China Renji

China Renji Medical Group Ltd.

Stock Code: 648

2011 Annual Report

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

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:

WANG Jianguo *(Chairman)*
TANG Chi Chiu
WU Zhenfang

Independent Non-executive Directors:

KWOK Chung On
WU Chi Keung
WU Yan

AUDIT COMMITTEE

WU Chi Keung *(Chairman)*
KWOK Chung On
WU Yan

REMUNERATION COMMITTEE

WU Chi Keung *(Chairman)*
KWOK Chung On

NOMINATION COMMITTEE

WU Chi Keung *(Chairman)*
KWOK Chung On

CORPORATE GOVERNANCE COMMITTEE

WU Chi Keung *(Chairman)*
KWOK Chung On
TANG Chi Chiu
WANG Jianguo
WU Yan

COMPANY SECRETARY

CHAN Chun Ho CPA, BBA

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
Hong Kong

REGISTERED OFFICE

Unit 3001, 30/F., Hopewell Centre
183 Queen's Road East
Hong Kong

WEBSITE

www.renjimedical.com

STOCK CODE

648

CHAIRMAN'S STATEMENT

Dear Shareholders,

The year 2011 is another challenging year for China Renji Medical Group Limited (the "Company", together with its subsidiaries, the "Group"). The healthcare reform policies implemented by the Government of the People's Republic of China (the "PRC" or "China") since 2009 and the lasting domestic inflation has led to an increasingly difficult operating environment for the Group's medical network business. This together with the ravaging effect of echoed disputes among previous management and Shareholders on the Group's reputation, credibility and trade secrets has laid significant pressure on the growth of our business and thus our overall financial performance.

During the year, the management has endeavored to, on the one hand, cautiously maintain the operation of our existing medical network and, on the other hand, seek investment/business expansion opportunities in other business areas (such as the PRC consumer market and the elderly healthcare market). We consider that such strategy will enhance the Group's income base, help revamping the damages inherited from the disputes among previous management and Shareholders, improve our financial performance and create our Shareholder value.

FINANCIAL SNAPSHOT

The Group recorded a 14.22% drop in turnover to HK$152,302,000 in the fiscal year 2011 from HK$177,549,000 in the fiscal year 2010. Loss attributable to owners of the Company recorded in this fiscal year, which was reduced to HK$266,889,000 as compared to HK$375,570,000 in the fiscal year 2010, was mainly attributable to the impairment losses on property, plant and equipment, other intangible assets and assets classified as held for sale.

Basic loss per share was HK1.97 cents while net asset value was HK3.21 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 (the "Board") and express my heartfelt gratitude particularly to our partners, management and staff for their unwavering support, efforts and contributions under the challenging circumstances.

We are also very pleased to welcome Mr. Kwok Chung On, Mr. Tang Chi Chiu, Mr. Wu Chi Keung and Ms. Wu Yan to the Board. They all bring a wealth of professional leadership and business experience to us. We will work together closely to reinstate our growth and create added value for our Shareholders.

WANG JIANGUO
Chairman

Hong Kong, 28 February 2012

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

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

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

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

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

FINAL RESULTS REVIEW

Turnover

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

Gross profit

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

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

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

Impairment loss on assets classified as held for sale

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

Loss for the year

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

Basic loss per share for the year was approximately HK1.97 cents (2010: HK2.77 cents).

BUSINESS REVIEW

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

The year 2011 is another challenging year for the Group. The new rounds of healthcare reform policies implemented by the PRC government since 2009 including promulgation of new rules and regulations as well as the tightening implementation of the existing rules and regulations have led to an increasingly challenging operating environment for the Group's medical network business, including the reduction in the examination fees and treatment fees for large medical equipment, the increase in specified operating expenses of the medical centers and the lowering of the Group's contracted revenue sharing percentages with the Group's hospital and business partners. Such tightening implementation of the existing rules and regulations has also casted uncertainties to the business models of the Group's medical business. Non-profit civilian medical institutions in the PRC are not permitted to enter into cooperation agreements with third parties to set up for-profit centers, but these institutions are permitted to lease medical equipment from their partners at market rates if they do not have adequate funds to purchase the medical equipment. 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. Although the market in general operates the same or similar business models as/to ours, our current business model may be exposed to challenges if the relevant health departments at the national or local levels have different interpretation that lease and management contracts are still not in compliance with such regulations. This coupled with the lasting domestic inflation and the ravaging effect of echoed disputes among previous management and shareholders on the Group's reputation, credibility and trade secrets has laid significant pressure on the growth of our medical network business and thus our overall financial performance.

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

Expansion of existing medical network

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

Disposal of Non-licensed Medical Assets

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

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

As at the date of this annual report, there are 13 centers in the Group's medical network throughout China.

Diversification into other business areas

In January 2012, the Group entered into an acquisition agreement pursuant to which it agreed to acquire the entire interest of a company principally engaged in the design and distribution of air purifiers using patented nano technology business for a consideration of HK$180 million, which will be satisfied entirely by the issue of a promissory note. The management considered that the acquisition would create synergies to the future business development of the Group because on one hand, air purifiers will help reduce contaminants in the air which are particularly useful for the Group's medical network as quality air will enhance the recovery process of the patients (especially to those patients who suffer from with allergies and asthma) in the hospitals, vehicles and at home, whilst on the other hand, the target business, following the completion of the acquisition, can also leverage on the medical knowledge of the Group to strengthen the competitiveness of the air purifiers by developing purifying products for medical applications. As at the date of this annual report, the acquisition had not been completed.

In February 2012, the Group entered into an acquisition agreement pursuant to which it agreed to acquire the entire interest of a company principally engaged in the design, development and sale of own branded bathroom equipment with patented technology business (such as jacuzzi and whirlpool bath) for a consideration of HK$165 million, which will be satisfied entirely by the issue of a promissory note. Hydrotherapy treatment using jacuzzi and whirlpool bath is useful for pain-relief and treating illness during the patients' recovery process and can be applied for therapeutic purposes such as stimulation of blood circulation. With the growing popular of hydrotherapy as one of the general healthcare treatments, the management considered that through the acquisition and the medical knowledge of the Group, the Group will be able to widen the applications of water therapies using jets and underwater massage and developing rehabilitation programs for better recovery of its patients and even for improvement in blood circulation for the elder. In addition, as a result of the raising disposal income of the general public in the PRC and their growing health concern, there has been a growing demand for the installation of bathroom equipment with healthcare functions in the PRC. With all of these, the management considered that the acquisition would allow the Group to be benefited from the favourable policies relating to elderly healthcare under the healthcare reform in the PRC. As at the date of this annual report, the acquisition had not been completed.

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

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

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

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

Corporate governance

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

PROSPECTS

With the challenging operating environment, the Group will continue its proactive strategies to maintain its competitiveness, including (1) improving the internal management and internal control systems, (2) enhancing the overall return of its existing medical centers, and (3) reviewing and implementing business development strategies to strengthen the Group's income base in a cautious manner.

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

FINANCIAL REVIEW

Liquidity and financial resources

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

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

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

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

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

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

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

Capital structure

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

Exposure to fluctuation in exchange rates

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

Charge on Group assets

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

CONTINGENCIES

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

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

EVENTS AFTER THE REPORTING PERIOD

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

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2011, the total number of employees of the Group was 89. The Group remunerates its employees based on their performance, working experience and the prevailing market price. Other employee benefits include retirement benefits, insurance and medical coverage, training programs and share option scheme.

By Order of the Board

WANG Jianguo
Chairman

Hong Kong, 28 February 2012

BIOGRAPHICAL DETAILS OF DIRECTORS

WANG JIANGUO

(Chairman and Executive Director)

Mr. Wang, aged 48, is a qualified lawyer in China. Prior to joining the Group, he was a practising lawyer at the Foreign Economy and Trade Law Firm in Wuhu City, Anhui Province, China and has served as a legal adviser to a number of prominent companies including Midea Electronics (Wuhu) Co., Ltd. and Wuhu Construction Investment Co., Ltd., etc. Mr. Wang holds an EMBA degree from Nanjing University, China and the award as an Advanced Lawyer in Anhui Province.

TANG CHI CHIU

(Executive Director)

Mr. Tang, aged 62, has many years of working experience in Hong Kong and China with extensive marketing network in both the domestic and the overseas markets. Mr. Tang also has substantial experience in the capital market and has worked at a number of large-scale manufacturing and distribution enterprises in China and Hong Kong.

WU ZHENFANG

(Executive Director)

Mr. Wu, aged 65, has over 35 years of experience in hospital management and clinical services and is currently a vice president of Anping Medical Treatment Technology (Wuhu) Co., Ltd., a wholly-owned subsidiary of the Company. He was previously the chairman of Wuhu Longyuan Investment Company Limited, a substantial shareholder of the Company, and the vice president and deputy director of surgery of the People's Hospital of Shanghai Putuo District. Mr. Wu was also 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 is currently an independent director of Shanghai Xinmei Real Estate Co., Ltd. (上海新梅置業股份有限公司) (a company 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.

KWOK CHUNG ON

(Independent Non-executive Director)

Mr. Kwok, aged 42, has substantial working experience in the legal profession. Prior to joining the Company, Mr. Kwok had worked as an in-house lawyer for a number of reputable listed groups including New World Group, Lai Sun Group and MTR Corporation. He had also worked as a senior associate at an international law firm in Beijing. Over the years, Mr. Kwok has published a number of articles on Hong Kong Lawyer.

WU CHI KEUNG

(Independent Non-executive Director)

Mr. Wu, aged 55, has over 30 years of experience in financial audit, corporate restructuring and merger and acquisitions. Mr. Wu was a partner and the co-leader of the Public Offering Group of Deloitte Touche Tohmatsu in China and Hong Kong. Mr. Wu is currently an independent non-executive director of China Medical System Holdings Limited (stock code: 867), Jinchuan Group International Resources Co., Ltd. (stock code: 2362), GreaterChina Professional Services Limited (stock code: 8193), JF Household Furnishings Limited (stock code: 776) and Noble Jewelry Holdings Limited (stock code: 475), all of whose shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Wu is an associate of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants in the United Kingdom.

WU YAN

(Independent Non-executive Director)

Ms. Wu, aged 44, has over 20 years of experience in accounting and financial management and is currently the business manager of Tianjin Branch of China CITIC Bank Corporation Limited. Ms. Wu has served the managerial level of a number of Chinese companies including the manager of the finance department of Hearty Group (China) Investment Co., Ltd. (和泰集團有限公司), the manager of the accounting department of Xin Wu Zhou International Trading Company (新五洲國際貿易公司) and the accountant of Tianjin Ming You Wines Company (天津名優酒公司). Ms. Wu holds a master's degree in business administration from The University of Greenwich, the United Kingdom and holds a bachelor's degree in accounting from Stamford College, Malaysia.

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 2011.

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 Unit 3001, 30/F., Hopewell Centre, 183 Queen's Road East, 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 41 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 33 to the consolidated financial statements.

As at 31 December 2011, the Company had no reserves available for distribution under section 79B of the Hong Kong Companies Ordinance (2010: 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 29 to the consolidated financial statements.

SHARE CAPITAL

Details of the share capital of the Company are shown in note 32 to the consolidated financial statements. There were no movements in the share capital of the Company during the year.

GUARANTEED CONVERTIBLE NOTES

Details of guaranteed convertible notes issued by a subsidiary of the Company are set out in note 30 to the consolidated financial statements.

DONATION

During the year, no charitable and other donation has been made by the Group (2010: 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 100.

DIRECTORS

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

Executive Directors:

WANG Jianguo *(Chairman)*	(appointed on 14 June 2011)
WU Zhenfang	(re-designated from Non-executive Director to Executive Director on 18 November 2011)
TANG Chi Chiu	(appointed on 3 January 2012)
SUI Xueqing *(ex-chairman)*	(resigned on 14 June 2011)
WANG Jianjun	(resigned on 14 June 2011)

Non-executive Directors:

DING Nan	(resigned on 14 June 2011)
WU Zhenfang	(re-designated from Non-executive Director to Executive Director on 18 November 2011)
WANG Yongchang	(resigned on 3 January 2012)

Independent Non-executive Directors:

WU Yan	(appointed on 14 June 2011)
WU Chi Keung	(appointed on 3 January 2012)
KWOK Chung On	(appointed on 16 January 2012)
PANG Wai Hong	(resigned on 3 January 2012)
GENG Xiaobing	(resigned on 3 January 2012)

In accordance with article 110 of the Company's articles of association, Messrs Wang Jianguo, Tang Chi Chiu, Wu Yan, Wu Chi Keung and Kwok Chung On, who were appointed by the Board during the year and up to the date of this report, shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

All Directors of the Company (including 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.

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 11 and 12.

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

As at 31 December 2011, 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 Securities and Futures Ordinance ("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 contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

SHARE OPTION SCHEME

At the annual general meeting held on 30 October 2001, 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.

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 2011	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2011
Employees	21-02-2002	21-02-2002 to 20-02-2012	0.280	1,500,000	—	—	—	1,500,000
	26-04-2007	26-04-2007 to 25-04-2017	0.200	1,000,000	—	—	—	1,000,000
	07-03-2008	07-03-2008 to 06-03-2018	0.130	169,332,000	—	—	(30,000,000)	139,332,000
				171,832,000	—	—	(30,000,000)	141,832,000
Consultants/Advisors	21-02-2002	21-02-2002 to 20-02-2012	0.280	38,002,000	—	—	(24,402,000)	13,600,000
	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	—	—	(43,112,000)	98,914,000
	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	—	—	(67,514,000)	484,984,000
			Total:	**724,330,000**	**—**	**—**	**(97,514,000)**	**626,816,000**

Notes:

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

Date of grant	Date of vesting	No. of share options vested
21-02-2002	21-02-2003	375,000
	21-02-2004	375,000
	21-02-2005	750,000
26-04-2007	26-04-2007	250,000
	26-04-2008	250,000
	26-04-2009	500,000
07-03-2008	07-03-2008	7,500,000
	07-03-2009	77,166,000
	07-03-2010	84,666,000

(2) 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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2011, 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
Pang Wei	corporate interest and beneficial owner	2,439,000,000 (Note)	18.01%
China North Heating Group Corporation ("China North")	corporate interest and beneficial owner	2,439,000,000 (Note)	18.01%
Yong Chang Investment Limited ("Yong Chang")	beneficial owner	2,439,000,000 (Note)	18.01%
蕪湖隆源投資有限公司 (Wuhu Longyuan Investment Company Limited*)	beneficial owner	1,950,000,000	14.40%

* *for identification purpose only*

Note: Yong Chang is wholly-owned by China North and China North is wholly-owned by Pang Wei. By virtue of the SFO, each of Pang Wei and China North is deemed to be interested in the shares held by Yong Chang in the Company.

Save as disclosed above, as at 31 December 2011, no person 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 2011, 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.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2011:

(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	28%
— five largest customers combined	70%

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.

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 23 to 29.

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 2011.

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.

EVENTS AFTER THE REPORTING PERIOD

Details of events after the reporting period are set out in note 42 to the consolidated financial statements.

AUDITORS

The consolidated financial statements for each of the two years ended 31 December 2011 have been audited by HLB Hodgson Impey Cheng.

HLB Hodgson Impey Cheng were appointed as Auditors on 31 January 2011 to fill the casual vacancy caused by the resignation of BDO Limited. The consolidated financial statements for the year ended 31 December 2009 was audited by BDO Limited.

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

WANG Jianguo
Chairman

Hong Kong, 28 February 2012

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 CG CODE

The Company is committed to achieving and maintaining a high standard of corporate governance. During the year ended 31 December 2011, the Company has complied with all the code provisions of the CG Code as set out in Appendix 14 to the Listing Rules except for the following deviation:

Code provision A.4.1

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

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 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 and various Board Committees to deal with the daily operations of the Company.

The existing Board comprises six members with a wide range of business, financial, accounting, legal and medical skills and experience as well as a balanced composition of Executive and Independent Non-executive 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 2011	Number of meetings attended
Executive Directors:			
WANG Jianguo *(Chairman)*	appointed on 14 June 2011	6	6
WU Zhenfang	re-designated from Non-executive Director to Executive Director on 18 November 2011	11	11
TANG Chi Chiu	appointed on 3 January 2012	N/A	N/A
SUI Xueqing (ex-Chairman)	resigned on 14 June 2011	4	4
WANG Jianjun (ex-Executive Director)	resigned on 14 June 2011	4	4
Non-executive Directors:			
DING Nan (ex-Non-executive Director)	resigned on 14 June 2011	4	3
WU Zhenfang (ex-Non-executive Director)	re-designated from Non-executive Director to Executive Director on 18 November 2011	11	11
WANG Yongchang (ex-Non-executive Director)	resigned on 3 January 2012	11	11
Independent Non-executive Directors:			
WU Yan	appointed on 14 June 2011	6	5
WU Chi Keung	appointed on 3 January 2012	N/A	N/A
KWOK Chung On	appointed on 16 January 2012	N/A	N/A
PANG Wai Hong (ex-Independent Non-executive Director)	resigned on 3 January 2012	11	11
GENG Xiaobing (ex-Independent Non-executive Director)	resigned on 3 January 2012	11	10

The biographical details of each existing Director are set out on pages 11 and 12.

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.

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.

During the year under review, the Company did not have a Chief Executive Officer and the duties of Chief Executive Officer was carried out by an Executive Director.

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 redesignation of existing Director 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.

In order to comply with the Listing Rules amendments to the CG Code and associated Listing Rules which will come into effect on 1 April 2012, the Company will form a Nomination Committee in due course.

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 annual general meeting following his appointment.

BOARD COMMITTEES

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.

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

The Audit Committee currently comprises three members, all of which are Independent Non-executive Directors. All members possess diversified expertise and experience, including those in finance, accounting and legal 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
WU Chi Keung (*Chairman)*	appointed on 3 January 2012	N/A
WU Yan	appointed on 14 June 2011	1/1
KWOK Chung On	appointed on 16 January 2012	N/A
PANG Wai Hong (ex-Audit Committee Chairman)	resigned on 3 January 2012	2/2
WANG Yongchang (ex-Audit Committee member)	resigned on 3 January 2012	2/2
GENG Xiaobing (ex-Audit Committee member)	resigned on 3 January 2012	2/2

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 Directors.

The Remuneration Committee currently comprises two members, all of which are Independent Non-executive Directors. 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
WU Chi Keung, *Chairman*	appointed on 3 January 2012	N/A
KWOK Chung On	appointed on 16 January 2012	N/A
PANG Wai Hong (ex-Remuneration Committee Chairman)	resigned on 3 January 2012	1/1
WANG Yong Chang (ex-Remuneration Committee member)	resigned on 3 January 2012	1/1
GENG Xiao Bing (ex-Remuneration Committee member)	resigned on 3 January 2012	1/Nil

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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

Having made specific enquiry of all Directors, each of them has confirmed that they have complied with the required standard as set out in the Model Code during the year ended 31 December 2011.

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 2011, 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 30 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.

Subsequent to the balance sheet date, the Company has engaged SHINEWING to perform the Independent Internal Control Review, details of which has been set out in the paragraph headed "Corporate governance" under the sub-section headed "Business Review" in the section headed "Management Discussion and Analysis" on pages 4 to 10.

AUDITORS' FEES

The Company's current external Auditors are HLB Hodgson Impey Cheng. For the year ended 31 December 2011, the fees payable to the external Auditors for audit service and review service (non-audit service) were HK$1,200,000 and HK$100,000, respectively.

By Order of the Board

WANG Jianguo
Chairman

Hong Kong, 28 February 2012

INDEPENDENT AUDITORS' REPORT

HLB 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 99, which comprise the consolidated and Company statements of financial position as at 31 December 2011, 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.

BASIS FOR DISCLAIMER OF OPINION

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

During the year ended 31 December 2011, the Group planned to sell the medical equipment and those medical equipment which underlie the value of the related other intangible assets without the necessary licences ("Medical Equipments Without Licences") and classified those Medical Equipments Without Licenses as assets classified as held for sale at a carrying amount of approximately HK$268,231,000. An impairment loss on the Medical Equipments Without Licenses of approximately HK$125,638,000 has been recognised in the consolidated financial statements for the year ended 31 December 2011. However, we are not able to obtain sufficient appropriate audit evidence or to carry out other satisfactory procedures to satisfy ourselves the basis upon which the directors of the Company have formed their opinion of the impairment of those Medical Equipments Without Licences during the year ended 31 December 2010. Accordingly, we have not been able to determine whether the recognition of impairment loss on the Medical Equipments Without Licenses of approximately HK$125,638,000 in the consolidated financial statements is appropriate or adequate; and whether any provision or contingent liability for penalty should have been recognised or disclosed respectively as at 31 December 2011.

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

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

DISCLAIMER OF OPINION

Because of the significance of the matters described in the basis for disclaimer of opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011 and of 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.

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 February 2012

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

	NOTES	**2011** **HK$'000**	2010 HK$'000
Turnover	7	**152,302**	177,549
Cost of services		**(68,677)**	(86,092)
Gross profit		**83,625**	91,457
Other gains and losses	9	**(1,411)**	(5,033)
Administrative expenses		**(58,931)**	(59,252)
Impairment loss on goodwill	20	**—**	(90,244)
Impairment loss on property, plant and equipment	18	**(93,285)**	(190,366)
Impairment loss on other intangible assets	21	**(66,876)**	(151,200)
Impairment loss on assets classified as held for sale	27	**(125,638)**	—
Finance costs	10	**(2,988)**	(3,811)
Loss before taxation		**(265,504)**	(408,449)
Income tax	11	**(1,385)**	32,879
Loss for the year attributable to owners of the Company	12	**(266,889)**	(375,570)
Loss per share attributable to owners of the Company (HK cents)	16		
— Basic		**(1.97)**	(2.77)
— Diluted		**(1.97)**	(2.77)

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 2011

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	NOTES	2011 HK$'000	2010 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	18	**143,894**	354,849
Land use right	19	**3,970**	3,866
Goodwill	20	**—**	—
Other intangible assets	21	**93,466**	270,161
Promissory notes receivables	24	**450**	422
Deposits paid for acquisition of property, plant and equipment	18	**56,880**	26,588
		298,660	655,886
Current assets			
Land use right	19	**86**	82
Trade receivables	25	**77,808**	83,618
Other receivables, prepayments and deposits	25	**28,234**	44,658
Tax recoverable		**994**	333
Cash and bank balances	26	**49,706**	60,087
		156,828	188,778
Assets classified as held for sale	27	**142,593**	—
		299,421	188,778
Current liabilities			
Other payables and accruals	28	**39,234**	31,720
Borrowings	29	**105,026**	116,189
Guaranteed convertible notes	30	**1,000**	992
		145,260	148,901
Liabilities directly associated with assets classified as held for sale	27	**12,345**	—
		157,605	148,901
Net current assets		**141,816**	39,877
Total assets less current liabilities		**440,476**	695,763

As at 31 December 2011

	NOTES	2011 HK$'000	2010 HK$'000
Non-current liabilities			
Deferred tax liabilities	31	**6,041**	25,393
Net assets		**434,435**	670,370
CAPITAL AND RESERVES ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Share capital	32	**1,354,511**	1,354,511
Reserves		**(920,076)**	(684,141)
Total equity		**434,435**	670,370

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 28 February 2012 and are signed on its behalf by:

WANG JIANGUO	**WU ZHENFANG**
Director	Director

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

STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	NOTES	2011 HK$'000	2010 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	18	**1,295**	892
Investments in subsidiaries	22	**8,639**	326,261
Amounts due from subsidiaries	22	**312,944**	330,878
Promissory notes receivables	24	**450**	422
		323,328	658,453
Current assets			
Other receivables, prepayments and deposits	25	**3,102**	1,737
Cash and bank balances	26	**2,534**	2,352
		5,636	4,089
Current liabilities			
Other payables and accruals	28	**11,869**	10,592
Amounts due to subsidiaries	22	**43,906**	43,910
Borrowings	29	**105,026**	99,719
		160,801	154,221
Net current liabilities		**(155,165)**	(150,132)
Total assets less current liabilities		**168,163**	508,321
Net assets		**168,163**	508,321
CAPITAL AND RESERVES ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Share capital	32	**1,354,511**	1,354,511
Reserves	33	**(1,186,348)**	(846,190)
Total equity		**168,163**	508,321

The financial statements were approved and authorised for issue by the Board of Directors on 28 February 2012 and are signed on its behalf by:

WANG JIANGUO
Director

WU ZHENFANG
Director

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Attributable to owners of the Company							
	Share capital HK$'000 (Note 32)	Share premium HK$'000 (Note 33(i))	Capital redemption reserve HK$'000 (Note 33(i))	Share option reserve HK$'000 (Note 33(ii))	Exchange translation reserve HK$'000 (Note 33(iii))	Guaranteed convertible notes-equity component reserve HK$'000 (Note 33(iv))	Accumulated losses HK$'000	Total HK$'000
At 1 January 2010	1,354,511	981,880	1,899	39,674	100,515	36	(1,467,265)	1,011,250
Loss for the year	—	—	—	—	—	—	(375,570)	(375,570)
Exchange differences on translating foreign operations	—	—	—	—	32,082	—	—	32,082
Total comprehensive income/(loss) for the year	—	—	—	—	32,082	—	(375,570)	(343,488)
Fair value of share options credited to share option reserve (Note 34)	—	—	—	2,622	—	—	—	2,622
Lapse of the share options	—	—	—	(4,834)	—	—	4,834	—
Transaction cost attributable to issue of ordinary shares in prior year	—	(14)	—	—	—	—	—	(14)
At 31 December 2010 and 1 January 2011	1,354,511	981,866	1,899	37,462	132,597	36	(1,838,001)	670,370
Loss for the year	—	—	—	—	—	—	(266,889)	(266,889)
Exchange differences on translating foreign operations	—	—	—	—	30,962	—	—	30,962
Total comprehensive income/(loss) for the year	—	—	—	—	30,962	—	(266,889)	(235,927)
Release upon maturity of guaranteed convertible notes	—	—	—	—	—	(36)	36	—
Lapse of the share options	—	—	—	(2,047)	—	—	2,047	—
Transaction cost attributable to issue of ordinary shares in prior year	—	(8)	—	—	—	—	—	(8)
At 31 December 2011	**1,354,511**	**981,858**	**1,899**	**35,415**	**163,559**	**—**	**(2,102,807)**	**434,435**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	2011 **HK$'000**	2010 HK$'000
Cash flows from operating activities		
Loss before taxation	**(265,504)**	(408,449)
Adjustments for:		
Finance costs	**2,988**	3,811
Interest income	**(191)**	(245)
Depreciation of property, plant and equipment	**35,926**	46,567
Amortisation of land use right	**86**	82
Amortisation of other intangible assets	**23,612**	32,044
Impairment loss on other intangible assets	**66,876**	151,200
Write-off of property, plant and equipment	**2,948**	1,230
Impairment loss on property, plant and equipment	**93,285**	190,366
Impairment loss on goodwill	**—**	90,244
Gain on disposal of promissory note	**(1,000)**	—
Impairment loss on assets classified as held for sale	**125,638**	—
Loss on disposal of property, plant and equipment	**—**	4,139
Write-off of trade receivables	**809**	—
Exchange loss on borrowings and interest payable	**5,796**	12,401
Share-based payment expense	**—**	2,622
Operating cash flows before movements in working capital	**91,269**	126,012
Decrease/(increase) in trade receivables	**9,130**	(36,639)
Increase in other receivables, prepayments and deposits	**(2,542)**	(17,163)
Increase/(decrease) in other payables and accruals	**5,293**	(23,179)
Cash generated from operations	**103,150**	49,031
Interest received	**163**	218
Interest paid	**(646)**	(1,561)
Income tax paid	**(10,121)**	(9,313)
Net cash generated from operating activities	**92,546**	38,375
Cash flows from investing activities		
Purchase of other intangible assets	**(1,511)**	—
Purchase of property, plant and equipment	**(22,221)**	(21,425)
Deposits paid for acquisition of property, plant and equipment	**(56,880)**	(39,529)
Refund of deposit for acquisition of property, plant and equipment	**—**	5,294
Proceeds from disposal of property, plant and equipment	**—**	41
Net cash used in investing activities	**(80,612)**	(55,619)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	2011 HK$'000	2010 HK$'000
Cash flows from financing activities		
Repayment of bank loan	**(17,283)**	(14,117)
Transaction cost attributable to issue of ordinary shares	**(8)**	(14)
Net cash used in financing activities	**(17,291)**	(14,131)
Net decrease in cash and cash equivalents	**(5,357)**	(31,375)
Cash and cash equivalents at the beginning of the year	**60,087**	91,766
Effect of foreign exchange rate changes	**(5,024)**	(304)
Cash and cash equivalents at the end of the year	**49,706**	60,087
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	**49,706**	60,087

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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 41.

The consolidated financial statements are presented in Hong Kong dollar and all values are rounded to the nearest thousand (HK$'000) except otherwise indicated. The Directors considered that the functional currency of the Company is Renminbi ("RMB"). 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 2011.

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

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

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

HKAS 24 (as revised in 2009) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The revised standard has no financial impact on the Group. Details of the related party transactions, including the related comparative information, are included in note 40 to the consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

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

HKFRS 1 (Amendments)	First-time Adoption of Hong Kong Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
HKFRS 7 (Amendments)	Financial Instruments: Disclosures — Transfers of Financial Assets[1]
HKFRS 7 (Amendments)	Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities[4]
HKFRS 9	Financial Instruments[6]
HKFRS 10	Consolidated Financial Statements[4]
HKFRS 11	Joint Arrangements[4]
HKFRS 12	Disclosure of Interests in Other Entities[4]
HKFRS 13	Fair Value Measurement[4]
HKAS 1 (Amendments)	Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income[3]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[2]
HKAS 19 (As revised in 2011)	Employee Benefits[4]
HKAS 27 (As revised in 2011)	Separate Financial Statements[4]
HKAS 28 (As revised in 2011)	Investments in Associates and Joint Ventures[4]
HKAS 32 (Amendments)	Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities[5]
HK(IFRIC) — Int 20	Stripping Costs in the Production Phase of a Surface Mine[4]

[1] effective for annual periods beginning on or after 1 July 2011
[2] effective for annual periods beginning on or after 1 January 2012
[3] effective for annual periods beginning on or after 1 July 2012
[4] effective for annual periods beginning on or after 1 January 2013
[5] effective for annual periods beginning on or after 1 January 2014
[6] effective for annual periods beginning on or after 1 January 2015

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

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

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

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

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

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

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

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

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

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. Historical cost is generally based on the fair value of the consideration give in exchange for assets.

(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.

3. PRINCIPAL ACCOUNTING POLICIES — CONTINUED

(c) Basis of consolidation — continued

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 2011, 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.

Changes in the Group's ownership interests in existing subsidiaries

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.

3. PRINCIPAL ACCOUNTING POLICIES — CONTINUED

(d) Business combinations

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.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

3. PRINCIPAL ACCOUNTING POLICIES — CONTINUED

(d) Business combinations — continued

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 specified in another HKFRS.

When 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.

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.

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.

3. PRINCIPAL ACCOUNTING POLICIES — CONTINUED

(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.

(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
Plant	5%
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.

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

The financial statements are presented in Hong Kong Dollars. Each entity in the Group determinates its own functional currency, and items included in the financial statements of each entity are measured using that functional currency.

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.

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.

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.

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.

3. PRINCIPAL ACCOUNTING POLICIES — CONTINUED

(o) Financial instruments — continued

Financial assets — continued

Loans and receivables

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.

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.

3. PRINCIPAL ACCOUNTING POLICIES — CONTINUED

(o) Financial instruments — continued

Financial assets — continued

Impairment of financial assets — continued

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.

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.

3. PRINCIPAL ACCOUNTING POLICIES — CONTINUED

(o) Financial instruments — continued

Financial liabilities and equity — continued

Guaranteed convertible notes — continued

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.

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.

3. PRINCIPAL ACCOUNTING POLICIES — CONTINUED

(o) Financial instruments — continued

Derecognition — continued

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.

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.

(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.

3. PRINCIPAL ACCOUNTING POLICIES — CONTINUED

(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) Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell, except for investment properties which are measured at fair value.

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 and assets classified as held for sale

Management periodically reviews each tangible asset and assets classified as held for sale for possible impairment or reversal of previously recognised impairment. Recoverability of tangible assets and assets classified as held for sale 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 and guaranteed convertible notes which were disclosed in Notes 29 and 30 respectively, and equity attributable to owners of the Company, comprising issued share capital and reserves.

5. CAPITAL RISK MANAGEMENT — CONTINUED

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	
	2011 **HK$'000**	2010 *HK$'000*	**2011** **HK$'000**	2010 *HK$'000*
Financial assets				
Loans and receivables:				
— Trade receivables	**77,808**	83,618	**—**	—
— Promissory notes receivables	**450**	422	**450**	422
— Cash and bank balances	**49,706**	60,087	**2,534**	2,352
	127,964	144,127	**2,984**	2,774
Financial liabilities stated at amortised cost				
— Other payables and accruals	**39,234**	31,720	**11,869**	10,592
— Amounts due to subsidiaries	**—**	—	**43,906**	43,910
— Borrowings — due within one year	**105,026**	116,189	**105,026**	99,719
— Guaranteed convertible notes				
— current liabilities	**1,000**	992	**—**	—
	145,260	148,901	**160,801**	154,221

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, promissory notes receivables, cash and bank balances, other payables and accruals, borrowings and guaranteed convertible notes. The Company's major financial instruments include promissory notes receivables, cash and bank balances, other payables and accruals, amounts due to subsidiaries, 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.

6. FINANCIAL INSTRUMENTS — CONTINUED

(b) Financial risk management objectives and policies — continued

(i) Credit risk management

As at 31 December 2011 and 2010, 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 2011 and 2010 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 note receivables in connection with the disposal of jointly-controlled entities amounting HK$450,000 (2010: HK$81,871,000 for which a provision for impairment loss of HK$81,449,000 was made during the year ended 31 December 2009) (Note 24), which expose the Group and the Company to the connection of credit risk on these counterparties.

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 28% (2010: 33%) and 70% (2010: 78%) of the trade receivables which was due from the Group's largest customer and the five largest customers respectively.

6. FINANCIAL INSTRUMENTS — CONTINUED

(b) Financial risk management objectives and policies — continued

(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	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Assets				
United States dollars ("USD")	**—**	12	**—**	6
Liabilities				
Japanese Yen ("JPY")	**105,026**	99,719	**105,026**	99,719

Sensitivity analysis

At 31 December 2011 and 2010, 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.

	The Group JPY		The Company JPY	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Impact on the result for the year	**5,251**	4,986	**5,251**	4,986

6. FINANCIAL INSTRUMENTS — CONTINUED

(b) Financial risk management objectives and policies — continued

(ii) Market risk — continued

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to promissory notes and fixed-rate guaranteed convertible notes (see Notes 24 and 30 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 26 and 29 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 2011 would increase by HK$290,000 (2010: HK$294,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank balances and borrowings.

(iii) Liquidity risk

The Group has net current assets as at 31 December 2011 and 2010. 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 utilisation of borrowings from time to time.

6. FINANCIAL INSTRUMENTS — CONTINUED

(b) Financial risk management objectives and policies — continued

(ii) Market risk — continued

(iii) Liquidity risk — continued

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 *HK$'000*	Over 1 year *HK$'000*	Total undiscounted cash flows *HK$'000*	Carrying amount *HK$'000*
2011					
Other borrowings	**3%**	**105,026**	**—**	**105,026**	**105,026**
Other payables and accruals	**3%**	**39,234**	**—**	**39,234**	**39,234**
Bank loan	**—**	**—**	**—**	**—**	**—**
Guaranteed convertible notes	**5%**	**1,000**	**—**	**1,000**	**1,000**
		145,260	**—**	**145,260**	**145,260**
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

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 *HK$'000*	Over 1 year *HK$'000*	Total undiscounted cash flows *HK$'000*	Carrying amount *HK$'000*
2011					
Amounts due to subsidiaries	**—**	**43,906**	**—**	**43,906**	**43,906**
Other borrowings	**3%**	**105,026**	**—**	**105,026**	**105,026**
Other payables and accruals	**3%**	**11,869**	**—**	**11,869**	**11,869**
		160,801	**—**	**160,801**	**160,801**
Financial guarantee issued- maximum amount granted		**1,000**	**—**	**1,000**	**—**
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
Financial guarantee issued- maximum amount granted		1,000	—	—	—

(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).

6. FINANCIAL INSTRUMENTS — CONTINUED

(c) Fair value — continued

(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.

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 2011 and 2010 represented the leasing and service income from operations of medical equipment.

8. SEGMENT INFORMATION

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

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

8. SEGMENT INFORMATION — CONTINUED

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.

9. OTHER GAINS AND LOSSES

	2011 ***HK$'000***	2010 *HK$'000*
Interest income on:		
Bank balances	**163**	218
Promissory notes receivables	**28**	27
	191	245
Loss on disposal of property, plant and equipment	**—**	(4,139)
Write-off of property, plant and equipment	**(2,948)**	(1,230)
Gain on disposal of promissory note	**1,000**	—
Others	**346**	91
	(1,411)	(5,033)

10. FINANCE COSTS

	2011 ***HK$'000***	2010 *HK$'000*
Interest expenses on:		
Bank borrowings wholly repayable within five years	**596**	1,511
Loans from a former intermediate holding company and a former fellow subsidiary wholly repayable within five years	**2,334**	2,238
Guaranteed convertible notes (Note 30)	**58**	62
	2,988	3,811

11. INCOME TAX

	2011	2010
	HK$'000	*HK$'000*
PRC tax	**9,460**	8,429
Deferred taxation (Note 31)	**(8,075)**	(41,308)
	1,385	(32,879)

No Hong Kong profits tax has been provided as the Group did not have assessable profits arising in Hong Kong during the year (2010: HK$Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The applicable PRC enterprise income tax rate is 25% for the years ended 31 December 2011 and 2010. Pursuant to the relevant laws and regulations in the PRC, one major subsidiary of the Company is in its second year of 50% reduction of PRC income tax for three years.

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

	2011	2010
	HK$'000	*HK$'000*
Loss before taxation	**(265,504)**	(408,449)
Taxation at Hong Kong statutory income tax rate of 16.5% (2010: 16.5%)	**(43,808)**	(67,394)
Tax effect of income not taxable	**(4,669)**	(41,522)
Tax effect of expenses not deductible	**46,004**	74,348
Tax effect of unrecognised tax losses	**3,028**	3,530
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	**717**	(1,841)
Release of withholding taxes of dividend	**(2,353)**	—
Underprovision of profits tax in prior years	**2,466**	—
Income tax charge/(credit) for the year	**1,385**	(32,879)

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

	2011	2010
	HK$'000	*HK$'000*
Loss for the year has been arrived at after charging:		
Depreciation of property, plant and equipment (Note 18)	**27,451**	34,379
Depreciation of jointly-controlled assets (Note 18)	**8,475**	12,188
Amortisation of other intangible assets included in cost of services (Note 21)	**23,612**	32,044
Amortisation of land use right (Note 19)	**86**	82
Total depreciation and amortisation	**59,624**	78,693
Auditors' remuneration	**1,237**	1,235
Write-off of trade receivables	**809**	—
Net exchange losses	**1,472**	9,746
Employee benefit expenses, including directors' emoluments (Note 13):		
— salaries and other benefits	**25,928**	23,239
— share-based payment expense (Note 34)	**—**	1,389
	25,928	24,628

13. DIRECTORS' EMOLUMENTS

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

For the year ended 31 December 2011

	Wang Jianguo	**Wu Zhen-fang**	**Wu Yan**	**Pang Wai Hong**	**Wang Yong-chang**	**Geng Xiao-bing**	**Sui Xueqing**	**Wang Jianjun**	**Ding Nan**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Directors										
— fees	**—**	**100**	**55**	**100**	**100**	**100**	**—**	**—**	**—**	**455**
— salaries and other benefits	**328**	**54**	**—**	**—**	**—**	**—**	**299**	**239**	**219**	**1,139**
— employer's contribution to pension scheme	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
	328	**154**	**55**	**100**	**100**	**100**	**299**	**239**	**219**	**1,594**

For the year ended 31 December 2010

	Sui Xueqing	Wang Jianjun	Li Juewen	Yu Chung Hang, Lucian	Pang Wai Hong	Geng Xiao-bing	Li Wing Chiu	Ding Nan	Li Tieliu	Wu Zhen-fang	Wang Hai	Guo Bao Ping	Wang Yong-chang	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
	263	211	872	667	100	32	96	211	46	100	452	751	100	3,901

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 2011 and 2010. None of the directors has waived any emolument during the year ended 31 December 2011 and 2010.

14. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2010: three) were directors of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining three individuals (2010: two) were as follows:

	2011 **HK$'000**	2010 HK$'000
Salaries and other benefits	**2,129**	2,664
Employer's contribution to pension scheme	**27**	24
Total	**2,156**	2,688

The emoluments of the three (2010: two) non-director individuals with the highest emoluments were within the following bands:

	2011 ***No. of employees***	2010 *No. of employees*
Nil to HK$1,000,000	**2**	—
HK$1,000,001 to HK$1,500,000	**1**	2

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 2011 and 2010. None of the five highest paid individuals has waived any emolument during the years ended 31 December 2011 and 2010.

15. DIVIDEND

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

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

Loss

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

Number of shares

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

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

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$22,528,000 (2010: HK$37,739,000) 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$'000	Plant HK$'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 2010		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
Additions		2,800	—	38,831	561	554	154	1,407	44,307
Exchange realignment		82	—	33,663	34	136	—	741	34,656
Reclassification		—	4,926	—	—	—	—	(4,926)	—
Reclassified as assets classified as held for sale		—	—	(259,899)	—	—	—	—	(259,899)
Write-off		(197)	—	(7,136)	(666)	—	(406)	—	(8,405)
At 31 December 2011		4,405	4,926	439,899	1,224	4,117	241	12,222	467,034
Accumulated depreciation and impairment									
At 1 January 2010		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
Provided for the year	12	649	158	34,420	188	488	23	—	35,926
Exchange realignment		10	—	15,188	10	26	—	—	15,234
Reclassified as assets classified as held for sale		—	—	(117,374)	—	—	—	—	(117,374)
Impairment loss recognised		—	—	93,285	—	—	—	—	93,285
Write-off		(43)	—	(4,398)	(610)	—	(406)	—	(5,457)
At 31 December 2011		682	158	320,789	347	1,066	98	—	323,140
Carrying amount									
At 31 December 2011		**3,723**	**4,768**	**119,110**	**877**	**3,051**	**143**	**12,222**	**143,894**
At 31 December 2010		1,654	—	334,772	536	2,875	12	15,000	354,849

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 2011 were jointly-controlled assets of HK$34,863,000 (2010: HK$80,272,000). Details of the financial information of the jointly-controlled assets are set out in Note 23. During the year, a bank loan had been fully repaid and it was secured by pledge of the Group's medical equipment with aggregate carrying amount HK$55,233,000 as at 31 December 2010.

For medical equipment pledged for banking facilities, please refer to Note 36.

At 31 December 2011, the relevant licences were obtained for all of the Group's medical equipment.

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. 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 2011, 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$93,285,000 (2010: 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 19.0% (2010: 17.1%) per annum.

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

	Leasehold improvements *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Computer equipment *HK$'000*	Total *HK$'000*
The Company					
Cost					
At 1 January 2010	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
Additions	518	209	—	154	881
Write-off	(197)	(503)	—	(406)	(1,106)
At 31 December 2011	531	405	677	241	1,854
Accumulated depreciation					
At 1 January 2010	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
Provided for the year	90	24	169	23	306
Write-off	(42)	(486)	—	(406)	(934)
At 31 December 2011	65	198	197	99	559
Carrying amount					
At 31 December 2011	**466**	**207**	**480**	**142**	**1,295**
At 31 December 2010	193	39	649	11	892

As at 31 December 2011 and 2010, the deposits balance represented deposits paid for acquisition of items of property, plant and equipment.

19. LAND USE RIGHT

	The Group	
	2011	2010
	HK$'000	*HK$'000*
Carrying amount:		
At 1 January	**3,948**	3,892
Exchange realignment	**194**	138
Amortisation of land use right (Note 12)	**(86)**	(82)
At 31 December	**4,056**	3,948
Analysed for reporting purpose as:		
Non-current assets	**3,970**	3,866
Current assets	**86**	82
	4,056	3,948

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

20. GOODWILL

	The Group
	HK$'000
Cost	
At 1 January 2010	638,938
Exchange realignment	22,490
At 31 December 2010 and 2011	661,428
Accumulated impairment	
At 1 January 2010	551,692
Impairment loss recognised	90,244
Exchange realignment	19,492
At 31 December 2010 and 2011	661,428
Carrying amount	
At 31 December 2011	—
At 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 (2010: 4-year) period, and discount rate of 19.0% (2010: 17.1%) per annum. The cash flows beyond the 4-year period are extrapolated using an annual growth rate of 3% (2010: 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 CGU as at 31 December 2011 by reference to the valuation as at 31 December 2011 performed by GA Valuation 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.

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 recognised for the year ended 31 December 2010.

21. OTHER INTANGIBLE ASSETS

	The Group *HK$'000*
Cost	
At 1 January 2010	533,565
Exchange realignment	14,358
At 31 December 2010	547,923
Addition	29,412
Write-off upon termination of underlying contracts	(20,524)
Exchange realignment	21,237
Reclassified as assets classified as held for sale	(265,910)
At 31 December 2011	312,138
Accumulated amortisation and impairment	
At 1 January 2010	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
Provided for the year (Note 12)	23,612
Write-back upon termination of underlying contracts	(20,524)
Exchange realignment	11,150
Impairment loss recognised	66,876
Reclassified as assets classified as held for sale	(140,204)
At 31 December 2011	218,672
Carrying amount	
At 31 December 2011	**93,466**
At 31 December 2010	270,161

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 7 to 23 years (2010: 8 to 24 years).

At 31 December 2011, the relevant licences were obtained for all of those medical equipment which underlie the Group's other intangible assets. 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.

21. OTHER INTANGIBLE ASSETS — CONTINUED

During the year ended 31 December 2011, 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$66,876,000 (2010: HK$151,200,000), which has been recognised in consolidated income statement. 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 19.0% (2010: 17.1%) per annum.

22. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2011	2010
	HK$'000	*HK$'000*
Unlisted shares, at cost	**985,263**	985,263
Less: impairment losses	**(976,624)**	(659,002)
	8,639	326,261
Amounts due from subsidiaries	**732,981**	750,915
Less: impairment losses	**(420,037)**	(420,037)
	312,944	330,878

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 41.

An accumulated allowance of impairment for investment costs and amounts due from subsidiaries of HK$976,624,000 (2010: HK$659,002,000) and HK$420,037,000 (2010: HK$420,037,000) respectively was provided as at 31 December 2011 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 2011, the Group entered into certain arrangements with third parties to acquire/retain interests of ranging from 40% to 70% (2010: 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	
	2011	2010
	HK$'000	*HK$'000*
Non-current assets (Note 18)	**34,863**	80,272
Income	**63,419**	74,567
Expenses (Note 12)	**8,475**	12,188

24. 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 2011 represented the fair value of the promissory notes at the time of initial recognition of HK$73,970,000 and HK$344,000 respectively and the net interest receivables of the Company of HK$7,479,000 (2010: HK$7,479,000) and HK$106,000 (2010: HK$78,000) respectively as at 31 December 2011. The average effective interest rate of the promissory notes receivables is 6.18% per annum (2010: 6.18% per annum).

Clear Smart Enterprises Limited, the issuer of the promissory note with principal amount of HK$81,000,000 and 1.5% coupon interest 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.

During the year ended 31 December 2011, the promissory note with principal amount of HK$81,000,000 was sold to an independent third party for a payment as the initial consideration of HK$1,000,000 plus a sum of being certain percentages of the proceeds from the sale of the promissory note or payment to the promissory note received by the purchaser after deducting all relevant expenses within two years from the date of completion of the disposal of promissory note as well as falling two years from the date of completion of the disposal of promissory note and ending on the date falling five years after the date of completion of the disposal of promissory note.

25. TRADE RECEIVABLES AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	The Group		The Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade receivables	**77,808**	83,618	**—**	—
Prepayments and deposits	**28,234**	44,658	**3,102**	1,737
	106,042	128,276	**3,102**	1,737

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

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

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

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

Approximately HK$809,000 of trade receivables were written off during the year ended 31 December 2011 because these debtors have default in payment and the recoverability of these trade receivables becoming remote. Therefore, the management consider such receivables were uncollectable.

26. CASH AND BANK BALANCES

The Group's bank balances of approximately HK$47,123,000 (2010: HK$57,366,000) carried variable-rate interest at 0.001%–0.5% per annum (2010: 0.001%–0.360% per annum).

The Company's bank balances of HK$Nil (2010: HK$6,000) carried variable-rate interest at 0.001% per annum (2010: 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	
	2011 ***HK$'000***	2010 *HK$'000*	**2011** ***HK$'000***	2010 *HK$'000*
USD	**—**	12	**—**	6

At the end of reporting period, the bank balances and cash of the Group denominated in RMB amounted to approximately HK$47,163,000 (2010: HK$57,719,000). 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.

27. ASSETS CLASSIFIED AS HELD FOR SALE

	The Group	
	2011 ***HK$'000***	2010 *HK$'000*
Property, plant and equipment	**76,347**	—
Other intangible assets	**66,246**	—
	142,593	—
Liabilities directly associated with assets classified as held for sale:		
Deferred tax liabilities	**12,345**	—

The Group intends to dispose of certain medical equipments as at 31 December 2011. The Group is in the progress of negotiation with the buyers. Impairment on fair value less costs to sell of approximately HK$66,178,000 and HK$59,460,000 was recognised on reclassification of property, plant and equipment and other intangible assets respectively to assets held for sale as at 31 December 2011.

The Directors anticipates the disposal will be completed by 31 December 2012.

28. OTHER PAYABLES AND ACCRUALS

Included in the Group's other payables and accruals as at 31 December 2011 and 2010 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 (2010: 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 2011 and 2010.

29. BORROWINGS

	The Group		The Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Unsecured interest-bearing borrowings				
Loan from former intermediate holding Company (Note (a))	**15,089**	14,327	**15,089**	14,327
Loan from a former fellow subsidiary (Note (b))	**89,937**	85,392	**89,937**	85,392
	105,026	99,719	**105,026**	99,719
Secured interest-bearing borrowings				
Bank loan (Note (c))	**—**	16,470	**—**	—
	105,026	116,189	**105,026**	99,719

As at 31 December 2010 and 2011, total current and non-current borrowings were repayable as follows:

	The Group		The Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
On demand or within one year shown under current liabilities	**105,026**	116,189	**105,026**	99,719
More than one year, but not exceeding two years	**—**	—	**—**	—
Total borrowings shown under non-current liabilities	**—**	—	**—**	—
	105,026	116,189	**105,026**	99,719

29. 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 30).

(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 30).

(c) The bank loan, denominated in RMB, was secured by the Group's medical equipment with the aggregate carrying value of HK$55,233,000 as at 31 December 2010 (Note 18), by personal guarantees of a director and an ex-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% (2010: 2.475%) per annum and the effective interest rate on the Group's bank loan, denominated in RMB, was 6.787% (2010: 5.977%) per annum for the year ended 31 December 2011.

30. GUARANTEED CONVERTIBLE NOTES

	The Group	
	2011	2010
	HK$'000	*HK$'000*
Carrying amount of liability component of guaranteed convertible notes issued/extended on:		
— 28 August 2008 ("2011 5% Notes") (Note (a))	**1,000**	992
Less: Amounts due within one year shown under current liabilities	**(1,000)**	(992)
Amounts due after one year shown under non-current liabilities	**—**	—

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".

30. 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	
	2011	2010
	HK$'000	*HK$'000*
Carrying amount at the beginning of the year	**992**	980
Interest accrued		
— Imputed interest (Note 10)	**41**	62
— Overdue interest (Note 10)	**17**	—
Interest paid	**(50)**	(50)
Carrying amount at the end of the year	**1,000**	992

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.

The guaranteed convertible notes matured on 29 August 2011. Therefore, the amount of guaranteed convertible notes — equity component reserve of approximately HK$36,000 was released to accumulated losses during the year ended 31 December 2011.

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

31. DEFERRED TAX LIABILITIES

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

	The Group		
	Withholding tax	**Fair value adjustment of other intangible assets**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2010	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
Charge/(credit) to consolidated income statement for the year (Note 11):			
— release upon amortisation of other intangible assets	—	(1,400)	(1,400)
— release upon payment of dividend during the year	(2,353)	—	(2,353)
— release upon impairment of underlying other intangible assets	—	(4,322)	(4,322)
— exchange realignment	—	1,068	1,068
Reclassified as liabilities directly associated with assets classified as held for sale	—	(12,345)	(12,345)
At 31 December 2011	**—**	**6,041**	**6,041**

31. DEFERRED TAX LIABILITIES — CONTINUED

At the end of reporting period, the Group had unused tax losses of HK$301,424,000 (2010: HK$287,411,000) 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 2011 and 2010.

32. SHARE CAPITAL

	The Company			
	2011		2010	
	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 and 31 December	**13,545,113**	**1,354,511**	13,545,113	1,354,511

33. 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 2010	981,880	1,899	39,674	36	(1,386,061)	(362,572)
Loss for the year	—	—	—	—	(486,226)	(486,226)
Transaction cost attributable to issue of ordinary shares 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 and at 1 January 2011	981,866	1,899	37,462	36	(1,867,453)	(846,190)
Loss for the year	—	—	—	—	(340,150)	(340,150)
Transaction cost attributable to issue of ordinary shares in prior year	(8)	—	—	—	—	(8)
Release upon maturity of guaranteed convertible notes	—	—	—	(36)	36	—
Lapse of share options	—	—	(2,047)	—	2,047	—
At 31 December 2011	**981,858**	**1,899**	**35,415**	**—**	**(2,205,520)**	**(1,186,348)**

33. 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).

34. 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 2011, the number of shares in respect of which options was granted and remained outstanding under the Scheme was 626,816,000 (2010: 724,330,000), representing 4.6% (2010: 5.3%) 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.

34. SHARE-BASED PAYMENTS — CONTINUED

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 2011 had the weighted average exercise price of HK$0.142 (2010: HK$0.143) and weighted average remaining contractual life of 5.0 years (2010: 5.8 years).

The following table discloses movements of the Company's share options during the year ended 31 December 2011:

					Number of share options					
Grantee	**Date of grant**	**Vesting period**	**Exercisable period**	**Exercise price per share** *HK$*	**At 1 January 2011**	**Reallocation**	**Granted during the year**	**Exercised during the year**	**Lapsed during the year**	**At 31 December 2011**
Employees	21-02-2002	21-02-2002 to 21-01-2005	21-02-2002 to 20-02-2012	0.280	1,500,000	—	—	—	—	1,500,000
	26-04-2007	26-04-2007 to 26-04-2009	26-4-2007 to 25-04-2017	0.200	1,000,000	—	—	—	—	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)	—
					171,832,000	—	—	—	(30,000,000)	141,832,000
Consultants/ Advisors	21-02-2002	21-02-2002 to 21-02-2005	21-02-2002 to 20-02-2012	0.280	38,002,000	—	—	—	(24,402,000)	13,600,000
	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	—	—	—	(43,112,000)	98,914,000
	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	—	—	—	(67,514,000)	484,984,000
				TOTAL:	724,330,000	—	—	—	(97,514,000)	626,816,000
Weighted average exercise price					0.143	—	—	—	0.154	0.142
Exercisable at the end of the year										626,816,000

34. SHARE-BASED PAYMENTS — CONTINUED

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

Grantee	Date of grant	Vesting period	Exercisable period	Exercise price per share HK$	Number of share options: 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

* The share option granted were immediately vested at the date of granted 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).

34. 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 HK$Nil was charged as an equity-settled share-based payment expense (2010: HK$2,622,000) of which HK$Nil (2010: HK$1,389,000) (Note 12) and HK$Nil (2010: HK$1,233,000) are attributable to the shares options granted to employees and other eligible persons providing similar services, respectively.

35. OPERATING LEASE COMMITMENTS

The Group as lessee

Minimum lease payments paid under operating leases:

	2011	2010
	HK$'000	*HK$'000*
Premises	**3,240**	3,342
Servicing contracts for medical equipment	**5,062**	3,572
	8,302	6,914

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

	2011	2010
	HK$'000	*HK$'000*
Within one year	**2,540**	3,338
In the second to fifth years inclusive	**3,045**	1,727
Over five years	**28**	41
	5,613	5,106

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 seven 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 equipment (included in property, plant and equipment) with the majority of the lease period up to 31 December 2022 (2010: 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.

36. PLEDGE OF ASSETS

Banking facilities of approximately HK$37,037,000 (2010: HK$35,294,000) (equivalent to RMB30,000,000) are secured by pledge of the Group's medical equipment with an aggregate carrying value of HK$13,009,000 (2010: HK$55,233,000) and assets classified as held for sale with an aggregated carrying value of HK$22,222,000 (2010: Nil) as at 31 December 2011. As at 31 December 2011, approximately HK$37,037,000 (2010: HK$18,824,000) banking facilities were unused.

37. COMMITMENTS

	The Group	
	2011	2010
	HK$'000	*HK$'000*
Contracted for but not provided in respect of acquisition of property, plant and equipment	**13,535**	18,608

38. GUARANTEES

As further disclosed in Note 30(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$261,000 (2010: HK$318,000) 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) Rental paid to a related party

	The Group	
	2011 **HK$'000**	2010 *HK$'000*
Rental payments paid to Fung Choi Properties Limited ("Fung Choi") (Note)	—	434

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, an ex-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 29(c).

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2011 are as follows:

Name of subsidiaries	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital and proportion of voting power held by the Company Directly	Indirectly	Principal activities
China Renji Medical (BVI) Limited	British Virgin Islands	US$1	100%	—	Investment holding
Wintin International Limited	British Virgin Islands	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

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES — CONTINUED

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.

42. EVENTS AFTER THE REPORTING PERIOD

Disposal of Non-licensed Medical Assets

During the reporting year, the Group has commenced the implementation of a plan to dispose of certain medical assets (comprising property, plant and equipment and other intangible assets) underlying its medical network which do not possess the necessary licenses (the "Non-licensed Medical Assets"). During 2012 and up to the date of this annual report, the Group had entered into respective definite sales and purchase contracts or memorandum of understanding with different independent third parties mostly comprising local players located in the regions where the Non-licensed Medical Assets are situated and larger market player. As at the date of this annual report, the disposals had not been completed.

Diversification into other business areas

In January 2012, the Group entered into an acquisition agreement pursuant to which it agreed to acquire the entire interest of a company principally engaged in the design and distribution of air purifiers using patented nano technology business for a consideration of HK$180 million, which will be satisfied entirely by the issue of a promissory note.

The information regarding the financial effect of the acquisition is not available since the acquisition had not been completed as at the date of this consolidated financial statements and the initial accounting for the business combination is incomplete.

42. EVENTS AFTER THE REPORTING PERIOD — CONTINUED

Diversification into other business areas — continued

In February 2012, the Group entered into an acquisition agreement pursuant to which it agreed to acquire the entire interest of a company principally engaged in the design, development and sale of own branded bathroom equipment with patented technology business (such as jacuzzi and whirlpool bath) for a consideration of HK$165 million, which will be satisfied entirely by the issue of a promissory note.

The information regarding the financial effect of the acquisition is not available at this stage since the acquisition had not been completed as at the date of this consolidated financial statements and the initial accounting for the business combination is incomplete.

43. 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 acquired property, plant and equipment of approximately HK$22,086,000 which were settled by prepayment paid during the year ended 31 December 2010.

(b) In the current year, the Group acquired other intangible assets approximately HK$27,901,000 of which was settled by deposit paid to acquisition of property, plant and equipment paid during year ended 31 December 2010.

(c) There is interest payable approximately HK$2,334,000 which were included in other payables and accruals of the Group as at 31 December 2011 (2010: HK$2,238,000).

44. CONTINGENCIES

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

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

FIVE YEARS FINANCIAL SUMMARY

RESULTS

	2007 *HK$'000* (Note)	2008 *HK$'000*	2009 *HK$'000*	2010 *HK$'000*	**2011** ***HK$'000***
Turnover — continuing operations	58,453	207,600	180,834	177,549	**152,302**
Continuing operations:					
(Loss)/profit before taxation	(75,399)	58,037	(567,335)	(408,449)	**(265,504)**
Income tax	(1,507)	(5,915)	6,355	32,879	**(1,385)**
(Loss)/profit for the year from continuing operations	(76,906)	52,122	(560,980)	(375,570)	**(266,889)**
Discontinued operations:					
Profit for the year from discontinued operations	93,714	1,789	—	—	**—**
(Loss)/profit for the year	16,808	53,911	(560,980)	(375,570)	**(266,889)**
(Loss)/profit attributable to:					
— Owners of the Company	12,809	53,911	(560,980)	(375,570)	**(266,889)**
— Non-controlling interests	3,999	—	—	—	**—**
	16,808	53,991	(560,980)	(375,570)	**(266,889)**

ASSETS AND LIABILITIES

	2007 *HK$'000* (Restated)	2008 *HK$'000*	2009 *HK$'000*	2010 *HK$'000*	**2011** ***HK$'000***
Total assets	1,699,577	1,671,836	1,243,270	844,664	**598,081**
Total liabilities	(393,097)	(236,328)	(232,020)	(174,294)	**(163,646)**
Net assets	1,306,480	1,435,508	1,011,250	670,370	**434,435**
Equity attributable to owners of the Company	1,283,104	1,435,508	1,011,250	670,370	**434,435**
Non-controlling interests	23,376	—	—	—	**—**
	1,306,480	1,435,508	1,011,250	670,370	**434,435**

Note: 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.