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

(Incorporated in Hong Kong with limited liability)

(Stock Code: 648)

MAJOR TRANSACTION

THE ACQUISITION

The Company is pleased to announce that on 27 August 2014, the JV and the Vendor entered into the Acquisition Agreement, pursuant to which the JV conditionally agreed to acquire and the Vendor conditionally agreed to dispose of the Sale Shares (representing 55% equity interest of the Target Company) for a total investment amount of HK$35 million, of which (i) HK$24 million will be payable to the Vendor as consideration for the Sale Shares and (ii) the remaining HK$11 million, together with the Vendor's proportionate contribution of HK$9 million, will be contributed to the Target Company as working capital for the Target Group's business development. The Target Group is principally engaged in the management and operation of a chain of sports clubs and fitness clubs under the brand "MEGAFIT" in the PRC (and as represented by the Vendor, is one of the largest chains of sports club and fitness clubs in the PRC in terms of area). Following completion of the Acquisition, the Group will hold 55% equity interest in the Target Company and the Target Company will become a non wholly-owned subsidiary of the Company. In addition, after the completion of the Acquisition Agreement, the JV will nominate an operating company (ultimately controlled by the Management Partner which has substantial experience in the management and operation of sports clubs and fitness clubs in Hong Kong and the PRC), will be responsible for the business development of certain existing sports clubs and fitness clubs and the new sports clubs and fitness clubs to be developed under the Target Group.

THE LISTING RULES IMPLICATIONS

Since the applicable percentage ratios (as defined under the Listing Rules) in respect of the Acquisition, are greater than 25% but less than 100%, the Acquisition will constitute a major transaction of the Company under Chapter 14 of the Listing Rules and accordingly, the entering into of the Acquisition Agreement is subject to the shareholders' approval requirement under the Listing Rules.

EGM

The EGM will be convened at which resolution(s) will be proposed to seek the approval of the shareholders of the Company for, among other things, the transaction contemplated under the Acquisition Agreement by way of a poll. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, as at the date of this announcement, the Vendor and its ultimate beneficial owner are third party independent of the Company and its connected persons, and do not hold any shares of the Company, accordingly, no shareholders of the Company are required to abstain from voting at the EGM to approve the relevant resolution(s) regarding the Acquisition Agreement and the transactions contemplated thereunder.

GENERAL

The circular containing, among other things, further details regarding (i) the Acquisition Agreement; (ii) the financial information of the Target Group; (iii) the pro forma financial statements of the Enlarged Group; and (iv) other disclosure requirements under the Listing Rules; and (v) a notice of the EGM to be convened regarding the transactions contemplated under the Acquisition Agreement and the corresponding proxy form, will be despatched to the shareholders of the Company on or before 10 October 2014.

THE ACQUISITION AGREEMENT

Date

27 August 2014

Parties to the Acquisition Agreement

(i) the JV, a non wholly-owned subsidiary of the Company, the issued share capital of which is owned as to 80% and 20% by the Company and the Management Partner, respectively; and

(ii) the Vendor, as the vendor;

(iii) Mr. Tjia Boen Sien, the sole beneficial owner of the Vendor, as the guarantor

The Vendor is an investment company and through its subsidiaries, is principally engaged in the management and operation of sports clubs and fitness clubs in the PRC (as detailed below). To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Vendor and its beneficial owners are third parties independent of the Company and its connected persons (as defined under the Listing Rules).

Background of the assets to be acquired

The Vendor has conditionally agreed to dispose of and the Purchaser has conditionally agreed to acquire the Sale Shares (representing 55% equity interest of the Target Company).

The Target Company is wholly and beneficially owned by the Vendor and the Target Group is principally engaged in the investment, management and operation of sports clubs and fitness clubs under the brand "MEGAFIT" in the PRC. As at the date of this announcement, the

Target Group operated 27 sports clubs and fitness clubs in the PRC (two additional clubs are expected to be opened by the end of 2014) and, as represented by the Vendor, is one of the largest chains of sports clubs and fitness clubs in the PRC in terms of area.

Based on the unaudited consolidated management accounts, the Target Group recorded (i) consolidated loss before and after taxation of HK$2.1 million for the year ended 31 March 2013 respectively; and (ii) consolidated loss before and after taxation of HK$3.2 million for the year ended 31 March 2014 respectively. As at 31 March 2014, the Target Group recorded unaudited consolidated net liability of HK$105.3 million (comprising the loan from the Target Group's shareholder of HK$61.1 million and the deposits received for membership fees of HK$67.6 million). However, if such consolidated net liability of the Target Group as at 31 March 2014 is adjusted by (i) the capitalisation of the above-mentioned shareholder's loans and (ii) the deposits for membership fees (which are expected to be progressively recognised as income of the Target Group), the Target Group would record a consolidated net asset value of HK$23.4 million as at 31 March 2014.

Consideration

The total investment (the "Consideration") of HK$35 million shall be payable by the JV to the Vendor in cash, of which:

(i) HK$24 million is payable by the JV to the Vendor (or its nominees) as consideration for the Sale Shares upon completion of the Acquisition Agreement; and

(ii) the remaining HK$11 million will be contributed by the JV to the Target Company (and the Vendor will also correspondingly contribute HK$9 million to the Target Company proportional to its shareholdings in the Target Company) for business development of the Target Group following completion of the Acquisition Agreement.

The Consideration was determined after arm's length negotiation amongst the Group, the Management Partner and the Vendor and after taking into consideration of, among other things, (i) the Target Group's chain of 27 sports clubs and fitness clubs in the PRC with an established and renowned brand of "MEGAFIT" which, as represented by the Vendor, is one of the largest chains of sports clubs and fitness club in the PRC in terms of area; (ii) the potential improvement in the Target Group's business and financial performance by the Management Partner's participation (through its nomination of an operating company) in the business development of certain existing and new sports clubs and fitness of the Target Group after the Acquisition; (iii) the Vendor's contribution of HK$9 million to the Target Group which will be retained in the Target Group for business development; (iv) the profit guarantee provided by the Vendor (as detailed below); and (v) the positive prospects of health and fitness business in the PRC resulted from the growing consumption power and health concerns of the PRC's general public. Having considered the conservative prospects of the Group's existing medical network business and the income stream brought to the Group resulted from the Acquisition, the Directors are of the view that the terms of the Acquisition Agreement (including the Consideration) are fair and reasonable and the entering into of the Acquisition Agreement is in the interest of the Company and its shareholders as a whole.

Conditions Precedent

Completion of the Acquisition is subject to the following major conditions precedent being fulfilled or waived (as the case may be):

(i) the JV being fully or substantially satisfied with the result of the due diligence on the Target Group;

(ii) all necessary consents, licenses and approvals required having been obtained on part of the Vendor and the Target Group in respect of the Acquisition Agreement and the transactions contemplated thereunder;

(iii) all necessary consents, licenses and approvals required having been obtained on part of the JV and the Company in respect of the Acquisition Agreement and the transactions contemplated thereunder;

(iv) the passing by the shareholders of the Company at the EGM to be convened of an ordinary resolution to approve the Acquisition Agreement and the transactions contemplated thereunder;

(v) if necessary, the obtaining of the government and regulatory authorities for the Acquisition Agreement and the transactions contemplated thereunder;

(vi) the Vendor and the JV having agreed on terms of, among other things, the deed of indemnity, the shareholders agreement between the JV and the Vendor and the employment agreements of key employees;

(vii) the warranties and obligation given by the Vendor under the Acquisition Agreement remaining true, accurate and complete in all respects; and

(viii) the JV being satisfied that there has not been any material adverse change in respect of the Target Group since the date of the Acquisition Agreement.

If the conditions set out above are not fulfilled or, as the case may be, waived by the Purchaser (in respect of conditions numbered (i), (vii) and (viii) only) on or before 30 October 2014 (or such other date as the parties thereto may agree), the obligations of the parties to the Acquisition Agreement shall cease and neither party to the Acquisition Agreement shall have any claims under the Acquisition Agreement against the others save in respect of any antecedent breaches of the Acquisition Agreement.

Profit Guarantee

Under the Acquisition Agreement, the Vendor has warranted that during each of (i) the period commencing from the completion of the Acquisition Agreement to 31 December 2014; (ii) the year ending 31 December 2015; (iii) the year ending 31 December 2016 and (iv) the six months ending 30 June 2017, the combined audited earnings after taxation (after deducting the relevant claims) of those existing sports clubs and fitness clubs under the management of the Vendor (the "Guaranteed Clubs") will not be less than HK$0. In the event that the combined audited earnings after tax for those Guaranteed Clubs during any of the above financial periods is negative, the Vendor shall compensate the Target Company for such amount of loss incurred by the Guaranteed Clubs.

Compensation for Claims

Save for any undisclosed guarantee and/or litigation, the aggregate liability of the Vendor in respect of (i) any claims for breach of the Vendor's representation or undertaking or the Vendor's warranties or any other term of the Acquisition Agreement; (ii) any claims under the above-mention profit guarantee and (iii) any claims under the deed of indemnity shall be capped at HK$15 million.

Completion

Completion of the Acquisition Agreement shall take place within five business days following the above-mentioned conditions precedent of the Acquisition Agreement having been fulfilled or waived (as the case may be) or such later date as may be agreed between the parties to the Acquisition Agreement.

Following completion of the Acquisition Agreement, the board of directors of the Target Company will be increased to 5 directors, comprising 3 directors (including the chairman of the board of directors of the Target Company) being appointed by the JV and the remaining 2 being appointed by the Vendor, and the Target Company will be accounted for as a non wholly-owned subsidiary of the Company and its results and financial positions will be included in the consolidated financial statements of the Company.

THE JOINT VENTURE AGREEMENT

On 27 August 2014, the Company and the Management Partner also entered into joint venture agreement (the "JV Agreement") setting out the cooperation framework between the Group and the Management Partner in the JV.

Date

27 August 2014

Parties to the JV Agreement

The Group and the Management Partner, which hold 80% and 20% equity interest in the JV, respectively as at the date of this announcement.

To the best of the Directors' knowledge, information, and belief, having made reasonable enquiries, save for its 20% equity interest in the JV, the Management Partner and its beneficial owners are third parties independent and not connected persons (as defined under the Listing Rules) of the Company.

Major terms of the JV Agreement

Contribution to the JV

Each of the Company and the Management Partner will contribute a total of HK$28 million and HK$7 million to the JV, respectively.

Cooperation between the Group and the Management Partner

The Group will be responsible for arranging financing and strategic advice to the Target Group whilst the Management Partner, which possesses a team of professional personal trainers and sales people with successful track records in the sports and fitness industry in Hong Kong and the PRC, and through the nomination of an operating company to be controlled by it, will be responsible for the daily operation of certain (both new and existing) sports clubs and fitness clubs under the Target Group as prescribed under the management agreement to be entered into between the Management Partner and the Target Group at or around completion of the Acquisition Agreement. Under such management agreement in respect of the management services to be provided by the Management Partner, the Management Partner shall, during the period of its management, procure that those sports clubs and fitness clubs managed by it shall (i) comply with all laws and regulations in the PRC; and (ii) record a compound annual growth rate of not less than 10% per annum in the profit after tax based on the Hong Kong accounting standards. If the Management Partner cannot satisfy the above requirements, the Group shall have the discretion to terminate the management services provided by the Management Partner.

Options to acquire addition equity interest from the Company

In order to motivate the Management Partners for its continuous contribution to the success of the Target Group's future business development, if the Management Partner is able to satisfy the above criteria during the tenure of its management, the Company will, after the first full financial year following the completion of the Acquisition Agreement, grant two tranches of options to the Management Partner for acquiring up to 20% equity interest from the Company.

Each of the first tranche options (the "Tranche One Option") and the second tranche option (the "Tranche Two Option") will have an exercise period of two years from the date of grant which allow the Management Partner to acquire up to 10% and 10% equity interest in the Target Company from the Group, respectively. During the first and second years of the exercise period of the Tranche One Option, the Management Partner may acquire shares of the JV from the Company at a price of (i) the Company's investment cost of HK$350,000 per share (or per % of the equity interest) of the JV and (ii) HK$367,500 per share (or per % of the equity interest) of the JV, respectively. During the first and second years of the exercise period of the Tranche Two Option, the Management Partner may acquire shares of the JV from the Company at a price of (i) HK$367,500 per share (or per % of the equity interest) of the JV; and (ii) HK$385,000 per share (or per % of the equity interest) of the JV, respectively. Assuming that the Tranche One Option and the Tranche Two Option have been exercised in full, the Company's equity interest in the JV will decrease from 80% to 60%.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the provision of medical equipment and services for the network of its medical centres network specialising in the diagnosis and treatment of tumours and/or cancer related diseases in the PRC. The Group's medical centres are established through long term lease and management service arrangement entered into with its hospital and/or business partners 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 arrangement and the Group and/or its business partner provided management services for the medical centres.

However, such business model of the Group, as described in the Company's announcement dated 28 June 2013 and its annual reports for the years ended 31 December 2012 and 2013, may be exposed to challenges if the relevant PRC department/authorities have different interpretations on the Group's compliance with the relevant rules and regulations in respect of its business arrangements as mentioned above. In addition, following a program promulgated by the National Health and Family Planning Commission of the PRC in 2013 for purpose of strengthening the management of the PRC's hospitals and rectifying their non-compliance operations (including the renting/contract-out arrangement of medical departments), it has appeared that the risk of the relevant administrative departments/authorities of the PRC interpreting the Group's business model as "renting/contracting-out" of medical departments by hospitals has been increased (particularly the Group had received notices for termination of the existing cooperation arrangement in respect of four of its medical centres).

In view of the unfavourable regulatory environment of the Group's existing business, the Company expects the acquisition of a well-known brand of sports clubs and fitness clubs chain with established network in the PRC under the Acquisition Agreement, together with the cooperation with an experienced management team for future business development of the Target Group, will bring new growth momentum to the Group. Despite the current net loss incurred by the Target Group in recent years, which were mainly resulted from lease, staff and depreciation related expenses incurred, it is expected that by leveraging on the established network and recognised brand of the Target Group, and through the Management Partner's substantial experience in the business development of sports and fitness clubs, the business and financial performance of the Target Group (for both the existing and new sports clubs and fitness clubs of the Target Group) can be significantly enhanced, including (i) increasing the overall operational efficiency of the Target Group's sports clubs and fitness clubs and thus improving its overall cost structure; (ii) achieving synergy amongst the Target Group's network of existing and new sports clubs and fitness clubs for enhancing cross-selling; (iii) formulation of a more effective branding strategy to better utilise the already well-known brand of "MEGAFIT" for more prominent locations at lower costs, which in fact, has recently enabled the Target Group to enter into lease contracts with favourable terms such as free renovation and revenue-sharing based rent. Notwithstanding the above, the funds contributed by the JV and the Vendor to the Target Group under the Acquisition Agreement not only signifies the confidence of the parties in the future development of the Target Group, but also provides the Target Group with additional funding to roll out its expansion plan. Having considered the above, the Directors are of the view that the Acquisition represents a good investment opportunity to the Group and the entering into of the Acquisition Agreement and the transaction contemplated thereunder is in the interest of the Company and its shareholders as a whole.

LISTING RULES IMPLICATION

Since the applicable percentage ratios (as defined under the Listing Rules) in respect of the Acquisition, are greater than 25% but less than 100%, the Acquisition will constitute a major transaction of the Company under Chapter 14 of the Listing Rules and accordingly, the entering into of the Acquisition Agreement is subject to the shareholders' approval requirement under the Listing Rules.

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The EGM will be convened at which resolution(s) will be proposed to seek the approval of the shareholders of the Company for, among other things, the transaction contemplated under the Acquisition Agreement by way of a poll. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, as at the date of this announcement, the Vendor and its ultimate beneficial owner are third party independent of the Company and its connected persons, and do not hold any shares of the Company, accordingly, no shareholders of the Company are required to abstain from voting at the EGM to approve the relevant resolution(s) regarding the Acquisition Agreement and the transactions contemplated thereunder.

GENERAL

The circular containing, among other things, further details regarding (i) the Acquisition Agreement; (ii) the financial information of the Target Group; (iii) the pro forma financial statements of the Enlarged Group; and (iv) other disclosure requirements under the Listing Rules; and (v) a notice of the EGM to be convened regarding the transactions contemplated under the Acquisition Agreement and the corresponding proxy form, will be despatched to the shareholders of the Company on or before 10 October 2014.

DEFINITION

Unless the context otherwise requires, the following terms used in this announcement shall have the following meanings when used herein:

"Acquisition"	the acquisition of the Sale Shares pursuant to the Acquisition Agreement
"Acquisition Agreement"	the sale and purchase agreement dated 27 August 2014 entered into between the Purchaser and the Vendor relating to the acquisition of the Sale Shares
"Company"	China Renji Medical Group Limited, a company incorporated in Hong Kong and the issued shares of which are listed on The Stock Exchange of Hong Kong Limited
"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be held and convened for its shareholders to consider, and if thought fit, approve the Acquisition Agreement and the transactions contemplated thereunder
"Enlarged Group"	the enlarged Group after completion of the Acquisition
"Group"	the Company and its subsidiaries
"JV"	Golden Oasis Health Limited, a company incorporate in the British Virgin Islands with limited liability and a non wholly-owned subsidiary of the Company

"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Management Partner"	Smart Even Ventures Limited, a company incorporated in the British Virgin Islands with limited liability
"PRC"	the People's Republic of China (for the purpose of this announcement, excluding The Hong Kong Special Administrative Region, The Macau Special Administrative Region and Taiwan)
"Sale Shares"	55% of the issued share capital of the Target Company
"Target Company"	Mega Fitness (Shanghai) Investments Limited, a company incorporated in the British Virgin Islands with limited liabilities
"Target Group"	the Target Company and its subsidiaries
"Vendor"	Gold Swing Enterprises Ltd., a company incorporated in the British Virgin Islands with limited liabilities
"HK$"	Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region of the PRC

By Order of the Board of
China Renji Medical Group Limited
Tang Chi Chiu
Chairman

Hong Kong, 27 August 2014

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Tang Chi Chiu, Mr. Chan Ka Chung and Mr. Wang Jianguo; and three independent non-executive Directors, namely, Mr. Chan Yee Ping, Michael, Ms. Hu Xuezhen and Ms. Wu Yan.