China Renji Medical Group Ltd.
中國仁濟醫療集團有限公司

Stock Code: 648

# 仁濟

# Interim Report 2013

# CONTENTS

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

Executive Directors:

TANG Chi Chiu *(Chairman)*
CHAN Ka Chung
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)*
CHAN Ka Chung
KWOK Chung On

## NOMINATION COMMITTEE

WU Chi Keung *(Chairman)*
CHAN Ka Chung
KWOK Chung On

## CORPORATE GOVERNANCE COMMITTEE

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

## COMPANY SECRETARY

LAM Sung Him, Gaston

## PRINCIPAL BANKERS

Bank of Communications Co., Ltd
Hong Kong Branch
Hang Seng Bank Limited
Wuhu Yangzi Rural Commercial Bank
Company Limited

## AUDITORS

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

## SHARE REGISTRARS

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

## REGISTERED OFFICE

30th Floor, 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 (the "**Board**") of directors (the "**Directors**") of China Renji Medical Group Limited (the "**Company**"), I would like to present the interim report of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2013.

## INTERIM RESULTS REVIEW

### Overview

The Group is principally engaged in the provision of medical equipment and services for the operation of its network of medical centres 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. As at the date of this report, the Group has a network of 13 medical centres throughout China.

### Turnover

For the six months ended 30 June 2013, the turnover of the Group amounted to approximately HK$56.00 million (six months ended 30 June 2012: HK$71.32 million), representing a decrease of approximately 21.48% from the corresponding period last year. The decrease in the Group's turnover was mainly due to the disposal of the Group's medical assets operated in its medical centres during 2011 and 2012 as a result of the Group's implementation of its plan to dispose of those medical assets (comprising property, plant and equipment and other intangible assets) operated by the Group's medical centres that lacked the necessary licenses (collectively referred to as the "Non-licensed Medical Assets").

### Gross profit

For the six months ended 30 June 2013, the Group recorded a gross profit of approximately HK$35.29 million (six months ended 30 June 2012: HK$54.59 million) and a gross profit margin of approximately 63.02% (six months ended 30 June 2012: 76.53%) from its medical network business. The decrease in the Group's gross profit margin was mainly attributable to the combined impact of, among other things, the relatively fixed nature of the Group's cost of sales and the decline in the Group's turnover as mentioned above.

### (Loss)/profit for the period attributable to owners of the Company

Loss for the period attributable to the owners of the Company for the six months ended 30 June 2013 amounted to approximately HK$113.14 million (six months ended 30 June 2012: profit of HK$35.69 million). The decrease for the interim period was mainly attributable to the decrease in turnover as a result of the above-mentioned disposal of the medical assets for operations of the Group's medical centres as well as the impairment loss of approximately HK$140.49 million recorded by the Group. However, such adverse impact on the Group's financial performance was mitigated by the exchange gain relating to the Japanese Yen-denominated loans of the Group.

Basic loss per share for the reporting period was approximately HK0.8352 cents (six months ended 30 June 2012: earnings per share of HK0.2635 cents).

## BUSINESS REVIEW

The medical centres of the Group, which are located at its hospital partners' premises, are typically equipped with radiotherapy and/or diagnostic imaging equipment, (e.g. linear accelerators, head/body gamma knife systems, positron emission tomography-computed tomography ("PET-CT") scanners or magnet resonance imaging ("MRI") scanners). However. as disclosed in the Company's annual report for the year ended 31 December 2012, with a view to minimising the potential risk associated with the Non-licensed Medical Assets, during 2012, the Group has disposed of all such Non-licensed Medical Assets and all of the remaining medical assets operated by the medical centres underlying the Group's medical network have possessed the required licenses for operations. Since the Group's turnover was mainly derived from the leasing and service income from the operation of the above-mentioned medical equipment, with the decrease in the number of such medical equipment, coupled with the growing competition in the medical industry in the PRC, the turnover decreased by approximately 21.48% to HK$56 million for the six months ended 30 June 2013 from approximately HK$71.32 million during the same period last year.

During the six months ended 30 June 2013, the Group still faced a number of challenges and the operating environment of the Group's medical network business was indeed increasingly challenging. As described in the Company's annual reports for the year ended 31 December 2011 and 2012, most of the medical centres in the Group's medical network are established through long-term lease and management service arrangements entered into with hospital and/or business partners of the Group, such that the Group's hospital partners provide premises for the underlying medical centres, whereas the Group provides medical equipment to these medical centres through long-term leasing arrangements and the Group and/or its business partners provide management services for the medical centres. However, as described in the Company's previous annual reports, non-civilian medical institutions in the PRC are no longer permitted to enter into cooperation agreements with third parties to set up for-profit centres, but these non-civilian medical institutions are permitted to lease medical equipment from their partners if they do not have adequate funds to purchase the relevant medical equipment. As such, the above-mentioned business model of the Group may be exposed to challenges if the relevant PRC health departments/authorities have different interpretations to the extent that the Group's such lease and management services agreements with its hospital partners may not be in compliance with the existing rules and regulations and may thus cast uncertainties over the Group's ongoing business operations. In particular, the National Health and Family Planning Commission of the PRC, in order to ensure quality and safety, has recently launched a program (the "Program") to clean-up and rectify medical institutions, which has outlined a number of measures for purpose of strengthening the management of the PRC's hospital and rectifying their noncompliance operations, including the rental/contract-out arrangement of medical departments.

Although the Group has not been assessed by any healthcare departments/authorities for any non-compliance with the existing rules and regulations after the launching of the Program, it is expected that new policy(ies) like the Program will have an adverse impact on the ongoing working relationship with its hospital partners, including the non-renewal upon the expiry or termination before the expiry of the Group's cooperation with the hospitals via its partners (four of the Group's medical centres have received notices demanding for termination of the existing cooperation arrangements for compliance with the relevant PRC rules and regulations). It is expected that such uncertainties in connection with the possible renewal or the continuation of the Group's cooperation arrangements for its other medical centres in the future will lay downward pressure on the Group's future business operations and financial performance of its medical network business. Under the circumstances, an impairment loss of approximately HK$140.89 million has been provided on the Group's assets (including plant and equipment and other intangible assets).

## RECENT DEVELOPMENT AND PROSPECTS

With a view to mitigating the adverse impact brought about from the challenging business/operating environment as mentioned above, during the first half of 2013, the Group entered into agreements relating to (i) the disposal (the "Disposal") of 35% equity interest in the Group's medical network business; (ii) the investment in a medical project (the "Medical Project Investment") involving the upgrading and the participation in the management of a hospital in the PRC; and (iii) the acquisition (the "Acquisition") of 38% equity interest in a group engaged in the design, manufacture and sale of household products. Whilst the disposal of the Group's interest in its medical network business will provide the Group with additional working capital for the Group's future development, it is expected that the Group's investments in the aforesaid medical project and the household product manufacturing group will also broaden its business scope and diversify the overall business risks. Furthermore, it is also anticipated that such investment opportunities could leverage on the Group's knowledge and business network in the PRC's medical sector and bring about synergetic effect on their future business development (such as enabling the aforesaid household manufacturing group to gain access to the medical and hospital related products and accessories utilised by hospitals and clinics in the PRC to broaden its clientele, etc.), which will in turn benefit the Group's future financial performance. As at the date of this report, the Acquisition has been completed.

In July 2013, the Company also entered into a warrant subscription agreement (the "Warrant Subscription") and pursuant to which, the Company agreed to issue a total of 2,700,000,000 unlisted warrants under two tranches (i.e. 1,350,000,000 warrants each) at the exercise price of HK$0.022 and HK$0.05, respectively.

The Company also proposed to reorganise the capital of the Company (the "Capital Reorganisation") which involves (i) reducing the nominal value of each of the issued share capital to the extent of HK$0.099 from HK$0.1 each to HK$0.001 each; (ii) reducing the nominal value of each of the authorised but unissued shares to the extent of HK$0.099 from HK$0.1 each to HK$0.001 each; (iii) cancelling the share premium account of the Company after the above-mentioned proposed reduction in the share capital of the Company having become effective; and (iv) applying the credit arising from the aforesaid reduction of issued share capital and cancellation of the share premium account of the Company to eliminate the Company's accumulated losses.

Looking forward, whilst the Group will, on one hand, strive to maintain the competitiveness of its medical business despite the challenging operating environment brought about from the promulgation of new rules and regulations as well as the tightening implementation of the existing ones, the Group will on the other hand, will continue to seek potential appropriate investment/business opportunities in other business areas so as to enhance the Group's income base.

## FINANCIAL REVIEW

### Liquidity and financial resources

For the six months ended 30 June 2013, the net cash generated from operating activities amounted to approximately HK$26.68 million (six months ended 30 June 2012: net cash outflow of approximately HK$41.86 million).

For the six months ended 30 June 2013, the net cash outflow from investing activities amounted to approximately HK$80.34 million (six months ended 30 June 2012: net cash inflow of approximately HK$18.47 million) and the net cash flow from financing activities amounted to HK$Nil (six months ended 30 June 2012: net cash inflow of approximately HK$25.56 million). The net cash outflow from investing activities mainly resulted from the Group's investment in the aforesaid medical project and the deposit paid by the Group for the Acquisition during the period.

As a result from the above, the Group recorded a net cash outflow of approximately of HK$53.66 million for the six months ended 30 June 2013 (six months ended 30 June 2012: net cash inflow of approximately HK$2.16 million).

As at 30 June 2013, the Group had cash and bank balances of approximately HK$68.77 million (31 December 2012: HK$115.98 million).

As at 30 June 2013, the Group's total borrowings amounted to approximately HK$83.23 million (31 December 2012: approximately HK$94.69 million) which included borrowings of approximately HK$82.23 million (31 December 2012: approximately HK$93.69 million), guaranteed convertible note of approximately HK$1.00 million (31 December 2012: approximately HK$1.00 million). The Group's total borrowings of approximately HK$83.23 million were repayable within one year (31 December 2012: approximately HK$101.98 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 2013, the Group's net asset value (including non-controlling interest) was approximately HK$426.06 million (31 December 2012: HK$526.80 million) with a liquidity ratio (calculated based on the Group's current assets to current liabilities) of approximately 2.34 times as at 30 June 2013 (as compared to approximately 2.54 times as at 31 December 2012). The Group's gearing ratio (calculated based on the Group's aggregate of the borrowings and guaranteed convertible note to the equity attributable to the owners of the Company) was approximately 21.10% (31 December 2012: approximately 19.10%).

### 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 continuous appreciation of Renminbi 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 2013 and 31 December 2012, no assets of the Group have been pledged (31 December 2012: HK$Nil).

## 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. 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 2013.

## EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2013, the total number of employees of the Group was 65. 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. The Scheme was expired on 30 October 2011.

### 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 2013** | **Granted during the period** | **Exercised during the period** | **Lapsed during the period** | **At 30 June 2013** |
| **Employees** | 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 |
| | | | | 140,332,000 | – | – | – | 140,332,000 |
| **Consultants/Advisors** | 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 |
| | | | | 471,384,000 | – | – | – | 471,384,000 |
| | | | **total:** | **611,716,000** | **–** | **–** | – | **611,716,000** |

*Notes:*

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

| **Date of grant** | **Date of vesting** | **No. of share options vested** |
|---|---|---|
| 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 |
|---|---|---|
| 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 2013, 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 2013, no other persons 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 2013, 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 56, 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), Zhong Fa Zhan Holdings Limited (stock code: 475) and Huabao International Holdings Limited (stock code: 336), 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 2013, 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 of the Company 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 2013.

## 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 2013.

By Order of the Board
**China Renji Medical Group Limited**
**TANG CHI CHIU**
*Chairman*

Hong Kong, 29 August 2013

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2013

| | | Six months ended 30 June | |
|---|---|---|---|
| | *Notes* | **2013** | 2012 |
| | | ***HK$'000*** | *HK$'000* |
| | | ***(Unaudited)*** | *(Unaudited)* |
| | | | *(Restated)* |
| Turnover | 3 | **56,000** | 71,324 |
| Cost of services | | **(20,709)** | (16,738) |
| Gross profit | | **35,291** | 54,586 |
| Other gains and losses | | **14,258** | 4,676 |
| Administrative expenses | | **(17,937)** | (21,882) |
| Impairment loss on property, plant and equipment | | **(93,673)** | — |
| Impairment loss on other intangible assets | | **(46,816)** | — |
| Finance costs | | **(1,338)** | (1,321) |
| (Loss)/profit before taxation | | **(110,215)** | 36,059 |
| Income tax | 4 | **(2,915)** | (368) |
| (Loss)/profit for the period | 5 | **(113,130)** | 35,691 |
| **(Loss)/profit for the period attributable to:** | | | |
| Owners of the Company | | **(113,135)** | 35,691 |
| Non-controlling interests | | **5** | — |
| | | **(113,130)** | 35,691 |
| (Loss)/earnings per share attributable to owners of the Company *(HK cents)* | 7 | | |
| — Basic | | **(0.8352)** | 0.2635 |
| — Diluted | | **(0.8352)** | 0.2635 |

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

# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2013

| | Six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* |
| | ***(Unaudited)*** | *(Unaudited)* |
| (Loss)/profit for the period | **(113,130)** | 35,691 |
| Other comprehensive income for the period, net of tax | | |
| Items that may be reclassified subsequently to profit or loss: | | |
| Exchange differences on translating foreign operations | **12,386** | — |
| **Total comprehensive (loss)/income for the period** | **(100,744)** | 35,691 |
| Total comprehensive (loss)/income for the period attributable to: | | |
| Owners of the Company | **(101,264)** | 35,691 |
| Non-controlling interests | **520** | — |
| | **(100,744)** | 35,691 |

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

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2013

| | Notes | As at 30 June 2013 HK$'000 (Unaudited) | As at 31 December 2012 HK$'000 (Audited) |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 8 | **86,298** | 167,137 |
| Land use right | 8 | **3,906** | 3,884 |
| Other intangible assets | 8 | **34,149** | 84,537 |
| Deposits paid for acquisition of property, plant and equipment | | **53,150** | 67,681 |
| Deposit for long term investment | | **75,301** | — |
| | | **252,804** | 323,239 |
| **Current assets** | | | |
| Land use right | | **86** | 86 |
| Promissory note receivable | 9 | **480** | 478 |
| Trade receivables | 10 | **46,505** | 46,947 |
| Other receivables, prepayments and deposits | | **185,519** | 175,830 |
| Amount due from a non-controlling shareholder of a subsidiary | | **5,647** | 5,556 |
| Cash and bank balances | | **68,771** | 115,980 |
| | | **307,008** | 344,877 |
| **Current liabilities** | | | |
| Other payables and accruals | | **30,701** | 32,998 |
| Amount due to a director | | **9,250** | 5,250 |
| Tax payables | | **8,238** | 2,730 |
| Borrowings | | **82,230** | 93,691 |
| Guaranteed convertible note | | **1,000** | 1,000 |
| | | **131,419** | 135,669 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2013

| | *Notes* | **As at 30 June 2013** ***HK$'000*** ***(Unaudited)*** | As at 31 December 2012 *HK$'000* *(Audited)* |
|---|---|---|---|
| **Net current assets** | | **175,589** | 209,208 |
| **Total assets less current liabilities** | | **428,393** | 532,447 |
| **Non-current liability** | | | |
| Deferred tax liabilities | | **2,337** | 5,647 |
| **Net assets** | | **426,056** | 526,800 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 11 | **1,354,511** | 1,354,511 |
| Reserves | | **(960,086)** | (858,822) |
| **Equity attributable to owners of the Company** | | **394,425** | 495,689 |
| Non-controlling interests | | **31,631** | 31,111 |
| **Total equity** | | **426,056** | 526,800 |

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

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2013

| | 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$'000 | Accumulated losses HK$'000 | Subtotal HK$'000 | Non-controlling interests HK$'000 | Total HK$'000 |
| 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 |
| **As at 1 January 2013 (Audited)** | **1,354,511** | **981,851** | **1,899** | **35,415** | **163,559** | **(2,041,546)** | **495,689** | **31,111** | **526,800** |
| (Loss)/profit for the year | **–** | **–** | **–** | **–** | **–** | **(113,135)** | **(113,135)** | **5** | **(113,130)** |
| Other comprehensive income for the period | **–** | **–** | **–** | **–** | **11,871** | **–** | **11,871** | **515** | **12,386** |
| Total comprehensive (loss)/income for the period | **–** | **–** | **–** | **–** | **11,871** | **(113,135)** | **(101,264)** | **520** | **(100,744)** |
| As at 30 June 2013 (Unaudited) | **1,354,511** | **981,851** | **1,899** | **35,415** | **175,430** | **(2,154,681)** | **394,425** | **31,631** | **426,056** |

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

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2013

| | Six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* |
| | ***(Unaudited)*** | *(Unaudited)* |
| **Net cash generated from/(used in) operating activities** | **26,681** | (41,863) |
| **Cash flows from investing activities** | | |
| Purchase of property, plant and equipment | **(3,340)** | (5,214) |
| Proceeds from disposal of assets classified as held for sale | **15,060** | 62,963 |
| Deposits paid for acquisition of property, plant and equipment | **(1,757)** | (39,280) |
| Deposit paid for long term investment | **(90,301)** | — |
| **Net cash (used in)/generated from investing activities** | **(80,338)** | 18,469 |
| **Cash flows from financing activities** | | |
| 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 financing activities** | **—** | 25,555 |
| **Net (decrease)/increase in cash and cash equivalents** | **(53,657)** | 2,161 |
| **Effect of foreign exchange rate changes** | **6,448** | — |
| **Cash and cash equivalents at the beginning of the period** | **115,980** | 49,706 |
| **Cash and cash equivalents at the end of the period** | **68,771** | 51,867 |
| **Analysis of balances of cash and cash equivalents** | | |
| Cash and bank balances | **68,771** | 51,867 |

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

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2013

## 1. BASIS OF PREPARATION

The condensed consolidated interim financial statements for the six months ended 30 June 2013 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 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 of the Company.

## 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 2012 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 and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning on 1 January 2013.

| | |
|---|---|
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2009 — 2011 Cycle |
| Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 | Consolidated Financial Statements, Joint Arrangements Disclosure of Interests in Other Entities: Transition Guidance |
| HKAS 1 (Amendments) | Presentation of Items of Other Comprehensive Income |
| HKAS 19 (2011) | Employee Benefits |
| HKAS 27 (2011) | Separate Financial Statements |
| HKAS 28 (2011) | Investments in Associates and Joint Ventures |
| HK(IFRIC) — Int 20 | Stripping Costs in the Production Phase of a Surface Mine |
| HKFRS 7 (Amendments) | Disclosures — Offsetting Financial Assets and Financial Liabilities |
| HKFRS 10 | Consolidated Financial Statements |
| HKFRS 11 | Joint Arrangements |
| HKFRS 12 | Disclosure of Interests in Other Entities |
| HKFRS 13 | Fair Value Measurement |

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 "Presentation of Items of Other Comprehensive Income" introduce new terminology for the statement of comprehensive income. Under the amendments to HKAS 1, a "statement of comprehensive income" is renamed as a "statement of profit or loss and other comprehensive income". The amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis — the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The Group's "condensed consolidated income statement" is renamed as "condensed consolidated statement of profit or loss" and "condensed consolidated statement of comprehensive income" is renamed as "condensed consolidated statement of profit or loss and other comprehensive income" respectively. The presentation of items of other comprehensive income has been modified accordingly.

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

| | |
|---|---|
| Amendments to HKAS 32 | Offsetting Financial Assets and Financial Liabilities[1] |
| Amendments to HKAS 36 | Recoverable Amount Disclosures for Non-Financial Assets[1] |
| Amendments to HKFRS 7 and HKFRS 9 | Mandatory Effective Date of HKFRS 9 and Transition Disclosures[2] |
| HKFRS 9 | Financial Instruments[2] |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) | Investment Entities[1] |
| HK(IFRIC) — Int 21 | Levies[1] |

[1] Effective for annual periods beginning on or after 1 January 2014.

[2] Effective for annual periods beginning on or after 1 January 2015.

The Group is in progress of assessing the impact of these new or revised standards, amendments and interpretations, certain of which may be relevant to the Group's operations and may give rise to changes in disclosure and remeasurement of certain items in the condensed consolidated interim financial statements.

## 3. TURNOVER AND SEGMENT INFORMATION

During the six months ended 30 June 2013 and 2012, 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 2013 and 31 December 2012.

## 4. INCOME TAX

| | Six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* |
| | ***(Unaudited)*** | *(Unaudited)* |
| Current tax — PRC | **6,316** | 5,513 |
| Deferred tax — PRC | **(3,401)** | (5,145) |
| Tax charge for the period | **2,915** | 368 |

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. (LOSS)/PROFIT FOR THE PERIOD

(Loss)/profit for the period has been arrived at after charging/(crediting):

| | Six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* |
| | ***(Unaudited)*** | *(Unaudited)* |
| Depreciation of property, plant and equipment | **9,569** | 6,490 |
| Depreciation of jointly-controlled assets | **1,408** | 1,934 |
| Amortisation of land use right | **43** | 43 |
| Amortisation of other intangible assets included in cost of services | **4,465** | 4,465 |
| Impairment loss on property, plant and equipment | **93,673** | — |
| Impairment loss on other intangible assets | **46,816** | — |
| Interest on | | |
| Loans from a former intermediate holding company and a former fellow subsidiary wholly repayable within five years | **1,321** | 1,296 |
| Guaranteed convertible note | **17** | 25 |
| Employee benefit expenses, including directors' emoluments: | | |
| Salaries and other benefits | **9,750** | 9,698 |
| Net exchange gains | **(13,052)** | (4,479) |
| Promissory note interest income | **(2)** | (14) |

## 6. DIVIDENDS

The board of directors did not recommend the payment of any dividends for the six months ended 30 June 2013 and 2012.

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

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

### (LOSS)/EARNINGS

| | Six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* |
| | ***(Unaudited)*** | *(Unaudited)* |
| (Loss)/profit for the purpose of basic (loss)/earnings per share | **(113,135)** | 35,691 |
| Interest on guaranteed convertible note* | **—** | — |
| (Loss)/profit for the purpose of diluted (loss)/earnings per share | **(113,135)** | 35,691 |

### NUMBER OF SHARES

| | Six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| | ***'000*** | *'000* |
| | ***(Unaudited)*** | *(Unaudited)* |
| Weighted average number of ordinary shares for the purpose of basic (loss)/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 (loss)/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 2013 and 2012. 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 2013 and 2012.

## 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 2013 was approximately HK$20.73 million (six months ended 30 June 2012: HK$11,498,000).

There was no addition to the other intangible assets of the Group during the six months ended 30 June 2013 and 2012.

There was no addition to the land use right of the Group during the six months ended 30 June 2013 and 2012.

Due to the recent implementation of the new PRC's health-care reform policies which have adverse impact on the Group's medical business, the management of the Company recognised an impairment loss on property, plant and equipment of approximately HK$93.67 million and other intangible assets of HK$46.82 million as at 30 June 2013, respectively, since the recoverable amount of the cash-generating unit of medical network calculated based on the present values of the expected future revenue decreased as compared to those as at 31 December 2012.

## 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 (with principal amount of approximately HK$384,000) receivable as at 30 June 2013 represented the fair value of the promissory note at the time of initial recognition of approximately HK$344,000 and the net interest receivable of the Company of approximately HK$136,000 (31 December 2012: HK$134,000) as at 30 June 2013. The average effective interest rate of the promissory note receivable is 6.18% per annum (31 December 2012: 6.18% per annum).

## 10. TRADE RECEIVABLES

The Group generally allows an average credit period of 180 days (31 December 2012: 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 2013** ***HK$'000*** ***(Unaudited)*** | As at 31 December 2012 *HK$'000* *(Audited)* |
|---|---|---|
| 0–180 days (Neither past due nor impaired) | **46,505** | 46,947 |

## 11. SHARE CAPITAL

| | **Number of shares** ***'000*** | **Amount** ***HK$'000*** |
|---|---|---|
| **Ordinary shares of HK$0.10 each** | | |
| **Authorised:** | | |
| At 1 January 2013 and 30 June 2013 | **20,000,000** | **2,000,000** |
| **Issued and fully paid:** | | |
| At 1 January 2013 (audited) and 30 June 2013 (unaudited) | **13,545,113** | **1,354,511** |

## 12. PLEDGE OF ASSETS

No assets of the Group were pledged as at 30 June 2013 and 31 December 2012.

## 13. COMMITMENTS

| | **As at 30 June 2013** **_HK$'000_** **_(Unaudited)_** | As at 31 December 2012 _HK$'000_ _(Audited)_ |
|---|---|---|
| Contracted for but not provided in respect of acquisition of property, plant and equipment | **5,041** | 4,959 |

## 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 2013 (audited) | **611,716,000** |
| Lapsed during the period | **—** |
| Outstanding at 30 June 2013 (unaudited) | **611,716,000** |
| Exercisable at 30 June 2013 | **611,716,000** |

## 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 2013 and 2012.

### 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 2013 amounted to HK$350,000 (six months ended 30 June 2012: HK$493,000).

## 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. 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 2013.

## 17. EVENTS AFTER THE REPORTING PERIOD

As described in the sectioned headed "Recent Development and Prospects", the Group entered into a number of agreements during the first half of 2013 relating to the Acquisition, the Medical Project Investment, the Disposal and the Warrant Subscription.

In addition, the Company also proposed the Capital Reorganisation involving (i) the reduction of its issued and unissued share capital of the Company from HK$0.1 each to HK$0.001 each; (ii) cancellation of its share premium account; and (iii) application of the credit balance arising from the reduction of share capital and cancellation of share premium account to eliminate its accumulated losses.

Save for the Acquisition which was completed in August 2013, none of the above-mentioned transactions had been completed as at the date of this report.

## 18. 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 2013.