Annual Report 2010

CHINA RENJI
Medical Group Ltd.
中國仁濟醫療集團有限公司
Stock Code: 648

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:

SUI Xueqing *(Chairman)*
WANG Jianjun

Non-executive Directors:

WANG Yongchang
WU Zhenfang
DING Nan

Independent Non-executive Directors:

PANG Wai Hong
GENG Xiaobing

AUDIT COMMITTEE

PANG Wai Hong
WANG Yongchang
GENG Xiaobing

REMUNERATION COMMITTEE

PANG Wai Hong
WANG Yongchang
GENG Xiaobing

COMPANY SECRETARY

SENG Sze Ka Mee, Natalia FCIS, FCS (PE), FHKIoD, EMBA

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Wuhu YangZi Rural Commercial Bank Company Limited

AUDITORS

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

SHARE REGISTRARS

Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East, Wanchai
Hong Kong

REGISTERED OFFICE

28/F, Sunshine Plaza
353 Lockhart Road
Wanchai
Hong Kong

WEBSITE

www.renjimedical.com

STOCK CODE

648

CHAIRMAN'S STATEMENT

Dear Shareholders,

The fiscal year 2010 was another challenging year for China Renji Medical Group Limited (the "Company", together with its subsidiaries, the "Group"). The healthcare reform promulgated by the Government of the People's Republic of China (the "PRC" or "China") in 2009 laid down clear direction and guidance for the medical sector in China and the Chinese State Council issued statement reiterating its intention to enhance the scope and quality of healthcare services by attracting more private investment in May 2010 which have laid foundation for the stable development of the Group's medical network business in the long run. However, competition within the medical industry in China remains intense during 2010 and has adversely affected the Group's growth momentum. Nevertheless, with the continuous development of China's economy and the growing health awareness of the general public in China, particularly, cancer diseases have remained one of the top causes of death in China, we believe that the demand for tumour and/or cancer diagnosis treatment will continue to increase in China.

FINANCIAL SNAPSHOT

The Group recorded a 1.82% drop in turnover to HK$177,549,000 in the fiscal year 2010 from HK$180,834,000 in the fiscal year 2009. Loss attributable to owners of the Company recorded in this fiscal year was HK$375,570,000 as compared to HK$560,980,000 attributable to owners of the Company in the fiscal year 2009. This was mainly attributable to the impairment losses on goodwill, property, plant and equipment and other intangible assets.

Basic loss per share was HK2.77 cents while net asset value was HK4.95 cents per share.

ACKNOWLEDGEMENTS

I would like to take this opportunity to thank our Shareholders for their loyalty on behalf of our board of directors. I would also like to express my heartfelt gratitude to our partners, management and staff for their support, efforts and contributions.

SUI XUEQING
Chairman

Hong Kong, 28 March 2011

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Group is principally engaged in medical network business which includes 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, by applying advance radiotherapy technologies, in China.

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 on 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; (2) the salaries and services costs for our physician and technical staff.

FINAL RESULTS REVIEW

Turnover

For the year ended 31 December 2010, the Group recorded a turnover of approximately HK$177,549,000 (2009: HK$180,834,000), representing a decrease of approximately 1.82% 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 increase in specified operating expenses of the centers and the ever increasing competitive operating environment in the industry.

Gross profit

For the year ended 31 December 2010, the Group recorded a gross profit of approximately HK$91,457,000 (2009: HK$116,860,000) and a gross profit ratio of approximately 51.51% (2009: 64.62%) from its medical network business, which included an amortisation charge of other intangible assets of approximately HK$32,044,000 (2009:HK$16,369,000). When excluding the said amortisation charge, the gross profit and gross profit ratio of the Group's medical network business for the year was approximately HK$123,501,000 (2009: HK$133,229,000) and 69.56% (2009: 73.67%). The decrease in gross profit was primarily attributable to the decline in gross margin due to the increase in equipment depreciation and amortisation resulting from the Group's investment in new medical centers.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2010 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$90,244,000, HK$190,366,000 and HK$151,200,000, respectively for the year ended 31 December 2010 (2009: impairment loss on goodwill of HK$550,000,000).

Impairment loss on promissory note receivable

As detailed in the announcements of the Company dated 21 April 2010 and 27 April 2010, Clear Smart Enterprises Limited, the issuer of a HK$81,000,000 non-convertible bond (the "Bond") payable to the Group which was due on 8 April 2010 had defaulted on the payment upon maturity. A provision of impairment loss of HK$81,449,000 has been charged to the consolidated income statement for the year ended 31 December 2009 (2010: HK$Nil).

Loss for the year

The loss attributable to owners of the Company for the year ended 31 December 2010 was approximately HK$375,570,000 (2009: HK$560,980,000). This was mainly attributable to the significant impairment losses on goodwill, property, plant and equipment and other intangible assets.

Basic loss per share for the year was approximately HK2.77 cents (2009: HK4.54 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. During the year and up to the date of this report, there were changes to the Group's medical network as described below.

In July 2010, the Group's gamma knife center in the People's Liberation Army No. 5 Hospital (the "PLA 5 Hospital") located in Yinchuan City, which has been equipped with a body gamma knife and a head gamma knife, commenced trial operation. The said medical assets were acquired by the Group in 2009 at a consideration of RMB23,400,000 (equivalent to approximately HK$27,529,000). PLA 5 Hospital, located in Yinchuan City in Ningxia Hui Autonomous Region, is a "Class 3A" comprehensive hospital. Yinchuan City, the capital city of Ningxia Hui Autonomous Region and one of the principal cities in the western region of China, has a population of about 2 million and will provide significant potential sources of patients for PLA 5 Hospital. Through the gamma knife center in PLA 5 Hospital, the Group is able to expand its medical network into the western region of China.

MANAGEMENT DISCUSSION AND ANALYSIS

In July 2010, the Group entered into an acquisition agreement pursuant to which it agreed to acquire the entire interest in a whole body gamma knife for use in the People's Liberation Army No. 94 Hospital (the "PLA 94 Hospital") located in Nanchang City in Jiangxi Province. The consideration for the acquisition amounted to RMB13,000,000 (equivalent to approximately HK$15,294,000) and was settled in cash. The Group is entitled to profit guarantees of not less than RMB2,600,000 for each of the three years since the date of completion. PLA 94 Hospital, located in Nanchang City in Jiangxi Province, is a "Class 3A" comprehensive hospital. Nanchang City is the political, economical and cultural center of Jiangxi Province. It has a population of about 4 million and will provide significant potential sources of patients for PLA 94 Hospital. Through the gamma knife center in PLA 94 Hospital, the Group is able to further strengthen its medical network in the central region of China. The acquisition was completed in August 2010.

As disclosed in the Company's interim report for 2010, as Shijiazhuang Hua Guang Tumour Hospital is reforming into a comprehensive hospital and will not be engaged in tumour/cancer diagnosis and treatment and related business, the Group's medical equipment for use in Shijiazhuang Hua Guang Tumour Hospital Holy Digital Radiation Therapy Center has ceased operations. In July 2010, the Group entered into a termination agreement with the original vendor of the said medical assets and pursuant to which the Group agreed to return such medical assets to the original vendor at a cash consideration of RMB19,890,000 (equivalent to approximately HK$23,400,000). However, as the original vendor has claimed that it is no longer able to repay the aforesaid consideration, the Group is entitled to take possession of the aforesaid medical equipment according to an arbitration made in March 2011.

In addition, under the relevant agreement entered into by the Group in January 2009, the Group was entitled to obtain 70% of the net income derived from the medical equipment used by The Gamma Knife Treatment and Research Center of Xinjiang Hospital located at Xinjiang Hospital of Cardio-Cerebral Vascular Diseases. However, due to the change in ownership of Xinjiang Hospital of Cardio-Cerebral Vascular Diseases, Xinjiang Hospital of Cardio-Cerebral Vascular Diseases will no longer be engaged in tumour/cancer diagnosis and treatment and related business and the Group's medical equipment used in The Gamma Knife Treatment and Research Center of Xinjiang Hospital has also ceased operations from December 2010. The Group has sought and will continue to seek legal advice as to appropriate actions to be taken in order to safeguard the interest of the Group.

In March 2009, the Group entered into an acquisition agreement pursuant to which it agreed to acquire the entire interest in a gamma-knife machine and a stereotactic treatment planning system for use in a gamma knife treatment and research center located in Hebei General Hospital. Under the acquisition agreement, the vendor has warranted that for each of the 10 years after completion of the aforesaid transaction, the net income derived from such medical equipment would not be less than RMB4.2 million (or approximately RMB0.35 million per month). However, during the year ended 31 December 2010, the net income derived from such medical equipment fell short of approximately RMB0.7 million from the warranted net income. Based on an arbitration obtained by the Group during March 2011, the original vendor is required to compensate the Group for the shortfall amount of RMB0.7 million by end of March 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

In December 2009, the Group entered into a business management agreement whereby the Group would become the exclusive provider of the daily management and operating services to the PET-CT Diagnosis Center and IGRT Treatment Center (the "Centers") located in a cancer treatment hospital in Beijing for a 10-year term and the Group would in turn, be entitled to receive 75% of the total net income derived from the operation of the Centers (the "Attributable Net Income"). Furthermore, the Group has been warranted that the Attributable Net Income for each of the two years ended 31 December 2010 and 2011 would be no less than RMB15 million and RMB17 million, respectively. However, the Attributable Net Income fell short of approximately RMB1.8 million for the year ended 31 December 2010. Based on an arbitration obtained by the Group in March 2011, the Group is entitled to obtain the remaining 25% of the total net income derived from the Centers during the term of the business management agreement as compensation.

As at the date of this report, there are 15 centers in the Group's medical network, covering the central, eastern, southern, northern, northeastern, northwestern and western regions of China.

As disclosed in the announcements of the Company dated 21 April 2010 and 27 April 2010 and the Company's 2009 annual report, Clear Smart Enterprises Limited had defaulted on the Bond due 2010 to the Company. For the sake of prudence, the Group had recognised an impairment loss of the entire amount of the Bond in the consolidated income statement for the year ended 31 December 2009. The Group will continue to actively seeking legal advice as to the appropriate actions to be taken in order to safeguard the interest of the Group.

PROSPECTS

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

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

FINANCIAL REVIEW

Liquidity and financial resources

The Group's major financial resources were derived from borrowings and cash generated from operating activities of approximately HK$38,375,000 for the year ended 31 December 2010 (2009: HK$176,989,000). 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 2010, the net cash used in investing activities amounted to approximately HK$55,619,000 (2009: HK$179,925,000) and the net cash used in financing activities amounted to approximately HK$14,131,000 (2009: net cash inflow of HK$16,545,000). 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.

MANAGEMENT DISCUSSION AND ANALYSIS

As a result of the cumulative effect described above, the Group recorded for the year ended 31 December 2010 a net cash outflow of approximately HK$31,375,000 (2009: net cash inflow of HK$13,609,000).

As at 31 December 2010, the Group maintained bank balances and cash amounting to approximately HK$60,087,000 (2009: HK$91,766,000).

As at 31 December 2010, the Group's total borrowings amounted to approximately HK$117,181,000 (2009: HK$118,599,000) which included borrowings of approximately HK$116,189,000 (2009: HK$117,619,000) and guaranteed convertible notes of approximately HK$992,000 (2009: HK$980,000). Borrowings of approximately HK$117,181,000 were repayable within one year (2009: HK$13,636,000 were repayable within one year and HK$104,963,000 were repayable over one year).

The borrowings are denominated in Hong Kong dollars, Japanese Yen and Renminbi. The board of directors (the "Board") of the Company 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 2010, the Group's net asset value was approximately HK$670,370,000 (2009: HK$1,011,250,000) with a liquidity ratio (calculated on the basis of the Group's current assets to current liabilities) of 1.27 times (2009: 2.29 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 17.48% (2009: 11.73%). 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 2010.

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 2010, certain of the Group's medical assets amounted to HK$55,233,000 (2009: HK$78,196,000) were pledged to secure general banking facilities granted to the Group.

EVENT AFTER THE REPORTING PERIOD

On 28 February 2011, World International Development (BVI) Limited (the "Plaintiff"), commenced proceedings against the Company at the High Court of Hong Kong (the "High Court") for rectifying the register of members of the Company so that (i) the Plaintiff's name be removed, struck out or otherwise recorded to have ceased to be a member of the Company; and (ii) the name of HKSCC Nominees Limited be entered in place of that of the Plaintiff's.

Up to the date of this annual report, no judgment has been made by the High Court. The Board, based on legal advices, is of the view that the Company has a good defence against the Plaintiff claims.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2010, the total number of employees of the Group was 69. 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.

By Order of the Board

Sui Xueqing
Chairman

Hong Kong, 28 March 2011

BIOGRAPHICAL DETAILS OF DIRECTORS

SUI XUEQING

(Chairman & Executive Director)

Mr. Sui Xueqing, aged 46, was appointed as the Chairman of the Board and an Executive Director of the Company in September 2010. He is also currently a director of various subsidiaries of the Company. He is currently the deputy head of the Institute of Computing Technology Chinese Academy of Science (中國科學院計算技術研究所) (the "Institute") under the Central People's Government of China. Prior to joining the Institute, he had served at a number of software development and information technology companies. Mr. Sui is currently a Director of Beijing Teamsun Technology Co., Ltd. (北京華勝天成科技股份有限公司) (listed on the Shanghai Stock Exchange) and J.X. Legend International Limited. Mr. Sui holds a master's degree in computer science from the Institute.

WANG JIANJUN

(Executive Director)

Mr. Wang Jianjun, aged 36, was appointed as an Executive Director of the Company in September 2010. He is also currently a director of various subsidiaries of the Company. He has worked in various securities companies in China and possesses more than 10 years of experience in securities brokerage. Mr. Wang is currently the chief supervisor of Zhejiang Xinhua Futures Brokerage Co., Ltd. (浙江新華期貨經紀有限公司).

WANG YONGCHANG

(Non-executive Director)

Professor Wang Yongchang, aged 64, was appointed as a Non-executive Director of the Company in May 2008, and also appointed as a member of both the audit committee and the remuneration committee of the Board of the Company in August 2010. He is also currently a Director of Anping Medical Treatment Technology (Wuhu) Co., Ltd. and Wuhu Anping Medical Management Co., Ltd., both are subsidiaries of the Company. Professor Wang graduated from the People's Liberation Army Seventh Medical University Hospital (since renamed the People's Liberation Army Third Military Medical University) — Faculty of Medicine in 1969. He possesses over 30 years of surgical and clinical experience, having acted as the Hospital Chief Executive of class 3 "PetroChina Lanzhou Petrochemical Main Hospital" for 8 years. In 2003, he was awarded the "National Trade Union of Hospitals Excellence Award for Hospital Chiefs". Professor Wang was also a Member of the second and third congress of the Trade Union Management Division of the Zhonghua Hospital Management Society. He is currently an Officer of the Radiation Oncology Centre of the Main Hospital of the Second Artillery Force of the People's Liberation Army, Beijing, the PRC.

WU ZHENFANG

(Non-executive Director)

Mr. Wu Zhenfang, aged 64, was appointed as a Non-executive Director of the Company in November 2009. He is also currently a Director and Vice President of Anping Medical Treatment Technology (Wuhu) Co., Ltd., a subsidiary of the Company. Mr. Wu was previously the Chairman of Wuhu Longyuan Investment Company Limited (蕪湖隆源投資有限公司), a substantial shareholder of the Company, until August 2010. He has over 35 years of experience in hospital management and clinical services. Mr. Wu was a Member of the Shanghai Municipal Health Bureau Hospital Level Vetting Committee and the Shanghai Municipal Medical Ethics Society and a Standing Member of the Shanghai Municipal Labour Hospital Management Association. Mr. Wu was the Vice President and Deputy Director of surgery of the People's Hospital of Shanghai Putuo District. He is currently an Independent Director of Shanghai Xinmei Real Estate Co., Ltd. (上海新梅置業股份有限公司) (listed on the Shanghai Stock Exchange). Mr. Wu holds a Bachelor's Degree from the Faculty of Medicine of the Shanghai Second Medical University, China.

BIOGRAPHICAL DETAILS OF DIRECTORS

DING NAN
(Non-executive Director)

Ms. Ding Nan, aged 38, was appointed as a Non-executive Director of the Company in September 2010. Ms. Ding has worked in various securities companies in China and possesses substantial experience in the capital market. She was a Director of Century Securities Co., Ltd. (世紀證券有限公司) and J.X. Legend International Limited.

PANG WAI HONG
(Independent Non-executive Director)

Mr. Pang Wai Hong, aged 46, was appointed as an Independent Non-executive Director and Chairman of both the audit committee and the remuneration committee of the Board of the Company in August 2008. Mr. Pang graduated from the National University of Ireland with a Master of Science Degree in Finance in 1999 and holds a Master of Lighting from Queensland University of Technology, Australia. Mr. Pang has been a Fellow Member of the Association of Chartered Certified Accountants in London, the United Kingdom, since 1997 and has also been an Associate Member of the Hong Kong Institute of Certified Public Accountants. Between June 2000 and March 2008, Mr. Pang served as the Chief Financial Officer and Company Secretary of Singapore-listed People's Food Holdings Limited, where he was responsible for the finance and accounting functions, statutory compliance and corporate governance affairs. Prior to that, Mr. Pang was an Audit Manager with the international accounting practice of Deloitte Touche Tohmatsu from September 1992 to May 2000, where he was responsible for carrying out due diligence, audits, accounting, taxation, corporate finance and other compliance related matters.

GENG XIAOBING
(Independent Non-executive Director)

Mr. Geng Xiaobing, aged 56, was appointed as an Independent Non-executive Director and a member of both the audit committee and the remuneration committee of the Board of the Company in September 2010. He is currently the chairman of Sino-Russia International Investment Co., Ltd.. He has held senior positions at the Commission for Science, Technology and Industry for National Defense (國防科學技術工業委員會) and was the party secretary and the legal person of China Association of Peaceful Utilisation of Military and Industrial Technology (中國和平利用軍工技術協會) and the deputy head of the National Defense Economic Exchange Centre (國家國防經濟交流中心). Mr. Geng graduated from Faculty of Radio Engineering of the Communication Engineering College of the People's Liberation Army of China (中國人民解放軍通信工程學院).

CHANGES IN DIRECTORS' BIOGRAPHICAL DETAILS

Changes in Directors' biographical details since the date of the Interim Report 2010 of the Company, which are required to be disclosed pursuant to Rule 13.51(2) and Rule 13.51B(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), are set out below:

SUI XUEQING
(Chairman & Executive Director)

Mr. Sui Xueqing was appointed as a Director of Beijing Teamsun Technology Co., Ltd. (北京華勝天成科技股份有限公司) (listed on the Shanghai Stock Exchange) since 28 July 2010. Mr. Sui Xueqing is currently a Director of J.X. Legend International Limited.

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2010.

GENERAL INFORMATION AND PRINCIPAL PLACE OF BUSINESS

China Renji Medical Group Limited is a company incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 28th Floor, Sunshine Plaza, 353 Lockhart Road, Wanchai, Hong Kong.

PRINCIPAL ACTIVITIES AND SEGMENTAL INFORMATION

The principal activity of the Company is investment holding and the activities of its principal subsidiaries are set out in note 43 to the consolidated financial statements.

An analysis of the Group's turnover and segmental information are set out in notes 7 and 8 to the consolidated financial statements, respectively.

RESULTS

The results of the Group for the year are set out in the consolidated income statement on page 33.

RESERVES

Movements in the reserves of the Company during the year are set out in note 30 to the consolidated financial statements.

As at 31 December 2010, the Company had no reserves available for distribution under section 79B of the Hong Kong Companies Ordinance (2009: HK$Nil).

PROPERTY, PLANT AND EQUIPMENT, DEPOSITS PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT, LAND USE RIGHT AND OTHER INTANGIBLE ASSETS

Details of the movements in property, plant and equipment, deposits paid for acquisition of property, plant and equipment, land use right and other intangible assets of the Group and of the Company (where applicable) are set out in notes 18, 19 and 21 to the consolidated financial statements, respectively.

BORROWINGS

Particulars of the Group's and the Company's borrowings at the end of the reporting period are set out in note 27 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are shown in note 29 to the consolidated financial statements.

REPORT OF THE DIRECTORS

GUARANTEED CONVERTIBLE NOTES

Details of guaranteed convertible notes issued by a subsidiary of the Company are set out in note 28 to the consolidated financial statements.

DONATION

During the year, no charitable and other donation has been made by the Group (2009: HK$Nil).

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is shown on page 104.

DIRECTORS

The Directors during the year and up to the date of this report are:

Executive Directors:	
SUI Xueqing	(appointed on 8 September 2010)
WANG Jianjun	(appointed on 8 September 2010)
YU Chung Hang, Lucian	(removed on 13 May 2010)
LI Juewen	(resigned on 8 September 2010)
GUO Bao Ping	(removed on 8 September 2010)
WANG Hai	(re-designated from Non-executive Director to Executive Director on 27 May 2010 and removed on 8 September 2010)
Non-executive Directors:	
WANG Yongchang	
WU Zhenfang	
DING Nan	(appointed on 8 September 2010)
Independent Non-executive Directors:	
PANG Wai Hong	
GENG Xiaobing	(appointed on 8 September 2010)
LI Tieliu	(retired on 17 June 2010)
LI Wing Chiu	(resigned on 17 December 2010)

In accordance with article 110 of the Company's articles of association, Messrs Sui Xueqing, Wang Jianjun, Ding Nan, and Geng Xiaobing, who were appointed by the Board during the year, shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with articles 104 and 105 of the Company's articles of association, Professor Wang Yongchang shall retire by rotation at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

All Directors of the Company (including Non-executive and Independent Non-executive Directors) are subject to the general provisions in respect of the retirement and rotation of Directors at the annual general meeting pursuant to the Company's articles of association.

REPORT OF THE DIRECTORS

The Company has received an annual independence confirmation from each Independent Non-executive Director and considers them to be independent.

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of Directors are set out on pages 10 and 11.

DIRECTORS' EMOLUMENTS

Details of Directors' emoluments in respect of the year are shown in note 13 to the consolidated financial statements.

DIRECTORS' INTERESTS IN SERVICE CONTRACT

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

At 31 December 2010, the following Directors of the Company were interested in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register kept by the Company under section 352 of the SFO or as otherwise required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules:

(1) Shares of the Company (long position)

As at 31 December 2010, none of the Directors held or was deemed to hold interests or short positions in the shares of the Company (direct or indirect).

(2) Share options of the Company (long position)

Details of the share options granted to the Directors by the Company and outstanding as at 31 December 2010 are set out under the section "Options granted under the share option scheme" below.

Save as disclosed above, as at 31 December 2010, none of the Directors or chief executives of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

On 30 October 2001, at the annual general meeting, the Company adopted a share option scheme (the "Scheme") under which the Board may, at its discretion, offer to any participant an option to subscribe for shares in the Company in accordance with the terms and conditions of the Scheme. A summary of the Scheme is as follows:

(1) Purposes

The purposes of the Scheme are, inter alia, to attract and retain the best available personnel and to provide additional incentive to the participants.

(2) Participants

The participants include any full time and part time employee, Director, consultant or advisor of the Company, any of its subsidiaries or any associated company of the Company.

(3) Maximum number of shares available for subscription

The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company shall not exceed 30% of the issued share capital of the Company from time to time.

(4) Maximum entitlement of each participant

Unless approved by the shareholders of the Company at a general meeting, the total number of shares issued and to be issued upon the exercise of options granted to each participant (including both exercised and outstanding options) in any 12 months period shall not exceed 1% of the issued share capital of the Company.

(5) Maximum period for exercising an option

An option may be exercised in accordance with the terms of the Scheme at any time during a period to be notified by the Board to each grantee, such period of time not exceeding 10 years from the date of grant of the option.

(6) Basis of determining the exercise price

The exercise price per share shall be determined by the Board and shall be at least the higher of:

(i) the closing price of the shares on the Stock Exchange as stated in the Stock Exchange's daily quotation sheets on the date on which the option is offered, which must be a business day;

(ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date as mentioned in (i) above; and

(iii) the nominal value of the shares.

(7) Life of the Scheme

The Scheme shall remain in force for a period of 10 years commencing on 30 October 2001 up to 29 October 2011.

REPORT OF THE DIRECTORS

OPTIONS GRANTED UNDER THE SHARE OPTION SCHEME

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

Grantee	Date of grant	Exercisable period	Exercise price per share HK$	Number of share options: At 1 January 2010	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2010
Directors								
Yu Chung Hang, Lucian (ex-Director)	29-03-2005	29-03-2005 to 13-05-2010[1]	0.100	10,000,000	—	—	(10,000,000)	—
	10-04-2006	10-04-2006 to 13-05-2010[1]	0.100	43,112,000	—	—	(43,112,000)	—
Wong Sin Just (ex-Director)	21-02-2002	21-02-2002 to 07-03-2010[2]	0.280	24,402,000	—	—	(24,402,000)	—
	03-11-2003	03-11-2003 to 07-03-2010[2]	0.100	35,000,000	—	—	(35,000,000)	—
	24-05-2004	24-05-2004 to 07-03-2010[2]	0.100	1,632,000	—	—	(1,632,000)	—
	10-04-2006	10-04-2006 to 07-03-2010[2]	0.100	43,112,000	—	—	(43,112,000)	—
				157,258,000	—	—	(157,258,000)	—
Employees	21-02-2002	21-02-2002 to 20-02-2012	0.280	2,100,000	—	—	(600,000)	1,500,000
	10-04-2006	10-04-2006 to 09-04-2016	0.100	5,000,000	—	—	(5,000,000)	—
	26-04-2007	26-04-2007 to 25-04-2017	0.200	14,400,000	—	—	(13,400,000)	1,000,000
	07-03-2008	07-03-2008 to 06-03-2018	0.130	169,332,000	—	—	—	169,332,000
				190,832,000	—	—	(19,000,000)	171,832,000
Consultants/Advisors	21-02-2002	21-02-2002 to 20-02-2012	0.280	38,002,000	—	—	—	38,002,000
	03-11-2003	03-11-2003 to 02-11-2013	0.100	52,632,000	—	—	—	52,632,000
	24-05-2004	24-05-2004 to 23-05-2014	0.100	42,632,000	—	—	—	42,632,000
	10-04-2006	10-04-2006 to 09-04-2016	0.100	142,026,000	—	—	—	142,026,000
	26-04-2007	26-04-2007 to 25-04-2017	0.200	50,300,000	—	—	—	50,300,000
	06-11-2007	06-11-2007 to 05-11-2017	0.202	100,000,000	—	—	—	100,000,000
	07-03-2008	07-03-2008 to 06-03-2018	0.130	126,906,000	—	—	—	126,906,000
				552,498,000	—	—	—	552,498,000
			TOTAL:	**900,588,000**	**—**	**—**	**(176,258,000)**	**724,330,000**

REPORT OF THE DIRECTORS

Notes:

(1) The exercisable period in respect of the options held by Mr. Yu Chung Hang, Lucian was terminated as a result of his removal as Executive Director and Chief Executive Officer of the Company on 13 May 2010.

(2) The exercisable period in respect of the options held by Dato Dr Wong Sin Just was shortened to 7 March 2010 as a result of his resignation as Director of the Company on 8 December 2009.

(3) Options granted to Directors are immediately vested on the date of grant or on a later date in which the grantee became a Director of the Company (as the case may be).

(4) Options granted to employees are vested as follows:

Date of grant	Date of vesting	No. of share options vested
21-02-2002	21-02-2002	150,000
	01-11-2002	150,000
	21-02-2003	375,000
	01-11-2003	300,000
	21-02-2004	375,000
	21-02-2005	750,000
10-04-2006	02-10-2007	5,000,000
26-04-2007	26-04-2007	3,600,000
	26-04-2008	3,600,000
	26-04-2009	7,200,000
07-03-2008	07-03-2008	7,500,000
	07-03-2009	77,166,000
	07-03-2010	84,666,000

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

Date of grant	Date of vesting	No. of share options vested
21-02-2002	21-02-2002	24,402,000
	05-03-2002	1,500,000
	03-08-2002	2,000,000
	19-09-2002	4,500,000
	21-02-2003	1,400,000
	21-02-2004	1,400,000
	21-02-2005	2,800,000
03-11-2003	03-11-2003	42,132,000
	03-11-2004	3,500,000
	03-11-2005	7,000,000
24-05-2004	24-05-2004	42,632,000
10-04-2006	10-04-2006	127,091,500
	10-04-2007	4,811,500
	10-04-2008	10,123,000
26-04-2007	26-04-2007	48,950,000
	26-04-2008	450,000
	26-04-2009	900,000
06-11-2007	01-01-2008	50,000,000
	01-07-2009	50,000,000
07-03-2008	07-03-2010	63,453,000
	07-03-2011	63,453,000

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2010, the following persons had an interest in the shares and underlying shares of the Company as recorded in the register kept by the Company under section 336 of the SFO, being 5% or more of the issued shares of the Company:

Name of substantial shareholder	Capacity	Number of ordinary shares of HK$0.10 each held (long position)	Approximate percentage of the issued shares
蕪湖隆源投資有限公司 (Wuhu Longyuan Investment Company Limited*)	beneficial owner	1,950,000,000	14.40%
中國科學院計算技術研究所 (Institute of Computing Technology Chinese Academy of Sciences*) (the "Institute")	corporate interest	2,439,000,000 (Note 1)	18.01%
J.X. Legend International Limited	corporate interest	2,439,000,000 (Note 1)	18.01%
Renji Cancer Researching Found of China S.A.	beneficial owner	2,439,000,000 (Note 1)	18.01%

* *for identification purpose only*

Note:

1. Renji Cancer Researching Found of China S.A. is a wholly-owned subsidiary of J.X. Legend International Limited, which in turn is wholly-owned by the Institute. By virtue of the SFO, J.X. Legend International Limited and the Institute are deemed to be interested in the shares held by Renji Cancer Researching Found of China S.A. in the Company.

Save as disclosed above, as at 31 December 2010, no person (other than Directors of the Company as disclosed above) had any interest or short position in any shares or underlying shares of the Company as recorded in the register kept under section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 31 December 2010, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any shares of the Company.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2010:

(A) The percentage of the aggregate amount of purchases attributable to the Group's major suppliers are as follows:

— the largest supplier	NIL
— five largest suppliers combined	NIL

(B) The percentage of the aggregate amount of sales attributable to the Group's major customers are as follows:

— the largest customer	33%
— five largest customers combined	78%

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major customers or suppliers noted above.

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

On 12 December 2005, the Company entered into a tenancy agreement (the "1st Agreement") with Fung Choi Properties Limited ("Fung Choi") in relation to the renewal of the tenancy for its headquarter office for a further term of three years commencing from 1 January 2006 to 31 December 2008 at a monthly rental of HK$132,804, which was confirmed by an independent property valuer as fair and reasonable when the 1st Agreement was entered into. On 14 December 2007, the Company entered into a surrender agreement with Fung Choi whereby the Company surrendered part of its headquarter office and accordingly the monthly rental has been reduced to HK$88,536 with effect from 1 December 2007.

Subsequently, on 29 December 2008, the Company entered into a tenancy agreement (the "2nd Agreement") with Fung Choi in relation to the renewal of the said tenancy for a further term of two years commencing from 1 January 2009 to 31 December 2010 at a monthly rental of HK$98,952, which was confirmed by an independent property valuer as fair and reasonable when the 2nd Agreement was entered into. During the year up to 31 August 2010, rental expense of HK$792,000 paid to Fung Choi was charged to the consolidated income statement.

Fung Choi was beneficially owned as to 60.4% by Mr Yu Kam Kee, Lawrence with the remaining interests beneficially owned by his two brothers, namely Mr Yu Kam Wai, Ricky and Mr Yu Kam Yuen, Lincoln, in equal proportion. Mr Yu Kam Kee, Lawrence (father of Mr Yu Chung Hang, Lucian, the Company's former Executive Director up to 12 May 2010) was a former Executive Director of the Company (when entering into the 1st Agreement) who was subsequently re-designated as the Company's Senior Advisor (when entering into the 2nd Agreement). Mr Yu Kam Yuen, Lincoln was a former Non-executive Director of the Company (when entering into the 1st Agreement) and was still a Non-executive Director of the Company within the preceding twelve months when entering into the 2nd Agreement. Therefore, the transactions constituted related party transactions and continuing connected transactions under Hong Kong Financial Reporting Standards and Chapter 14A of the Listing Rules during the year up to 12 May 2010, respectively. During the year up to 12 May 2010, rental expenses paid to Fung Choi amounted to HK$434,000. Details of the transactions have been disclosed in the announcements issued by the Company on 9 November 2005 and 29 December 2008, respectively.

Save as disclosed above, no contracts of significance in relation to the businesses of the Company and its subsidiaries to which the Company or its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to the date of this report, none of the Directors or their respective associates has any interest in, apart from the Group's businesses, any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

CORPORATE GOVERNANCE

The Company is committed to achieving and maintaining a high standard of corporate governance. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 22 to 28.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the audited consolidated financial statements for the year ended 31 December 2010.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

EVENT AFTER THE REPORTING PERIOD

Details of event after the reporting period are set out in note 41 to the consolidated financial statements.

AUDITORS

The consolidated financial statements have been audited by HLB Hodgson Impey Cheng who shall retire and, being eligible, offer themselves for re-appointment.

HLB Hodgson Impey Cheng were appointed as Auditors on 31 January 2011 to fill the casual vacancy caused by the resignation of BDO Limited. BDO Limited were appointed as Auditors on 29 May 2009 in place of Shu Lun Pan Hong Kong CPA Limited who retired as Auditors following the merger of their business with BDO Limited. Shu Lun Pan Hong Kong CPA Limited were formerly appointed as Auditors on 29 August 2008 to fill the casual vacancy caused by the resignation of Deloitte Touche Tohmatsu.

REPORT OF THE DIRECTORS

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

SUI Xueqing
Chairman

Hong Kong, 28 March 2011

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE

The Company is committed to achieving and maintaining a high standard of corporate governance. The Board recognises that such commitment is essential in upholding accountability and transparency and to achieve a balance of interests between the shareholders, customers, creditors, employees as well as other stakeholders.

To ensure continued compliance with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules, the management of the Company periodically reviews and proposes necessary amendments to its corporate governance practices.

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 2010, the Company has complied with all the code provisions of the CG Code as set out in Appendix 14 to the Listing Rules except for the following deviation:

Code provisions A.1.1 and A.1.3

Throughout the year under review, the Board had held a number of Board meetings, among which 3 regular Board meetings were held with at least 14 days notice given. However, reasonable notice had been given for all the Board meetings held with participation of majority of Directors.

Although the Company does not announce quarterly results, the Board had scheduled the regular Board meetings of the Company for the year 2011 to be held at approximately quarterly intervals.

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.

NON-COMPLIANCE WITH RULE 3.10(1) OF THE LISTING RULES

Immediately following the resignation of Dr. Li Wing Chiu as an Independent Non-executive Director of the Company on 17 December 2010 due to his other business commitments, the Company had only two Independent Non-executive Directors, the number of which falls below the minimum number of Independent Non-executive Directors required under Rule 3.10(1) of the Listing Rules. As announced on 15 March 2011, the Company will continue to make every effort to identify a suitable candidate to fill the vacancy of Independent Non-executive Director of the Company in order to comply with Rule 3.10(1) of the Listing Rules.

THE BOARD

The Board, which meets at least four times a year with additional meetings arranged when necessary, has a schedule of matters reserved for its approval. In addition to the management and daily operation of the Company, the Board has specific responsibility including matters in relation to the strategy and overall management of the Group; capital, corporate and control structures; financial reporting and controls; internal controls; major capital

CORPORATE GOVERNANCE REPORT

projects and contracts; communication with the shareholders; Board membership and the appointment of Company Secretary and Auditors; Directors' remuneration; delegation of authority to committees and the Group's overall corporate governance arrangements.

Save as those matters mentioned above as specifically reserved for the Board, the Board has delegated general powers to the management to deal with the daily operations of the Company under the supervision of the Chief Executive Officer and various Board Committees.

The existing Board comprises seven members with a wide range of business, financial, accounting and medical skills and experience as well as a balanced composition of Executive and Non-executive Directors (including Independent Directors) to ensure independent judgment and effective operation of the Board. Changes to the Board during the year and up to the date of this report as well as the number of Board meetings held and attended by each individual Director (including attendance via telephone conference) during their respective term of office in the year are as follows:

		Number of Board Meetings Held During the Director's Term of Office in 2010	Number of Meetings Attended
Executive Directors:			
Sui Xueqing, *Chairman*	appointed on 8 September 2010	3	2
Wang Jianjun	appointed on 8 September 2010	3	3
Yu Chung Hang, Lucian *(ex-Chief Executive Officer)*	removed on 13 May 2010	2	2
Li Juewen *(ex-Chairman)*	resigned on 8 September 2010	7	7
Guo Bao Ping *(ex-Chief Executive Officer)*	removed on 8 September 2010	7	7
Wang Hai	re-designated from Non-executive Director to Executive Director on 27 May 2010 and removed on 8 September 2010	7	7
Non-executive Directors:			
Wang Yongchang		10	8
Wu Zhenfang		10	7
Ding Nan	appointed on 8 September 2010	3	2
Independent Non-executive Directors:			
Pang Wai Hong		10	8
Geng Xiaobing	appointed on 8 September 2010	3	2
Li Tieliu	retired on 17 June 2010	4	0
Li Wing Chiu	resigned on 17 December 2010	10	7

The biographical details of each existing Director are set out on pages 10 and 11.

Roles of the Chairman and Chief Executive Officer

To ensure a balance of power and authority, a clear division of the responsibilities of the Chairman of the Board and the Chief Executive Officer has been set out in writing.

CORPORATE GOVERNANCE REPORT

The Chairman is mainly responsible for providing leadership to the Board, encouraging all Directors to make full and active contribution to the Board's affairs and ensuring that the Board acts in the best interests of the Group.

The Chief Executive Officer is responsible for the implementation of the Group's strategies and policies adopted by the Board in achieving the overall commercial objectives and assumes full accountability to the Board for the operations of the Group.

Nomination of Directors

In view of the size of the Company, no Nomination Committee has been established by the Board. Nevertheless, the Board itself has discharged all duties expected to be dealt with by a Nomination Committee. During the year, the Board has considered and approved various changes to the Board including the removal and appointment of new Directors.

To ensure that there is a formal, considered and transparent process for the appointment of new Directors to the Board, nomination procedures adopted which should normally be followed when a need is identified for the appointment of a new Director are: to compile a list of potential candidates; to evaluate potential candidates in the context of the current composition of the Board, the current needs of the Board and the long-term interests of shareholders; (following the initial evaluation) to select and recommend one or more candidates for interview by at least two members of the Board, normally including the Chairman of the Board (subsequent interviews may also be arranged with the other members of the Board, if appropriate); and to recommend the best available candidate for consideration by the whole Board.

The criteria for evaluation of potential candidates include: character and integrity; commitment to the long-term growth and profitability of the Company; willingness and ability to give sufficient time and attention to the affairs of the Company; accomplishment in his own field; professional or personal reputation; knowledge about issues affecting the Company; particular experience or expertise relevant to the current needs of the Board; and, in case of a new independent Director candidate, whether he would be considered independent.

Re-election of Directors

None of the existing Non-executive Directors of the Company was appointed for a specific term.

Every Director is subject to retirement by rotation and re-election once for every three years at the annual general meeting pursuant to the articles of association of the Company. Any new Director appointed by the Board during the year is also subject to retirement and re-election by the shareholders at the next general meeting following his appointment.

BOARD COMMITTEES

The Board was supported by three committees — the Executive Committee, the Audit Committee and the Remuneration Committee before the change of directors on 8 September 2010. Following the resignation and removal of Directors on 8 September 2010, the number of Executive Committee member is less than three, which is the minimum number as required by its terms of reference. The Executive Directors and the management team of the Company are dealing with the management and daily operation of the Company. Board Meetings were held during the period for discussing issues that were previously delegated to the Executive Committee.

CORPORATE GOVERNANCE REPORT

The Board is now supported by two committees — the Audit Committee and the Remuneration Committee. Each of the Committees has defined terms of reference covering its constitution, duties and authorities. The terms of reference of the Audit Committee and the Remuneration Committee are available on the Company's website.

Executive Committee

The Executive Committee has all the general powers delegated by the Board to deal with the management and daily operation of the Company save as those matters specifically set out in the schedule of matters reserved for the Board mentioned above.

Before 8 September 2010, the Executive Committee comprised of three members. Changes of the members during the year and up to 8 September 2010 as well as the number of Executive Committee meetings held and attended by each individual member (including attendance via telephone conference) during their respective term of office in the year are as follows:

		Executive Committee Meetings Held/Attended (up to 8 September 2010)
Yu Chung Hang, Lucian	removed on 13 May 2010	1/1
Li Juewen	resigned on 8 September 2010	6/6
Guo Bao Ping	removed on 8 September 2010	6/6
Wang Hai	removed on 8 September 2010	5/5

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.

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; reviewed the external Auditors' reports and findings on the work performed and the related internal control matters; reviewed significant financial reporting judgements focusing in accounting policies, reviewed and approved the external Auditors' terms of engagement (including audit fee).

The Audit Committee currently comprises three members, all of which are non-executive and a majority of them are independent. All members possess diversified expertise and experience, including those in finance and accounting matters. Changes of the members during the year and up to the date of this report as well as the number of Audit Committee meetings held and attended by each individual member (including attendance via telephone conference) during their respective term of office in the year are as follows:

		Audit Committee Meetings Held/Attended
Pang Wai Hong, *Chairman*		4/4
Wang Yongchang	appointed on 6 August 2010	1/1
Geng Xiaobing	appointed on 8 September 2010	0/0
Wang Hai	ceased to act on 27 May 2010	3/3
Li Wing Chiu	resigned on 17 December 2010	4/4

Remuneration Committee

The Remuneration Committee is principally responsible for recommending to the Board on the Company's remuneration policy and structure for all remuneration of Directors and senior management; determining the specific remuneration packages of all Executive Directors and senior management; recommending to the Board the remuneration of Non-Executive Directors; reviewing performance-based remuneration; determining compensation payable to Executive Directors and senior management in connection with any loss or termination of office.

During the year, the Remuneration Committee has reviewed the remuneration policy and the remuneration packages of the Executive Directors.

The Remuneration Committee currently comprises three members, all of which are non-executive and a majority of them are independent. Changes of the members during the year and up to the date of this report as well as the number of Remuneration Committee meeting held and attended by each individual member during their respective term of office in the year are as follows:

		Remuneration Committee Meeting Held/Attended
Pang Wai Hong, *Chairman*		1/1
Wang Yongchang	appointed on 6 August 2010	0/0
Geng Xiaobing	appointed on 8 September 2010	0/0
Wang Hai	ceased to act on 27 May 2010	1/1
Li Wing Chiu	resigned on 17 December 2010	1/1

REMUNERATION OF DIRECTORS

The Board has set out a formal policy for determining Directors' remuneration, the main elements involved are:

- There should be a formal and transparent procedure for fixing the remuneration packages of individual Directors and no individual should determine his own remuneration.
- Remuneration should reflect performance, complexity and responsibility with a view to attracting, motivating and retaining high performance individuals but the Group should avoid paying more than is necessary for these purposes.
- The total remuneration package should be competitive in relation to comparable organizations in each of the countries or regions in which the Group operates.

Remuneration of Executive Directors

The key components to Executive Directors' remuneration are basic salary, performance bonus, retirement and other benefits.

The remuneration of ongoing Executive Directors are mainly subject to an annual performance appraisal. A performance standard is established and fixed for duties and responsibilities of each single Executive Director and appraisal results are discussed with the Chairman and Chief Executive Officer by reference to corporate goals and objectives resolved by the Board from time to time. The Remuneration Committee should then consult the Chairman and/or the Chief Executive Officer regarding their proposals relating to the remuneration of the Executive Directors. It is a duty of the Remuneration Committee to determine the specific remuneration packages of all Executive Directors by considering factors such as salaries paid by comparable companies, time commitment and responsibilities of the Executive Directors, employment conditions elsewhere in the Group and individual performance. No Executive Director serves on the Remuneration Committee.

Remuneration of Non-executive Directors

In view of the growing responsibilities of Non-executive Directors, their role has become more complex and demanding. The remuneration for any particular Non-executive Director should reflect the likely workload and responsibility involved, the scale and complexity of the business and the market practice.

The directors' fees of Non-executive Directors are based on a formal independent review undertaken no less frequently than every three years. Such fees should be proposed by the executive management, reviewed and recommended to the Board by the Remuneration Committee and approved by the shareholders (either specifically or by means of a resolution authorizing the Board to fix the fees) at each annual general meeting.

Share Options

A Director (either Executive or Non-executive Director) may also benefit from the share option scheme adopted by the Company. Such reward is to provide additional incentive to Directors and to reward loyal Directors who have contributed to the Company's success in various ways. Any share options granted to a Director should be approved by all Independent Non-executive Directors (excluding any Independent Non-executive Director who is the grantee of the options) or approved by shareholders whenever it is applicable pursuant to the scheme rules and the Listing Rules. Such options are exercisable during a period not exceeding ten years from the date of grant subject to vesting or other conditions (if any) and under an exercise price to be determined by the Board with reference to the prevailing market price, and in any event not less than the nominal value of HK$0.1 per share.

Details of share options granted to the Directors by the Company are set out in the Report of Directors on pages 16 and 17.

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 2010.

CORPORATE GOVERNANCE REPORT

COMMUNICATION WITH SHAREHOLDERS

Communication with shareholders is given high priority. Extensive information about the Group's activities is provided in the annual reports and the financial statements as well as the interim reports which are available to shareholders on a timely basis. All shareholders are encouraged to attend the general meetings of the Company to discuss the businesses of the Group.

FINANCIAL REPORTING

The Directors hereby acknowledge their responsibility for preparing the financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. The interim and annual results of the Group are announced on a timely manner within the time limits set by the regulatory authorities.

In preparing the financial statements for the year ended 31 December 2010, the Directors have selected suitable accounting policies; made judgments and estimates that are prudent, fair and reasonable.

The statement of the Auditors of the Company regarding their reporting responsibilities is set out in the Independent Auditors' Report on pages 29 to 32.

INTERNAL CONTROLS

Internal control systems have been designed to allow the Board to monitor the Group's overall financial position, to protect its assets and to assure against material financial misstatement or loss. It is the responsibility of the Board to maintain the internal control systems of the Group. During the year, the Board has conducted a review of the effectiveness of the systems of internal control of the Group covering the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function and their training programmes and budget.

AUDITORS' FEES

The Company's current external Auditors are HLB Hodgson Impey Cheng who were appointed on 31 January 2011 in place of BDO Limited who had resigned on 22 December 2010. For the year ended 31 December 2010, the fees payable to the external Auditors for audit service and review service (non-audit service) were HK$1,200,000 and HK$150,000, respectively.

By Order of the Board

Sui Xueqing
Chairman

Hong Kong, 28 March 2011

INDEPENDENT AUDITORS' REPORT

國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

TO THE SHAREHOLDERS OF
CHINA RENJI MEDICAL GROUP LIMITED
(Incorporated in Hong Kong with limited liability)

We were engaged to audit the consolidated financial statements of China Renji Medical Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 33 to 103, which comprise the consolidated and Company statements of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except for the inability to obtain sufficient appropriate audit evidence as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement. Because of the matters described in the basis for disclaimer of opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

INDEPENDENT AUDITORS' REPORT

BASIS FOR DISCLAIMER OF OPINION

(1) As disclosed in Note 31(a) to the consolidated financial statements, an impairment review has been performed by the directors of Company on the promissory note receivable from Clear Smart Enterprises Limited ("Clear Smart") of HK$81,449,000 (the "PN") which was due on 8 April 2010 but remained unsettled. The directors of the Company consider that, after taking into consideration the latest available information on Clear Smart, it would be prudent to recognise an impairment loss of the entire amount of the PN in the consolidated financial statements and an impairment loss amounting to HK$81,499,000 was recognised in the consolidated financial statements for the year ended 31 December 2009. However, we have not been able to obtain sufficient appropriate audit evidence to satisfy ourselves whether the recognition of the impairment loss of the entire amount of the PN of HK$81,449,000 in the consolidated financial statements is appropriate.

(2) As disclosed in Notes 20, 18 and 21 to the consolidated financial statements, 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. This impairment review has been performed on the assumption that the necessary licences can be obtained for certain medical equipment of the Group and those medical equipment 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. 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. Accordingly, we have not been able to determine whether the recognition of impairment loss of goodwill of approximately HK$90,244,000, impairment loss of property, plant and equipment of approximately HK$190,366,000 and impairment loss of other intangible assets of approximately HK$151,200,000 in the consolidated financial statements is appropriate or adequate; whether the carrying amounts of the assets of the cash-generating unit, including the remaining other intangible assets of approximately HK$270,161,000, property, plant and equipment of approximately HK$354,849,000, deposits paid for acquisition of property, plant and equipment of approximately HK$26,588,000, and deferred tax liabilities of approximately HK$25,393,000 as at 31 December 2010 were fairly stated; whether any provision or contingent liability for penalty should have been recognised or disclosed respectively as at 31 December 2010; and whether the recognition of impairment loss of approximately HK$449,982,000 for the investments in subsidiaries recognised in the financial statements of the Company for the year are appropriate or adequate, and the aggregate carrying amount of investments in subsidiaries and amounts due from subsidiaries of approximately HK$657,139,000 as at 31 December 2010 is fairly stated.

(3) The auditors' report dated 2 May 2010 issued by the previous auditors in respect of their audit of the consolidated financial statements of the Group for the year ended 31 December 2009 was disclaimed in view as a result of limitation of scope based on reasons summarised in the basis for disclaimer of opinion paragraphs therein.

INDEPENDENT AUDITORS' REPORT

We were not able to obtain sufficient appropriate audit evidence to enable us to assess the limitations of scope for the year ended 31 December 2009. Any adjustments found to be necessary to the opening balances as at 1 January 2010 may affect the results and related disclosures in the notes to the consolidated financial statements of the Group for the year ended 31 December 2010. The comparative figures for the year ended 31 December 2010 shown in these consolidated financial statements may not be comparable with the figures for the current period.

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 2010 and 2009 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 2010 and of the 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.

OTHER MATTER

The consolidated financial statements of the Group for the year ended 31 December 2009 were audited by previous auditors who expressed a disclaimer of opinion on those statements on 2 May 2010 as a result of the following inability to obtain sufficient appropriate audit evidence:

(a) As disclosed in Note 30(a) to the consolidated financial statements for the year ended 31 December 2009, an impairment review has been performed by the directors of the Company on the promissory note receivable from Clear Smart of HK$81,449,000, which was due on 8 April 2010 but remained unsettled, for the year ended 31 December 2009. The directors of the Company consider that, after taking into consideration the latest available information on Clear Smart, it would be prudent to recognise an impairment loss of the entire amount of the PN in the financial statements for the year ended 31 December 2009. The previous auditors have not been able to obtain sufficient appropriate audit evidence to satisfy themselves whether the recognition of the impairment loss of the entire amount of the PN of HK$81,449,000 in the financial statements is appropriate.

(b) As disclosed in Note 19 to the consolidated financial statements for the year ended 31 December 2009, an impairment review of the Group's cash-generating unit of medical network has been performed by the directors of the Company for the year ended 31 December 2009. As a result of the review, an impairment loss on goodwill of HK$550,000,000 has been recognised in the financial statements. This impairment review has been performed on the assumption that the necessary licences can be obtained for certain medical equipment of the Group and those medical equipment which underlie the value of the related other intangible assets of the Group as disclosed in Note 17 and 20 to the consolidated financial statements for the year ended 31 December 2009 and penalty will not be imposed by the relevant local government authority because of the lack of such licences. The previous auditors were not able to obtain sufficient appropriate audit evidence or to carry out other satisfactory procedures to satisfy themselves the basis upon which the directors of the Company have formed their opinion. Accordingly, the previous auditors have not been able to determine whether the recognition of impairment loss of goodwill of HK$550,000,000 in the financial statements for the year ended 31 December 2009 is appropriate or adequate; whether the carrying amounts of the assets of the cash-generating unit, including the remaining goodwill of HK$87,246,000, other intangible assets of HK$442,578,000, property, plant and equipment of HK$516,131,000 and deposits paid for acquisition of property, plant and equipment of HK$49,910,000 and deferred tax liabilities of HK$64,545,000 as at 31 December 2009 were fairly stated; whether any provision or contingent liability for penalty should have been recognised or disclosed respectively as at 31 December 2009; and whether the recognition of impairment loss of totalling HK$121,634,000 for the investments in subsidiaries and amounts due from subsidiaries recognised in the financial statements of the Company for the year ended 31 December 2009 is appropriate or adequate, and the aggregate carrying amount of investments in subsidiaries and amounts due from subsidiaries of HK$1,126,793,000 as at 31 December 2009 were fairly stated.

(c) During the course of audit of the previous auditors, they were not able to carry out audit procedures that they considered necessary concerning the completeness and accuracy of related parties and transactions with such parties. As a result, the previous auditors have not been able to determine whether the financial statements have fully complied with the requirements of Hong Kong Accounting Standard 24 Related Party Disclosures, the Hong Kong Companies Ordinance and the disclosure requirements of the Rules Governing the Listing of Securities of the Stock Exchange of Hong Kong Limited.

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.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 28 March 2011

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010

	NOTES	2010 HK$'000	2009 HK$'000
Turnover	7	**177,549**	180,834
Cost of services		**(86,092)**	(63,974)
Gross profit		**91,457**	116,860
Other gains and losses	9	**(5,033)**	1,767
Administrative expenses		**(59,252)**	(49,385)
Impairment loss on goodwill	20	**(90,244)**	(550,000)
Impairment loss on property, plant and equipment	18	**(190,366)**	—
Impairment loss on/write-off of other intangible assets	21	**(151,200)**	(6,624)
Impairment loss on promissory note receivable	31(a)	**—**	(81,449)
Gain on disposal of subsidiaries	34	**—**	5,278
Finance costs	10	**(3,811)**	(3,782)
Loss before taxation		**(408,449)**	(567,335)
Income tax	11	**32,879**	6,355
Loss for the year attributable to owners of the Company	12, 17	**(375,570)**	(560,980)
Loss per share attributable to owners of the Company (HK cents)	16		
— Basic		**(2.77)**	(4.54)
— Diluted		**(2.77)**	(4.54)

All of the Group's operations are classed as continuing.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	2010 *HK$'000*	2009 *HK$'000*
Loss for the year	**(375,570)**	(560,980)
Other comprehensive income:		
Exchange differences on translating foreign operations	**32,082**	—
Total comprehensive loss for the year attributable to owners of the Company	**(343,488)**	(560,980)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	NOTES	2010 HK$'000	2009 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	18	**354,849**	516,131
Land use right	19	**3,866**	3,812
Goodwill	20	**—**	87,246
Other intangible assets	21	**270,161**	442,578
Promissory notes receivables	31(a)	**422**	395
Deposits paid for acquisition of property, plant and equipment	18	**26,588**	49,910
		655,886	1,100,072
Current assets			
Land use right	19	**82**	80
Trade receivables	24	**83,618**	47,764
Other receivables, prepayments and deposits	24	**44,658**	3,588
Tax recoverable		**333**	—
Cash and bank balances	25	**60,087**	91,766
		188,778	143,198
Current liabilities			
Other payables and accruals	26	**31,720**	48,244
Borrowings	27	**116,189**	13,636
Income tax liabilities		**—**	632
Guaranteed convertible notes	28	**992**	—
		148,901	62,512
Net current assets		**39,877**	80,686
Total assets less current liabilities		**695,763**	1,180,758

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	NOTES	2010 HK$'000	2009 HK$'000
Non-current liabilities			
Borrowings	27	—	103,983
Guaranteed convertible notes	28	—	980
Deferred tax liabilities	32	25,393	64,545
		25,393	169,508
Net assets		670,370	1,011,250
CAPITAL AND RESERVES ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Share capital	29	1,354,511	1,354,511
Reserves		(684,141)	(343,261)
Total equity		670,370	1,011,250

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 28 March 2011 and are signed on its behalf by:

SUI XUEQING	**WANG JIANJUN**
DIRECTOR	DIRECTOR

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

STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	NOTES	2010 HK$'000	2009 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	18	892	40
Investments in subsidiaries	22	326,261	776,243
Amounts due from subsidiaries	22	330,878	350,550
Promissory notes receivables	31(a)	422	395
		658,453	1,127,228
Current assets			
Other receivables, prepayments and deposits	24	1,737	1,337
Cash and bank balances	25	2,352	2,899
		4,089	4,236
Current liabilities			
Other payables and accruals		10,592	7,535
Amounts due to subsidiaries	22	43,910	43,916
Borrowings	27	99,719	—
		154,221	51,451
Net current liabilities		(150,132)	(47,215)
Total assets less current liabilities		508,321	1,080,013
Non-current liabilities			
Borrowings	27	—	88,074
Net assets		508,321	991,939
CAPITAL AND RESERVES ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Share capital	29	1,354,511	1,354,511
Reserves	30	(846,190)	(362,572)
Total equity		508,321	991,939

The financial statements were approved and authorised for issue by the Board of Directors on 28 March 2011 and are signed on its behalf by:

SUI XUEQING	**WANG JIANJUN**
DIRECTOR	DIRECTOR

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Attributable to owners of the Company							
	Share capital *HK$'000* (Note 29)	**Share premium** *HK$'000* (Note 30(i))	**Capital redemption reserve** *HK$'000* (Note 30(i))	**Share option reserve** *HK$'000* (Note 30(ii))	**Exchange translation reserve** *HK$'000* (Note 30(iii))	**Guaranteed convertible notes-equity component reserve** *HK$'000* (Note 30(iv))	**Accumulated losses** *HK$'000*	**Total** *HK$'000*
At 1 January 2009	1,159,511	1,050,130	1,899	38,736	100,515	140	(915,423)	1,435,508
Total comprehensive loss for the year	—	—	—	—	—	—	(560,980)	(560,980)
Issue of ordinary shares	195,000	(68,250)	—	—	—	—	—	126,750
Release upon maturity of guaranteed convertible notes	—	—	—	—	—	(104)	104	—
Fair value of share options credited to share option reserve (Note 33)	—	—	—	9,972	—	—	—	9,972
Lapse of share options	—	—	—	(9,034)	—	—	9,034	—
At 31 December 2009 and 1 January 2010	1,354,511	981,880	1,899	39,674	100,515	36	(1,467,265)	1,011,250
Total comprehensive income/(loss) for the year	—	—	—	—	32,082	—	(375,570)	(343,488)
Fair value of share options credited to share option reserve (Note 33)	—	—	—	2,622	—	—	—	2,622
Lapse of share options	—	—	—	(4,834)	—	—	4,834	—
Transaction cost attributable to issue of ordinary shares in prior year	—	(14)	—	—	—	—	—	(14)
At 31 December 2010	1,354,511	981,866	1,899	37,462	132,597	36	(1,838,001)	670,370

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	2010 *HK$'000*	2009 *HK$'000*
Cash flows from operating activities		
Loss before taxation	**(408,449)**	(567,335)
Adjustments for:		
Finance costs	**3,811**	3,782
Interest income	**(245)**	(4,984)
Depreciation of property, plant and equipment	**46,567**	40,128
Amortisation of land use right	**82**	80
Amortisation of other intangible assets	**32,044**	16,369
Impairment loss on/write-off of other intangible assets	**151,200**	6,624
Write-off of property, plant and equipment	**1,230**	467
Impairment loss on property, plant and equipment	**190,366**	—
Impairment loss on goodwill	**90,244**	550,000
Impairment loss on promissory note receivable	**—**	81,449
Loss/(gain) on disposal of property, plant and equipment	**4,139**	(2)
Net loss on swap	**—**	3,139
Gain on disposal of subsidiaries	**—**	(5,278)
Exchange loss/(gain) on borrowings and interest payable	**12,401**	(2,255)
Share-based payment expense	**2,622**	9,972
Operating cash flows before movements in working capital	**126,012**	132,156
(Increase)/decrease in trade receivables	**(36,639)**	22,300
(Increase)/decrease in other receivables, prepayments and deposits	**(17,163)**	13,607
(Decrease)/increase in other payables and accruals	**(23,179)**	11,053
Cash generated from operations	**49,031**	179,116
Interest received	**218**	215
Interest paid	**(1,561)**	(964)
Income tax paid	**(9,313)**	(1,378)
Net cash generated from operating activities	**38,375**	176,989

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	2010 HK$'000	2009 HK$'000
Cash flows from investing activities		
Purchase of property, plant and equipment	(21,425)	(46,801)
Deposits paid for acquisition of property, plant and equipment	(39,529)	(49,910)
Refund of deposit for acquisition of property, plant and equipment	5,294	—
Purchase of other intangible assets	—	(79,546)
Net cash outflow from disposal of subsidiaries	—	(3,670)
Proceeds from disposal of property, plant and equipment	41	2
Net cash used in investing activities	(55,619)	(179,925)
Cash flows from financing activities		
New bank loan raised	—	34,091
Repayment of bank loan	(14,117)	(4,546)
Redemption of promissory note payable	—	(10,000)
Redemption of guaranteed convertible notes	—	(3,000)
Transaction costs attributable to issue of ordinary shares	(14)	—
Net cash (used in)/generated from financing activities	(14,131)	16,545
Net (decrease)/increase in cash and cash equivalents	(31,375)	13,609
Cash and cash equivalents at the beginning of the year	91,766	78,157
Effect of foreign exchange rate changes	(304)	—
Cash and cash equivalents at the end of the year	60,087	91,766
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	60,087	91,766

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office of the Company are set out in the section headed "Corporate Information" of the annual report.

The Company acts as an investment holding company. The activities of the Company's principal subsidiaries are set out in Note 43.

The consolidated financial statements are presented in Hong Kong dollar and all values are rounded to the nearest thousand (HK$'000) except otherwise indicated. In prior years, the board of directors (the "Board" or the "Directors") regarded Hong Kong dollar as the functional currency of the Company. During the year ended 31 December 2009, the Directors reassessed the Company's functional currency after the disposal of discontinued operations during the prior year. The Directors considered that the functional currency of the Company should be changed from Hong Kong dollar to Renminbi ("RMB") during the year ended 31 December 2009. The change of functional currency is applied prospectively from the date of change in accordance with Hong Kong Accounting Standard No. 21 "The Effect of Change in Foreign Exchange Rates". As the Company is listed on the Stock Exchange, the Directors consider that it will be more appropriate to adopt Hong Kong dollar as the Group's and the Company's presentation currency.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

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 2010.

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKAS 27 (as revised in 2008)	Consolidated and Separate Financial Statements
HKAS 39 (Amendments)	Eligible Hedged Items
HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (as revised in 2008)	Business Combinations
HKFRS 5 (Amendments as part of Improvements to HKFRSs issued in 2008)	Non-current Assets Held for Sale and Discontinued Operations — Plan to Sell the Controlling Interest in a Subsidiary
HK(IFRIC) — Int 17	Distributions of Non-cash Assets to Owners
HK — Int 4 (Amendments)	Determination of the Length of Lease Term in respect of Hong Kong Land Leases
HK — Int 5	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") — CONTINUED

The impact of the application of the above new HKFRSs is discussed below.

HKFRS 3 (as revised in 2008) Business Combinations

HKFRS 3 (as revised in 2008) has been applied in the current year prospectively to business combinations of which the acquisition date is on or after 1 January 2010 in accordance with the relevant transitional provisions. Its application has affected the accounting for business combinations in the current year.

The impact of the application of HKFRS 3 (as revised in 2008) is as follows:

- HKFRS 3 (as revised in 2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as "minority" interests) either at fair value or at the non-controlling interests' share of recognised identifiable net assets of the acquiree. In the current year, in accounting for the acquisition of subsidiaries, the Group has elected to measure the non-controlling interests at fair value at the date of acquisition. Consequently, the goodwill recognised in respect of that acquisition reflects the impact of the difference between the fair value of the non-controlling interests and their share of recognised identifiable net assets of the acquiree.

- HKFRS 3 (as revised in 2008) changes the recognition and subsequent accounting requirements for contingent consideration. Previously contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were always made against the cost of the acquisition. Under the revised standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against the cost of acquisition only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

- HKFRS 3 (as revised in 2008) requires the recognition of a settlement gain or loss when the business combination in effect settles a pre-existing relationship between the Group and the acquiree.

- HKFRS 3 (as revised in 2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") — CONTINUED

HKAS 27 (as revised in 2008) Consolidated and Separate Financial Statements

The application of HKAS 27 (as revised in 2008) has resulted in changes in the Group's accounting policies for the Group's changes in ownership interests in subsidiaries of the Group.

Specifically, the revised standard has affected the Group's accounting policies regarding changes in the Group's ownership interests in its subsidiaries that do not result in loss of control. In prior years, in the absence of specific requirements in HKFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised, when appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under HKAS 27 (as revised in 2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised standard requires the Group to derecognise all assets, liabilities and non-controlling interests at their carrying amounts and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss.

These changes have been applied prospectively from 1 January 2010 in accordance with the relevant transitional provisions.

In addition, under HKAS 27 (as revised in 2008), the definition of non-controlling interest has been changed. Specifically, under the revised standard, non-controlling interest is defined as the equity in a subsidiary not attributable, directly or indirectly, to a parent.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") — CONTINUED

HK — Int 5 Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

HK — Int 5 Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ("HK Int 5") clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ("repayment on demand clause") should be classified by the borrower as current liabilities. The Group has applied HK Int 5 for the first time in the current year. HK Int 5 requires retrospective application.

In order to comply with the requirements set out in HK Int 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans were determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK Int 5, term loans with a repayment on demand clause are classified as current liabilities.

Such term loans have been presented in the earliest time band in the maturity analysis for financial liabilities that reflects the remaining contractual maturities.

Except for those as disclosed above, the Directors anticipate that the application of these new HKFRSs has 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.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[2]
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 — Disclosures for First-time Adopters[3]
HKFRS 7 (Amendments)	Financial Instruments: Disclosures — Transfers of Financial Assets[5]
HKFRS 9	Financial Instruments[6]
HKAS 24 (as revised in 2009)	Related Party Disclosures[4]
HKAS 32 (Amendments)	Classification of Rights Issues[1]
HK(IFRIC) — Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[4]
HK(IFRIC) — Int 19	Extinguishing Financial Liabilities with Equity Instruments[3]

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
3 Effective for annual periods beginning on or after 1 July 2010
4 Effective for annual periods beginning on or after 1 January 2011
5 Effective for annual periods beginning on or after 1 July 2011
6 Effective for annual periods beginning on or after 1 January 2013

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") — CONTINUED

HKFRS 9 *Financial Instruments* (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 *Financial Instruments* (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either 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 accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, 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 presentation 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 attributable to a financial liability's 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 at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard may have a significant impact on amounts reported in respect of the Groups' financial assets. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") — CONTINUED

The amendments to HKFRS 7 titled *Disclosures — Transfers of Financial Assets* increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The Directors do not anticipate that these amendments to HKFRS 7 will have a significant effect on the Group's disclosures regarding transfers of trade receivables previously effected. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

HKAS 24 *Related Party Disclosures* (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities.

The disclosure exemptions introduced in HKAS 24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity. However, disclosures regarding related party transactions and balances in these consolidated financial statements may be affected when the revised version of the standard is applied in future accounting periods because some counterparties that did not previously meet the definition of a related party may come within the scope of the standard.

The amendments to HKAS 32 titled *Classification of Rights Issues* address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments. However, if the Group does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to HKAS 32 will have an impact on the classification of those rights issues.

HK(IFRIC) — Int 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Group has not entered into transactions of this nature. However, if the Group does enter into any such transactions in the future, HK(IFRIC) — Int 19 will affect the required accounting. In particular, under HK(IFRIC) — Int 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with all applicable HKFRSs and the Hong Kong Companies Ordinance.

These consolidated financial statements also include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange.

(b) 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, as explained in the accounting policies below.

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

3. PRINCIPAL ACCOUNTING POLICIES — CONTINUED

(c) Basis of consolidation — continued

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries on or after 1 January 2010

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Changes in the Group's ownership interests in existing subsidiaries prior to 1 January 2010

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. PRINCIPAL ACCOUNTING POLICIES — CONTINUED

(d) Business combinations

Business combinations that took place on or after 1 January 2010

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another standard.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. PRINCIPAL ACCOUNTING POLICIES — CONTINUED

(d) Business combinations — continued

Business combinations that took place on or after 1 January 2010 — continued

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. PRINCIPAL ACCOUNTING POLICIES — CONTINUED

(d) Business combinations — continued

Business combinations that took place prior to 1 January 2010

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that met the relevant conditions for recognition were generally recognised at their fair value at the acquisition date.

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group's interest in the recognised amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition, the excess was recognised immediately in profit or loss.

The minority interest in the acquiree was initially measured at the minority interest's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

Contingent consideration was recognised, if and only if, the contingent consideration was probable and could be measured reliably. Subsequent adjustments to contingent consideration were recognised against the cost of the acquisition.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognised goodwill.

3. PRINCIPAL ACCOUNTING POLICIES — CONTINUED

(e) Goodwill

Goodwill arising on an acquisition of a business represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of the financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated statement of comprehensive income. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal.

(f) Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control, that is when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control.

Jointly-controlled assets

When a group entity undertakes its activities under joint venture arrangements directly, constituted as jointly-controlled assets, the Group's share of the jointly-controlled assets and share of any liabilities incurred jointly with other venturers are recognised in the consolidated financial statements and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly-controlled assets are accounted for on an accrual basis.

Income from the sale or use of the Group's share of the output of the jointly-controlled assets, together with its share of any expenses incurred, are recognised when it is probable that the economic benefits associated with the transaction will flow to/from the Group and their amount can be measured reliably.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. PRINCIPAL ACCOUNTING POLICIES — CONTINUED

(g) Revenue recognition

Revenue is measured at the fair value of the consideration received and receivable and represents amounts receivable for services provided in the normal course of business, net of discounts and sales related taxes.

Rental income from operating leases is recognised in profit or loss over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Contingent rentals are recognised as income in the accounting period in which they are earned.

Service income is recognised when services are provided.

Interest income from a financial asset is accrued on a time-apportioned basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

3. PRINCIPAL ACCOUNTING POLICIES — CONTINUED

(h) Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual value, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The principal annual rates used for the current year are as follows:

Leasehold improvements	20%–33.3% or over the shorter of the term of the lease
Medical equipment	5%–18% or over the shorter of the term of the co-operative contracts
Furniture, fixtures and equipment	20%–33.3%
Motor vehicles	10%–25%
Computer equipment	30%

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognized impairment losses. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year in which the item is derecognised.

(i) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a basis of specific percentage of the revenue of the lease in accordance with the contractual term of the leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. PRINCIPAL ACCOUNTING POLICIES — CONTINUED

(i) Leases — continued

The Group as lessee

Rental payable under operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Land use right under operating lease is initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

(j) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the exchange translation reserve. Such exchange differences are recognised in profit or loss in the period in which the foreign operation or the underlying asset is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognized in the exchange translation reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. PRINCIPAL ACCOUNTING POLICIES — CONTINUED

(k) Borrowings costs

Borrowing costs that are directly attributable to the acquisition, construction or production of assets, which require a substantial period of time to be ready for their intended use or sale, are capitalized as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending for their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(l) Retirement benefits costs

Payments to state-managed retirement benefit scheme and Mandatory Provident Fund Scheme are charged as expenses when employees have rendered the service entitling them to the contributions.

(m) Taxation

Income tax includes current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised for all temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. PRINCIPAL ACCOUNTING POLICIES — CONTINUED

(m) Taxation — continued

Deferred tax is calculated at the tax rates (and tax laws) that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income in which case the deferred tax is also recognised in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(n) Other intangible assets

Other intangible assets acquired separately are initially recognised at cost. Other intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such other intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, other intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for other intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. In respect of other intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (Note 3(q)).

(o) Financial instruments

Financial assets and financial liabilities are recognised on the statements of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. PRINCIPAL ACCOUNTING POLICIES — CONTINUED

(o) Financial instruments — continued

Financial assets

The Group's financial assets are classified as loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, other receivables and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Impairment of financial assets

Financial assets of the Group are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. PRINCIPAL ACCOUNTING POLICIES — CONTINUED

(o) Financial instruments — continued

Financial assets — continued

Impairment of financial assets — continued

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment loss not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, a shorter period.

3. PRINCIPAL ACCOUNTING POLICIES — CONTINUED

(o) Financial instruments — continued

Financial liabilities and equity — continued

Guaranteed convertible notes

Guaranteed convertible notes issued by the Group that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the gross proceeds of the issue of the guaranteed convertible notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the guaranteed convertible notes into equity, is included in equity (guaranteed convertible notes — equity component reserve).

In subsequent periods, the liability component of the guaranteed convertible notes is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in guaranteed convertible notes — equity component reserve until it is exercised (in which case the balance stated in guaranteed convertible notes — equity component reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in guaranteed convertible notes — equity component reserve will be released to the accumulated losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the guaranteed convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and amortised over the period of the guaranteed convertible notes using the effective interest method.

Other financial liabilities

Other financial liabilities are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. PRINCIPAL ACCOUNTING POLICIES — CONTINUED

(o) Financial instruments — continued

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(p) Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees and others providing similar services on or before 7 November 2002, or granted after 7 November 2002 and vested before 1 January 2005

The financial impact of share options granted is not recorded in the consolidated financial statements until such time as the options are exercised, and no charge is recognised in the consolidated statement of comprehensive income in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

Share options granted to employees and others providing similar services after 7 November 2002 and vested on or after 1 January 2005

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained earnings/accumulated losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. PRINCIPAL ACCOUNTING POLICIES — CONTINUED

(p) Share-based payment transactions — continued

Modification to original share options

If new share options are granted as replacement for the cancellation of previously granted share options, the grant of replacement share options is accounted for as modifications. The incremental fair value granted, representing the difference between the fair value of the modified/replaced share option and that of the original share option at the date of modification/replacement is expensed over the remaining vesting period of the share options, in addition to the amount based on fair value of the original share options at the grant date.

In situation where equity instruments are issued to parties other than employees are measured at the fair value of the goods or services received, except where the fair value of goods or services cannot be estimated reliably, in which case, they are measured at the fair value of equity instruments granted, measured at the date the Group receives the goods or services.

(q) Impairment loss on tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have reduced. Intangible assets with indefinite useful lives and those that have not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. PRINCIPAL ACCOUNTING POLICIES — CONTINUED

(r) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(s) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(t) Related parties

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(u) Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching with them and that the grants will be received.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The Group makes estimates and assumptions concerning the future. The estimation and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimated impairment of trade and other receivables and promissory note receivable

The Group makes allowance for impairment of trade and other receivables and promissory note receivable based on an estimate of the recoverability of these receivables. Allowance is applied to trade and other receivables and promissory note receivable where events of changes in circumstances indicate that the balances may not be collectible. The identification of impairment of trade and other receivables and promissory note receivable requires the use of estimates. Where the expectation is different from the original estimates, such difference will impact carrying value of receivables and provision for impairment losses in the period in which such estimate had been changed.

Estimated impairment of tangible assets

Management periodically reviews each tangible asset for possible impairment or reversal of previously recognised impairment. Recoverability of tangible assets is measured by a comparison of the carrying amount of an asset to its fair value less costs to sell. If such assets are considered by management to be impaired or no longer be impaired, the impairment or reversal of impairment previously recognised is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets less costs to sell.

Estimated impairment of goodwill, other intangible assets and property, plant and equipment

Determining whether goodwill, other intangible assets and property, plant and equipment are impaired requires an estimation of the value in use of the cash-generating units to which goodwill, other intangible assets and property, plant and equipment have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. Details of the recoverable amount calculations are disclosed in Notes 18, 20 and 21, respectively.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of debts, which includes the borrowings, guaranteed convertible notes and promissory note payable which were disclosed in Notes 27, 28 and 31(b) respectively, and equity attributable to owners of the Company, comprising issued share capital and reserves.

The Directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the Directors, the Group will balance its overall capital structure through the payment of dividends, new share issues, new borrowings raised and repayment of borrowings.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial assets				
Loans and receivables:				
— Trade receivables	**83,618**	47,764	**—**	—
— Promissory notes receivables	**422**	395	**422**	395
— Cash and bank balances	**60,087**	91,766	**2,352**	2,899
	144,127	139,925	**2,774**	3,294
Financial liabilities stated at amortised cost				
— Other payables and accruals	**31,720**	48,244	**10,592**	7,535
— Amounts due to subsidiaries	**—**	—	**43,910**	43,916
— Borrowings — due within one year	**116,189**	13,636	**99,719**	—
— Borrowings — due over one year	**—**	103,983	**—**	88,074
— Guaranteed convertible notes — current liabilities	**992**	—	**—**	—
— Guaranteed convertible notes — non-current liabilities	**—**	980	**—**	—
	148,901	166,843	**154,221**	139,525

6. FINANCIAL INSTRUMENTS — CONTINUED

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, promissory notes receivables, bank balances, other payables and accruals, borrowings and guaranteed convertible notes. The Company's major financial instruments include bank balances, promissory notes receivables, amounts due to subsidiaries, other payables and accruals, and borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these are set out below. Management manages and monitors these exposures to ensure that appropriate measures are implemented on a timely and effective manner.

(i) Credit risk management

As at 31 December 2010 and 2009, the Group's and the Company's maximum exposure to credit risk which will cause a financial loss to the Group and the Company due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group and the Company arose from:

- the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position; and
- the amount in relation to financial guarantees issued by the Company as at 31 December 2010 and 2009 as disclosed in Note 38.

In order to minimise the credit risk, the management of the Group and the Company has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

In addition, the Group and the Company have gross promissory notes receivables in connection with the disposal of jointly-controlled entities amounting to HK$81,871,000 (2009: HK$81,844,000) for which a provision for impairment loss of HK$81,449,000 was made during the year ended 31 December 2009 (Note 31(a)), which expose the Group and the Company to the concentration of credit risk on these counterparties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

6. FINANCIAL INSTRUMENTS — CONTINUED

(b) Financial risk management objectives and policies — continued

(i) Credit risk management — continued

The Group's exposure to credit risk is also influenced by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the end of each reporting period, the Group has a certain concentration of credit risk as 33% (2009: 31%) and 78% (2009: 70%) of the trade receivables which was due from the Group's largest customer and the five largest customers respectively.

(ii) Market risk

(i) Currency risk

The carrying amounts of the Group's and the Company's monetary assets and monetary liabilities denominated in currencies other than the respective functional currencies of the relevant group entities at the end of each reporting period are as follows:

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Assets				
United States dollars ("USD")	**12**	12	**6**	4
Liabilities				
JPY	**99,719**	88,074	**99,719**	88,074

Sensitivity analysis

At 31 December 2010 and 2009, most of the currency risk of the Group and the Company is mainly exposed to JPY.

The following table details the Group's and the Company's sensitivity to a 5% increase and decrease in the functional currency of relevant group entities, HK$, against the JPY. A rate of 5% is the sensitivity rate used by management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a rate of 5% change in JPY. A positive number indicates a decrease in loss/an increase in profit where HK$ strengthens 5% against the JPY. For a 5% weakening of HK$ against the JPY, there would be an equal and opposite impact on the loss/profit and the balances below would be opposite.

6. FINANCIAL INSTRUMENTS — CONTINUED

(b) Financial risk management objectives and policies — continued

(ii) Market risk — continued

(i) Currency risk — continued

Sensitivity analysis — continued

	The Group JPY		The Company JPY	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Impact on the result for the year	**4,986**	4,404	**4,986**	4,404

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate guaranteed convertible notes and promissory notes (see Notes 28 and 31 respectively for details). The Group currently does not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances and variable-rate borrowings (see Notes 25 and 27 respectively for details).

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates on its variable-rate bank balances and borrowings at the end of each reporting period. For variable-rate bank balances and borrowings, the analysis is prepared assuming the amount of asset and liability outstanding at the end of reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's loss for the year ended 31 December 2010 would increase by HK$294,000 (2009: HK$146,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank balances and borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

6. FINANCIAL INSTRUMENTS — CONTINUED

(b) Financial risk management objectives and policies — continued

(ii) Market risk — continued

(iii) Liquidity risk

The Group has net current assets as at 31 December 2010 and 2009. The Group has sufficient funds to finance its current working capital requirements taking into account of the existing borrowings and cash flows from operations.

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilization of borrowings from time to time.

The following table details the Group's and the Company's contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. The table includes both interest and principal cash flows.

The Group

	Weighted average effective interest rate	On demand or within 1 year	1–2 years	2–5 years	Total undiscounted cash flows	Carrying amount
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2010						
Other borrowings	3%	99,719	—	—	99,719	99,719
Other payables and accruals	3%	31,720	—	—	31,720	31,720
Bank loan	6%	16,470	—	—	16,470	16,470
Guaranteed convertible notes	5%	1,033	—	—	1,033	992
		148,942	—	—	148,942	148,901
2009						
Other borrowings	3%	—	91,707	—	91,707	88,074
Other payables and accruals	3%	48,244	—	—	48,244	48,244
Bank loan	5%	14,330	16,988	—	31,318	29,545
Guaranteed convertible notes	5%	—	1,063	—	1,063	980
		62,574	109,758	—	172,332	166,843

6. FINANCIAL INSTRUMENTS — CONTINUED

(b) Financial risk management objectives and policies — continued

(ii) Market risk — continued

(iii) Liquidity risk — continued

The Company

	Weighted average effective interest rate	On demand or within 1 year	1–2 years	2–5 years	Total undiscounted cash flows	Carrying amount
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2010						
Amounts due to subsidiaries	—	43,910	—	—	43,910	43,910
Other borrowings	3%	99,719	—	—	99,719	99,719
Other payables and accruals	3%	10,592	—	—	10,592	10,592
		154,221	—	—	154,221	154,221
Finance guarantees issued-maximum amount granted		1,000	—	—	—	—
2009						
Amounts due to subsidiaries	—	43,916	—	—	43,916	43,916
Other borrowings	3%	—	91,707	—	91,707	88,074
Other payables and accruals	3%	7,535	—	—	7,535	7,535
		51,451	91,707	—	143,158	139,525
Finance guarantees issued-maximum amount granted		—	1,000	—	—	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

6. FINANCIAL INSTRUMENTS — CONTINUED

(c) Fair value

The fair value of financial assets and financial liabilities are determined as follows:

(i) the fair value of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market bid prices and ask prices respectively.

(ii) the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models (e.g. discounted cash flow analysis using observable and/or unobservable inputs).

(iii) The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The Group's financial instruments that are measured subsequent to initial recognition at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quote prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

No analysis is disclosed since the Group has no financial instruments that are measured subsequent to initial recognition at fair value at the end of the reporting period.

There were no transfers between Levels 1 and 2 in the both year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

7. 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 2010 and 2009 represented the leasing and service income from operations of medical equipment.

8. SEGMENT INFORMATION

During the years ended 31 December 2010 and 2009, 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") and most of the assets of the Group are located in the PRC as at 31 December 2010 and 2009.

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.

There were 3 customers with whom transactions have exceeded 10% of the Group's revenues, representing respective turnover of HK$44,181,000, HK$37,611,000 and HK$24,002,000 for the year ended 31 December 2009.

9. OTHER GAINS AND LOSSES

	2010	2009
	HK$'000	*HK$'000*
Interest income on:		
Bank balances	**218**	215
Promissory notes receivables	**27**	4,769*
	245	4,984
Loss on 2009 SWAP (Note 21(i))	**—**	(3,190)
Gain on 2009 FURTHER SWAP (Note 21(ii))	**—**	51
Government grants#	**—**	387
(Loss)/gain on disposal of property, plant and equipment	**(4,139)**	2
Write-off of property, plant and equipment	**(1,230)**	(467)
Others	**91**	—
	(5,033)	1,767

* The balance represented the interest income from impaired assets of the Group for the year ended 31 December 2009.

The balance represented compensation income from local governments mainly for taxes paid by the subsidiaries operating in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

10. FINANCE COSTS

	2010 HK$'000	2009 HK$'000
Interest expenses on:		
Bank borrowings wholly repayable within five years	1,511	776
Loans from a former intermediate holding company and a former fellow subsidiary wholly repayable within five years	2,238	2,304
Guaranteed convertible notes (Note 28)	62	148
Promissory note payable (Note 31(b))	—	554
	3,811	3,782

11. INCOME TAX

	2010 HK$'000	2009 HK$'000
PRC tax	8,429	4,424
Deferred taxation (Note 32)	(41,308)	(10,779)
	(32,879)	(6,355)

No Hong Kong profits tax has been provided as the Group did not have assessable profits arising in Hong Kong during the year (2009: 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 2010 and 2009. Pursuant to the relevant laws and regulations in the PRC, one major subsidiary of the Company is in its first year of 50% reduction of PRC income tax for three years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

11. INCOME TAX — CONTINUED

The taxation credit for the year can be reconciled to the loss before taxation per the consolidated income statement as follows:

	2010 HK$'000	2009 HK$'000
Loss before taxation	(408,449)	(567,335)
Taxation at Hong Kong statutory income tax rate of 16.5% (2009: 16.5%)	(67,394)	(93,610)
Tax effect of income not taxable	(41,522)	(16,077)
Tax effect of expenses not deductible	74,348	109,827
Tax effect of unrecognised tax losses	3,530	4,796
Effect of tax exemption granted	—	(17,376)
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	(1,841)	3,813
Provision of withholding taxes of dividend	—	2,272
Income tax for the year	(32,879)	(6,355)

12. LOSS FOR THE YEAR

	2010 HK$'000	2009 HK$'000
Loss for the year has been arrived at after charging/(crediting):		
Depreciation of property, plant and equipment (Note 18)	34,379	30,090
Depreciation of jointly-controlled assets (Note 18)	12,188	10,038
Amortisation of other intangible assets included in cost of services (Note 21)	32,044	16,369
Amortisation of land and use right (Note 19)	82	80
Total depreciation and amortisation	78,693	56,577
Auditors' remuneration	1,235	1,434
Net exchange losses/(gains)	9,746	(2,172)
Employee benefit expenses, including directors' emoluments (Note 13):		
— salaries and other benefits	23,239	22,400
— share-based payment expense (Note 33)	1,389	5,330
	24,628	27,730

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

13. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each director of the Company was as follows:

For the year ended 31 December 2010

	Sui Xueqing	Wang Jianjun	Li Juewen	Yu Chung Hang, Lucian	Pang Wai Hong	Geng Xiaobing	Li Wing Chiu	Ding Nan	Li Tieliu	Wu Zhenfang	Wang Hai	Guo Bao Ping	Wang Yongchang	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Directors														
— fees	—	—	—	—	100	32	96	—	46	100	—	—	100	474
— salaries and other benefits	263	211	872	662	—	—	—	211	—	—	444	742	—	3,405
— employer's contribution to pension scheme	—	—	—	5	—	—	—	—	—	—	8	9	—	22
— Share-based payment expense	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	263	211	872	667	100	32	96	211	46	100	452	751	100	3,901

For the year ended 31 December 2009

	Yang Yifei	Wong Sin Just	Li Juewen	Yu Chung Hang, Lucian	Pang Wai Hong	Duan Xuzhen	Li Wing Chiu	Sheng Yang	Li Tieliu	Wu Zhenfang	Wang Hai	Li Yang	Guo Bao Ping	Wang Yongchang	Bai Yongrui	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Directors																
— fees	—	93	—	—	100	—	100	—	21	13	—	58	—	161	80	626
— salaries and other benefits	1	—	600	1,704	—	823	—	1,984	—	—	61*	—	798	—	—	5,971
— employer's contribution to pension scheme	—	—	—	12	—	—	—	9	—	—	—	—	12	—	—	33
— Share-based payment expense	—	—	—	—	—	496	—	1,807	—	—	—	—	—	—	—	2,303
	1	93	600	1,716	100	1,319	100	3,800	21	13	61	58	810	161	80	8,933

* being emoluments in respect of Mr. Wang Hai's position as a legal counsel of the Company after 13 November 2009 when he was appointed as a non-executive director of the Company.

There is no emolument paid by the Group to any director as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2010 and 2009. None of the directors has waived any emolument during the year ended 31 December 2010. Mr. Li Yang has waived the director's fee of HK$58,000 for the year ended 31 December 2009.

14. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2009: three) were directors of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining two individuals (2009: two individuals and the remuneration of Mr. Guo Bao Ping before 10 March 2009 when he has not been appointed as an executive director) were as follows:

	2010 *HK$'000*	2009 *HK$'000*
Salaries and other benefits	**2,664**	2,352
Employer's contribution to pension scheme	**24**	24
Total	**2,688**	2,376

The emoluments of the two non-director individuals with the highest emoluments were within the following bands:

	2010 *No. of employees*	2009 *No. of employees*
Nil to HK$1,000,000	**0**	1
HK$1,000,001 to HK$1,500,000	**2**	1

There is no emolument paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2010 and 2009. None of the five highest paid individuals has waived any emolument during the years ended 31 December 2010 and 2009.

15. DIVIDEND

The board of directors do not recommend the payment of any dividend for the year ended 31 December 2010 (2009: HK$Nil).

16. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

16. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY — CONTINUED

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

Loss

	2010 HK$'000	2009 HK$'000
Loss for the purpose of basic loss per share	(375,570)	(560,980)
Interest on guaranteed convertible notes*	—	—
Loss for the purpose of diluted loss per share	(375,570)	(560,980)

Number of shares

	2010 '000	2009 '000
Weighted average number of ordinary shares for the purpose of basic loss per share	13,545,113	12,343,058
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	12,343,058

* 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 2010 and 2009. 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 2010 and 2009.

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

The consolidated loss attributable to owners of the Company includes a loss of HK$37,739,000 (2009: HK$148,632,000) which has been dealt with in the financial statements of the Company.

18. PROPERTY, PLANT AND EQUIPMENT AND DEPOSITS PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

	Notes	Leasehold improvements HK$'000	Medical equipment HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Computer equipment HK$'000	Construction in progress HK$'000	Total HK$'000
The Group								
Cost								
At 1 January 2009		1,718	506,907	1,132	1,853	602	—	512,212
Additions		104	150,560#	74	533	6	2,308	153,585
Disposal of subsidiaries	34	—	—	(2)	—	—	—	(2)
Disposals		—	(78,960)*	(1)	—	(23)	—	(78,984)
Write-off		—	(2,049)	(19)	—	(52)	—	(2,120)
At 31 December 2009		1,822	576,458	1,184	2,386	533	2,308	584,691
Additions		1,765	66,308	391	1,316	6	12,610	82,396
Exchange realignment		17	21,414	12	72	—	82	21,597
Disposals		—	(28,235)	(5)	(347)	(46)	—	(28,633)
Write-off		(1,884)	(1,505)	(287)	—	—	—	(3,676)
At 31 December 2010		1,720	634,440	1,295	3,427	493	15,000	656,375
Accumulated depreciation and impairment								
At 1 January 2009		1,488	32,955	889	455	547	—	36,334
Provided for the year	12	146	39,699	67	184	32	—	40,128
Eliminated on disposals		—	(6,225)*	(1)	—	(23)	—	(6,249)
Write-off		—	(1,588)	(16)	—	(49)	—	(1,653)
At 31 December 2009		1,634	64,841	939	639	507	—	68,560
Provided for the year	12	280	45,927	91	249	20	—	46,567
Exchange realignment		10	2,437	4	11	—	—	2,462
Eliminated on disposals		—	(3,585)	(5)	(347)	(46)	—	(3,983)
Impairment loss recognised		—	190,366	—	—	—	—	190,366
Write-off		(1,858)	(318)	(270)	—	—	—	(2,446)
At 31 December 2010		66	299,668	759	552	481	—	301,526
Carrying amounts								
At 31 December 2010		**1,654**	**334,772**	**536**	**2,875**	**12**	**15,000**	**354,849**
At 31 December 2009		188	511,617	245	1,747	26	2,308	516,131

* The disposals consist of two swaps during the year ended 31 December 2009. The carrying amounts of the related medical equipment being swap out are HK$20,207,000 (Note 21(i)) and HK$52,528,000 (Note 21(ii)).

\# Included in the additions during the year ended 31 December 2009 are assets of HK$54,205,000 (Note 21(i)) and HK$52,579,000 (Note 21(ii)) acquired through swap.

18. PROPERTY, PLANT AND EQUIPMENT AND DEPOSITS PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT — CONTINUED

Included in the carrying value of medical equipment as at 31 December 2010 were jointly-controlled assets of HK$80,272,000 (2009: HK$123,647,000). Details of the financial information of the jointly-controlled assets are set out in Note 23. A bank loan is secured by pledge of the Group's medical equipment with aggregate carrying amount of HK$55,233,000 (2009: HK$78,196,000) as at 31 December 2010.

At 31 December 2010, the relevant licences were obtained for the Group's medical equipment with the aggregate carrying amount of HK$166,276,000 (2009: HK$249,664,000). In respect of the remaining medical equipment of the Group as at 31 December 2010, most of the relevant licences were in the process of application or in the directors' opinion that no such licence was required.

During the year ended 31 December 2010, as a result of the effects of the under-utilisation of certain items and the ever increasing competitive operating environment in the industry, the Group carried out a review of the recoverable amount of the medical equipment. The review led to the recognition of an impairment loss of HK$190,366,000, which has been recognised in profit or loss. The recoverable amount of the relevant assets has been determined on the basis of their value in use. The discount rate used in measuring value in use was 17.1% per annum.

	Leasehold improvements	**Furniture, fixtures and equipment**	**Motor vehicles**	**Computer equipment**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
The Company					
Cost					
At 1 January 2009	1,491	947	347	602	3,387
Additions	—	9	—	6	15
Disposals	—	—	—	(23)	(23)
Write-off	—	(19)	—	(52)	(71)
At 31 December 2009	1,491	937	347	533	3,308
Additions	210	40	677	6	933
Disposals	—	(5)	(347)	(46)	(398)
Write-off	(1,491)	(273)	—	—	(1,764)
At 31 December 2010	210	699	677	493	2,079

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18. PROPERTY, PLANT AND EQUIPMENT AND DEPOSITS PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT — CONTINUED

	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Computer equipment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Accumulated depreciation					
At 1 January 2009	1,491	932	347	547	3,317
Provided for the year	—	6	—	33	39
Eliminated on disposals	—	—	—	(23)	(23)
Write-off	—	(16)	—	(49)	(65)
At 31 December 2009	1,491	922	347	508	3,268
Provided for the year	17	6	28	20	71
Eliminated on disposals	—	(5)	(347)	(46)	(398)
Write-off	(1,491)	(263)	—	—	(1,754)
At 31 December 2010	17	660	28	482	1,187
Carrying amount					
At 31 December 2010	**193**	**39**	**649**	**11**	**892**
At 31 December 2009	—	15	—	25	40

As at 31 December 2010 and 2009, the deposits balance represented deposits paid for acquisition of items of property, plant and equipment.

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19. LAND USE RIGHT

	The Group	
	2010	2009
	HK$'000	*HK$'000*
Carrying amount:		
At 1 January	**3,892**	3,972
Additions	**—**	—
Exchange realignment	**138**	—
Amortisation of land use right (Note 12)	**(82)**	(80)
At 31 December	**3,948**	3,892
Analysed for reporting purpose as:		
Non-current assets	**3,866**	3,812
Current assets	**82**	80
	3,948	3,892

The land use right is situated outside Hong Kong and is held under a medium term lease.

20. GOODWILL

	HK$'000
Cost	
At 1 January 2009 and 31 December 2009	638,938
Exchange realignment	22,490
At 31 December 2010	661,428
Accumulated impairment	
At 1 January 2009	1,692
Impairment loss recognised	550,000
At 31 December 2009	551,692
Impairment loss recognised	90,244
Exchange realignment	19,492
At 31 December 2010	661,428
Carrying amount	
At 31 December 2010	**—**
At 31 December 2009	87,246

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

20. GOODWILL — CONTINUED

Goodwill acquired in a business combination is allocated to the cash-generating unit ("CGU") that is expected to benefit from that business combination. The carrying amount of goodwill is allocated to the medical network of the Group.

The basis of the recoverable amounts of this CGU and their major underlying assumptions are summarised below:

CGU of medical network

The recoverable amount of this CGU has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 4-year period, and discount rate of 17.1% per annum. The cash flows beyond the 4-year period are extrapolated using an annual growth rate of 3%. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted leasing and service income and gross margin, such estimation is based on the CGU's past performance and management's expectations for the market development.

The Directors reassessed the recoverable amount of goodwill as at 31 December 2010 by reference to the valuation as at 31 December 2010 performed by Greater China Appraisal Limited, an independent firm of professionally qualified valuers. The recoverable amount of the CGU was determined by the professional valuers based on the present value of the expected future revenue arising from the operations of the underlying assets of the CGU. In determining the value in use amount, the Group took into account the effects of the under-utilisation of certain items of the underlying assets and the ever increasing competitive operating environment in the industry, and the recoverable amount of the relevant CGU has been determined on the basis of their value in use with reference to the probable discounted cash flows from all the underlying assets, resulting in impairment loss on goodwill of approximately HK$90,244,000 (2009: HK$550,000,000) recognised for the year.

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For the year ended 31 December 2010

21. OTHER INTANGIBLE ASSETS

	HK$'000
Cost	
At 1 January 2009	363,316
Additions	229,023
Released upon disposal of underlying assets (Note (i))	(51,391)
Write-off upon termination of underlying contracts	(7,383)
At 31 December 2009	533,565
Exchange realignment	14,358
At 31 December 2010	547,923
Accumulated amortisation and impairment	
At 1 January 2009	89,580
Provided for the year (Note 12)	16,369
Written back upon disposal of underlying assets (Note (i))	(14,203)
Written back upon termination of underlying contracts	(759)
At 31 December 2009	90,987
Provided for the year (Note 12)	32,044
Exchange realignment	3,531
Impairment loss recognised	151,200
At 31 December 2010	277,762
Carrying amount	
At 31 December 2010	270,161
At 31 December 2009	442,578

The other intangible assets represented the lease contracts and service contracts entitle the Group to receive leasing and service income by leasing the gamma knife machines and related medical equipment to medical centres and provision of services on the operations of gamma knife machines and related medical equipment.

The above other intangible assets have a finite life and are amortised on a straight-line basis over the remaining useful lives ranging from 8 to 24 years (2009: 9 to 25 years).

21. OTHER INTANGIBLE ASSETS — CONTINUED

At 31 December 2010, the relevant licences were obtained for those medical equipment which underlie the Group's other intangible assets with the aggregate carrying amount of HK$118,460,000 (2009: HK$185,899,000).

Notes:

(i) On 1 January 2009, the Group entered into a conditional swap agreement with Shanghai Aoguan Industrial Investment Limited ("Shanghai Aoguan"), a limited liability company established in the PRC, for the acquisition of Shanghai Aoguan's entire 100% interest in the body gamma knife and head gamma knife located in medical centre in Urumqi, Xinjiang Autonomous Region, the PRC, at a consideration of RMB21 million (equivalent to HK$23.86 million), which shall be satisfied by the partial interests of certain medical equipment of the Group located in Shanghai City (the "2009 SWAP"). At the effective date of the 2009 SWAP, (a) the fair value of the acquired medical equipment in Xinjiang was determined at HK$54,205,000 based on a valuation carried out by an independent firm of professionally qualified surveyors; and (b) the carrying amounts of the Group's disposed medical equipment in Shanghai City and the related other intangible assets were HK$20,420,000 and HK$74,169,000 respectively, and the difference between (a) and (b) above provided an indication that there was an impairment loss on other intangible assets of HK$40,384,000 as at 31 December 2008, which was recognised as an impairment loss in the consolidated income statement during the prior year. The relevant deferred tax liability amount of HK$10,985,000 released on the impairment loss of other intangible assets has also been credited to the consolidated income statement during the year ended 31 December 2008.

During the 2009 SWAP, (c) the carrying amounts of the Group's disposed medical equipment in Shanghai City and the related other intangible assets after impairment loss of prior year were reassessed as HK$20,207,000 and HK$37,188,000 respectively, and the difference between (a) and (c) resulted in a loss HK$3,190,000 (Note 9).

(ii) On 8 July 2009, the Group entered into another conditional swap agreement with Shanghai Lun Kan Medical Investment Management Limited ("Shanghai Lun Kan"), a limited liability company established in the PRC, for the disposal of Shanghai Lun Kan's entire 100% interest in the radiotherapy medical equipment located in medical centre in Zhengzhou City, the PRC, at a consideration of RMB46.42 million (equivalent to HK$52.73 million), which shall be satisfied by the interest in certain medical equipment of the Group located in Tianjin City (the "2009 FURTHER SWAP"). At the effective date of the 2009 FURTHER SWAP, (a) the fair value of the acquired medical equipment in Zhengzhou City was determined at HK$52,579,000 based on a valuation carried out by an independent firm of professionally qualified surveyors; and (b) the carrying amount of the Group's disposed radiotherapy assets was HK$52,528,000, which resulted in a gain of HK$51,000 credited to the consolidated income statement during the year ended 31 December 2009 (Note 9). The corresponding release of deferred tax liabilities of HK$7,640,000 has also been credited to the consolidated income statement during the year ended 31 December 2009 (Note 32). No other intangible asset is attributable to the Group's disposed radiotherapy assets as mentioned above.

(iii) During the year ended 31 December 2010, as a result of the effect of the under-utilisation of certain items and the ever increasing competitive operating environment in the industry, the Group carried out a review of the recoverable amount of the contract based other intangible assets related to underlying medical equipment. The review led to the recognition of an impairment loss of HK$151,200,000, which has been recognised in profit or loss. The recoverable amount of the relevant assets has been determined on the basis of their value in use. The discount rate used in measuring value in use was 17.1% per annum.

22. INTEREST IN SUBSIDIARIES

	The Company	
	2010	2009
	HK$'000	*HK$'000*
Unlisted shares, at cost	**985,263**	985,263
Less: impairment losses	**(659,002)**	(209,020)
	326,261	776,243
Amounts due from subsidiaries	**750,915**	772,082
Less: impairment losses	**(420,037)**	(421,532)
	330,878	350,550

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, all of the amounts in substance represent the Company's interests in the subsidiaries in the form of quasi-equity loans.

The amounts due to subsidiaries are unsecured, interest-free and repayable on demand.

Details of principal subsidiaries are set out in Note 43.

An accumulated allowance of impairment for investment costs and amounts due from subsidiaries of HK$659,002,000 (2009: HK$209,020,000) and HK$420,037,000 (2009: HK$421,532,000) respectively was provided as at 31 December 2010 because the related recoverable amounts of the investment costs and the amounts due from subsidiaries were estimated to be less than their carrying amounts. Accordingly, the carrying amounts of the related investment costs and amounts due therefrom are reduced to their recoverable amounts.

23. JOINTLY-CONTROLLED ASSETS

During the year ended 31 December 2010, the Group entered into certain arrangements with third parties to acquire/retain interests of ranging from 40% to 70% (2009: 40% to 70%) in certain medical equipment:

The aggregate amounts of assets and liabilities recognised in the consolidated financial statements in relation to interests in jointly-controlled assets are as follows.

	The Group	
	2010	2009
	HK$'000	*HK$'000*
Non-current assets (Note 18)	**80,272**	123,647
Income	**74,567**	81,750
Expenses (Note 12)	**12,188**	10,038

24. TRADE RECEIVABLES AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade receivables	**83,618**	47,764	**—**	—
Prepayments and deposits	**44,658**	3,424	**1,737**	1,337
Others	**—**	164	**—**	—
	44,658	3,588	**1,737**	1,337
	128,276	51,352	**1,737**	1,337

The Group generally allows an average credit period of 180 days (2009: 90 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:

	The Group	
	2010	2009
	HK$'000	*HK$'000*
Neither past due nor impaired	**73,421**	38,745
1 to 3 months past due	**10,197**	8,615
4 to 6 months past due	**—**	229
7 to 12 months past due	**—**	175
	83,618	47,764

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

At 31 December 2010, trade receivables of HK$73,421,000 (2009: HK$38,745,000) 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$10,197,000 (2009: HK$9,019,000) at 31 December 2010 were past due at 31 December 2010 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.

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25. CASH AND BANK BALANCES

The Group's bank balances of HK$57,366,000 (2009: HK$88,531,000) carried variable-rate interest at 0.001%–0.360% per annum (2009: 0.001%–0.360% per annum).

The Company's bank balances of HK$6,000 (2009: HK$4,000) carried variable-rate interest at 0.001% per annum (2009: 0.001% per annum).

The amount of the Group's and the Company's bank balances and cash denominated in currencies other than the respective functional currencies of the relevant group entities are set out below:

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
USD	**12**	12	**6**	4

At the end of reporting period, the bank balances and cash of the Group denominated in RMB amounted to HK$57,719,000 (2009: HK$88,848,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

26. OTHER PAYABLES AND ACCRUALS

Included in the Group's other payables and accruals as at 31 December 2010 and 2009 is an amount which represented a provision for clawback of fund performance fee income which was received by the Group in 2004. The Group received the income of HK$8,915,000, which was calculated based on the net realised gain on disposal of investments by the fund, which is subject to the clawback provision, in which the Group is required to restore the fund for any deficit amount that would have been occurred upon the termination of the fund in August 2007. The fund was terminated in August 2007 and the directors of the Company considered that no further provision was required as at 31 December 2010 and 2009.

27. BORROWINGS

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Unsecured interest-bearing borrowings				
Loan from former intermediate holding company (Note (a))	**14,327**	12,654	**14,327**	12,654
Loan from a former fellow subsidiary (Note (b))	**85,392**	75,420	**85,392**	75,420
	99,719	88,074	**99,719**	88,074
Secured interest-bearing borrowings				
Bank loan (Note (c))	**16,470**	29,545	**—**	—
	116,189	117,619	**99,719**	88,074

As at 31 December 2009 and 2010, total current and non-current borrowings were repayable as follows:

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
On demand or within one year shown under current liabilities	**116,189**	13,636	**99,719**	—
More than one year, but not exceeding two years	**—**	103,983	**—**	88,074
Total borrowings shown under non-current liabilities	**—**	103,983	**—**	88,074
	116,189	117,619	**99,719**	88,074

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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27. BORROWINGS — CONTINUED

Notes:

(a) The amount represents a loan from a former intermediate holding company of the Company. The loan, denominated in Japanese Yen, is unsecured, interest bearing at the prime rate published by Mizuho Corporate Bank in Japan plus 1% per annum and subordinated to the guaranteed convertible notes issued in August 2002 (Note 28).

(b) The amount represents a loan from a former fellow subsidiary of the Company. The loan, denominated in Japanese Yen, is unsecured, interest bearing at the prime rate published by Mizuho Corporate Bank in Japan plus 1% per annum and subordinated to the guaranteed convertible notes issued in August 2002 (Note 28).

(c) The bank loan, denominated in RMB, is secured by the Group's medical equipment with the aggregate carrying value of HK$55,233,000 (Note 18), by personal guarantees of (i) a member of senior management of the subsidiary; and (ii) a director of the Company. The loan is interest bearing at the benchmark interest rate published by the People's Bank of China with 10% mark-up.

The effective interest rate on the Group's borrowings denominated in Japanese Yen was 2.475% (2009: 2.475%) per annum and the effective interest rate on the Group's bank loan, denominated in RMB, was 5.977% (2009: 5.089%) per annum for the year ended 31 December 2010.

28. GUARANTEED CONVERTIBLE NOTES

	The Group	
	2010	2009
	HK$'000	*HK$'000*
Carrying amount of liability component of guaranteed convertible notes issued/extended on:		
— 28 August 2008 ("2011 5% Notes") (Note (a))	**992**	980
Less: Amounts due within one year shown under current liabilities	**(992)**	—
Amounts due after one year shown under non-current liabilities	**—**	980

The guaranteed convertible notes were issued by SIIS Treasury Limited, a wholly-owned subsidiary of the Company, and entitled the holders to convert into ordinary shares of the Company, subject to the terms of respective guaranteed convertible notes.

The fair values of the liability component and the equity component were determined at issuance/extension of the guaranteed convertible notes. The effective interest rate is 6.32% per annum for the 2011 5% Notes.

The guaranteed convertible notes contain two components, liability and equity. The equity component is presented in equity under the heading of "Guaranteed convertible notes — equity component reserve".

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28. GUARANTEED CONVERTIBLE NOTES — CONTINUED

The movements of the liability component of the guaranteed convertible notes for the prior and current years are set out below:

	The Group	
	2010	2009
	HK$'000	*HK$'000*
Carrying amount at the beginning of the year	**980**	3,931
Interest accrued (Note 10)	**62**	148
Interest paid	**(50)**	(99)
Redemption	**—**	(3,000)
Carrying amount at the end of the year	**992**	980

Notes:

(a) On 28 August 2002, SIIS Treasury Limited issued HK$156,400,000 5% guaranteed convertible notes originally due in August 2005, the maturity date of which was subsequently extended to 28 August 2008. The notes bear a fixed interest of 5% per annum.

In prior year, the Group entered into a further supplemental agreement with the noteholder of the convertible notes whereby the maturity date of the outstanding convertible notes with principal of HK$1,000,000 was extended from 28 August 2008 to 29 August 2011. Save as the extension of the maturity date, all other terms and conditions remain unchanged.

As at 31 December 2010, the outstanding principal amount of the 2011 5% Notes was HK$1,000,000 (2009: HK$1,000,000).

(b) Pursuant to the terms of the above mentioned guaranteed convertible notes, the due and punctual discharge of all obligations of SIIS Treasury Limited under the guaranteed convertible notes will be unconditionally and irrevocably guaranteed by the Company.

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29. SHARE CAPITAL

	The Company			
	2010		2009	
	Number of shares	**Amount**	Number of shares	Amount
	'000	***HK$'000***	*'000*	*HK$'000*
Ordinary shares of HK$0.10 each				
Authorised:				
At 1 January and 31 December	**20,000,000**	**2,000,000**	20,000,000	2,000,000
Issued and fully paid:				
At 1 January	**13,545,113**	**1,354,511**	11,595,113	1,159,511
Issued of ordinary shares (Note (a))	**—**	**—**	1,950,000	195,000
At 31 December	**13,545,113**	**1,354,511**	13,545,113	1,354,511

Note:

a. During the year ended 31 December 2009, the Company issued 1,950,000,000 ordinary shares at HK$0.065 per share (being the market price at the date of acquisition) as part of the consideration for acquisition of the Group's assets.

All shares issued during the year rank pari passu with the then existing shares in all respects.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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30. RESERVES OF THE COMPANY

	Share premium *HK$'000* (Note (i))	Capital redemption reserve *HK$'000* (Note (i))	Share option reserve *HK$'000* (Note (ii))	Guaranteed convertible notes-equity component reserve *HK$'000* (Note (iv))	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 January 2009	1,050,130	1,899	38,736	140	(1,124,933)	(34,028)
Total comprehensive loss for the year	—	—	—	—	(270,266)	(270,266)
Issue of ordinary shares	(68,250)	—	—	—	—	(68,250)
Release upon maturity of guaranteed convertible notes	—	—	—	(104)	104	—
Fair value of share options credited to share option reserve	—	—	9,972	—	—	9,972
Lapse of share options	—	—	(9,034)	—	9,034	—
At 31 December 2009 and 1 January 2010	981,880	1,899	39,674	36	(1,386,061)	(362,572)
Total comprehensive loss for the year	—	—	—	—	(486,226)	(486,226)
Transaction cost attributable to issue of ordinary share in prior year	(14)	—	—	—	—	(14)
Fair value of share options credited to share option reserve	—	—	2,622	—	—	2,622
Lapse of share options	—	—	(4,834)	—	4,834	—
At 31 December 2010	**981,866**	**1,899**	**37,462**	**36**	**(1,867,453)**	**(846,190)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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30. RESERVES OF THE COMPANY — CONTINUED

(i) Share premium and capital redemption reserve

The application of the share premium account and capital redemption reserve is governed by Section 48B and 49H respectively of the Hong Kong Companies Ordinance.

(ii) Share option reserve

This reserve represents the fair value of the actual or estimated number of unexercised share options granted to eligible persons, including any full-time and part-time employee, director, consultant or advisor of the Company and its subsidiaries or any associate of the Company, recognised in accordance with the accounting policy in Note 3(p).

(iii) Exchange translation reserve of the Group

This reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy in Note 3(j).

(iv) Guaranteed convertible notes — equity component reserve

This reserve represents the value of the unexercised equity component of guaranteed convertible notes issued by the Company recognised in accordance with the accounting policy in Note 3(o).

31. PROMISSORY NOTES RECEIVABLES AND PAYABLE

(a) Promissory notes receivables

In 2008, the Group disposed of its interests in the jointly-controlled entities at an aggregate consideration of HK$81,384,000 which was satisfied by promissory notes of HK$81,000,000 and HK$384,000 to the Company with 1.5% and 5% coupon interest per annum and maturity periods of 2 and 5 years, i.e. payable on 8 April 2010 and 31 January 2013 respectively. The carrying amount of the promissory notes receivables as at 31 December 2010 represented the fair value of the promissory notes at the time of initial recognition of HK$73,970,000 and HK$344,000 respectively and the net interest receivables of the Company of HK$7,479,000 (2009: HK$7,479,000) and HK$78,000 (2009: HK$51,000) respectively as at 31 December 2010. The average effective interest rate of the promissory notes receivables is 6.18% per annum (2009: 6.18% per annum).

31. PROMISSORY NOTES RECEIVABLES AND PAYABLE — CONTINUED

(a) Promissory notes receivables — continued

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

(b) Promissory note payable

As part of the consideration for acquisition of the Anping Medial Group in prior years, the Company issued promissory note with a principal of HK$320,000,000. The promissory note bears coupon interest at 3% per annum. The maturity date of the promissory note is 13 July 2010. Interest is payable semi-annually. Pursuant to the terms of the promissory note, the Company has the right to early redeem the whole or part of the principal amount of the promissory note at par. The amount of promissory note is initially recognised at fair value, which is determined based on the present value of the estimated future cash outflows discounted at the effective interest rate of 6.32% per annum. The amount of promissory note is subsequently measured at amortised cost. In 2009, the Company exercised its right to early and fully redeem the remaining principal amount of promissory note amounting to HK$10,000,000 in cash.

	The Group and the Company *HK$'000*
At 1 January 2009	9,535
Interest accrued (Note 10)	554
Interest payment	(89)
Redemption of promissory note	(10,000)
At 31 December 2009	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

32. DEFERRED TAX LIABILITIES

The following are the major deferred tax (assets)/liabilities recognised and movements thereon during the prior and current years:

	Accelerated tax depreciation	Withholding taxes	Fair value adjustment of other intangible assets	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2009	8,195	—	67,129	75,324
Charge/(credit) to consolidated income statement for the year (Note 11):				
— arising from swap during the year	(7,640)	—	—	(7,640)
— release upon write-off of underlying other intangible assets	—	—	(1,656)	(1,656)
— release upon amortisation of other intangible assets	(555)	—	(3,200)	(3,755)
— arising from withholding tax of dividend	—	2,272	—	2,272
At 31 December 2009	—	2,272	62,273	64,545
Charge/(credit) to consolidated income statement for the year (Note 11):				
— release upon amortisation of other intangible assets	—	—	(3,508)	(3,508)
— release upon payment of dividend during the year	—	(2,272)	—	(2,272)
— release upon impairment of underlying other intangible assets	—	—	(37,800)	(37,800)
— exchange realignment	—	—	2,075	2,075
— arising from withholding tax of dividend	—	2,353	—	2,353
At 31 December 2010	—	2,353	23,040	25,393

At the end of reporting period, the Group had unused tax losses of HK$287,411,000 (2009: HK$267,114,000) available for offset against the future profits. All the unused tax losses can be carried forward indefinitely. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams.

There was no other significant unrecognised temporary difference as at 31 December 2010 and 2009.

33. SHARE-BASED PAYMENTS

The Company's share option scheme (the "Scheme"), which was adopted pursuant to a resolution passed on 30 October 2001 for the primary purpose of providing incentives to directors and eligible employees, will expire on 29 October 2011. Under the Scheme, the Board of Directors of the Company may grant options to eligible persons, including any full-time and part-time employee, director, consultant or advisor of the Company and its subsidiaries or any associate of the Company, to subscribe for shares in the Company.

At 31 December 2010, the number of shares in respect of which options was granted and remained outstanding under the Scheme was 724,330,000 (2009: 900,588,000), representing 5.3% (2009: 6.6%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 30% of the shares of the Company in issue at any point in time. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. An option may be exercised in accordance with terms of the Scheme at any time during a period to be notified by the Board to each grantee, such period of time not exceeding 10 years from the date of grant of the option.

The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the shares on the Stock Exchange as stated in the Stock Exchange's daily quotation sheets on the date on which the option is offered, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date as mentioned in (i) above; and (iii) the nominal value of the Company's shares.

The options outstanding at 31 December 2010 had the weighted average exercise price of HK$0.143 (2009: HK$0.141) and weighted average remaining contractual life of 5.8 years (2009: 6.5 years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

33. SHARE-BASED PAYMENTS — CONTINUED

The following table discloses movements of the Company's share options during the year ended 31 December 2010:

					Number of share options					
Grantee	Date of grant	Vesting period	Exercisable period	Exercise price per share *HK$*	At 1 January 2010	Reallocation	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2010
Directors	21-02-2002	N/A*	21-02-2002 to 20-02-2012	0.280	24,402,000	—	—	—	(24,402,000)	—
	03-11-2003	N/A*	03-11-2003 to 02-11-2013	0.100	35,000,000	—	—	—	(35,000,000)	—
	24-05-2004	N/A*	24-05-2004 to 23-05-2014	0.100	1,632,000	—	—	—	(1,632,000)	—
	29-03-2005	N/A*	29-03-2005 to 28-03-2015	0.100	10,000,000	—	—	—	(10,000,000)	—
	10-04-2006	N/A*	10-04-2006 to 09-04-2016	0.100	86,224,000	—	—	—	(86,224,000)	—
					157,258,000	—	—	—	(157,258,000)	—
Employees	21-02-2002	21-02-2002 to 21-01-2005	21-02-2002 to 20-02-2012	0.280	2,100,000	—	—	—	(600,000)	1,500,000
	10-04-2006	10-04-2006 to 10-04-2008	10-04-2006 to 09-04-2016	0.100	5,000,000	—	—	—	(5,000,000)	—
	26-04-2007	26-04-2007 to 26-04-2009	26-4-2007 to 25-04-2017	0.200	14,400,000	—	—	—	(13,400,000)	1,000,000
	28-12-2007	07-03-2009 to 07-03-2010	07-03-2008 to 06-03-2018	0.130	139,332,000	—	—	—	—	139,332,000
	07-03-2008	07-03-2008 to 07-03-2010	07-03-2008 to 06-03-2018	0.130	30,000,000	—	—	—	—	30,000,000
					190,832,000	—	—	—	(19,000,000)	171,832,000
Consultants/ Advisors	21-02-2002	21-02-2002 to 21-02-2005	21-02-2002 to 20-02-2012	0.280	38,002,000	—	—	—	—	38,002,000
	03-11-2003	03-11-2003 to 03-11-2005	03-11-2003 to 02-11-2013	0.100	52,632,000	—	—	—	—	52,632,000
	24-05-2004	N/A*	24-05-2004 to 23-05-2014	0.100	42,632,000	—	—	—	—	42,632,000
	10-04-2006	10-04-2006 to 10-04-2008	10-04-2006 to 09-04-2016	0.100	142,026,000	—	—	—	—	142,026,000
	26-04-2007	26-04-2007 to 26-04-2009	26-04-2007 to 25-04-2017	0.200	50,300,000	—	—	—	—	50,300,000
	06-11-2007	01-01-2008 to 01-07-2009	06-11-2007 to 05-11-2017	0.202	100,000,000	—	—	—	—	100,000,000
	28-12-2007	07-03-2010 to 07-03-2011	07-03-2008 to 06-03-2018	0.130	126,906,000	—	—	—	—	126,906,000
					552,498,000	—	—	—	—	552,498,000
				TOTAL:	900,588,000	—	—	—	(176,258,000)	724,330,000
Weighted average exercise price					0.141	—	—	—	0.133	0.143
Exercisable at the end of the year										660,877,000

33. SHARE-BASED PAYMENTS — CONTINUED

The following table discloses movements of the Company's share options during the year ended 31 December 2009:

					Number of share options					
Grantee	Date of grant	Vesting period	Exercisable period	Exercise price per share *HK$*	At 1 January 2009	Reallocation	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2009
Directors	21-02-2002	N/A*	21-02-2002 to 20-02-2012	0.280	24,402,000	—	—	—	—	24,402,000
	03-11-2003	N/A*	03-11-2003 to 02-11-2013	0.100	35,000,000	—	—	—	—	35,000,000
	24-05-2004	N/A*	24-05-2004 to 23-05-2014	0.100	1,632,000	—	—	—	—	1,632,000
	29-03-2005	N/A*	29-03-2005 to 28-03-2015	0.100	10,000,000	—	—	—	—	10,000,000
	10-04-2006	N/A*	10-04-2006 to 09-04-2016	0.100	86,224,000	—	—	—	—	86,224,000
	28-12-2007	07-03-2009 to 07-03-2010	07-03-2008 to 06-03-2018	0.130	139,332,000	(30,000,000)	—	—	(109,332,000)	—
					296,590,000	(30,000,000)	—	—	(109,332,000)	157,258,000
Employees	21-02-2002	21-02-2002 to 21-01-2005	21-02-2002 to 20-02-2012	0.280	2,400,000	—	—	—	(300,000)	2,100,000
	10-04-2006	10-04-2006 to 10-04-2008	10-04-2006 to 09-04-2016	0.100	20,000,000	—	—	—	(15,000,000)	5,000,000
	26-04-2007	26-04-2007 to 26-04-2009	26-04-2007 to 25-04-2017	0.200	24,800,000	—	—	—	(10,400,000)	14,400,000
	28-12-2007	07-03-2009 to 07-03-2010	07-03-2008 to 06-03-2018	0.130	109,332,000	30,000,000	—	—	—	139,332,000
	07-03-2008	07-03-2008 to 07-03-2010	07-03-2008 to 06-03-2018	0.130	30,000,000	—	—	—	—	30,000,000
					186,532,000	30,000,000	—	—	(25,700,000)	190,832,000
Consultants/ Advisors	21-02-2002	21-02-2002 to 21-02-2005	21-02-2002 to 20-02-2012	0.280	38,002,000	—	—	—	—	38,002,000
	03-11-2003	03-11-2003 to 03-11-2005	03-11-2003 to 02-11-2013	0.100	52,632,000	—	—	—	—	52,632,000
	24-05-2004	N/A*	24-05-2004 to 23-05-2014	0.100	42,632,000	—	—	—	—	42,632,000
	10-04-2006	10-04-2006 to 10-04-2008	10-04-2006 to 09-04-2016	0.100	142,026,000	—	—	—	—	142,026,000
	26-04-2007	26-04-2007 to 26-04-2009	26-04-2007 to 25-04-2017	0.200	50,300,000	—	—	—	—	50,300,000
	06-11-2007	01-01-2008 to 01-07-2009	06-11-2007 to 05-11-2017	0.202	100,000,000	—	—	—	—	100,000,000
	28-12-2007	07-03-2010 to 07-03-2011	07-03-2008 to 06-03-2018	0.130	126,906,000	—	—	—	—	126,906,000
					552,498,000	—	—	—	—	552,498,000
				TOTAL:	1,035,620,000	—	—	—	(135,032,000)	900,588,000
Weighted average exercise price					0.140	—	—	—	0.132	0.141
Exercisable at the end of the year										689,016,000

* The share options granted were immediately vested at the date of grant or, for a grantee who is a director, on a later date in which the grantee became a director of the Company (as the case may be).

33. SHARE-BASED PAYMENTS — CONTINUED

The Group amortises the fair value of the share options previously granted, which was calculated using Black-Scholes Option Pricing Model over the relevant vesting period. Accordingly, an amount of HK2,622,000 was charged as an equity-settled share-based payment expense (2009: HK$9,972,000) of which HK$1,389,000 (2009: HK$5,330,000) (Note 12) and HK$1,233,000 (2009: HK$4,642,000) are attributable to the shares options granted to employees and other eligible persons providing similar services, respectively.

34. DISPOSAL OF SUBSIDIARIES

For the year ended 31 December 2009

During the year ended 31 December 2009, Shanghai Anping Medical Treatment Technology Co., Ltd. ("Shanghai Anping"), the Company's wholly-owned subsidiary, disposed of its 100% direct interest in Shanghai Hangyi Medical Management Co., Ltd. for a consideration of RMB5,000,000, equivalent to approximately HK$5,682,000 which is included in the other receivables of Shanghai Anping. During the year ended 31 December 2009, the Group subsequently disposed of 100% interest in Shanghai Anping for a consideration of RMB5,000,000, equivalent to approximately HK$5,682,000. Accordingly, the effective consideration received by the Group for the disposals was considered as HK$5,682,000.

Details of the aggregate assets and liabilities of and attributable to the subsidiaries disposed of at date of disposal are as follows:

	HK$'000
Property, plant and equipment (Note 18)	2
Trade receivables	1,634
Other receivables	9,017
Cash and bank balances	9,352
Other payables	(8,204)
Income tax liabilities	(39,259)
Net liabilities disposed of	(27,458)
Release of tax indemnity, receivable attributable to the subsidiaries disposed of (Note)	27,862
Gain on disposal of subsidiaries	5,278
	5,682
Satisfied by:	
Cash consideration	5,682
Net cash outflow arising on disposal:	
Cash consideration	5,682
Cash and bank balance disposed of	(9,352)
	(3,670)

34. DISPOSAL OF SUBSIDIARIES — CONTINUED

Note:

The amount represented tax indemnity given by the vendor, Li Juewen, pursuant to a sale and purchase agreement in respect of the Group's acquisition of the Anping Medical Group in prior years. The amount was unsecured, interest-free and repayable upon the request of payment from the relevant PRC tax bureau. As the Group's entire interest in the entities within the Anping Medical Group has been disposed of during the current year, such amount was also derecognised and included in the calculation of gain on disposal of the subsidiaries during the year.

35. OPERATING LEASE COMMITMENTS

The Group as lessee

Minimum lease payments paid under operating leases:

	2010 HK$'000	2009 HK$'000
Premises	3,342	3,021
Servicing contracts for medical equipment	3,572	3,692
	6,914	6,713

At the end of reporting period, the Group had outstanding commitments payable under non-cancellable operating leases which fall due as follows:

	2010 HK$'000	2009 HK$'000
Within one year	3,338	4,309
In the second to fifth years inclusive	1,727	55
Over five years	41	53
	5,106	4,417

Operating lease payment represents rentals and servicing fee payable by the Group for its office premises and medical equipment respectively. Lease terms ranged from one to eight years with fixed rental.

The Group as lessor

At the end of reporting period, the Group contracted with certain medical centres for the leasing of medical equipments (included in property, plant and equipment) with the majority of the lease period up to 31 December 2022 (2009: 31 December 2022). The leasing income to be received by the Group is based on specific percentages of the net income of the medical centres as stipulated in the respective contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

36. PLEDGE OF ASSETS

Certain bank loans are secured by pledge of the Group's medical equipment with aggregate carrying amount of HK$55,233,000 (2009: HK$78,196,000) as at 31 December 2010.

37. COMMITMENTS

	The Group	
	2010	2009
	HK$'000	*HK$'000*
Contracted for but not provided in respect of acquisition of property, plant and equipment	**18,608**	16,664

38. GUARANTEES

As further disclosed in Note 28(b), the due and punctual discharge of all obligations of SIIS Treasury Limited under the guaranteed convertible notes will be unconditionally and irrevocably guaranteed by the Company.

39. PENSION/RETIREMENT BENEFITS SCHEME

The Group operates the Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to contribute 5% of the employee's basic monthly salary which is capped at HK$1,000 per month. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in future years.

The Group also participates in the employee pension schemes of the respective municipal government in various places in the PRC where the Group operates. The Group makes monthly contributions calculated as a percentage of the monthly payroll costs to these schemes and the respective municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group. The Group's contributions to these PRC contribution schemes are expensed as incurred.

The total cost recognised in profit or loss of HK$318,000 (2009: HK$326,000) represents contributions payable to these schemes by the Group in respect of the current accounting period. At the end of reporting period, no contribution due in respect of the reporting period had not been paid over to the schemes.

40. RELATED PARTY DISCLOSURES

Except for disclosed elsewhere in these consolidated financial statements, the Group has the following transactions with related parties during the year:

(a) (i) Rental paid to a related party

	The Group	
	2010	2009
	HK$'000	*HK$'000*
Rental payments paid to Fung Choi Properties Limited ("Fung Choi") (Note)	**434**	1,187

(ii) Rental and other deposits of HK$260,000 were paid to Fung Choi (Note) as at 31 December 2009.

Note: Fung Choi is beneficially owned as to 19.8% by Yu Kam Yuen, Lincoln, a non-executive director of the Company up to 1 August 2008, while the remaining shareholdings are beneficially owned by his two brothers, including 60.4% owned indirectly by Yu Kam Kee, Lawrence, a senior advisor of the Company and father of Yu Chung Hang, Lucian, an executive director of the Company up to 12 May 2010.

(b) Compensation of key management personnel of the Group

Members of key management personnel during the year comprised only of the directors whose remuneration is set out in Note 13.

(c) The bank loan of the Group was guaranteed by related parties, details of which are set out in Note 27(c).

41. EVENT AFTER THE REPORTING PERIOD

On 28 February 2011, World International Development (BVI) Limited (the "Plaintiff"), commenced proceedings against the Company at the High Court of Hong Kong (the "High Court") for rectifying the register of members of the Company so that (i) the Plaintiff's name be removed, struck out or otherwise recorded to have ceased to be a member of the Company; and (ii) the name of HKSCC Nominees Limited be entered in place of that of the Plaintiff's.

Up to the date of approval of these financial statements, no judgment has been made by the High Court. The Board, based on legal advices, is of the view that the Company has a good defence against the Plaintiff claims.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

42. MAJOR NON-CASH TRANSACTION

The Group entered into the following non-cash activities which are not reflected in the consolidated statement of cash flows:

(a) In the current year, the Group disposed part of its property, plant and equipment, proceeds of approximately HK$21,047,000 had not been received in cash at the end of the reporting period.

(b) In the current year, the Group acquired approximately HK$1,652,000 property, plant and equipment which had not been paid in cash at the end of the reporting period.

(c) There is interest payable of approximately HK$2,238,000 which were included in other payables and accruals of the Group as at 31 December 2010 (2009: HK$2,304,000).

(d) As further disclosed in Note 29(a), certain shares of the Company were issued for acquisition of the Group's assets during the year ended 31 December 2009.

(e) There is an unsettled consideration of HK$22,727,000 in relation to acquisition of other intangible assets which were included in other payables and accruals of the Group as at 31 December 2009.

(f) As further disclosed in Notes 18 and 21, there were certain swap arrangements which involved property, plant and equipment and other intangible assets during the year ended 31 December 2009.

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2010 are as follows:

Name of subsidiaries	Place of incorporation/ establishment	Issued and fullypaid share capital/registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities
			Directly	Indirectly	
China Renji Medical (BVI) Limited	British Virgin Islands	US$1	100%	—	Investment holding
Wintin International Limited	British Virgin Island	US$1	—	100%	Investment holding
Anping Medical Treatment Technology (Wuhu) Co., Ltd.	PRC	RMB246,200,000	—	100%	Leasing of medical equipment and provision of services on operations of medical equipment
Wuhu Anping Medical Management Co., Ltd.	PRC	RMB15,000,000	—	100%	Leasing of medical equipment and provision of services on operations of medical equipment

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

44. RECLASSIFICATION OF COMPARATIVES

Certain comparative figures have been reclassified in order to conform with the current year's presentation.

FIVE YEARS FINANCIAL SUMMARY

For the year ended 31 December 2010

RESULTS

	2006 *HK$'000* (Note (i))	2007 *HK$'000* (Note (ii))	2008 *HK$'000*	2009 *HK$'000*	**2010** ***HK$'000***
Turnover — continuing operations	9,108	58,453	207,600	180,834	**177,549**
Continuing operations:					
(Loss)/profit before taxation	(100,750)	(75,399)	58,037	(567,335)	**(408,449)**
Income tax	—	(1,507)	(5,915)	6,355	**32,879**
(Loss)/profit for the year from continuing operations	(100,750)	(76,906)	52,122	(560,980)	**(375,570)**
Discontinued operations:					
Profit for the year from discontinued operations	17,332	93,714	1,789	—	**—**
(Loss)/profit for the year	(83,418)	16,808	53,911	(560,980)	**(375,570)**
(Loss)/profit attributable to:					
— Owners of the Company	(83,006)	12,809	53,911	(560,980)	**(375,570)**
— Non-controlling interests	(412)	3,999	—	—	**—**
	(83,418)	16,808	53,991	(560,980)	**(375,570)**

ASSETS AND LIABILITIES

	2006 *HK$'000*	2007 *HK$'000* (Restated)	2008 *HK$'000*	2009 *HK$'000*	**2010** ***HK$'000***
Total assets	461,818	1,699,577	1,671,836	1,243,270	**844,664**
Total liabilities	(212,464)	(393,097)	(236,328)	(232,020)	**(174,294)**
Net assets	249,354	1,306,480	1,435,508	1,011,250	**670,370**
Equity attributable to owners of the Company	217,147	1,283,104	1,435,508	1,011,250	**670,370**
Non-controlling interests	32,207	23,376	—	—	**—**
	249,354	1,306,480	1,435,508	1,011,250	**670,370**

Note: (i) Certain amounts for the year ended 31 December 2006 were re-presented under "profit for the year from discontinued operations" in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" issued by the HKICPA.

(ii) The Group has restated the comparative goodwill, other intangible assets, deferred tax liabilities and the exchange translation reserve arising from the acquisition of the Anping Medical Group as at 31 December 2007, by which the carrying values of the comparative goodwill, other intangible assets, deferred tax liabilities and exchange translation reserve as at 31 December 2007 were increased by HK$22,101,000, HK$12,691,000, HK$3,172,000 and HK$31,620,000 respectively. There was no significant impact on the profit for the year ended 31 December 2007.