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CHINA RENJI
Medical Group Ltd.

中國仁濟醫療集團有限公司

CHINA RENJI MEDICAL GROUP LIMITED

中國仁濟醫療集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 648)

2011 INTERIM RESULTS

The board of directors (the “**Board**” or “**Directors**”) of China Renji Medical Group Limited (the “**Company**”) is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2011, which have been reviewed by the audit committee of the Company, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2011

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

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2011**

	Six months ended 30 June	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Profit for the period	6,061	10,791
Other comprehensive income for the period, net of tax	<u>—</u>	<u>—</u>
Total comprehensive income for the period attributable to owners of the Company	<u>6,061</u>	<u>10,791</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2011

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

Notes:

1. BASIS OF PREPARATION

The condensed consolidated interim financial statements for the six months ended 30 June 2011 have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). They have been prepared under the historical cost convention, except for financial assets and financial liabilities, which are carried at fair value. The condensed consolidated interim financial statements are presented in Hong Kong Dollars (“HK\$”) and all values are rounded to the nearest thousand except when otherwise indicated. The condensed consolidated interim financial statements are unaudited but have been reviewed by the Audit Committee.

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

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

3. TURNOVER AND SEGMENT INFORMATION

During the six months ended 30 June 2011 and 2010, the Group is only engaged in medical network business which included leasing and operation of medical equipment and provision of services on operation of medical equipment in the People's Republic of China (the "PRC or China") and most of the assets of the Group are located in the PRC as at 30 June 2011 and 31 December 2010.

4. INCOME TAX

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

No Hong Kong profits tax has been provided as the Group did not have assessable profits arising in Hong Kong for both periods. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The applicable PRC enterprises income tax rate is 25% for both periods. Pursuant to the relevant laws and regulations in the PRC, one major subsidiary of the Company is exempted from the PRC enterprises income tax for the years 2008 and 2009, followed by a 50% reduction in the following three years commencing from 2010.

5. PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY

Profit for the period attributable to owners of the Company has been arrived at after charging/(crediting):

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

6. DIVIDENDS

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

7. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

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

Earnings

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

Number of Shares

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

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

8. PROMISSORY NOTES RECEIVABLES

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

Clear Smart Enterprises Limited, the issuer of the promissory note with principal amount of HK\$81,000,000 and 1.5% coupon interest rate per annum which was due on 8 April 2010, had defaulted on the payment upon maturity, details of which are set out in the announcements of the Company dated 21 April 2010 and 27 April 2010. A provision for impairment loss of HK\$81,449,000 has been charged to the consolidated income statement for the year ended 31 December 2009.

9. TRADE RECEIVABLES

The Group generally allows an average credit period of 180 days (31 December 2010: 180 days) to its trade customers. The following is an ageing analysis of trade receivables by due date as at the end of reporting period which are neither individually nor collectively considered to be impaired:

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

MANAGEMENT COMMENTARY

INTERIM RESULTS REVIEW

During the reporting period, the Group continued to be principally engaged in medical network business specialising in the diagnosis and treatment of tumours and/or cancer related diseases, by applying advanced radiotherapy technology, in China.

Turnover

For the six months ended 30 June 2011, the Group recorded a turnover of approximately HK\$69,520,000 (30 June 2010: HK\$91,141,000), representing a decrease of approximately 23.72% from the corresponding period last year. The turnover for the period was derived from the medical business operated by the Group. The decline in turnover was primarily due to the decrease in our contracted percentage of respective center's revenue net of specified operating expenses and the ever increasing competitive operating environment.

Gross profit

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

Profit for the period attributable to owners of the Company

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

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

BUSINESS REVIEW

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

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

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

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

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

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

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

As disclosed in the announcements of the Company dated 21 April 2010 and 27 April 2010 and the Company’s 2009 and 2010 annual reports, Clear Smart Enterprises Limited had defaulted on the non-convertible bond (the “**Bond**”) due 2010 to the Company. The Group had recognised an impairment loss of the entire amount of the Bond in the consolidated income statement for the year ended 31 December 2009. The Group is actively seeking legal advice as to the appropriate actions to be taken in order to safeguard the interest of the Group.

PROSPECTS

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

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

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

FINANCIAL REVIEW

Liquidity and financial resources

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

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

As a result of the cumulative effect described above, the Group recorded for the period ended 30 June 2011 a net cash outflow of approximately of HK\$18,904,000 (30 June 2010: HK\$34,404,000).

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

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

The borrowings are denominated in Hong Kong dollars, Japanese Yen and Renminbi. The Board expects that all such borrowings with either be repaid by internally generated funds or rolled over upon maturity and will continued to provide funding to the Group's operations.

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

Exposure to fluctuation in exchange rates

The Group's cash flow from operations is mainly denominated in Renminbi and Hong Kong dollars; whilst the assets are mostly denominated in Renminbi and Hong Kong dollars, and liabilities held are mainly denominated in Japanese Yen. Therefore, the impact of continued Renminbi appreciation may lower the costs for the repayment of foreign debts. The Group currently does not have a foreign hedging policy. However, management does and will continue to monitor the foreign exchange exposure closely and will consider hedging if there is significant foreign currency exposure.

Charge on group assets

As at 30 June 2011, certain of the Group's medical equipment with aggregate carrying amount of HK\$52,929,000 were pledged to secure general banking facilities granted to the Group (31 December 2010: HK\$55,233,000).

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2011, the total number of employees of the Group was 76. The employees are offered discretionary bonuses based on merit and performance. The Group also encourages and subsidises employees to enroll in external training courses and seminars organized by professional bodies. Employees of the Group are eligible to be granted share options under the Company's share option scheme at the discretion of the Board. The Group also provides other benefits to the employees including retirement benefits and medical scheme.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2011, neither the Company nor any of its subsidiaries purchased, sold or redeemed any shares of the Company.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving and maintaining a high standard of corporate governance. During the six months ended 30 June 2011, the Company has complied with all the code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules except for the following deviation:

Code provision A.4.1

Under code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term and subject to re-election.

None of the existing Non-executive Directors of the Company are appointed for a specific term. This constitutes a deviation from the code provision. However, all the Non-executive Directors of the Company are subject to retirement by rotation at the annual general meetings pursuant to the articles of association of the Company. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the unaudited interim condensed financial statements of the Group for the six months ended 30 June 2011.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors.

Having made specific enquiry of all Directors, each of them has confirmed that they have complied with the required standard as set out in the Model Code for the six months ended 30 June 2011.

INTERIM REPORT

The interim report of the Company for the six months ended 30 June 2011 will be dispatched to shareholders and published on the website of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.renjimedical.com) in due course

By Order of the Board
China Renji Medical Group Limited
WANG JIANGUO
Chairman

Hong Kong, 29 August 2011

As at the date of this announcement, the Board comprises one executive director, namely Mr. Wang Jianguo; two non-executive directors, namely Professor Wang Yongchang and Mr. Wu Zhenfang; and three independent non-executive directors, namely Mr. Pang Wai Hong, Mr. Geng Xiaobing and Ms. Wu Yan.