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 FINAL RESULTS

The board of directors (the "Board" or the "Directors") of **China Renji Medical Group Limited** (the "Company") hereby presents the audited consolidated final results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2011 as follows:

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011

	NOTES	**2011** ***HK$'000***	2010 *HK$'000*
Turnover	2	**152,302**	177,549
Cost of services		**(68,677)**	(86,092)
Gross profit		**83,625**	91,457
Other gains and losses		**(1,411)**	(5,033)
Administrative expenses		**(58,931)**	(59,252)
Impairment loss on goodwill		**—**	(90,244)
Impairment loss on property, plant and equipment		**(93,285)**	(190,366)
Impairment loss on other intangible assets		**(66,876)**	(151,200)
Impairment loss on assets classified as held for sale		**(125,638)**	—
Finance costs		**(2,988)**	(3,811)
Loss before taxation		**(265,504)**	(408,449)
Income tax	4	**(1,385)**	32,879
Loss for the year attributable to owners of the Company	5	**(266,889)**	(375,570)
Loss per share attributable to owners of the Company *(HK cents)*	7		
— Basic		**(1.97)**	(2.77)
— Diluted		**(1.97)**	(2.77)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011

	2011 *HK$'000*	2010 *HK$'000*
Loss for the year	**(266,889)**	(375,570)
Other comprehensive income:		
Exchange differences on translating foreign operations	**30,962**	32,082
Total comprehensive loss for the year attributable to owners of the Company	**(235,927)**	(343,488)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

	NOTES	2011 HK$'000	2010 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**143,894**	354,849
Land use right		**3,970**	3,866
Goodwill		**—**	—
Other intangible assets		**93,466**	270,161
Promissory notes receivables		**450**	422
Deposits paid for acquisition of property, plant and equipment		**56,880**	26,588
		298,660	655,886
Current assets			
Land use right		**86**	82
Trade receivables	8	**77,808**	83,618
Other receivables, prepayments and deposits		**28,234**	44,658
Tax recoverable		**994**	333
Cash and bank balances		**49,706**	60,087
		156,828	188,778
Assets classified as held for sale		**142,593**	—
		299,421	188,778
Current liabilities			
Other payables and accruals		**39,234**	31,720
Borrowings		**105,026**	116,189
Guaranteed convertible notes		**1,000**	992
		145,260	148,901
Liabilities directly associated with assets classified as held for sale		**12,345**	—
		157,605	148,901
Net current assets		**141,816**	39,877
Total assets less current liabilities		**440,476**	695,763
Non-current liabilities			
Deferred tax liabilities		**6,041**	25,393
Net assets		**434,435**	670,370
CAPITAL AND RESERVES ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Share capital		**1,354,511**	1,354,511
Reserves		**(920,076)**	(684,141)
Total equity		**434,435**	670,370

Notes:

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments that are measured at fair values.

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") and the Hong Kong Companies Ordinance.

The consolidated financial statements also include applicable disclosure required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

In the current year, the Group has adopted all of the new and revised standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for annual periods beginning on or after 1 January 2011.

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)	Financial Instruments: Presentation — 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
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010

The principal effects of adopting these new HKFRSs are as follows:

HKAS 24 (as revised in 2009) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard.

HKFRSs (Amendments) — Improvements to HKFRSs issued in 2010. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments applicable to the Group are as follows:

(a) HKFRS 1 (Amendments) addresses the presentation and disclosure requirements for an entity which changes its accounting policies or its uses of the exemptions contained in this HKFRS. It also introduces the use of the revaluation basis as deemed cost and extends the use of the deemed cost exemption to entities with operations subject to rate regulation.

(b) HKFRS 3 (Amendments) clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

    In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date at fair value, unless another measurement basis is required by another HKFRS.

    The amendment also adds explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

(c) HKAS 1 (Amendments) clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

(d) HKAS 27 (Amendments) clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

(e) HKAS 34 (Amendments) requires the update of relevant information related to significant events and transactions in the most recent annual financial report. HKAS 34 now specifies events and transactions for which disclosures are required, and guidance has been added covering the application of the requirements for financial instruments.

Except for those as disclosed above, the Directors anticipate that the application of the new HKFRS have no material impact on the results and the financial position of the Group.

The Group has not applied in advance the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements:

HKFRS 1 (Amendments)	First-time Adoption of Hong Kong Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
HKFRS 7 (Amendments)	Financial Instruments: Disclosures — Transfers of Financial Assets[1]
HKFRS 7 (Amendments)	Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities[4]
HKFRS 9	Financial Instruments[6]
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]
HKAS 1 (Amendments)	Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income[3]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[2]
HKAS 19 (As revised in 2011)	Employee Benefits[4]
HKAS 27 (As revised in 2011)	Separate Financial Statements[4]
HKAS 28 (As revised in 2011)	Investments in Associates and Joint Ventures[4]
HKAS 32 (Amendments)	Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities[5]
HK(IFRIC) — Int 20	Stripping Costs in the Production Phase of a Surface Mine[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
5 effective for annual periods beginning on or after 1 January 2014
6 effective for annual periods beginning on or after 1 January 2015

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39. The application of the standard is unlikely to have any material financial impact on the Group.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 *Consolidated and Separate Financial Statements* and HK(SIC) — Int 12 *Consolidation — Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC) — Int 12. The application of this new standard is unlikely to have any material financial impact on the Group.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC) — Int 13 *Jointly Controlled Entities — Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e. joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation. The application of this new standard is unlikely to have any material financial impact on the Group.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, and the consequential amendments to HKAS 27 and HKAS 28 from 1 January 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use has already been required or permitted under other HKFRSs. The Group expects to adopt the standard from 1 January 2013. The application of this new standard is unlikely to have any material financial impact on the Group.

HKAS 1 (Amendments) change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013. The amendments affect presentation only and have no impact on the Group's financial position or performance.

2. TURNOVER

Turnover, which is also revenue, represents the amounts received and receivable for services provided, net of discounts and sales related taxes, by the Group to outside customers.

All of the Group's turnover for the years ended 31 December 2011 and 2010 represented the leasing and service income from operations of medical equipment.

3. SEGMENT INFORMATION

During the years ended 31 December 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 31 December 2011 and 2010.

There were 3 customers with whom transactions have exceeded 10% of the Group's revenues, representing respective turnover of HK$41,482,000, HK$32,043,000 and HK$20,819,000 for the year ended 31 December 2011.

There were 4 customers with whom transactions have exceeded 10% of the Group's revenues, representing respective turnover of HK$45,874,000, HK$37,857,000, HK$21,339,000 and HK$19,404,000 for the year ended 31 December 2010.

4. INCOME TAX

	2011	2010
	HK$'000	*HK$'000*
PRC tax	**9,460**	8,429
Deferred taxation	**(8,075)**	(41,308)
	1,385	(32,879)

No Hong Kong profits tax has been provided as the Group did not have assessable profits arising in Hong Kong during the year (2010: HK$Nil). 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 enterprise income tax rate is 25% for the years ended 31 December 2011 and 2010. Pursuant to the relevant laws and regulations in the PRC, one major subsidiary of the Company is in its second year of 50% reduction of PRC income tax for three years.

5. LOSS FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

	2011	2010
	HK$'000	*HK$'000*
Loss for the year has been arrived at after charging:		
Depreciation of property, plant and equipment	**27,451**	34,379
Depreciation of jointly-controlled assets	**8,475**	12,188
Amortisation of other intangible assets included in cost of services	**23,612**	32,044
Amortisation of land use right	**86**	82
Total depreciation and amortisation	**59,624**	78,693
Auditors' remuneration	**1,237**	1,235
Write-off of trade receivables	**809**	—
Net exchange losses	**1,472**	9,746
Employee benefit expenses, including directors' emoluments:		
— salaries and other benefits	**25,928**	23,239
— share-based payment expense	**—**	1,389
	25,928	24,628

6. DIVIDEND

The Board does not recommend the payment of any dividend for the year ended 31 December 2011 (2010: HK$Nil).

7. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic loss per share is based on the loss for the year attributable to owners of the Company, and the weighted average number of ordinary shares in issue during the year.

The calculation of diluted loss per share is based on the loss for the year attributable to owners of the Company, adjusted to reflect the interest on the guaranteed convertible notes, where applicable (see below). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic loss per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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

Loss

	2011	2010
	HK$'000	*HK$'000*
Loss for the purpose of basic loss per share	**(266,889)**	(375,570)
Interest on guaranteed convertible notes*	**—**	—
Loss for the purpose of diluted loss per share	**(266,889)**	(375,570)

Number of shares

	2011	2010
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic loss per share	**13,545,113**	13,545,113
Effect of diluted potential ordinary shares:		
— Share options*	**—**	—
— Guaranteed convertible notes*	**—**	—
Weighted average number of ordinary shares for the purpose of diluted loss per share	**13,545,113**	13,545,113

* The guaranteed convertible notes and share options have an anti-dilutive effect on the basic loss per share of the Group for the years ended 31 December 2011 and 2010. Accordingly, the effect of the guaranteed convertible notes and share options was not included in the calculation of diluted loss per share for the years ended 31 December 2011 and 2010.

8. TRADE RECEIVABLES

	2011	2010
	HK$'000	*HK$'000*
Trade receivables	**77,808**	83,618

The Group generally allows an average credit period of 180 days (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:

	2011	2010
	HK$'000	*HK$'000*
0–180 days (Neither past due nor impaired)	**70,754**	73,421
181–270 days (1 to 3 months past due)	**7,054**	10,197
	77,808	83,618

Before accepting any new customer, the Group assesses the potential customer's quality and defines credit limit by customer.

At 31 December 2011, trade receivables of HK$70,754,000 (2010: HK$73,421,000) are neither past due nor impaired. The Group considers the credit quality of the trade receivables within the credit limit set by the Group using the internal assessment taking into account of the repayment history and financial difficulties (if any) of the trade debtors and did not identify any credit risk on these trade receivables. Included in the Group's trade receivables balance of HK$7,054,000 (2010: HK$10,197,000) at 31 December 2011 were past due at 31 December 2011 against which the Group has not provided for impairment loss. Trade receivables that were past due but not impaired relate to independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there have not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Group is principally engaged in medical network business in China through the leasing of medical equipment and provision of services for the operation of medical centers specialising in the diagnosis and treatment of tumours and/or cancer related diseases.

Most of the centers in our network are established through long-term lease and management service arrangements entered into with hospital and/or other business partners. Under these arrangements, we generally receive a contracted percentage of each center's revenue net of specified operating expenses. The specified operating expenses of centers typically include variable expenses, such as salaries and benefits of the medical and other personnel at the center, the cost of medical consumables, marketing commissions and expenses, training expenses, utility expenses and routine equipment repair and maintenance expenses.

Each medical center is located at the premises of our hospital partners and is typically equipped with a primary unit of radiotherapy and/or diagnostic imaging equipment, such as a linear accelerator, head gamma knife system, body gamma knife system, positron emission tomography-computed tomography ("PET-CT") scanner or magnetic resonance imaging ("MRI") scanner. Our hospital partners are responsible for the provision of premises for the medical centers. We provide the medical equipments to the medical centers through leasing arrangement and we and/or our business partners provide management services for the medical centers.

The turnover of the Group derives from leasing and service income from operation of medical equipment. The principal cost of services comprises (1) equipment and facility costs, which mainly comprise of depreciation and amortisation costs; and (2) the salaries and services costs for our physician and technical staff.

FINAL RESULTS REVIEW

Turnover

For the year ended 31 December 2011, the Group recorded a turnover of approximately HK$152,302,000 (2010: HK$177,549,000), representing a decrease of approximately 14.22% from last year. The turnover for the year was derived from the medical business operated by the Group. The decline in turnover was primarily due to the increasing competitive operating environment and the decrease in our contracted percentage of respective centers' revenue net of specified operating expenses.

Gross profit

For the year ended 31 December 2011, the Group recorded a gross profit of approximately HK$83,625,000 (2010: HK$91,457,000) and a gross profit ratio of approximately 54.91% (2010: 51.51%) from its medical network business. The decrease in gross profit was primarily attributable to the decrease in turnover.

Impairment losses on goodwill, property, plant and equipment and other intangible assets

The Group reassessed the recoverable amount of goodwill, property, plant and equipment and other intangible assets as at 31 December 2011 after considering the effects of the under-utilisation of certain items of the underlying medical assets and the ever increasing competitive operating environment in the industry, and recorded impairment losses on goodwill, property, plant and equipment and other intangible assets of approximately HK$Nil, HK$93,285,000 and HK$66,876,000, respectively, for the year ended 31 December 2011 (2010: HK$90,244,000, HK$190,366,000 and HK$151,200,000).

Impairment loss on assets classified as held for sale

During the year, the Group commenced the implementation of a plan to dispose of certain medical assets (comprising other intangible assets and property, plant and equipment) underlying its medical network which do not possess the necessary licenses (the "Non-licensed Medical Assets"). The Non-licensed Medical Assets were recorded as assets classified as held for sale in the financial statements of the Group as at the balance sheet date and an impairment loss of HK$125,638,000 (2010: HK$Nil) was recorded thereon for the year ended 31 December 2011 as a result of the writing down of the Non-licensed Medical Assets to their estimated net realisable value.

Loss for the year

The loss attributable to owners of the Company for the year ended 31 December 2011 was approximately HK$266,889,000 (2010: HK$375,570,000). This was mainly attributable to the significant impairment losses on property, plant and equipment, other intangible assets and assets classified as held for sale.

Basic loss per share for the year was approximately HK1.97 cents (2010: HK2.77 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 year 2011 is another challenging year for the Group. The healthcare reform policies implemented by the Chinese government since 2009 has led to an increasingly difficult operating environment, especially the business model in which the Group operates, including the reduction in the examination fees and treatment fees for large medical equipment, the increase in specified operating expenses of the medical centers and the lowering of our contracted revenue sharing percentages with our hospital and business partners. This coupled with the lasting domestic inflation and the ravaging effect of echoed disputes among previous management and shareholders on the Group's reputation, credibility and trade secrets has laid significant pressure on the growth of our medical network business and thus our overall financial performance.

During the year, the management has endeavored to actively but yet cautiously drive the development of its existing medical network, seek investment/business expansion opportunities in other business areas to enhance the Group's income base and revamp the damages inherited from the disputes among previous management and shareholders. During the year and up to the date of this report, there were significant moves in our business as described below.

Expansion of existing medical network

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 Shanghai No. 85 Hospital ("Shanghai 85 Hospital") for a consideration of RMB25,000,000 (approximately HK$29,412,000). Shanghai 85 Hospital, located in Shanghai City, a "Class 3A" comprehensive hospital with approximately 850 beds through which the Group is able to further consolidate its medical network position in the eastern region of China.

Disposal of Non-licensed Medical Assets

We conduct our business in a heavily regulated industry. The operation of our network of medical centers is subject to various laws and regulations issued by a number of government agencies at the national and local levels and requires different kinds of licenses. In particular, our hospital partners have to obtain the large medical equipment procurement licenses (大型醫療設備配置許可証, the "Licenses") for the medical equipment we operate. However, a number of our hospital partners failed to obtain the Licenses for the medical equipment used in some of our medical centers. Although we are not responsible for the application/obtaining of the Licenses, if our hospital partners fail to obtain the Licenses, our centers operating such medical equipment may be required to discontinue operations and may be deprived of the revenue derived from the operation of such equipment or may be subject to a fine. As at 31 December 2010, the carrying value of the Non-licensed Medical Assets amounted to approximately HK$320.20 million, representing approximately 53% of the Group's total medical assets as at the same date.

The lack of Licenses is not unusual in our industry. The Group has never been assessed any fine by any authority or otherwise suffered from any form of punishment for lack of Licenses and the lack of Licenses has never had any material adverse effect on our business and financial condition. Nevertheless, in order to mitigate the risk of such lack of Licenses and fully safeguard the interest of our shareholders, the management has determined to wrap up the Non-licensed Medical Assets and to invest only in medical equipment with Licenses moving forward. During the reporting year, the Group has commenced the implementation of a plan to dispose of the Non-licensed Medical Assets. During 2012 and up to the date of this announcement, the Group had entered into respective definite sales and purchase contracts or memorandum of understanding with different independent third parties mostly comprising local players located in the regions where the Non-licensed Medical Assets are situated and larger market player. As at the date of this announcement, the disposals had not been completed. As such, the Non-licensed Medical Assets were re-classified as assets classified as held for sale as at the balance sheet date based on their net realisable value, which resulted in the Group having recorded an impairment loss of approximately HK$125.64 million for the year ended 31 December 2011. The Group's remaining medical assets as at 31 December 2011 and the date of this announcement possess the necessary Licenses.

As at the date of this announcement, there are 13 centers in the Group's medical network, covering the central, eastern, southern, northern, northeastern, northwestern and western regions of China.

Diversification into other business area

In January 2012, the Group entered into an acquisition agreement pursuant to which it agreed to acquire the entire interest in the design and distribution of air purifiers using patented nano technology business for a consideration of HK$180 million, which will be satisfied entirely by the issue of a promissory note. The management considers that the acquisition will create synergies to the future business development of the Group because on one hand, air purifiers will help reduce contaminants in the air which are particularly useful for the Group's medical network as quality air will enhance the recovery process of the patients (especially to those patients who suffer from with allergies and asthma) in the hospitals, vehicles and at home, whilst on the other hand, the target business, following the completion of the acquisition, can also leverage on the medical knowledge of the Group to strengthen the competitiveness of the air purifiers by developing purifying products for medical applications. The acquisition is anticipated to be completed in the first quarter of year 2012.

In February 2012, the Group entered into an acquisition agreement pursuant to which it agreed to acquire the entire interest of a company principally engaged in the design, development and sale of own branded bathroom equipment with patented technology business (such as jacuzzi and whirlpool bath) for a consideration of HK$165 million, which will be satisfied entirely by the issue of a promissory note. Hydrotherapy treatment using jacuzzi and whirlpool bath is useful for pain-relief and treating illness during the patients' recovery process and can be applied for therapeutic purposes such as stimulation of blood circulation. With the growing popular of hydrotherapy as one of the general healthcare treatments, the management considered that through the acquisition and the medical knowledge of the Group, the Group will be able to widen the applications of water therapies using jets and underwater massage and developing rehabilitation programs for better recovery of its patients and even for improvement in blood circulation for the elder. In addition, as a result of the raising disposal income of the general public in the PRC and their growing health concern, there has been a growing demand for the installation of bathroom equipment with healthcare functions in the PRC. With all of these, the management considered that the acquisition will allow the Group to be benefited from the favourable policies relating to elderly healthcare under the healthcare reform in the PRC. The acquisition is anticipated to be completed in the first quarter of year 2012.

The management considers that the above diversification into new business areas will allow the Group to tap into the consumer market and the elderly health care market in the PRC, broaden the income base of the Group and improve its future financial performance.

Non-convertible bond (the "Bond") of HK$81.45 million due 2010 from Clear Smart Enterprises Limited ("Clear Smart")

As disclosed in the announcements of the Company dated 21 and 27 April 2010 and the Company's 2009 and 2010 annual reports, Clear Smart had defaulted on the Bond. The Group had recognized an impairment loss of the entire amount of the Bond in the consolidated income statement for the year ended 31 December 2009.

During the reporting year, the management had actively sought advices from the Group's legal advisers and taken appropriate steps, in order to recover the defaulted Bond. However, no positive results were achieved. After discussing with the Group's legal advisers and considering the circumstances underlying the defaulted Bond, the management of the Company is of the view that the Bond should be considered as a distressed asset and should not be viewed as an ordinary asset because the chance of recovering the defaulted Bond is remote and the cost of continuously pursuing the defaulted Bond will outweigh the benefit that would be recovered therefrom. In December 2011, the Group disposed of the Bond (the "Bond Disposal") to an independent third party for a payment as the initial consideration plus a sum of being certain percentages of the proceeds from the sale of the Bond or payment to the Bond received by the purchaser after deducting all relevant expenses within two years from the date of the completion of the Bond Disposal as well as falling two years from the date of the completion of the Bond Disposal and ending on the date falling five years after the date of completion of the Bond Disposal. The management considers that the Bond Disposal will not only release the resources of the Group (such as the saving of the time and efforts of the management to focus on the Group's business and explore the potential business opportunities), for further advancement of its business objectives but is also a realistic choice to provide an opportunity for the Group to obtain further proceeds in the event of receipt of any payments to the Bond by the purchaser.

Corporate governance

In 2012, as part of our commitment to strengthen the Group's internal control system and a key step towards our resumption of trading, the Company has engaged SHINEWING Risk Services Limited to perform a review (the "Independent Internal Control Review") on the Group's financial reporting procedures and internal control systems in accordance with recognised frameworks. The Group shall take remedial actions to rectify any control failings or weaknesses that SHINEWING Risk Services Limited may identify. The Independent Internal Control Review is still in progress and the Company shall keep shareholders and potential investors informed of the progress of the Independent Internal Control Review by making further announcement(s) as and when appropriate.

PROSPECTS

With the challenging operating environment, the Group will continue its proactive strategies to maintain its competitiveness, including (1) improving the internal management and internal control, (2) enhancing the overall return of its existing medical centers, and (3) reviewing and implementing business development strategies to strengthen the Group's income base 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, particularly the Chinese consumer market and elderly health care market, with an aim to enhancing the Group's income base and improving its future financial performance.

FINANCIAL REVIEW

Liquidity and financial resources

The Group's major financial resources were derived from borrowings and cash generated from operating activities of approximately HK$92,546,000 for the year ended 31 December 2011 (2010: HK$38,375,000). The net cash generated from operating activities was derived primarily from cash proceeds received from our medical network business.

For the year ended 31 December 2011, the net cash used in investing activities amounted to approximately HK$80,612,000 (2010: HK$55,619,000) and the net cash used in financing activities amounted to approximately HK$17,291,000 (2010: HK$14,131,000). The net cash outflow in investing activities mainly resulted from capital expenditure for acquisition of medical equipment in China. The net cash outflow in financing activities mainly resulted from the repayment of bank borrowings.

As a result of the cumulative effect described above, the Group recorded for the year ended 31 December 2011 a net cash outflow of approximately HK$5,357,000 (2010: HK$31,375,000).

As at 31 December 2011, the Group maintained bank balances and cash amounting to approximately HK$49,706,000 (2010: HK$60,087,000).

As at 31 December 2011, the Group's total borrowings amounted to approximately HK$106,026,000 (2010: HK$117,181,000) which included borrowings of approximately HK$105,026,000 (2010: HK$116,189,000) and guaranteed convertible notes of approximately HK$1,000,000 (2010: HK$992,000). Borrowings of approximately HK$106,026,000 were repayable within one year (2010: HK$117,181,000).

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 continued to provide funding to the Group's operations.

As at 31 December 2011, the Group's net asset value was approximately HK$434,435,000 (2010: HK$670,370,000) with a liquidity ratio (calculated on the basis of the Group's current assets to current liabilities) of 1.90 times (2010: 1.27 times). The Group's gearing ratio (calculated on the basis of the Group's total borrowings to the total equity attributable to the owners of the Company) was 24.41% (2010:17.48%). The increase in gearing ratio was mainly due to loss incurred during the year.

Capital structure

There was no change in the Company's capital structure during the year ended 31 December 2011.

Exposure to fluctuation in exchange rates

The Group's cash flow from operation 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 currency 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 31 December 2011, certain of the Group's medical assets amounted to HK$13,009,000 (2010: HK$55,233,000) and assets classified as held for sale amounted to HK$22,222,000 (2010: HK$Nil) were pledged to secure general banking facilities granted to the Group.

CONTINGENCIES

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

As at the date of this report, no notice of intention had been received by Fair Winner. In the opinion of the Directors, based on legal advice, since the amount claimed by Fair Winner was already provided for as guaranteed convertible notes, no further provision in respect of such claims would need to be made in the consolidated financial statements of the Group for the year ended 31 December 2011.

EVENTS AFTER THE REPORTING PERIOD

Please refer to the sub-section's headed "Disposal of Non-licensed Medical Assets" and "Diversification into other business area" under the section headed "Business Review" for details.

EXTRACT OF INDEPENDENT AUDITORS' REPORT

The following is an extract from the report issued by HLB Hodgson Impey Cheng on the financial statements:

Basis for disclaimer of opinion

(1) As disclosed in the consolidated financial statements for the year ended 31 December 2010, an impairment review of the Group's cash-generating unit of medical network has been performed by the directors of the Company. As a result of the review, an impairment loss on goodwill of approximately HK$90,244,000, an impairment loss on property, plant and equipment of approximately HK$190,366,000 and an impairment loss on other intangible assets of approximately HK$151,200,000 have been recognised in the consolidated financial statements for the year ended 31 December 2010. This impairment review has been performed on the assumption that the necessary licences can be obtained for certain medical equipments of the Group and those medical equipments which underlie the value of the related other intangible assets of the Group as disclosed in Notes 18 and 21 to the consolidated financial statements and penalty will not be imposed by the relevant local government authority because of the lack of such licences.

During the year ended 31 December 2011, the Group planned to sell the medical equipment and those medical equipment which underlie the value of the related other intangible assets without the necessary licences ("Medical Equipments Without Licences") and classified those Medical Equipments Without Licenses as assets classified as held for sale at a carrying amount of approximately HK$268,230,000. An impairment loss on the Medical Equipments Without Licenses of approximately HK$125,638,000 has been recognised in the consolidated financial statements for the year ended 31 December 2011. However, we are not able to obtain sufficient appropriate audit evidence or to carry out other satisfactory procedures to satisfy ourselves the basis upon which the directors of the Company have formed their opinion of the impairment of those Medical Equipments Without Licences during the year ended 31 December 2010. Accordingly, we have not been able to determine whether the recognition of impairment loss on the Medical Equipments Without Licenses of approximately HK$125,638,000 in the consolidated financial statements is appropriate or adequate; and whether any provision or contingent liability for penalty should have been recognised or disclosed respectively as at 31 December 2011.

(2) The corresponding figures in the current year's financial statements are derived from the financial statements for the year ended 31 December 2010 which contained a disclaimer audit opinion of which details of qualifications were set out in our auditors' report dated 28 March 2011 for the Group's financial statements for the year ended 31 December 2010. Therefore, the comparative figures may not be comparable and any adjustment to these figures that might have been found necessary in respect would have had a consequential impact on the opening balances of net assets of the Group and the Company as at 1 January 2011, the opening balances of the accumulated losses of the Group and the Company at 1 January 2011, the Group's result for the years ended 31 December 2011 and the related disclosures thereof in the financial statements.

Any adjustments or additional disclosures found to be necessary in respect of the above matters, including any related tax impact, will have a consequential significant effect on the financial position of the Company and the Group as at 31 December 2011 and 2010 and the financial performance and cash flows of the Group for the years then ended, and the related disclosures in the consolidated financial statements.

Disclaimer of opinion

Because of the significance of the matters described in the basis for disclaimer of opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011 and of Group's financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and the Hong Kong Companies Ordinance.

Report on matters under sections 141(4) and 141(6) of the Hong Kong Companies Ordinance

In respect alone of the inability to obtain sufficient appropriate audit evidence relating to matters as described in the basis for disclaimer of opinion paragraph:

— we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and

— we were unable to determine whether proper books of account had been kept.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2011, the total number of employees of the Group was 89. 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.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 31 December 2011, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any shares of the Company.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving and maintaining a high standard of corporate governance. During the year ended 31 December 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") except for the following deviation:

Code provision A.4.1

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

During the year, the Audit Committee discharged its responsibilities by reviewing the interim and annual results of the Group and the relevant statements and reports prior to Board approval; reviewing the external Auditors' reports and findings on the work performed and the related internal control matters; reviewing significant financial reporting judgements focusing in accounting policies, reviewing and approving the external Auditors' terms of engagement (including audit fee).

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules (the "Model Code") 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 during the year ended 31 December 2011.

ANNUAL REPORT

The 2011 annual report of the Company 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) as soon as possible.

SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company was suspended since 18 October 2010 and shall remain suspended until further notice.

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

Hong Kong, 28 February 2012

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Wang Jianguo, Mr. Wu Zhenfang and Mr. Tang Chi Chiu; and three independent non-executive Directors, namely, Mr. Kwok Chung On, Ms. Wu Yan and Mr. Wu Chi Keung.