

Granting of share options to new directors

China Healthcare

China Renji (648 HK, HK\$0.186)

BUY (unchanged)

Target price: HK\$0.45 (+142%)

Granting of share options to new directors. On 8 Aug 2007, China Renji granted a number of share options to the new directors, following the completion of the acquisition of the cancer diagnosis and treatment (CD&T) network centres in China. The details of the number of options and the respective recipients are as follows:

- Mr. Sheng Yang (Executive Director and Co-Chairman) – 109,332,000 share options;
- Ms. Sun Huali (Non-Executive Director) – 109,332,000 share options;
- Ms. Duan Xuzhen (Executive Director) – 30,000,000 share options;
- Mr. Zhao Jun Jie (Executive Director) – 2,000,000 share options.

The total share options issued amounted to 250,664,000, representing 2.1% of the existing fully diluted share capital (prior to the issue of the share options).

Terms of the options. The options has an exercise price of HK\$0.24 per share and are exercisable from 9 Aug 2007 to 8 Aug 2017 (10 years). After talking to the management, we understand that these are standard share options with no special terms and conditions and/or lock up period. In our view, the exercise price is fair and the granting of the share options represents an incentive to the key management team to deliver growth and maximize return to shareholders.

Further streamlining of business focus. Separately, China Renji announced that they had disposed all of its 5.67% interest in E2-Capital (378 HK, HK\$1.34, NR), at an average price of HK\$1.026 per share. According to the announcement, the net proceeds from the disposal will amount to approximately HK\$23.2m and will be used for general working capital purpose. As a result, the company will realize a net disposal gain of HK\$3.87m in FY12/07F. The disposal is a continuing process of China Renji's disposal of non-core businesses and to concentrate on developing China's healthcare market.

Re-iterating BUY call and maintaining target price HK\$0.45. The issue of the share options represents only a minor dilution in the overall existing share capital. As such, EPS dilution is expected to be minimal. We are maintaining our estimates for now and re-iterate our BUY call on the stock with a DCF derived target price of HK\$0.45, representing 34.7x FY12/08F P/E. The counter is currently trading at a deep discount at only 23.9x FY12/07F P/E and 14.3x FY12/08F P/E. We see this as an opportune time to accumulate the stock.

Table 1: Financial summary

Year to	Net profit	EPS	EPS	P/E	P/B	EV/EBITDA	Yield	ROE	ROCE	N. Gearing
Mar	HK\$m	HK\$	Δ %	x	x	x	%	%	%	%
05A	(93.6)	(0.022)	na	na	10.8	na	-	na	na	Cash
06A	(83.0)	(0.018)	(19.3)	Na	9.3	410.8	-	na	na	Cash
07F	63.5	0.008	(144.4)	23.9	3.1	13.1	-	14.5	9.3	13.3
08F	154.8	0.013	66.5	14.3	2.3	4.1	-	20.0	14.0	Cash
09F	195.6	0.016	26.4	11.3	1.9	3.1	-	19.8	14.8	Cash

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Disclosure of interests: SBI E2-Capital acted as the sole bookrunner and joint placing agent for the China Renji Medical Group Ltd (formerly known as Softbank Investment International (Strategic) Ltd) placement of 1,500m new shares (including an option for an additional placement of 500m new shares which was exercised in full) at HK\$0.125 per share on 25 April 2007.

An Executive Director of SBI E2-Capital Securities is also an Executive Director of China Renji.

SBI E2-Capital is a joint venture between China Renji and E2-Capital (Holdings) Ltd. (378 HK).

An Executive Director of a fellow subsidiary of SBI E2-Capital Securities Limited is a Non-Executive Director of China Renji.