and guaranteed convertible note to the equity attributable to the owners of the Company) was approximately 21.69% (31 December 2011: approximately 24.41%). The slight decrease in gearing ratio was mainly due to increase in 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 hedging policy for foreign currency. However, the management of the Group has and will continue to monitor the Group's foreign exchange exposure closely and will consider hedging if there is significant foreign currency exposure.

Charge on group assets

As at 30 June 2012, certain of the Group's medical assets which amounted to approximately HK$12.10 million (31 December 2011: approximately HK$13.01 million) and assets classified as held for sale with aggregated carrying value of HK$Nil (31 December 2011: approximately 22.22 million) were pledged to secure general banking facilities granted to the Group.

CONTINGENCIES

In November 2011, the Company (as plaintiff) instituted legal proceedings against Fair Winner Limited ("**Fair Winner**"), holder of a guaranteed convertible note of the Group, for an injunction restraining Fair Winner from commencing any petition for winding up against the Company. The guaranteed convertible note had been matured in August 2011 and had not been settled by the Group as at 31 December 2011. The amount claimed by Fair Winner against the Company is approximately HK$1,007,000. The Court has ordered that the proceedings be adjourned sine die upon the undertaking of Fair Winner to serve prior notice of intention before presenting any petition for winding up of the Company.

As at the date of this report, no notice of intention had been received by the Company from Fair Winner. Based on legal advice, the Directors were of the view that since the amount claimed by Fair Winner was already provided for as guaranteed convertible note, no further provision in respect of such claims would need to be made in the condensed consolidated interim financial statements of the Group for the six months ended 30 June 2012.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2012, the total number of employees of the Group was 117. The Group remunerates its employees based on their performance, working experience and the prevailing market price. Other employee benefits include retirement benefits, insurance and medical coverage, training programs and share option 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:

				Number of share options				
Grantee	**Date of grant**	**Exercisable period**	**Exercise price per share** *HK$*	**At 1 January 2012**	**Granted during the period**	**Exercised during the period**	**Lapsed during the period**	**At 30 June 2012**
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	139,332,000	–	–	–	139,332,000
				141,832,000	–	–	(1,500,000)	140,332,000
Consultants/Advisors	21-02-2002	21-02-2002 to 20-02-2012	0.280	13,600,000	–	–	(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	98,914,000	–	–	–	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
				484,984,000	–	–	(13,600,000)	471,384,000
			TOTAL:	626,816,000	–	–	(15,100,000)	611,716,000

Notes:

(1) 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	07-03-2009	69,666,000
	07-03-2010	69,666,000

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

Date of grant	Date of vesting	No. of share options vested
21-02-2002	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	83,979,500
	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 2012, 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 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
Pang Wei	corporate interest and beneficial owner	2,439,000,000 *(Note)*	18.01%
China North Heating Group Corporation ("**China North**")	corporate interest and beneficial owner	2,439,000,000 *(Note)*	18.01%
Yong Chang Investment Limited ("**Yong Chang**")	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: Yong Chang is wholly-owned by China North and China North is wholly-owned by Pang Wei. By virtue of the SFO, each of Pang Wei and China North is deemed to be interested in shares held by Yong Chang in the Company.

Save as disclosed above, as at 30 June 2012, 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 2012, neither the Company nor any of its subsidiaries had 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**")

WU CHI KEUNG

(Independent Non-executive Director)

Mr. Wu, aged 55, has over 30 years of experience in financial audit, corporate restructuring and merger and acquisitions. Mr. Wu was a partner and the co-leader of the Public Offering Group of Deloitte Touche Tohmatsu in China and Hong Kong. Mr. Wu is currently an independent non-executive director of China Medical System Holdings Limited (stock code: 867), Jinchuan Group International Resources Co., Ltd. (stock code: 2362), GreaterChina Professional Services Limited (stock code: 8193), JF Household Furnishings Limited (stock code: 776) and Zhong Fa Zhan Holdings Limited (Formerly known as Noble Jewelry Holdings Limited) (stock code: 475), all of whose shares are listed on The Stock Exchange of Hong Kong Limited. Mr. Wu is an associate of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants in the United Kingdom.

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 2012, 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 the 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 2012.

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 2012.

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
TANG CHI CHIU
Chairman

Hong Kong, 24 August 2012

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2012

	Notes	2012 HK$'000 (Unaudited)	2011 HK$'000 (Unaudited)
		Six months ended 30 June	
Turnover	3	**71,324**	69,520
Cost of services		**(16,738)**	(31,132)
Gross profit		**54,586**	38,388
Other gains and losses		**197**	103
Administrative expenses		**(17,403)**	(26,582)
Finance costs		**(1,321)**	(1,594)
Profit before taxation		**36,059**	10,315
Income tax	4	**(368)**	(4,254)
Profit for the period attributable to owners of the Company	5	**35,691**	6,061
Earnings per share attributable to owners of the Company *(HK cents)*	7		
— Basic		**0.2635**	0.0447
— Diluted		**0.2635**	0.0447

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 2012

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Profit for the period	**35,691**	6,061
Other comprehensive income for the period, net of tax	**–**	–
Total comprehensive income for the period attributable to owners of the Company	**35,691**	6,061

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

	Notes	As at 30 June 2012 HK$'000 (Unaudited)	As at 31 December 2011 HK$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	8	**146,732**	143,894
Land use right	8	**3,927**	3,970
Other intangible assets	8	**89,001**	93,466
Promissory note receivable	9	**464**	450
Deposits paid for acquisition of property, plant and equipment		**89,875**	56,880
		329,999	298,660
Current assets			
Land use right		**86**	86
Trade receivables	10	**63,152**	77,808
Other receivables, prepayments and deposits		**173,034**	28,234
Amount due from a non-controlling shareholder of a subsidiary		**5,556**	—
Tax recoverable		**—**	994
Cash and bank balances		**51,867**	49,706
		293,695	156,828
Assets classified as held for sale		**37,037**	142,593
		330,732	299,421
Current liabilities			
Other payables and accruals		**41,335**	39,234
Tax payables		**2,944**	—
Borrowings		**100,975**	105,026
Guaranteed convertible note		**1,000**	1,000
		146,254	145,260
Liabilities directly associated with assets classified as held for sale		**7,396**	12,345
		153,650	157,605

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2012

	Notes	**As at 30 June 2012** ***HK$'000*** ***(Unaudited)***	As at 31 December 2011 *HK$'000* *(Audited)*
Net current assets		**177,082**	141,816
Total assets less current liabilities		**507,081**	440,476
Non-current liability			
Deferred tax liabilities		**5,844**	6,041
Net assets		**501,237**	434,435
CAPITAL AND RESERVES			
Share capital	11	**1,354,511**	1,354,511
Reserves		**(884,385)**	(920,076)
Equity attributable to owners of the Company		**470,126**	434,435
Non-controlling interests		**31,111**	—
Total equity		**501,237**	434,435

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 2012

	Equity 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$'000*	**Guaranteed convertible note-equity component reserve** *HK$'000*	**Accumulated losses** *HK$'000*	**Subtotal** *HK$'000*	**Non-controlling interests** *HK$'000*	**Total** *HK$'000*
As at 1 January 2011 (Audited)	1,354,511	981,866	1,899	37,462	132,597	36	(1,838,001)	670,370	–	670,370
Total comprehensive income for the period	–	–	–	–	–	–	6,061	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	–	676,431
As at 1 January 2012 (Audited)	**1,354,511**	**981,858**	**1,899**	**35,415**	**163,559**	**–**	**(2,102,807)**	**434,435**	**–**	**434,435**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**–**	**35,691**	**35,691**	**–**	**35,691**
Non-controlling interests arising from incorporation of a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**31,111**	**31,111**
As at 30 June 2012 (Unaudited)	**1,354,511**	**981,858**	**1,899**	**35,415**	**163,559**	**–**	**(2,067,116)**	**470,126**	**31,111**	**501,237**

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 2012

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Net cash (used in)/generated from operating activities	**(41,863)**	42,900
Cash flows from investing activities		
Purchase of property, plant and equipment	**(5,214)**	(18,745)
Purchase of other intangible assets	**—**	(2,824)
Proceeds from disposal of assets classified as held for sale	**62,963**	—
Deposits paid for acquisition of property, plant and equipment	**(39,280)**	(35,529)
Net cash generated from/(used in) investing activities	**18,469**	(57,098)
Cash flows from financing activities		
Repayment of bank loan	**—**	(4,706)
Capital contribution from a non-controlling shareholder of a subsidiary	**31,111**	—
Advance to a non-controlling shareholder of a subsidiary	**(5,556)**	—
Net cash generated from/(used in) financing activities	**25,555**	(4,706)
Net increase/(decrease) in cash and cash equivalents	**2,161**	(18,904)
Cash and cash equivalents at the beginning of the period	**49,706**	60,087
Cash and cash equivalents at the end of the period	**51,867**	41,183
Analysis of balances of cash and cash equivalents		
Cash and bank balances	**51,867**	41,183

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 2012

1. BASIS OF PREPARATION

The condensed consolidated interim financial statements for the six months ended 30 June 2012 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. They have been prepared under the historical cost convention, except for certain financial instruments, which are carried at fair values. 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 2011 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 2012.

HKFRS 1 (Amendments)	First-time Adoption of Hong Kong Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
HKFRS 7 (Amendments)	Financial Instruments: Disclosures — Transfers of Financial Assets
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The application of the above new and revised HKFRSs has had 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)	First-time Adoption of Hong Kong Financial Reporting Standards — Government Loans[2]
HKFRS 7 (Amendments)	Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[4]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[2]
HKFRS 13	Fair Value Measurement[2]
HKAS 1 (Amendments)	Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income[1]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
HKAS 32 (Amendments)	Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities[3]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2009–2011 Cycle[2]
HK(IFRIC) — Int 20	Stripping Costs in Production Phase of Surface Mine[2]

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

3. TURNOVER AND SEGMENT INFORMATION

During the six months ended 30 June 2012 and 2011, 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**" or "**China**") and most of the assets of the Group are located in the PRC as at 30 June 2012 and 31 December 2011.

4. INCOME TAX

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Current tax — PRC	**5,513**	5,896
Deferred tax — PRC	**(5,145)**	(1,642)
Tax charge for the period	**368**	4,254

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	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Depreciation of property, plant and equipment	**6,490**	12,592
Depreciation of jointly-controlled assets	**1,934**	3,752
Amortisation of land use right	**43**	41
Amortisation of other intangible assets included in cost of services	**4,465**	10,675
Interest on:		
Bank loan wholly repayable within five years	**–**	481
Loans from a former intermediate holding company and a former fellow subsidiary wholly repayable within five years	**1,296**	1,082
Guaranteed convertible note	**25**	31
Employee benefit expenses, including directors' emoluments:		
Salaries and other benefits	**9,698**	11,347
Net exchange (gains)/losses	**(4,479)**	462
Promissory note 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 2012 and 2011.

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	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Profit for the purpose of basic earnings per share	**35,691**	6,061
Interest on guaranteed convertible note*	**—**	—
Profit for the purpose of diluted earnings per share	**35,691**	6,061

NUMBER OF SHARES

	Six months ended 30 June	
	2012	2011
	'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 note*	**—**	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**13,545,113**	13,545,113

* The guaranteed convertible note and share options have an anti-dilutive effect on the basic earnings per share of the Group for the six months ended 30 June 2012 and 2011. Accordingly, the effect of the guaranteed convertible note and share options was not included in the calculation of diluted earnings per share for the six months ended 30 June 2012 and 2011.

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 2012 was HK$11,498,000 (six months ended 30 June 2011: HK$39,792,000).

There was no addition to the other intangible assets of the Group during the six months ended 30 June 2012 (six months ended 30 June 2011: HK$29,412,000).

There was no addition to the land use right of the Group during the six months ended 30 June 2012 and 2011.

9. PROMISSORY NOTE RECEIVABLE

In 2008, the Group disposed of its interests in its 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 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.

During the year ended 31 December 2011, the promissory note with principal amount of HK$81,000,000 was sold to an independent third party for an initial payment plus a sum of being certain percentages of the proceeds from the sale of the promissory note or payment to the promissory note received by the purchaser after deducting all relevant expenses within two years from the date of completion of the disposal of promissory note as well as falling two years from the date of completion of the disposal of promissory note and ending on the date falling five years after the date of completion of the disposal of promissory note.

The carrying amount of the promissory note receivable as at 30 June 2012 represented the fair value of the promissory note with principal amount of HK$384,000 at the time of initial recognition of HK$344,000 and the net interest receivable of the Company of HK$120,000 (31 December 2011: HK$106,000) as at 30 June 2012. The average effective interest rate of the promissory note receivable is 6.18% per annum (31 December 2011: 6.18% per annum).

10. TRADE RECEIVABLES

The Group generally allows an average credit period of 180 days (31 December 2011: 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 2012 ***HK$'000*** ***(Unaudited)***	As at 31 December 2011 *HK$'000* *(Audited)*
0–180 days (Neither past due nor impaired)	**56,432**	70,754
181–270 days (1 to 3 months past due)	**6,720**	7,054
	63,152	77,808

11. SHARE CAPITAL

	Number of shares ***'000***	**Amount** ***HK$'000***
Ordinary shares of HK$0.10 each		
Authorised:		
At 30 June 2012 and 31 December 2011	**20,000,000**	**2,000,000**
Issued and fully paid:		
At 30 June 2012 (unaudited) and 31 December 2011 (audited)	**13,545,113**	**1,354,511**

12. PLEDGE OF ASSETS

Banking facilities of approximately HK$37,037,000 (31 December 2011: HK$37,037,000) (equivalent to RMB30,000,000) are secured by pledge of the Group's medical equipment with an aggregated carrying value of HK$12,096,000 (31 December 2011: HK$13,009,000) and assets classified as held for sale with an aggregated carrying value of HK$Nil (31 December 2011: HK$22,222,000) as at 30 June 2012. As at 30 June 2012, banking facilities of approximately HK$37,037,000 (31 December 2011: HK$37,037,000) were unused.

13. COMMITMENTS

	As at 30 June 2012 ***HK$'000*** ***(Unaudited)***	As at 31 December 2011 *HK$'000* *(Audited)*
Contracted for but not provided in respect of acquisition of property, plant and equipment	**7,589**	13,535

14. 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 2012 (audited)	**626,816,000**
Lapsed during the period	**(15,100,000)**
Outstanding at 30 June 2012 (unaudited)	**611,716,000**
Exercisable at 30 June 2012	**611,716,000**

The Group had amortised the fair value of the share options previously granted, which was calculated using Black-Scholes Option Pricing Model over the relevant vesting period.

15. RELATED PARTY TRANSACTIONS

Except for those 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 2012 and 2011.

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, for the six months ended 30 June 2012 amounted to HK$493,000 (six months ended 30 June 2011: HK$1,446,000).

16. CONTINGENCIES

In November 2011, the Company (as plaintiff) instituted legal proceedings against Fair Winner Limited ("**Fair Winner**"), holder of a guaranteed convertible note of the Group, for an injunction restraining Fair Winner from commencing any petition for winding up against the Company. The guaranteed convertible note had been matured in August 2011 and had not been settled by the Group as at 31 December 2011. The amount claimed by Fair Winner against the Company is approximately HK$1,007,000. The Court has ordered that the proceedings be adjourned sine die upon the undertaking of Fair Winner to serve prior notice of intention before presenting any petition for winding up of the Company.

As at the date of this interim report, no notice of intention had been received by the Company from Fair Winner. Based on the legal advice, the Directors were of the view that since the amount claimed by Fair Winner was already provided for as guaranteed convertible note, no further provision in respect of such claims would need to be made in the condensed consolidated interim financial statements of the Group for the six months ended 30 June 2012.

17. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The condensed consolidated interim financial statements were approved and authorised for issue by the Board of Directors on 24 August 2012.