



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

Stock Code: 648

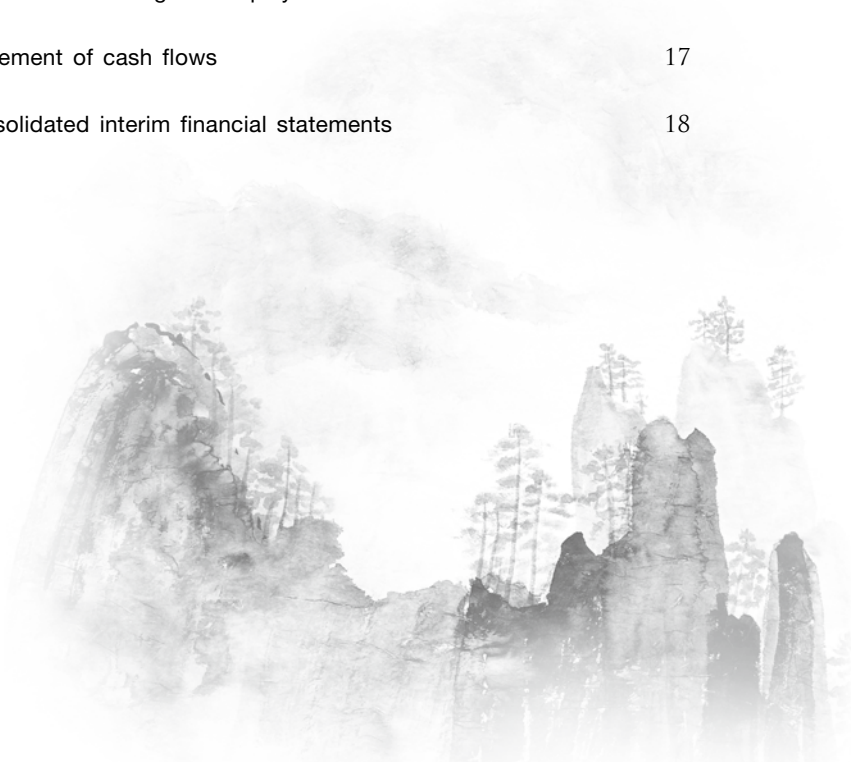


2014
Interim Report



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:

TANG Chi Chiu (*Chairman*)

CHAN Ka Chung

WANG Jianguo

Independent Non-executive Directors:

CHAN Yee Ping, Michael

HU Xuezheng

WU Yan

AUDIT COMMITTEE

CHAN Yee Ping, Michael (*Chairman*)

HU Xuezheng

WU Yan

REMUNERATION COMMITTEE

CHAN Yee Ping, Michael (*Chairman*)

CHAN Ka Chung

HU Xuezheng

NOMINATION COMMITTEE

CHAN Yee Ping, Michael (*Chairman*)

CHAN Ka Chung

HU Xuezheng

CORPORATE GOVERNANCE COMMITTEE

CHAN Yee Ping, Michael (*Chairman*)

CHAN Ka Chung

HU Xuezheng

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

Level 22, Hopewell Centre

183 Queen's Road East

Hong Kong

REGISTERED OFFICE

36th Floor, Times Tower

391-407, Jaffe Road

Wanchai

Hong Kong

WEBSITE

www.chinarenji.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 2014.

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**”).

Turnover


For the six months ended 30 June 2014, the turnover of the Group amounted to HK\$51.1 million (six months ended 30 June 2013: HK\$56.0 million), representing a decrease of 8.7% from the corresponding period last year. The decrease in the Group’s turnover was attributable to the cessation of business operation of certain medical centres of the Group during the period resulted from the receipt of termination notices in 2013 (as detailed in the Company’s 2013 Annual Report).

Gross profit

For the six months ended 30 June 2014, the Group recorded a gross profit of HK\$40.2 million (six months ended 30 June 2013: HK\$35.3 million) and a gross profit margin of 78.6% (six months ended 30 June 2013: 63.0%). The increase in the Group’s gross profit margin was mainly attributable to the decrease in depreciation and amortisation expenses of the relevant medical assets (including plant and equipment and intangible assets) resulted from the impairment provisions made as at 31 December 2013.

Profit/(loss) for the period

Due to the absence of impairment loss recorded for the six months ended 30 June 2014 (for the six months ended 30 June 2013, an impairment loss of HK\$140.5 million was recorded), the Group recorded a consolidated net profit of HK\$18.9 million for the six months ended 30 June 2014 (six months ended 30 June 2013: consolidated loss of HK\$113.1 million). However, if the above-mentioned impairment loss in 2013 was excluded, the net profit for the current period represented a decrease of 30.9% from the corresponding period last year. In addition, as the Group disposed of 35% equity interest in a subsidiary principally engaged in the Group’s medical network business in November 2013, the profit for the period attributable to the owners of the Company for the six months ended 30 June 2014 amounted to HK\$8.4 million (six months ended 30 June 2013: loss of HK\$113.1 million).



Basic earnings per share for the reporting period was approximately HK1.236 cents (six months ended 30 June 2013: basic loss per share of HK16.705 cents).

BUSINESS REVIEW

The medical centres of the Group, which are mainly located at its hospital partners' premises, are established through the long term lease and management service arrangement 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 arrangement and the Group and/or its business partners provide management services for the medical centres. However, as reiterated in the Company's 2012 and 2013 Annual Reports, such business model of the Group may be exposed to challenges if the relevant health department/authorities have different interpretations on the compliance of the Group's above-mentioned arrangement with the relevant rules and regulations.

The operating environment of the Group had remained challenging during the six months ended 30 June 2014. In 2013, the National Health and Family Commission of the PRC launched a program (the "Program") for strengthening the management of the PRC's hospitals and rectifying their non-compliance operations, including the rental/contract-out arrangement of medical departments. Given that the Group's leasing of medical equipment and provision of management services are made to medical centres located in the premises of the hospitals, it has appeared that following the promulgation of the Program, the risk of the relevant administrative departments/authorities of the PRC holding different views on the substance of the above-mentioned leasing and management arrangements and interpreting such arrangements underlying the Group's business model as "renting/contracting out" of medical departments by hospital has been increased. As mentioned in the Company's 2013 Annual Report, the Group received notices for termination of the existing cooperation arrangements in respect of four of its medical centres in 2013. Although the Group has not been assessed by any healthcare departments/authorities for non-compliance with the existing rules and regulations after the launching of the Program, such increased risk of the Group's business model being interpreted as not in compliance with the relevant rules and regulations of the PRC has led to an adverse impact on the working relationship with its hospital/business partners.

RECENT DEVELOPMENT AND PROSPECTS

As part of its corporate development strategy, the Group will continue to keep abreast of any potential business/investment opportunities with a view to improving the business and financial performance of the Group.

During the six months ended 30 June 2014, the Group in February 2014 entered into a cooperation agreement relating to, among other things, the restructuring of a non wholly-owned subsidiary and the investment involving the establishment and subsequent business operation of a tumour-specialised hospital in the PRC. The operation of an associate company has recently been put on halt as a result of its restructuring. In addition, the Company entered into subscription agreements relating to the issue of convertible notes in the aggregate principal amount of HK\$10 million at the initial conversion price of HK\$0.8 (as adjusted by the share consolidation) in April 2014. Furthermore, in August 2014, the Company announced that it proposed to raise (before expenses) approximately HK\$91.4 million to HK\$114.8 million by way of rights issue on the basis of one rights share for every two shares of the Company at the

subscription price of HK\$0.27 per rights share. During the same month, the Company entered into a sale and purchase agreement for the acquisition of 55% equity interest in a group engaged in the management and operation of one of the largest chains of sports clubs and fitness clubs in the PRC whereby an experienced management partner will also participate in the business development of certain of these sports clubs and fitness clubs.

Looking forward, the Group will, on one hand, formulate strategies to reduce the overall risk resulted from the challenging business environment and tightening regulatory environment, and, on the other hand will continue to seek appropriate investment/business opportunities in business areas with potential to expand the Group's business portfolio.

FINANCIAL REVIEW

Liquidity and financial resources

The Group recorded a net cash outflow of HK\$26.6 million for the six months ended 30 June 2014 (six months ended 30 June 2013: net cash outflow of HK\$53.7 million), and had cash and bank balances of HK\$55.5 million (31 December 2013: HK\$83.8 million) as at 30 June 2014.

For the six months ended 30 June 2014, the net cash outflow from operating activities amounted to HK\$44.5 million (six months ended 30 June 2013: net cash inflow of HK\$26.7 million). For the six months ended 30 June 2014, the net cash outflow from investing activities amounted to HK\$0.6 million (six months ended 30 June 2013: net cash outflow of HK\$80.3 million) and the net cash inflow from financing activities amounted to HK\$18.5 million (six months ended 30 June 2013: Nil).

As at 30 June 2014, the Group's total borrowings amounted to HK\$157.4 million (31 December 2013: HK\$78.6 million) which included borrowings of HK\$79.9 million (31 December 2013: HK\$77.6 million), guaranteed convertible note of HK\$1.0 million (31 December 2013: HK\$1.0 million), promissory note of HK\$58.9 million (31 December 2013: Nil), bond payable of HK\$9.9 million (31 December 2013: Nil) and convertible notes of HK\$7.7 million (31 December 2013: Nil). The increase in total borrowings was attributable to the issue of promissory note, bond and convertible notes during the period with carrying amount of HK\$58.9 million, HK\$9.9 million, HK\$7.7 million as at 30 June 2014, respectively. 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.

The Group did not have any bank borrowings as at 30 June 2014.

As at 30 June 2014, the Group's net asset value (including non-controlling interest) was HK\$478.9 million (31 December 2013: HK\$498.3 million) with a liquidity ratio (calculated based on the Group's current assets to current liabilities) of 2.95 times as at 30 June 2014 (as compared to 2.05 times as at 31 December 2013). The Group's gearing ratio (calculated based on the Group's total borrowings to the equity attributable to the owners of the Company) was 38.3% (31 December 2013: 19.2%).



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 will continue to monitor the Group's foreign exchange exposure closely.

Charge on group assets

As at 30 June 2014 and 31 December 2013, no assets of the Group had been pledged.

CONTINGENCIES

In 2011, the Company (as plaintiff) instituted legal proceedings against the holder of a guaranteed convertible note of the Group which had been matured in 2011, for an injunction restraining that holder from commencing any petition for winding up against the Company for claiming HK\$1,007,000. The Court has ordered that the proceedings be adjourned sine die upon the undertaking of the said holder 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 the above-mentioned holder. Since the amount claimed had already been 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 2014.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2014, the total number of employees of the Group was 92. 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

The 2001 Scheme

On 30 October 2001, at the annual general meeting, the Company adopted a share option scheme (the “2001 Scheme”) under which the Board may, at its discretion, offer to eligible participants options to subscribe for ordinary shares of the Company in accordance with the terms and conditions of the 2001 Scheme. The 2001 Scheme was expired on 30 October 2011.

Options granted under the 2001 Scheme

Details of the movements in share options granted under the 2001 Scheme during the period were as follows:

Grantee	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options				
				At 1 January 2014 (Note)	Granted during the period	Exercised during the period	Lapsed during the period	At 30 June 2014 (Note)
Employees	26-04-2007	26-04-2007 to 25-04-2017	4.00	50,000	—	—	—	50,000
	07-03-2008	07-03-2008 to 06-03-2018	2.60	6,966,600	—	—	—	6,966,600
				7,016,600	—	—	—	7,016,600
Consultants/Advisors	24-05-2004	24-05-2004 to 23-05-2014	2.00	2,131,600	—	—	(2,131,600)	—
	10-04-2006	10-04-2006 to 09-04-2016	2.00	4,945,700	—	—	—	4,945,700
	26-04-2007	26-04-2007 to 25-04-2017	4.00	2,515,000	—	—	—	2,515,000
	06-11-2007	06-11-2007 to 05-11-2017	4.04	5,000,000	—	—	—	5,000,000
	07-03-2008	07-03-2008 to 06-03-2018	2.60	6,345,300	—	—	—	6,345,300
				20,937,600	—	—	(2,131,600)	18,806,000
			total:	27,954,200	—	—	(2,131,600)	25,822,600

Note: As adjusted by the share consolidation for 20 shares into 1 consolidated share of the Company (please refer to the circular of the Company dated 13 May 2014 for details).

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	12,500
	26-04-2008	12,500
	26-04-2009	25,000
07-03-2008	07-03-2009	3,483,300
	07-03-2010	3,483,300

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

Date of grant	Date of vesting	No. of share options vested
10-04-2006	10-04-2006	4,198,975
	10-04-2007	240,575
	10-04-2008	506,150
26-04-2007	26-04-2007	2,447,500
	26-04-2008	22,500
	26-04-2009	45,000
06-11-2007	01-01-2008	2,500,000
	01-07-2009	2,500,000
07-03-2008	07-03-2010	3,172,650
	07-03-2011	3,172,650

The 2014 Scheme

On 12 June 2014, at the annual general meeting of the Company, the Company adopted a new share option scheme (the “2014 Scheme”) under which the Board may, offer to eligible participant options to subscribe for ordinary shares of the Company in accordance with the terms and conditions of the 2014 Scheme. As at 30 June 2014, no options had been granted under the 2014 Scheme. Other details of the 2014 Scheme was disclosed in the circular of the Company dated 13 May 2014.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVES OF THE COMPANY IN SHARES AND OPTIONS

As at 30 June 2014, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the Securities and Future Ordinance (the “SFO”)) which (i) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code (the “Model Code”) for Securities Transactions by Directors of Listed Companies contained in The Rules (the “Listing Rules”) Governing the Listing of Securities on the Stock Exchange, were as follows:

(I) THE COMPANY

Interests in Shares

Name of Director	Capacity	Number of shares or underlying shares held (long position)	Approximate percentage of the issued share capital
Chan Ka Chung	corporate interest	135,000,000 (Note)	19.93%

Note: Since Mr. Chan Ka Chung (“Mr. Chan”) is the beneficial owner of the subscriber pursuant to the warrant subscription agreement (as amended and supplemented) dated 5 July 2013, Mr. Chan is deemed to be interested in the underlying 135,000,000 shares to be issued and allotted upon the exercise of the subscription rights attached to the warrants to be issued by the Company as at 30 June 2014.

Interests in Debenture of the Company

Name of Director	Capacity	Principal Amount of Promissory Note
Chan Ka Chung	corporate interest	HK\$60,240,000

(II) ASSOCIATED CORPORATION

Interests in Shares

Name of Director	Name of associated corporation	Capacity	Percentage of issued share capital
Chan Ka Chung	Redsun Development Limited	Corporate	62%

Save as disclosed above, as at 30 June 2014, no other Directors had or were deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2014, 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 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
Blossom Well Enterprise Limited	beneficial owner	107,842,300	15.92%
蕪湖隆源投資有限公司 (Wuhu Longyuan Investment Company Limited*)	beneficial owner	97,500,000	14.40%

* For identification purpose only

Save as disclosed herein, the Directors are not aware of any other interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under section 336 of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group as at 30 June 2014.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2014, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any shares of the Company.

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

MR. CHAN YEE PING, MICHAEL

(Independent Non-executive Director)

Mr. Chan, aged 37, has over 10 years of experience in the areas of audit, financial management, corporate secretarial management and corporate governance. He is a member with practicing certificate of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified

Accountants. Mr. Chan is the company secretary of (i) China Sunshine Paper Holdings Company Limited (stock code: 2002), a company listed on the Main Board of the Stock Exchange and (ii) Northeast Electric Development Co., Limited (stock code: 42), a joint stock limited company whose shares are listed on both the Shenzhen Stock Exchange of China and the Stock Exchange, and the independent non-executive director of China Sandi Holdings Limited (stock code: 910). Mr. Chan was also the independent non-executive director of Yueshou Environmental Holdings Limited (stock code: 1191) from 7 October 2013 to 17 July 2014. Mr. Chan holds a bachelor's degree in business administration from the Hong Kong Polytechnic University.

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 2014, 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 are appointed for a specific term. This constitutes a deviation from the code provision. However, all the non-executive Directors 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 review of the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2014.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted 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 enquiry of all Directors, each of them has confirmed that he/she has complied with the required standard as set out in the Model Code for the six months ended 30 June 2014.

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

Hong Kong, 28 August 2014

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2014

	Notes	Six months ended 30 June	
		2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Turnover	3	51,121	56,000
Cost of services		(10,921)	(20,709)
Gross profit		40,200	35,291
Other gains and losses		2,567	14,258
Administrative expenses		(19,945)	(17,937)
Impairment loss on property, plant and equipment		—	(93,673)
Impairment loss on other intangible assets		—	(46,816)
Share of results of associates		(540)	—
Finance costs		(3,101)	(1,338)
Profit/(loss) before taxation		19,181	(110,215)
Income tax	4	(276)	(2,915)
Profit/(loss) for the period	5	18,905	(113,130)
Profit/(loss) for the period attributable to:			
Owners of the Company		8,370	(113,135)
Non-controlling interests		10,535	5
		18,905	(113,130)
Earnings/(loss) per share attributable to owners of the Company (HK cents) (Restated)	7		
— Basic		1.236	(16.705)
— Diluted		1.134	(16.705)

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 2014

	Six months ended 30 June	
	2014 <i>HK\$'000</i> <i>(Unaudited)</i>	2013 <i>HK\$'000</i> <i>(Unaudited)</i>
Profit/(loss) for the period	18,905	(113,130)
Other comprehensive (loss)/income for the period		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	<u>(5,727)</u>	12,386
Other comprehensive (loss)/income for the period, net of tax	<u>(5,727)</u>	12,386
Total comprehensive income/(loss) for the period	<u>13,178</u>	<u>(100,744)</u>
Total comprehensive income/(loss) for the period attributable to:		
Owners of the Company	3,383	(101,264)
Non-controlling interests	<u>9,795</u>	520
	<u>13,178</u>	<u>(100,744)</u>

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	<i>Notes</i>	As at 30 June 2014 HK\$'000 (Unaudited)	As at 31 December 2013 HK\$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	8	71,817	77,654
Land use right	8	3,831	3,904
Other intangible assets	8	9,433	10,335
Interests in associates		71,612	72,430
Available-for-sale financial assets		104,065	76,147
Deposit paid for acquisition of property, plant and equipment		<u>51,605</u>	<u>52,478</u>
		312,363	292,948
Current assets			
Land use right		85	89
Trade receivables	9	49,310	52,308
Other receivables, prepayments and deposits		263,506	260,419
Amount due from a non-controlling shareholder of a subsidiary		—	5,711
Cash and bank balances		<u>55,523</u>	<u>83,767</u>
		368,424	402,294
Current liabilities			
Other payables and accruals	10	31,181	89,038
Amounts due to directors		2,837	15,594
Tax payable		9,944	13,199
Borrowings		79,876	77,564
Guaranteed convertible note		<u>1,000</u>	<u>1,000</u>
		124,838	196,395

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL
POSITION (CONTINUED)

As at 30 June 2014

	<i>Notes</i>	As at 30 June 2014 HK\$'000 (Unaudited)	As at 31 December 2013 HK\$'000 (Audited)
Net current assets		243,586	205,899
Total assets less current liabilities		555,949	498,847
Non-current liabilities			
Convertible notes		7,679	—
Bond payable		9,898	—
Promissory note	10	58,964	—
Deferred tax liabilities		512	533
		77,053	533
Net assets		478,896	498,314
CAPITAL AND RESERVES			
Share capital	11	2,336,362	1,354,511
Reserves		(1,925,062)	(945,938)
Equity attributable to owners of the Company		411,300	408,573
Non-controlling interests		67,596	89,741
Total equity		478,896	498,314

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 2014

	Equity											Total
	Share capital	Share premium	Capital redemption reserve	Share option reserve	Exchange translation reserve	component of			Accumulated losses	Sub-total	Non-controlling interests	
						convertible notes	Warrant reserves	Other reserves				
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
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 period	-	-	-	-	-	-	-	-	(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
As at 1 January 2014 (Audited)	1,354,511	981,851	1,899	35,415	130,864	-	-	68,244	(2,164,211)	408,573	89,741	498,314
Profit for the period	-	-	-	-	-	-	-	-	8,370	8,370	10,535	18,905
Other comprehensive loss for the period	-	-	-	-	(4,987)	-	-	-	-	(4,987)	(740)	(5,727)
Exchange differences on translating foreign operations	-	-	-	-	(4,987)	-	-	-	-	(4,987)	(740)	(5,727)
Total comprehensive income/(loss) for the period	-	-	-	-	(4,987)	-	-	-	8,370	3,383	9,795	13,178
Transfer from share premium to share capital upon abolition of par value	981,851	(981,851)	-	-	-	-	-	-	-	-	-	-
Placing of warrants, net of expenses	-	-	-	-	-	-	358	-	-	358	-	358
Reclassification adjustment upon loss on control arising from disposal of a subsidiary	-	-	-	-	(1,335)	-	-	-	-	(1,335)	(31,940)	(33,275)
Issue of convertible notes	-	-	-	-	-	321	-	-	-	321	-	321
As at 30 June 2014 (Unaudited)	2,336,362	-	1,899	35,415	124,542	321	358	68,244	(2,155,841)	411,300	67,596	478,896

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

	Six months ended 30 June	
	2014 <i>HK\$'000</i> <i>(Unaudited)</i>	2013 <i>HK\$'000</i> <i>(Unaudited)</i>
Net cash (used in)/generated from operating activities	(44,464)	26,681
Net cash used in investing activities	(591)	(80,338)
Net cash generated from financing activities	18,500	—
Net decrease in cash and cash equivalents	(26,555)	(53,657)
Effect of foreign exchange rate changes	(1,689)	6,448
Cash and cash equivalents at the beginning of the period	83,767	115,980
Cash and cash equivalents at the end of the period	55,523	68,771
Analysis of balances of cash and cash equivalents		
Cash and bank balances	55,523	68,771

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 2014

1. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2014 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 (the “Listing Rules”) Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”). They have been prepared under the historical cost convention, except for certain financial instruments, which are carried at fair values. The unaudited 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 unaudited condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial assets and liabilities that are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The accounting policies adopted in the unaudited condensed consolidated financial statements for the six months ended 30 June 2014 are consistent with those followed in the preparation of the 2013 Annual Report except for the impact of the adoption of the new and revised standards, amendments and interpretations (the “new and revised HKFRSs”).

In the current period, the Group has applied, for the first time, the following new and revised HKFRSs issued by the HKICPA, which are effective for the Group’s financial period beginning on 1 January 2014. A summary of the new and revised HKFRSs are set out below:

HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment Entities
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities
HKAS 36 (Amendments)	Recoverable Amount and Disclosures for Non-Financial Assets
HKAS 39 (Amendments)	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) – Int 21	Levies

The application of the above new and revised HKFRSs 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Amendments to HKFRSs	Annual Improvements 2010–2012 Cycle ²
Amendments to HKFRSs	Annual Improvements 2011–2013 Cycle ¹
HKFRS 9 and HKFRS 7 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures ⁶
HKFRS 9	Financial Instruments ⁶
HKFRS 11 (Amendments)	Accounting for Acquisitions of Interest in Joint Operations ³
HKFRS 14	Regulatory Deferral Accounts ⁴
HKFRS 15	Revenue from Contracts with Customers ⁵
HKAS 19 (as revised in 2011)	Defined Benefit Plans: Employees Contributions ¹
HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation ³
HKAS 16 and HKAS 41 (Amendments)	Agriculture: Bearer Plants ³

¹ Effective for annual periods beginning on or after 1 July 2014.

² Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.

³ Effective for annual periods beginning on or after 1 January 2016.

⁴ Effective for first annual HKFRS financial statements beginning on or after 1 January 2016.

⁵ Effective for annual periods beginning on or after 1 January 2017.

⁶ No mandatory effective date yet determined but is available for adoption.

The Group is in progress of assessing the impact of these new or revised HKFRSs, 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 2014 and 2013, the Group was only engaged in medical network business of leasing and operation of medical equipment and provision of services on operation of such medical equipment in the PRC and most of the assets of the Group were located in the PRC as at 30 June 2014 and 31 December 2013.

4. INCOME TAX

	Six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
PRC Enterprise income tax	297	6,316
Deferred taxation	(21)	(3,401)
Tax charge for the period	<u>276</u>	<u>2,915</u>

No Hong Kong profits tax has been provided as the Group did not have assessable profit arising in Hong Kong for both periods. Taxes on profit 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 Enterprise income tax rate is 25% for both periods.

5. PROFIT/(LOSS) FOR THE PERIOD

Profit/(loss) for the period has been arrived at after charging/(crediting):

	Six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Depreciation of property, plant and equipment	4,437	9,569
Depreciation of jointly-controlled assets	111	1,408
Amortisation of land use right	44	43
Amortisation of other intangible assets included in cost of services	818	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	1,133	1,321
— Guaranteed convertible note	—	17
— Promissory note	1,849	—
— Bond payable	43	—
— Convertible notes	76	—
Employee benefit expenses, including directors' emoluments:		
Salaries and other benefits	8,694	9,750
Net exchange loss/(gain)	3,038	(13,052)
Promissory note interest income	—	(2)

6. DIVIDENDS

The Board did not recommend the payment of any dividends for the six months ended 30 June 2014 and 2013.

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

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

EARNINGS/(LOSS)

	Six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Profit/(loss) for the purpose of basic earnings/(loss) per share	8,370	(113,135)
Interest on guaranteed convertible note (Note (b))	—	—
Interest on convertible notes	76	—
Profit/(loss) for the purpose of diluted earnings/(loss) per share	<u>8,446</u>	<u>(113,135)</u>

NUMBER OF SHARES

	Six months ended 30 June	
	2014 '000 (Unaudited)	2013 '000 (Unaudited) (Restated)
Number of issued ordinary shares as at 1 January 2014	13,545,113	13,545,113
Effect of share consolidation (Note (a))	<u>(12,867,857)</u>	<u>(12,867,857)</u>
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	677,256	677,256
Effect of dilutive potential ordinary shares:		
— Share options (Note (b))	—	—
— Guaranteed convertible note (Note (b))	—	—
— Warrants	67,500	—
— Convertible notes (Note (b))	—	—
Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share	<u>744,756</u>	<u>677,256</u>

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

NUMBER OF SHARES (CONTINUED)

Notes:

- (a) The number of ordinary shares adopted in the calculation of the basic and diluted earnings/(loss) per share for the six months ended 30 June 2014 and 2013 has been adjusted to reflect the impact of the share consolidation effected during the respective periods. The number of ordinary shares in 2013 has also been restated to reflect such share consolidation on a retrospective basis.
- (b) The effect of the guaranteed convertible note, share options and convertible notes was not included in the calculation of diluted earnings per share for the six months ended 30 June 2014 and 2013 because they have an anti-dilutive effect on the basic earnings per share of the Company during the periods.

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 2014 was HK\$1.0 million (six months ended 30 June 2013: HK\$20.7 million).

There was no addition to the other intangible assets of the Group during the six months ended 30 June 2014 and 2013, respectively.

There was no addition to the land use right of the Group during the six months ended 30 June 2014 and 2013, respectively.

9. TRADE RECEIVABLES

The Group generally allows an average credit period of 180 days (31 December 2013: 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 2014 HK\$'000 (Unaudited)	As at 31 December 2013 HK\$'000 (Audited)
0-180 days (neither past due nor impaired)	49,310	52,308

10. PROMISSORY NOTE

Included in the Group's other payables and accruals as at 31 December 2013 of HK\$57,115,000, was the carrying amount of the promissory note with principal amount of HK\$60,240,000, which formed part of the Group's consideration payable in relation to the acquisition of an associate in 2013. As the promissory note was issued in February 2014 and will mature on 27 February 2017, the promissory note is re-classified as non-current liabilities in the condensed consolidated statement of financial position as at 30 June 2014.

11. SHARE CAPITAL

	Number of shares '000	Amount HK\$'000
Issued and fully paid:		
At 1 January 2014 (audited)	13,545,113	1,354,511
Transfer from share premium (Note (a))	—	981,851
Effect of share consolidation (Note (b))	<u>(12,867,857)</u>	<u>—</u>
At 30 June 2014 (unaudited)	<u>677,256</u>	<u>2,336,362</u>

Notes:

- (a) On 3 March 2014, the new Hong Kong Companies Ordinance Chapter 622 (new CO) came into effect. The new CO abolishes the concepts of nominal (par) value, share premium and authorised share capital for all shares of Hong Kong incorporated companies. All amounts received for issuing equity shares of a company should be recorded as share capital. Pursuant to the adoption of the new CO, the balance of share premium was transferred to share capital.
- (b) Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 12 June 2014, every 20 ordinary shares of the Company are consolidated into 1 share of the Company.

12. PLEDGE OF ASSETS

No assets of the Group were pledged as at 30 June 2014 and 31 December 2013.

13. SHARE-BASED PAYMENTS

The Company has a share option scheme for eligible persons of the Group. Details of the movements during the current interim period are as follows:

	Number of share options
Outstanding as at 1 January 2014 (audited)	559,084,000
Effect of share consolidation	(531,129,800)
	27,954,200
Lapsed during the period	(2,131,600)
Outstanding as at 30 June 2014 (unaudited)	25,822,600
Exercisable as at 30 June 2014	25,822,600

14. MATERIAL RELATED PARTY TRANSACTIONS

Except for those disclosed elsewhere in the condensed consolidated interim financial statements, the Group also has the following material related party transactions for the six months ended 30 June 2014 and 2013.

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 2014 amounted to HK\$1,262,000 (six months ended 30 June 2013: HK\$350,000).

15. CONTINGENCIES

In 2011, the Company (as plaintiff) instituted legal proceedings against the holder of a guaranteed convertible note of the Group which had been matured in 2011, for an injunction restraining that holder from commencing any petition for winding up against the Company for claiming HK\$1,007,000. The Court has ordered that the proceedings be adjourned sine die upon the undertaking of the said holder 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 the above-mentioned holder. Since the amount claimed had already been 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 2014.



16. EVENTS AFTER THE REPORTING PERIOD

On 17 August 2014, the Company announced that it proposed to raise (before expenses) approximately HK\$91.4 million to HK\$114.8 million by way of rights issue on the basis of one rights share for every two shares of the Company at the subscription price of HK\$0.27 per rights share. For details, please refer to the announcement dated 17 August 2014.

On 27 August 2014, the Company entered into a sale and purchase agreement for the acquisition of 55% equity interest in a group engaged in the management and operation of one of the largest chains of sports clubs and fitness clubs in the PRC. For details, please refer to the announcement dated 27 August 2014.

17. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The condensed consolidated interim financial statements were approved and authorised for issue by the Board on 28 August 2014.