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

(Incorporated in Hong Kong with limited liability)

(Stock Code: 648)

2013 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 2013 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	**2013** *HK$'000*	2012 *HK$'000*
Turnover	2	**110,957**	134,438
Cost of services		**(36,321)**	(40,293)
Gross profit		**74,636**	94,145
Other gains and losses	4	**20,410**	13,559
Administrative expenses		**(38,066)**	(47,428)
Impairment loss on property, plant and equipment		**(96,136)**	—
Impairment loss on other intangible assets		**(67,389)**	—
Impairment loss on promissory note		**(480)**	—
Share of profit of an associate		**1,632**	—
Finance costs		**(3,650)**	(3,306)
(Loss)/profit before taxation		**(109,043)**	56,970
Income tax	5	**(7,452)**	4,291
(Loss)/profit for the year	6	**(116,495)**	61,261
(Loss)/profit for the year attributable to:			
Owners of the Company		**(122,665)**	61,261
Non-controlling interests		**6,170**	—
		(116,495)	61,261
Earnings/(loss) per share attributable to owners of the Company ***(HK cents)***	8		
— Basic		**(0.91)**	0.45
— Diluted		**(0.91)**	0.45

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013

	2013	2012
	HK$'000	*HK$'000*
(Loss)/profit for the year	**(116,495)**	61,261
Other comprehensive income		
Items that may be re-classified subsequently to profit or loss:		
Exchange differences in translating foreign operations	**18,009**	—
Other comprehensive income for the year, net of tax	**18,009**	—
Total comprehensive (loss)/income for the year	**(98,486)**	61,261
Total comprehensive (loss)/income for the year attributable to:		
Owners of the Company	**(105,526)**	61,261
Non-controlling interests	**7,040**	—
	(98,486)	61,261

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

	Notes	**2013**	2012
		HK$'000	*HK$'000*
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**77,654**	167,137
Land use right		**3,904**	3,884
Interest in associates		**72,430**	—
Other intangible assets		**10,335**	84,537
Available-for-sale financial assets		**76,147**	—
Deposit paid for acquisition of property, plant and equipment		**52,478**	67,681
		292,948	323,239
Current assets			
Land use right		**89**	86
Promissory note receivable		**—**	478
Trade receivables	9	**52,308**	46,947
Other receivables, prepayments and deposits		**260,419**	175,830
Amount due from a non-controlling shareholder of a subsidiary		**5,711**	5,556
Cash and bank balances		**83,767**	115,980
		402,294	344,877
Current liabilities			
Other payables and accruals		**89,038**	32,998
Amounts due to directors		**15,594**	5,250
Tax payable		**13,199**	2,730
Borrowings		**77,564**	93,691
Guaranteed convertible note		**1,000**	1,000
		196,395	135,669
Net current assets		**205,899**	209,208
Total assets less current liabilities		**498,847**	532,447

	2013	2012
	HK$'000	*HK$'000*
Non-current liability		
Deferred tax liabilities	**533**	5,647
Net assets	**498,314**	526,800
CAPITAL AND RESERVES		
Share capital	**1,354,511**	1,354,511
Reserves	**(945,938)**	(858,822)
Equity attributable to owners of the Company	**408,573**	495,689
Non-controlling interests	**89,741**	31,111
Total equity	**498,314**	526,800

Notes:

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

These consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments that are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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

These consolidated financial statements also include applicable disclosures required by the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

In the current year, the Company has applied, for the first time, the following new standard, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Company's financial year beginning 1 January 2013. A summary of the new HKFRSs are set out as below:

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

Except for the amendments to HKAS 1, the application of these new HKFRSs has no material impact on the results and the financial position of the Group.

The nature of the impending changes in accounting policy on adoption of the amendments to HKAS 1 is described below.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012.

The amendments to HKAS 1 introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a "statement of comprehensive income" is renamed as a "statement of profit or loss and other comprehensive income" and an "income statement" is renamed as a "statement of profit or loss". The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

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

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2010–2012 Cycle[2]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2011–2013 Cycle[2]
HKFRS 9	Financial Instruments[3]
HKFRS 9, HKFRS 7 and HKAS 39 (Amendments)	Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39[3]
HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment Entities[1]
HKFRS 14	Regulatory Deferral Accounts[4]
HKAS 19 (Amendments)	Defined Benefit Plans: Employee Contributions[2]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[1]
HKAS 36	Recoverable Amount and Disclosures for Non-Financial Assets[1]
HKAS 39 (Amendments)	Novation of Derivatives and Continuation of Hedge Accounting[1]
HK(IFRIC) — Int 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.
2 Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.
3 No mandatory effective date yet determined but is available for adoption.
4 Effective for annual periods beginning on or after 1 January 2016.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

The date when entities would be required to apply HKFRS 9 was previously stated at 1 January 2015. This mandatory effective date has been removed to provide sufficient time for preparers of financial statements to make the transition to the new requirements, which will now become effective from a later date yet to be announced.

The Directors anticipate that the application of HKFRS 9 may have a significant impact on amounts reported in respect of Group's financial assets. However, it is not practical to provide a reasonable estimate of that effect until a detailed review has been completed.

Amendments to HKFRS 7 and HKAS 32 — Offsetting Financial Assets and Financial Liabilities and the related disclosures

The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to HKFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The Directors anticipate that the application of these amendments to HKAS 32 and HKFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

Amendments to HKAS 36 — Impairment of Assets: Recoverable Amount Disclosures for Non-Financial Assets

The amendments to HKAS 36 are to remove certain unintended disclosure requirements which may be introduced by the consequential amendments to HKAS 36 when HKFRS 13 was issued. Furthermore, these amendments require the disclosure of additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal. The amendments to HKAS 36 are effective for annual periods beginning on or after 1 January 2014. Earlier application is permitted. However, an entity may not apply those amendments in periods (including comparative periods) in which it does not also apply HKFRS 13.

The Directors anticipate that the application of these amendments to HKAS 36 will have no material impact on the Group's financial performance and positions.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) — Investment Entities

The Investment Entities amendments apply to a particular class of business that qualify as investment entities. The term "investment entity" refers to an entity whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both. An investment entity must also evaluate the performance of its investments on a fair value basis. Such entities could include private equity organisations, venture capital organisations, pension funds, sovereign wealth funds and other investment funds.

Under HKFRS 10, reporting entities were required to consolidate all investees that they control (i.e. all subsidiaries). Preparers and users of financial statements have suggested that consolidating the subsidiaries of investment entities does not result in useful information for investors. Rather, reporting all investments, including investments in subsidiaries, at fair value, provides the most useful and relevant information.

In response to this, the amendments provide an exception to the consolidation requirements in HKFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities.

The amendments are effective from 1 January 2014 with early adoption permitted in order to allow investment entities to apply the amendments at the same time they first apply the rest of HKFRS 10.

The Directors anticipate that the application of these amendments to HKFRS 10, HKFRS 12 and HKFRS 27 (2011) will have no material impact on the Group's financial performance and positions.

Amendments to HKAS 39 — Novation of Derivatives and Continuation of Hedge Accounting

The narrow-scope amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met (in this context, a novation indicates that parties to a contract agree to replace their original counterparty with a new one).

This relief has been introduced in response to legislative changes across many jurisdictions that would lead to the widespread novation of over-the-counter derivatives. These legislative changes were prompted by a G20 commitment to improve transparency and regulatory oversight of over-the-counter derivatives in an internationally consistent and non-discriminatory way.

Similar relief will be included in HKFRS 9.

The amendments will be effective for annual periods beginning on or after 1 January 2014 and applied retrospectively. Earlier application is permitted.

The Directors anticipate that the application of these amendments to HKAS 39 will have no material impact on the Group's financial performance and positions.

HK(IFRIC) — Int 21 Levies

HK (IFRIC) — Int 21 is an interpretation of HKAS 37 and addresses how an entity should account for liabilities to pay levies imposed by governments, other than income taxes, in its financial statements. The principal question raised was about when the entity should recognise a liability to pay a levy. It clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. HK(IFRIC) — Int 21 is effective for annual periods beginning on or after 1 January 2014 with earlier application permitted.

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 2013 and 2012 represented the leasing and service income from operations of medical equipment.

3. SEGMENT INFORMATION

During the years ended 31 December 2013 and 2012, the Group is only engaged in medical network business which included leasing and operation of medical equipment and provision of services on operation of medical equipment in the 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 2013 and 2012.

For the year ended 31 December 2013, there were 4 customers with whom transactions have exceeded 10% of the Group's revenues, which amounted to approximately HK$51,788,000, HK$17,562,000, HK$13,753,000 and HK$12,153,000, respectively.

For the year ended 31 December 2012, there were 4 customers with whom transactions have exceeded 10% of the Group's revenues, which amounted to approximately HK$30,264,000, HK$30,108,000, HK$19,598,000 and HK$16,641,000, respectively.

4. OTHER GAINS AND LOSSES

	2013	2012
	HK$'000	*HK$'000*
Interest income on:		
Bank balances	**1,871**	419
Promissory note receivable	**2**	28
	1,873	447
Loss on disposal of property, plant and equipment	**—**	(7)
Write-off of property, plant and equipment	**(2)**	(82)
Exchange gain, net	**18,390**	12,672
Bad debts written back	**—**	466
Others	**149**	63
	20,410	13,559

5. INCOME TAX

	2013	2012
	HK$'000	*HK$'000*
PRC Enterprise income tax	**12,713**	8,448
Deferred taxation	**(5,261)**	(12,739)
Tax (credit)/charge for the year	**7,452**	(4,291)

No Hong Kong profits tax has been provided as the Group did not have assessable profits arising in Hong Kong during the year (2012: 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 2013 and 2012.

6. (LOSS)/PROFIT FOR THE YEAR

	2013	2012
	HK$'000	*HK$'000*
(Loss)/profit for the year has been arrived at after charging:		
Depreciation of property, plant and equipment	**19,812**	14,408
Depreciation of jointly-controlled assets	**2,211**	3,557
Amortisation of other intangible assets included in cost of services	**8,930**	8,929
Amortisation of land use right	**87**	86
Total depreciation and amortisation	**31,040**	26,980
Auditors' remuneration	**1,000**	1,237
Impairment loss on property, plant and equipment	**96,136**	—
Impairment loss on other intangible assets	**67,389**	—
Impairment loss on promissory notes	**480**	—
Interest expenses on:		
Loans from a former intermediate holding company and a former fellow subsidiary wholly repayable within five years	**2,283**	3,256
Imputed interest on purchase consideration payable	**1,317**	—
Guaranteed convertible notes	**50**	50
	3,650	3,306
Employee benefit expenses, including directors' emoluments:		
— salaries and other benefits	**19,241**	22,342

7. DIVIDEND

The Board of Directors do not recommend the payment of any dividend for the year ended 31 December 2013 (2012: HK$ Nil).

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

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

(Loss)/earnings

	2013	2012
	HK$'000	*HK$'000*
(Loss)/earnings for the purpose of basic (loss)/earnings per share	**(122,665)**	61,261

Number of shares

	2013	2012
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	**13,545,113**	13,545,113

The diluted (loss)/earnings per share is the same as the basic (loss)/earnings per share for the years ended 31 December 2013 and 2012. The guaranteed convertible note and share options have an anti-dilutive effect on the basic (loss)/earnings per share of the Group for the years ended 31 December 2013 and 2012. Accordingly, the effect of the guaranteed convertible note and share options was not included in the calculation of diluted (loss)/earnings per share for the years ended 31 December 2013 and 2012.

9. TRADE RECEIVABLES

	2013	2012
	HK$'000	*HK$'000*
Trade receivables	**52,308**	46,947

The Group generally allows an average credit period of 180 days (2012: 180 days) to its trade customers. The following is an ageing analysis of trade receivables by due date as at the end of reporting period which are neither individually nor collectively considered to be impaired:

	2013	2012
	HK$'000	*HK$'000*
0–180 days (neither past due nor impaired)	**52,308**	46,947
181–270 days (1 to 3 months past due)	**—**	—
	52,308	46,947

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Group is principally engaged in the provision of medical equipment and services for the network of its 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").

The Group's medical centres are located at the premises of its hospital partners and are typically equipped with a primary unit of radiotherapy and/or diagnostic imaging equipment, such as linear accelerators, head gamma knife systems, body gamma knife systems, positron emission tomography-computed tomography (PET-CT) scanners or magnetic resonance imaging (MRI) scanners. Most of the medical centres in the Group's network are established through long-term lease and management service arrangements entered into with hospital and/or other business partners, such that the Group's hospital partners are responsible for the provision of premises for the medical centres, whereas the Group provides medical equipment to the medical centre through long-term leasing arrangement and the Group and/or the Group's business partners provide management services for the medical centres.

Under this arrangement, the Group generally receives a contracted percentage of each medical centre's net income, representing the revenue of each medical centre, less the specified operating expenses including variable expenses such as salaries and benefits of the medical and other personnel at the medical centre, the cost of medical consumables, marketing commissions and expenses, training expenses, utility expenses and routine equipment repair and maintenance expenses.

The Group's turnover mainly derives from the leasing and service income from the operation of medical equipment. The Group's principal cost of services comprises (i) equipment and facility costs (mainly including depreciation and amortisation expenses) and (ii) the salary and services for its physicians and technical staff.

As disclosed in the Company's annual report for the year ended 31 December 2012, the Group disposed of the medical assets (comprising property, plant and equipment and other intangible assets) operated by the Group's medical centres that lacks the necessary licenses (collectively referred to as the "Non-licensed Medical Assets") during 2012 so as to minimise the potential risks associated with the Non-licensed Medical Assets. As at 31 December 2012 and 2013, all the medical assets operated by the medical centres underlying the Group's medical network possesses the required licenses for operations.

FINAL RESULTS REVIEW

Turnover

For the year ended 31 December 2013, the Group recorded a turnover of approximately HK$111.0 million (2012: HK$134.4 million), representing a decrease of approximately 17.4% from last year. The turnover for the year was derived from the medical business operated by the Group. The decline in turnover was attributable to the decrease in the number of the Group's medical equipment for operations resulting from the aforementioned disposals of the Group's Non-licensed Medical Assets in 2012.

Gross profit

For the year ended 31 December 2013, the Group recorded a gross profit of approximately HK$74.6 million (2012: HK$94.1 million) and a gross profit margin of approximately 67.3% (2012: 70.0%) from its medical network business. The decrease in gross profit was attributable to the combined impact of, among other things, the aforesaid decline in the Group's turnover and the relatively fixed nature of the Group's cost of services.

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

The Group reassessed the recoverable amount of property, plant and equipment and other intangible assets as at 31 December 2013 and recorded impairment losses on property, plant and equipment as well as other intangible assets for the year ended 31 December 2013 of approximately HK$96.1 million and HK$67.4 million, respectively (2012: HK$ Nil and HK$ Nil, respectively).

Loss for the year

The loss attributable to owners of the Company for the year ended 31 December 2013 was approximately HK$122.7 million (2012: profit of HK$61.3 million). The turnaround to loss this year was mainly attributable to, among other things, the decrease in gross profit due to the decrease in the number of the Group's medical equipment for operations due to the disposal of the Non-licensed Medical Assets as well as the record of impairment loss on property, plant and equipment as well as other intangible assets in the aggregate amount of approximately HK$163.5 million. However, such adverse impact on the Group's financial performance was mitigated by the exchange gain relating to the Japanese Yen denominated loans of the Group and the decrease in administrative expenses of the Group.

Basic loss per share for the year was approximately HK0.91 cents (2012: basic earnings per share of HK0.45 cents).

BUSINESS REVIEW

As mentioned above, the Group's turnover was mainly derived from the leasing and service income from the operation of the medical equipment, with the decrease in the number of medical equipment for operations resulting from the disposal of the Non-licensed Medical Assets in 2012, the turnover decreased by approximately 17.4% to approximately HK$111.0 million for the year ended 31 December 2013 from approximately HK$134.4 million for the year ended 31 December 2012.

During 2013, the operating environment of the Group's medical network business was becoming even more difficult and challenging. As described in the Company's annual reports for the year ended 31 December 2011 and 2012 and the interim report for the six months ended 30 June 2013, non-civilian medical institutions in the PRC are not permitted to enter into cooperation agreements with third parties to set up for-profit centres, but these non-civilian medical institutions are permitted to lease medical equipment from their partners if they do not have adequate fund to purchase the relevant medical equipment. Since the medical centres in the Group's medical network are established through long-term lease and management service arrangements entered into with hospital and/or business partners of the Group (with the Group's hospital partners providing premises for the underlying medical centres, the Group providing medical equipment to these medical centres through long-term leasing arrangements and the Group and/or its business partners providing management services for the medical centres), the above-mentioned business model of the Group may be exposed to challenges if the relevant PRC health departments/authorities have different interpretations that the Group's lease and management services agreements with its hospital partners and/or business partners may not be in compliance with the existing rules and regulations and thus cast uncertainties over the Group's business model. In addition, during 2013, the National Health and Family Planning Commission of the PRC launched a program (the "Program") to clean-up and rectify medical institutions, which has outlined a number of measures for purpose of strengthening the management of the PRC's hospital and rectifying their noncompliance operations, including the rental/contract-out arrangement of medical departments.

Although the Group has not been assessed by any healthcare departments/authorities for any non-compliance with the existing rules and regulations after the launching of the Program, it is expected that new policy(ies) like the Program will dampen the ongoing working relationship with its hospital partners, including the non-renewal upon the expiry or termination before the expiry of the Group's cooperation with the hospitals via its partners. As disclosed in the Company's announcements in 2013 as well as its interim report for the six months ended 30 June 2013, the Group had received notices for termination of the existing cooperation arrangements in respect of four of its medical centres during 2013. The Group's operations in two of such medical centres had been ceased whilst the termination date for one medical centre has been extended and not yet effective and the operation of the Group for the other centre is still in operation despite the expiry of the termination date. It is anticipated that the uncertainties in connection with the continuation of the Group's other medical centres in the future may lay downward pressure on its future business operations and financial performance. Under the circumstances, an aggregate impairment loss of approximately HK$163.5 million has been provided on the Group's assets (including plant and equipment and other intangible assets) for the year ended 31 December 2013.

Disposal of part of the Group's interest in its medical business

As described on the Company's announcement and circular dated 28 June and 16 October 2013, respectively, with a view to mitigating the overall business risks given the difficult business environment of the Group's medical business, the Group entered into an agreement to dispose (the "Disposal") of 35% equity interest in its medical network business. The Disposal was completed in November 2013.

Acquisition of an associate

As described in the Company's announcement dated 21 June 2013, the Company entered into an agreement to acquire (the "Acquisition") 38% equity interest in an associate group engaged in the design, manufacture and sale of household products. The Acquisition was completed in August 2013.

Investment in a medical project

As described on the Company's announcement dated 25 June 2013, the Group entered into an investment agreement involving, among other things, the upgrading and participation in the management of a hospital in the PRC.

EVENTS AFTER THE REPORTING PERIOD

Subscription of Warrants

As described in the Company's announcements dated 5 July, 31 October and 20 December 2013 and the Company's circular dated 24 December 2013, the Company entered into warrant subscription agreements (as amended and supplemented) for the issuance of a total of 2,700,000,000 warrants under two tranches (1,350,000,000 warrants each) at the exercise prices of HK$0.022 and HK$0.05, respectively. The subscription of the warrants was completed in March 2014.

Proposed Capital Reorganisation

As described in the announcement and circular of the Company dated 25 June and 7 October 2013 respectively, the Group also proposed to reorganise the capital of the Company in 2013. As mentioned in the Company's announcement in February 2014, given the new Companies Ordinance (Cap. 622 of the Laws of Hong Kong) which contains new requirement(s) on the share capital of companies incorporated in Hong Kong becoming effective in March 2014, the Company is in the course of considering/preparing the relevant arrangements relating to the proposed capital reorganisation.

Formation of a Joint Venture

As described in the announcement of the Company dated 24 February 2014, the Group entered into a cooperation agreement relating to the restructuring of a non wholly-owned subsidiary and the investment involving the construction, establishment and subsequent business operation of a tumours-specialised hospital in the PRC.

Corporate governance

The Company has engaged an internal control consultant to perform a follow-up review on the Group's financial reporting procedures and internal control systems for the year ended 31 December 2013 in accordance with recognised framework. The Group has adopted the recommendations proposed by the consultant and carried out procedures to remediated the weaknesses identified.

PROSPECTS

Looking forward, the Group will continue to formulate strategies with a view to strengthening the overall competitiveness and improving the financial condition of the Group including the potential investment opportunities in other businesses.

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$59.5 million for the year ended 31 December 2013 (2012: HK$3.5 million). The net cash generated from operating activities was derived primarily from cash proceeds received from the Group's medical network business.

For the year ended 31 December 2013, the net cash used in investing activities amounted to approximately HK$101.8 million (2012: inflow of HK$37.2 million) and the net cash generated from financing activities amounted to approximately HK$Nil (2012: inflow of HK$25.5 million). The net cash outflow used in investing activities mainly comprised the amount paid for the above-mentioned acquisition of an associate and the investment in a medical project.

As a result of the cumulative effect described above, the Group recorded for the year ended 31 December 2013 a net cash outflow of approximately 42.4 million (2012: inflow of HK$66.3 million).

As at 31 December 2013, the Group maintained bank balances and cash amounting to approximately HK$83.8 million (2012: HK$116.0 million).

As at 31 December 2013, the Group's total borrowings amounted to approximately HK$78.6 million (2012: HK$94.7 million) which included borrowings of approximately HK$77.6 million (2012: HK$93.7 million) and guaranteed convertible note of approximately HK$1 million (2012: HK$1 million). Borrowings of approximately HK$78.6 million were repayable within one year (2012: HK$94.7 million).

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

As at 31 December 2013, the Group's net asset value was approximately HK$498.3 million (2012: HK$526.8 million) with a liquidity ratio (calculated on the basis of the Group's current assets to current liabilities) of 2.05 times (2012: 2.54 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 19.2% (2012: 19.1%).

Capital structure

There was no change in the Company's capital structure during the year ended 31 December 2013.

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 currency hedging policy. However, the Group 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

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

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 million. The Court has ordered that the proceedings be adjourned sine die upon the undertaking of Fair Winner to serve prior notice of intention before presenting any petition for winding up of the Company.

As at the date of this announcement, no notice of intention had been received by Fair Winner. 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 2013.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2013, the total number of employees of the Group was 109. 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 2013, 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 2013, the Company has complied with all the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules except for 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 principal responsibilities of the Audit Committee include: to make recommendations to the Board in relation to the appointment, re-appointment and removal of the external Auditors; to review and monitor the external Auditors' independence and objectivity; to develop and implement policy on the engagement of the external Auditors to supply non-audit services; to monitor integrity of the interim and annual financial statements, interim and annual reports and accounts; to review significant financial reporting judgments particularly on any changes in accounting policies and practices; to ensure that management has discharged its duty to have an effective internal control system and to consider any findings of major investigations of internal control matters; to review the external Auditors' management letter, any material queries raised by the Auditors to management in respect of the accounting records, financial statements or systems of control and management's response. The final results of the Group for the year ended 31 December 2013 has been reviewed by the Audit Committee.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (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 had complied with the required standards as set out in the Model Code during the year ended 31 December 2013.

ANNUAL REPORT

The 2013 annual report of the Company will be despatched 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.

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

Hong Kong, 26 March 2014

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