2012
Annual Report

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

China Renji Medical Group Ltd.
Stock Code: 648

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:

TANG Chi Chiu *(Chairman)*
WANG Jianguo

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

LAM Sung Him, Gaston

PRINCIPAL BANKERS

Bank of Communications Co., Ltd.
Hong Kong Branch
Wuhu YangZi Rural Commercial Bank
Company Limited

AUDITORS

HLB Hodgson Impey Cheng Limited
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

Dear Shareholders,

We are pleased to announce that China Renji Medical Group Limited (the "Company", together with its subsidiaries, the "Group") recorded a turnaround from a net loss to a net profit for the year ended 31 December 2012.

For the year ended 31 December 2012, whilst the business and operating environment has remained challenging for the Group and resulted in a decrease of approximately 11.73% in turnover from previous year to approximately HK$134.44 million, the management of the Group has put effort to implement various cost control and efficiency enhancement measures which resulted in the Group having recorded an increase of approximately 12.58% in gross profit to approximately HK$94.15 million. Furthermore, as mentioned in the Company's annual report for the year ended 31 December 2011 and the interim report for the six months ended 30 June 2012, the Group implemented business plans during 2011 and 2012 to dispose of those medical assets underlying its medical network which did not possess the necessary licenses such that the depreciation and amortisation expenses as well as the deferred tax liabilities in connection with the Group's medical assets and other intangible assets have been significantly decreased. As a result of the above, we were able to record a profit attributable to owners of the Company of approximately HK$61.26 million for the year ended 31 December 2012, as compared with the loss attributable to owners of the Company of approximately HK$266.89 million for the previous year.

For the year ended 31 December 2012, basic earnings per share attributable to owners of the Company was approximately HK0.45 cents and net asset value (including non-controlling interests) per share as at 31 December 2012 was approximately HK3.89 cents.

We are pleased to report to the shareholders of the Company that after having made much effort by the Company's management and other professional parties, trading in the shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") has been resumed since 5 April 2013. The Group will honor its undertaking to the Stock Exchange, and will commit programmes (including restructuring and reorganisation) with a view to continuing to improve and strengthen its corporate governance. We will also continuously seek appropriate investment/business opportunities in other business areas so as to enhance the Group's income base and revamp the damage inherited from the disputes among previous management and shareholders.

I would like to take this opportunity to thank our shareholders for their loyalty on behalf of the board of directors (the "Board") and express my sincere gratitude to, in particular, our partners, management and staff for their support, effort and contributions.

Tang Chi Chiu
Chairman

Hong Kong, 5 April 2013

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Group is principally engaged in the provision of medical equipment and services for the network of its medical centres specialising in the diagnosis and treatment of tumours and/or cancer related diseases in the People's Republic of China (the "PRC" or "China").

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

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

The Group's principal cost of services comprises (i) equipment and facility costs (mainly including depreciation and amortisation expenses) and (ii) the salary and services for its physicians and technical staff.

With a view to minimising potential risks associated with the medical assets (comprising property, plant and equipment and other intangible assets) operated by the Group's medical centres that lacks the necessary licenses (collectively referred to as the "Non-licensed Medical Assets"), during the year, the Group has disposed of all such Non-licensed Medical Assets. As at 31 December 2012, all the medical assets operated by the medical centres underlying the Group's medical network have possessed the required licenses for operations.

FINAL RESULTS REVIEW

Turnover

For the year ended 31 December 2012, the Group recorded a turnover of approximately HK$134,438,000 (2011: HK$152,302,000), representing a decrease of approximately 11.73% from last year. The turnover for the year was derived from the medical centres operated by the Group. The decline in turnover was primarily due to the aforementioned disposals of the Group's Non-licensed Medical Assets in 2012.

Gross profit

For the year ended 31 December 2012, the Group recorded a gross profit of approximately HK$94,145,000 (2011: HK$83,625,000) and a gross profit margin of approximately 70.03% (2011: 54.91%) from its medical network business. The increase in gross profit was primarily attributable to the Group's completion of disposals of the Non-licensed Medical Assets in 2012 to the effect that the depreciation and amortisation expenses in connection with the Group's medical assets and other intangible assets have been significantly decreased.

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

The Group reassessed the recoverable amount of property, plant and equipment and other intangible assets as at 31 December 2012 and no impairment losses on property, plant and equipment and other intangible assets for the year ended 31 December 2012 was recorded (2011: HK$93,285,000 and HK$66,876,000, respectively).

Impairment loss on assets classified as held for sale

In late 2011 and during 2012, the Group implemented a plan to dispose of 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 31 December 2011 and an impairment loss of HK$125,638,000 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. No impairment loss on assets classified as held for sale was made during the year ended 31 December 2012.

Profit for the year

The profit attributable to owners of the Company for the year ended 31 December 2012 was approximately HK$61,261,000 (2011: loss of HK$266,889,000). The turnaround to profit this year was mainly attributable to, among other things, (i) the Group's completion of disposals of the Non-licensed Medical Assets to the effect that the depreciation and amortisation expenses, as well as the deferred tax liabilities in connection with the Group's medical assets and other intangible assets have been significantly decreased; (ii) the exchange gain relating to a loan of the Group denominated in Japanese Yen; (iii) the reduction in the operating cost due to the continuous implementation of the Group's various cost control measures; and (iv) the significant decrease in impairment losses recorded by the Group when compared with the same period in pervious year.

Basic earnings per share for the year was approximately HK0.45 cents (2011: basic loss per share of HK1.97 cents).

BUSINESS REVIEW

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

The increasingly challenging business environment in 2012 for the Group's medical business in the PRC resulting from the healthcare reform policies implemented by the PRC government since 2009 has led to, among other things, a reduction in the examination fees and treatment fees received from the operations of the Group's medical equipment (such as radiotherapy and/or diagnostic imaging equipment), an increase in the specified operating expenses of the medical centres and a decline in the Group's contracted revenue-sharing percentage with its hospital and business partners. Furthermore, as mentioned in the Group's annual report for the year ended 31 December 2011, non-civilian medical institutions in the PRC are not permitted to enter into cooperation agreements with third parties to set up for-profit centres, but these non-civilian medical institutions are permitted to lease medical equipment from their partners at market rates if they do not have adequate funds to purchase the medical equipment. Most of the medical centres in the Group's network are established through the entering into of long-term lease and management arrangement with hospital and/or other business partners, the tightening implementation of the existing rules and regulations in the PRC such as the above has casted uncertainties to the business model of the Group's medical business. It is because the Group's existing business models may be exposed to challenges if the relevant health departments in the PRC at the national or local levels have different interpretation that the Group's lease and management agreements with the hospital partners and/or business partners are not in compliance with the tightened rules and regulations, even though, in general, the business models which the market operates are the same as or similar to the Group's. All of these, together with the growing competitions amongst the industry and the increase in financial strength of the hospitals in the PRC, have posed significant pressure on the growth of the Group's medical network business and thus its financial performance.

During the year, the management of the Company has endeavoured to maintain the competitiveness of the Group's existing medical network and at the same time, seek potential investment/business opportunities in other business areas so as to enhance the Group's income base and revamp the lasting damages inherited from the disputes among previous management and shareholders.

Corporate governance

During 2012, as part of the Group's proposal for resumption in trading of its shares, the Company has engaged SHINEWING Risk Services Limited ("SHINEWING") to perform a review on the Group's financial reporting procedures and internal control systems in accordance with recognised framework. The Group has adopted the recommendations proposed by SHINEWING in connection to the weaknesses identified in the Group's internal control system.

PROSPECTS

With the challenging operating environment, whilst the Group will continue to formulate strategies to maintain the competitiveness of its medical business, the management of the Company has also keep abreast of any potential investment/business opportunities in other business areas, including hospitals, green/recyclable and resources related businesses in the PRC and Asia.

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$3,507,000 for the year ended 31 December 2012 (2011: HK$92,546,000). The net cash generated from operating activities was derived primarily from cash proceeds received from the Group's medical network business.

For the year ended 31 December 2012, the net cash generated from investing activities amounted to approximately HK$37,219,000 (2011: outflow of HK$80,612,000) and the net cash generated from financing activities amounted to approximately HK$25,548,000 (2011: outflow of HK$17,291,000). The net cash inflows in investing activities mainly resulted from proceeds obtained from disposal of Non-licensed Medical Assets in the PRC. The net cash inflows in financing activities mainly resulted from capital injection from a non-controlling shareholder of a subsidiary.

As a result of the cumulative effect described above, the Group recorded a net cash inflows of approximately HK$66,274,000 (2011: outflows of HK$5,357,000) for the year ended 31 December 2012.

As at 31 December 2012, the Group maintained bank balances and cash amounting to approximately HK$115,980,000 (2011: HK$49,706,000).

As at 31 December 2012, the Group's total borrowings amounted to approximately HK$94,691,000 (2011: HK$106,026,000) which included borrowings of approximately HK$93,691,000 (2011: HK$105,026,000) and guaranteed convertible note of approximately HK$1,000,000 (2011: HK$1,000,000). The Group's total borrowings of approximately HK$94,691,000 were repayable within one year (2011: HK$106,026,000).

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 2012, the Group's net asset value (including non-controlling interests) was approximately HK$526,800,000 (2011: HK$434,435,000) with a liquidity ratio (calculated on the basis of the Group's current assets to current liabilities) of 2.54 times (2011: 1.90 times). The Group's gearing ratio (calculated on the basis of the Group's total borrowings to the total equity attributable to the owners of the Company) was 19.10% (2011: 24.41%). The decrease in gearing ratio was mainly due to profit generated during the year.

Capital structure

There was no change in the Company's capital structure during the year ended 31 December 2012.

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 approximately HK$13,009,000 and assets classified as held for sale amounted to approximately HK$22,222,000 were pledged to secure general banking facilities granted to the Group. No assets of the Group was pledged as at 31 December 2012.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2012.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2012, the total number of employees of the Group was 141. 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

Tang Chi Chiu
Chairman

Hong Kong, 28 March 2013

TANG CHI CHIU

(Chairman and Executive Director)

Mr. Tang, aged 63, has many years of working experience in Hong Kong and the PRC 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.

WANG JIANGUO

(Executive Director)

Mr. Wang, aged 49, 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.

KWOK CHUNG ON

(Independent Non-executive Director)

Mr. Kwok, aged 43, 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 56, 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) and Zhong Fa Zhan Holdings Limited (formerly known as Noble Jewelry Holdings Limited) (stock code: 475), all of whose shares are listed on the Stock Exchange. Mr. Wu was also an independent non-executive director of JF Household Furnishings Limited (stock code: 776), the shares of which are listed on 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.

BIOGRAPHICAL DETAILS OF DIRECTORS

WU YAN
(Independent Non-executive Director)

Ms. Wu, aged 45, 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.

The Directors submit their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2012.

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 42 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 31.

RESERVES

Movements in the reserves of the Company during the year are set out in note 34 to the consolidated financial statements.

As at 31 December 2012, the Company had no reserves available for distribution under section 79B of the Hong Kong Companies Ordinance (2011: 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 30 to the consolidated financial statements.

SHARE CAPITAL

Details of the share capital of the Company are shown in note 33 to the consolidated financial statements. There were no movements in the share capital of the Company during the year.

REPORT OF THE DIRECTORS

GUARANTEED CONVERTIBLE NOTE

Details of guaranteed convertible note issued by a subsidiary of the Company are set out in note 31 to the consolidated financial statements.

DONATION

During the year, no charitable and other donation has been made by the Group (2011: 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:

TANG Chi Chiu (Chairman)	(appointed on 3 January 2012 and re-designated from Executive Director to Chairman on 15 May 2012)
WANG Jianguo	(re-designated from Chairman to Executive Director on 15 May 2012)
WU Zhenfang	(resigned on 15 May 2012)

Non-executive Director:

WANG Yongchang	(resigned on 3 January 2012)

Independent Non-executive Directors:

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

All Directors (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 9 and 10.

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 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 2012, 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 (the "SFO") as recorded in the register kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers 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.

The Scheme has been expired on 30 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 2012	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2012
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	139,332,000	—	—	—	139,332,000
				141,832,000	—	—	(1,500,000)	140,332,000
Consultants/Advisors	21-02-2002	21-02-2002 to 20-02-2012	0.280	13,600,000	—	—	(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	98,914,000	—	—	—	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
				484,984,000	—	—	(13,600,000)	471,384,000
			total:	**626,816,000**	**—**	**—**	**(15,100,000)**	**611,716,000**

REPORT OF THE DIRECTORS

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	07-03-2009	69,666,000
	07-03-2010	69,666,000

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

Date of grant	Date of vesting	No. of share options vested
21-02-2002	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	83,979,500
	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 2012, 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 2012, 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 2012, 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 2012:

(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	16%
— five largest customers combined	88%

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 20 to 28.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the audited consolidated financial statements for the year ended 31 December 2012.

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.

AUDITORS

The consolidated financial statements for the year ended 31 December 2012 have been audited by HLB Hodgson Impey Cheng Limited.

HLB Hodgson Impey Cheng Limited were appointed as Auditors on 22 June 2012 to fill the vacancy caused by the resignation of HLB Hodgson Impey Cheng. The consolidated financial statements for the two years ended 31 December 2011 and 2010 were audited by HLB Hodgson Impey Cheng.

By Order of the Board

Tang Chi Chiu
Chairman

Hong Kong, 28 March 2013

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE

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

To ensure continued compliance with the Corporate Governance Code (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 2012, 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 established 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 five members with a wide range of business, financial, accounting and legal 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. There were five Board meetings held during the year. Changes to the Board during the year as well as the number of Board meetings held and attended by each individual Director (including attendance via telephone conference) during his/her respective term of office in the year are as follows:

		Number of Board meetings held during the Director's term of office in 2012	Number of meetings attended
Executive Directors:			
TANG Chi Chu (Chairman)	appointed on 3 January 2012 and re-designated as Chairman on 15 May 2012	5	2
WANG Jianguo (ex-Chairman)	resigned as Chairman on 15 May 2012	5	5
WU Zhengfang (ex-Executive Director)	resigned on 15 May 2012	3	3
Non-executive Director:			
WANG Yongchang (ex-Non-executive Director)	resigned on 3 January 2012	0	0
Independent Non-executive Directors:			
KWOK Chung On	appointed on 16 January 2012	5	2
WU Chi Keung	appointed on 3 January 2012	5	2
WU Yan		5	5
PANG Wai Hong (ex-Independent Non-executive Director)	resigned on 3 January 2012	0	0
GENG Xiaobing (ex-Independent Non-executive Director)	resigned on 3 January 2012	0	0

The Company held its annual general meeting on 22 June 2012 and were attended by Mr. Tang Chi Chiu, Mr. Wang Jianguo, Mr. Wu Chi Keung and Ms. Wu Yan.

The biographical details of each existing Director are set out on pages 9 and 10.

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 Mr. Wang Jianguo, an Executive Director.

Directors' training

Upon joining the Company, each newly appointed Director is provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's affairs as well as his/her responsibilities under relevant statues, laws, rules and regulations. The Directors are also provided with updates on latest development and changes in Listing Rules and other relevant legal and regulatory requirements from time to time.

Pursuant to the revised CG Code which was effective on 1 April 2012, the Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. For the period from 1 April 2012 to 31 December 2012, all Directors have participated in appropriate continuous professional development activities either by attending training courses or by reading materials relevant to the Company's business or to the Directors' duties and responsibilities.

BOARD COMMITTEES

The Board is now supported by four committees — the Audit Committee, the Remuneration Committee, the Nomination Committee and the Corporate Governance Committee. Each of the Committees has defined terms of reference covering its constitution, duties and authorities. The terms of reference of the Audit Committee, the Remuneration Committee and the Nomination 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. There were two Audit Committee meetings held during the year. Changes of the members during the year as well as the number of Audit Committee meetings held and attended by each individual member (including attendance via telephone conference) during his/her respective term of office in the year are as follows:

		Audit Committee meeting held/ attended
WU Chi Keung (Chairman)	appointed on 3 January 2012	2/2
KWOK Chung On	appointed on 16 January 2012	2/2
WU Yan		2/2
PANG Wai Hong (ex-Audit Committee Chairman)	resigned on 3 January 2012	0/0
WANG Yongchang (ex-Audit Committee member)	resigned on 3 January 2012	0/0
GENG Xiaobing (ex-Audit Committee member)	resigned on 3 January 2012	0/0

Remuneration Committee

The Remuneration Committee is principally responsible for recommending to the Board on the Company's remuneration policy and structure for the 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, there were no changes to the remuneration policy and the remuneration packages of the Directors and senior management.

The Remuneration Committee currently comprises two members, with Mr. Wu Chi Keung as chairman and Mr. Kwok Chung On as member, both of which are Independent Non-executive Directors. No Remuneration Committee meeting was held during the year.

Nomination Committee

The Nomination Committee is principally responsible for reviewing the structure, size and composition of the Board; making recommendations on any proposed changes to the Board for implementation of the Company's corporate strategy; identifying and nominating appropriate candidates as Board members; assessing the independence of Independent Non-executive Directors; recommending to the Board on succession planning for Chairman and Chief Executive Officer.

The Nomination Committee was formed on 30 March 2012 and currently comprises two members, with Mr. Wu Chi Keung as chairman and Mr. Kwok Chung On as member, both of which are Independent Non-executive Directors. No Nomination Committee meeting was held during the year.

Corporate Governance Committee

The Corporate Government Committee is principally responsible for developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board; reviewing and monitoring the training and continuous professional development of Directors and senior management; reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements; developing, reviewing and monitoring the Company's Internal Control Manual; reviewing the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

The Corporate Governance Committee was formed on 30 March 2012 and currently comprises five members, with Mr. Wu Chi Keung (Independent Non-executive Director) as chairman and Mr. Tang Chi Chiu (Chairman and Executive Director), Mr. Wang Jianguo (Executive Director), Mr. Kwok Chung On (Independent Non-executive Director) and Ms. Wu Yan (Independent Non-executive Director) as members. No Corporate Governance Committee meeting was held during the year.

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 organisations 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/or 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 authorising 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 from time to time. 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 Issuers 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 2012.

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 2012, the Directors have selected suitable accounting policies; made judgments and estimates that are prudent, fair and reasonable.

The statement of the Auditors of the Company regarding their reporting responsibilities is set out in the Independent Auditors' Report on pages 29 and 30.

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.

During the year, as part of the Company's commitment to strengthen the Group's internal control system and a key step towards the resumption of trading of the Company's shares, the Company has engaged SHINEWING to perform the Independent Internal Control Review. SHINEWING has identified a number of deficiencies in the internal control systems of the Group and made recommendations to the management of the Company for improvement. The Group has adopted those measures recommended by SHINEWING and is in the course of implementing these recommendations.

AUDITORS' FEES

The Company's current external Auditors are HLB Hodgson Impey Cheng Limited. For the year ended 31 December 2012, 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.

COMPANY SECRETARY

During the year, the Company Secretary of the Company was Mr. Chan Chun Ho, who was a qualified professional staff provided by an external service provider, and his primary corporate contact person at the Company was Mr. Wang Jianguo, an Executive Director.

Mr. Chan Chun Ho resigned on 20 March 2013 and the Board appointed Mr. Lam Sung Him, Gaston ("Mr. Lam") as the Company Secretary of the Company with effect from that date.

CONSTITUTIONAL DOCUMENTS

During the year, the Company has made amendments to its articles of association in order to bring the constitution of the Company in line with current amendments made to the Listing Rules. The major amendments are as follows:

- introducing new code provision in the CG Code regarding the length of notice of general meetings;
- all resolutions at general meetings of the Company shall be decided by poll other than resolution which relates purely to a procedural or administrative matter;

- subject to certain exceptions, a Director shall not vote on any board resolution approving any contract or arrangement or any other proposal in which he/she or any of his/her associates has a material interest nor shall he be counted in the quorum present at the meeting;
- if a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter shall be dealt with by a physical Board meeting rather than a written resolution;
- no longer permit a Director to disregard 5% interests when considering whether the Director has material interest which would prevent him from forming part of the quorum or voting at Board meeting;
- allowing Directors to send summarised financial statements to shareholders;
- allowing and ascertaining the service of notice of other document by electronic communication; and
- reflecting the restriction on proxy form as not to preclude the use of two-way form.

Details of the amendments were set out in the circular issued by the Company on 23 May 2012.

SHAREHOLDERS' RIGHTS

Convening extraordinary general meeting ("EGM")

Shareholders holding not less than one-twentieth (i.e. 5%) of the paid-up capital and carrying the right of voting at a general meeting of the Company can deposit a written request to convene an EGM (stating the objects of the meeting and shareholders concerned) at the register office of the Company for the attention of the Company Secretary. If the Directors do not within twenty one days from the date of the deposit of a request (after being verified to be valid) proceed to convene an EGM for a day not more than twenty eight days after the date on which the notice convening the EGM is given, the shareholders concerned, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene an EGM, but any EGM so convened shall not be held after the expiration of three months from the date of the deposit of the request.

Putting forward proposals at shareholders' meetings

To put forward proposals at shareholders' meeting, a request in writing must be made by:

(a) shareholders holding not less than one-fortieth (i.e. 2.5%) of the total voting rights of all shareholders having the right to vote at the meeting; or

(b) not less than fifty shareholders holding shares in the Company on which there has been paid up an average sum, per shareholder, of not less than HK$2,000,

to the Company to give to shareholders notice of any resolution which may properly be moved and is intended to be moved at an annual general meeting, or to circulate to shareholders any statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at any general meeting.

The written request must be signed by all the shareholders concerned in one or more documents in like form and deposited at the registered office of the Company for the attention of the Company Secretary not less than six weeks before the meeting in the case of a requisition requiring notice of a resolution, and not less than one week before the meeting in the case of any other requisition. Upon the request verified to be valid, the Company will give notice of the resolution or circulate the statement provided that the shareholders concerned have deposited a sum reasonably sufficient to meet the Company's expenses in regard thereto.

If a shareholder of the Company intends to propose a person other than a Director of the Company for election as a Director of the Company at any general meeting, the shareholder concerned shall lodge with the registered office of the Company for the attention of the Company Secretary (i) a written notice of his intention to propose that person for election as a Director; and (ii) a written notice by that person of his/her willingness to be elected; together with the necessary information within the period commencing no earlier than the day after the dispatch of the notice of the general meeting and ending no later seven days prior to the date of such general meeting.

Enquiries to the Board

Enquiries may be put to the Board at the registered office of the Company at Unit 3001, 30/F, Hopewell Centre, 183 Queen's Road East, Hong Kong (email: contact@renjimedical.com).

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.

By Order of the Board

Tang Chi Chu
Chairman

Hong Kong, 28 March 2013

國衛會計師事務所有限公司
HLB Hodgson Impey Cheng Limited

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 have audited 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 31 to 99, which comprise the consolidated and Company statements of financial position as at 31 December 2012, 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. 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness

INDEPENDENT AUDITORS' REPORT

of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

BASIS OF QUALIFIED OPINION

Our audit opinion on the consolidated financial statements of the Group for the year ended 31 December 2011, which form the basis for the corresponding figures presented in the current year's consolidated financial statements, was disclaimed because of the significance of the possible effects of the inability to obtain sufficient appropriate audit evidence of our audit, details of which are set out in our audit report dated 28 February 2012. We are unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to whether the net assets of the Group as at 31 December 2011 and the results and cash flows and the related disclosures in the notes to the consolidated financial statements of the Company and of the Group for the year ended 31 December 2011 were fairly stated. Any adjustment found to be necessary may affect the net assets of the Company and the Group as at 31 December 2011 and the results and cash flows and the related disclosures in the notes to the consolidated financial statements. 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 2012, the opening balances of the accumulated losses of the Group and the Company as at 1 January 2012, the Group's result for the year ended 31 December 2012 and the related disclosures thereof in the consolidated financial statements.

QUALIFIED OPINION

In our opinion, except for the possible effects of the matter described in the Basis of Qualified Opinion paragraph, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng Limited
Chartered Accountants
Certified Public Accountants

Hon Koon Fai, Alex
Practising Certificate Number: P05029

Hong Kong, 28 March 2013

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	Notes	2012 *HK$'000*	2011 *HK$'000*
Turnover	7	**134,438**	152,302
Cost of services		**(40,293)**	(68,677)
Gross profit		**94,145**	83,625
Other gains and losses	9	**13,559**	(1,411)
Administrative expenses		**(47,428)**	(58,931)
Impairment loss on property, plant and equipment	18	**—**	(93,285)
Impairment loss on other intangible assets	21	**—**	(66,876)
Impairment loss on assets classified as held for sale	27	**—**	(125,638)
Finance costs	10	**(3,306)**	(2,988)
Profit/(loss) before taxation		**56,970**	(265,504)
Income tax	11	**4,291**	(1,385)
Profit/(loss) for the year	12	**61,261**	(266,889)
Profit/(loss) for the year attributable to:			
Owners of the Company		**61,261**	(266,889)
Non-controlling interests		**—**	—
		61,261	(266,889)
Earnings/(loss) per share attributable to owners of the Company (HK cents)	16		
— Basic		**0.45**	(1.97)
— Diluted		**0.45**	(1.97)

All of the Group's operations are classified 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 2012

	2012 *HK$'000*	2011 *HK$'000*
Profit/(loss) for the year	**61,261**	(266,889)
Other comprehensive income for the year, net of tax		
Exchange differences on translating foreign operations	**—**	30,962
Total comprehensive income/(loss) for the year	**61,261**	(235,927)
Total comprehensive income/(loss) for the year attributable to:		
Owners of the Company	**61,261**	(235,927)
Non-controlling interests	**—**	—
	61,261	(235,927)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	18	**167,137**	143,894
Land use right	19	**3,884**	3,970
Other intangible assets	21	**84,537**	93,466
Promissory note receivable	24	**—**	450
Deposit paid for acquisition of property, plant and equipment	18	**67,681**	56,880
		323,239	298,660
Current assets			
Land use right	19	**86**	86
Promissory note receivable	24	**478**	—
Trade receivables	25	**46,947**	77,808
Other receivables, prepayments and deposits	25	**175,830**	28,234
Amount due from a non-controlling shareholder of a subsidiary		**5,556**	—
Tax recoverable		**—**	994
Cash and bank balances	26	**115,980**	49,706
		344,877	156,828
Assets classified as held for sale	27	**—**	142,593
		344,877	299,421
Current liabilities			
Other payables and accruals	28	**32,998**	39,234
Amount due to a director	29	**5,250**	—
Tax payable		**2,730**	—
Borrowings	30	**93,691**	105,026
Guaranteed convertible note	31	**1,000**	1,000
		135,669	145,260
Liabilities directly associated with assets classified as held for sale	27	**—**	12,345
		135,669	157,605
Net current assets		**209,208**	141,816
Total assets less current liabilities		**532,447**	440,476

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current liability			
Deferred tax liabilities	32	**5,647**	6,041
Net assets		**526,800**	434,435
CAPITAL AND RESERVES			
Share capital	33	**1,354,511**	1,354,511
Reserves		**(858,822)**	(920,076)
Equity attributable to owners of the Company		**495,689**	434,435
Non-controlling interests		**31,111**	—
Total equity		**526,800**	434,435

The consolidated financial statements were approved and authorised for issue by the board of directors (the "Board" or the "Directors") on 28 March 2013 and are signed on its behalf by:

TANG CHI CHIU	**WANG JIANGUO**
Director	*Director*

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

STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	18	**910**	1,295
Investments in subsidiaries	22	**287**	8,639
Amounts due from subsidiaries	22	**316,353**	312,944
Promissory note receivable	24	**—**	450
		317,550	323,328
Current assets			
Promissory note receivable	24	**478**	—
Other receivables, prepayments and deposits	25	**1,894**	3,102
Cash and bank balances	26	**1,748**	2,534
		4,120	5,636
Current liabilities			
Other payables and accruals	28	**16,667**	11,869
Amount due to a director	29	**5,250**	—
Amounts due to subsidiaries	22	**43,901**	43,906
Borrowings	30	**93,691**	105,026
		159,509	160,801
Net current liabilities		**(155,389)**	(155,165)
Total assets less current liabilities		**162,161**	168,163
Net assets		**162,161**	168,163
CAPITAL AND RESERVES ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Share capital	33	**1,354,511**	1,354,511
Reserves	34	**(1,192,350)**	(1,186,348)
Total equity		**162,161**	168,163

The financial statements were approved and authorised for issue by the Directors on 28 March 2013 and are signed on its behalf by:

TANG CHI CHIU
Director

WANG JIANGUO
Director

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to owners of the Company									
	Share capital	**Share premium**	**Capital redemption reserve**	**Share option reserve**	**Exchange translation reserve**	**Guaranteed convertible note-equity component reserve**	**Accumulated losses**	**Sub-total**	**Non-controlling interests**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
	(Note 33)	(Note 34(i))	(Note 34(i))	(Note 34(ii))	(Note 34(iii))	(Note 34(iv))				
At 1 January 2011	1,354,511	981,866	1,899	37,462	132,597	36	(1,838,001)	670,370	—	670,370
Loss for the year	—	—	—	—	—	—	(266,889)	(266,889)	—	(266,889)
Other comprehensive income for the year:										
Exchange difference on translating foreign operations	—	—	—	—	30,962	—	—	30,962	—	30,962
Total comprehensive income/(loss) for the year	—	—	—	—	30,962	—	(266,889)	(235,927)	—	(235,927)
Release upon maturity of guaranteed convertible note	—	—	—	—	—	(36)	36	—	—	—
Lapse of share options	—	—	—	(2,047)	—	—	2,047	—	—	—
Transaction cost attributable to issue of ordinary shares in prior year	—	(8)	—	—	—	—	—	(8)	—	(8)
At 31 December 2011 and 1 January 2012	**1,354,511**	**981,858**	**1,899**	**35,415**	**163,559**	**—**	**(2,102,807)**	**434,435**	**—**	**434,435**
Profit and total comprehensive income for the year	**—**	**—**	**—**	**—**	**—**	**—**	**61,261**	**61,261**	**—**	**61,261**
Transaction cost attributable to issue of ordinary shares	**—**	**(7)**	**—**	**—**	**—**	**—**	**—**	**(7)**	**—**	**(7)**
Non-controlling interests arising from incorporation of a subsidiary	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**31,111**	**31,111**
At 31 December 2012	**1,354,511**	**981,851**	**1,899**	**35,415**	**163,559**	**—**	**(2,041,546)**	**495,689**	**31,111**	**526,800**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
Cash flows from operating activities		
Profit/(loss) before taxation	**56,970**	(265,504)
Adjustments for:		
Finance costs	**3,306**	2,988
Interest income	**(447)**	(191)
Depreciation of property, plant and equipment	**17,965**	35,926
Amortisation of land use right	**86**	86
Amortisation of other intangible assets	**8,929**	23,612
Impairment loss on other intangible assets	**—**	66,876
Write-off of property, plant and equipment	**82**	2,948
Loss on disposal of property, plant and equipment	**7**	—
Impairment loss on property, plant and equipment	**—**	93,285
Gain on disposal of promissory note	**—**	(1,000)
Impairment loss on assets classified as held for sale	**—**	125,638
Write-off of trade receivables	**—**	809
Bad debts written back	**(466)**	—
Exchange (gain)/loss on borrowings and interest payable	**(12,672)**	5,796
Operating cash flows before movements in working capital	**73,760**	91,269
Decrease in trade receivables	**31,327**	9,130
Increase in other receivables, prepayments and deposits	**(93,085)**	(2,542)
(Decrease)/increase in other payables and accruals	**(9,440)**	5,293
Increase in amount due to a director	**5,250**	—
Cash generated from operations	**7,812**	103,150
Interest received	**419**	163
Interest paid	**—**	(646)
Income tax paid	**(4,724)**	(10,121)
Net cash generated from operating activities	**3,507**	92,546
Cash flows from investing activities		
Purchase of other intangible assets	**—**	(1,511)
Purchase of property, plant and equipment	**(8,255)**	(22,221)
Deposit paid for acquisition of property, plant and equipment	**(42,430)**	(56,880)
Proceeds from disposal of property, plant and equipment	**3**	—
Proceeds from disposal of assets classified as held for sale	**87,901**	—
Net cash generated from/(used in) investing activities	**37,219**	(80,612)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
Cash flows from financing activities		
Repayment of bank loan	—	(17,283)
Transaction cost attributable to issue of ordinary shares	(7)	(8)
Capital contribution from a non-controlling shareholder of a subsidiary	31,111	—
Advance to a non-controlling shareholder of a subsidiary	(5,556)	—
Net cash generated from/(used in) financing activities	25,548	(17,291)
Net increase/(decrease) in cash and cash equivalents	66,274	(5,357)
Cash and cash equivalents at the beginning of the year	49,706	60,087
Effect of foreign exchange rate changes	—	(5,024)
Cash and cash equivalents at the end of the year	115,980	49,706
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	115,980	49,706

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

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 42.

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 consider 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 and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for annual periods beginning on or after 1 January 2012.

HKFRS 1 (Amendments)	First-time Adoption of Hong Kong Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
HKFRS 7 (Amendments)	Financial Instruments: Disclosures — Transfers of Financial Assets
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets

The Directors anticipate that the application of these new and revised HKFRSs has no material impact on the results and the financial position of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

New and revised HKFRSs in issue but not yet effective

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

HKFRS 1 (Amendments)	Government Loans[2]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HKFRS 7 (Amendments)	Disclosures — Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 9 and HKFRS 7 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[4]
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements Disclosure of Interests in Other Entities: Transition Guidance[2]
HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment Entities[3]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[1]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[3]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2009–2011 Cycle[2]
HK(IFRIC)—Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

[1] Effective for annual periods beginning on or after 1 July 2012.
[2] Effective for annual periods beginning on or after 1 January 2013.
[3] Effective for annual periods beginning on or after 1 January 2014.
[4] Effective for annual periods beginning on or after 1 January 2015.

HKFRS 9 Financial Instruments

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

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

New and revised HKFRSs in issue but not yet effective — continued

HKFRS 9 Financial Instruments — continued

Key requirements of HKFRS 9 are described below:

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

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

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

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

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

New and revised HKFRSs in issue but not yet effective — continued

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. HK (SIC)-Int 12 *Consolidation — Special Purpose Entities* will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures*. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK (SIC)-Int 13 *Jointly Controlled Entities — Non-monetary Contributions by Venturers* will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate consolidation.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided all of these standards are applied at the same time.

The Directors anticipate that the application of these five standards will have no impact to the Group's consolidated financial statements.

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

New and revised HKFRSs in issue but not yet effective — continued

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 *Financial Instruments: Disclosures* will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Directors anticipate that the application of the new standard may affect certain amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

HKFRS 7 and HKAS 32 (Amendments) Offsetting Financial Assets and Financial Liabilities and the Related Disclosures

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

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

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

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

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

New and revised HKFRSs in issue but not yet effective — continued

HKAS 1 (Amendments) Presentation of Items of Other Comprehensive Income

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

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

Annual Improvements to HKFRSs 2009–2011 Cycle issued in June 2012

The Annual Improvements to HKFRSs 2009–2011 Cycle include a number of amendments to various HKFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to HKFRSs include:

- amendments to HKAS 1 Presentation of Financial Statements;
- amendments to HKAS 16 Property, Plant and Equipment; and
- amendments to HKAS 32 Financial Instruments: Presentation.

HKAS 1 (Amendments)

HKAS 1 requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position). The amendments to HKAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

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

New and revised HKFRSs in issue but not yet effective — continued

Annual Improvements to HKFRSs 2009–2011 Cycle issued in June 2012 — continued

HKAS 16 (Amendments)

The amendments to HKAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in HKAS 16 and as inventory otherwise. The Directors do not anticipate that the amendments to HKAS 16 will have a significant effect on the Group's consolidated financial statements.

HKAS 32 (Amendments)

The amendments to HKAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 *Income Taxes*. The Directors anticipate that the amendments to HKAS 32 will have no effect on the Group's consolidated financial statements.

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

3. PRINCIPAL ACCOUNTING POLICIES — continued

(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.

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

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.

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, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interest in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried 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 Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). 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 assets or liabilities 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 arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree 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.

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, where applicable, on the basis specified in another HKFRS.

3. PRINCIPAL ACCOUNTING POLICIES — continued

(d) Business combinations — continued

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 against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period (which cannot exceed one year from the acquisition date) about facts and circumstances that existed as of 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 is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's 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. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit, 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 income statement. 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 profit or loss on disposal.

(f) Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control (i.e. 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.

3. PRINCIPAL ACCOUNTING POLICIES — continued

(g) Revenue recognition

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

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

Service income is recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time 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 on initial recognition.

(h) Property, plant and equipment

Property, plant and equipment are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets (other than construction in progress) less their residual values over their useful lives, 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%

3. PRINCIPAL ACCOUNTING POLICIES — continued

(h) Property, plant and equipment — continued

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 recognised 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 the disposal or retirement of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

(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 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.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. PRINCIPAL ACCOUNTING POLICIES — continued

(j) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised 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 that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

For the purposes of presenting 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) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, 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 (attributable to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

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 recognised in equity under the heading of 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 are assets that necessary take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

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.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before tax" as reported in the consolidated income statement because of items of income or expense that are taxable or deductible in other years and 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 by the end of reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. 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 deferred tax 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.

3. PRINCIPAL ACCOUNTING POLICIES — continued

(m) Taxation — continued

Deferred tax — continued

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.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(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 recognised 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)).

3. PRINCIPAL ACCOUNTING POLICIES — continued

(o) Financial instruments

Financial assets and financial liabilities are recognised 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. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. 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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument 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 debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at fair value through profit or loss.

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. Loans and receivables (including trade receivables, promissory note receivable, other receivables, prepayments and deposits, amount due from a non-controlling shareholder of a subsidiary and cash and bank balances) are carried at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

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.

The objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, 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 of 180 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's 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 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 receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in 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 instruments

Classification as financial liabilities or equity

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

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 (including all fees and points 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 liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than financial liabilities classified as fair value through profit or loss.

3. PRINCIPAL ACCOUNTING POLICIES — continued

(o) Financial instruments — continued

Financial liabilities and equity instruments — continued

Guaranteed convertible note

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

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

In subsequent periods, the liability component of the guaranteed convertible note 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 note — equity component reserve until it is exercised (in which case the balance stated in guaranteed convertible note — equity component reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in guaranteed convertible note — 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 note 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 note using the effective interest method.

Other financial liabilities

Other financial liabilities (including other payables and accruals, amount due to a director and borrowings) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

An equity instruments is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

3. PRINCIPAL ACCOUNTING POLICIES — continued

(o) Financial instruments — continued

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, 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 in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. 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 income statement 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.

3. PRINCIPAL ACCOUNTING POLICIES — continued

(p) Share-based payment transactions — continued

Equity-settled share-based payment transactions — continued

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.

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.

3. PRINCIPAL ACCOUNTING POLICIES — continued

(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 with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) 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 (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

(r) Cash and cash equivalents

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

(s) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past events; it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. PRINCIPAL ACCOUNTING POLICIES — continued

(t) Related parties

A party is considered to be related to the Group if:

(1) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group.

(2) An entity is related to the Group if any of the following condition applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third party.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsorship employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (1).

(vii) A person identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

3. PRINCIPAL ACCOUNTING POLICIES — continued

(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, expect for investment properties which are measured at fair value.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The followings are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material misstatement to the carrying amounts of assets and liabilities within the next financial year.

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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY — continued

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.

Impairment of other intangible assets and property, plant and equipment

Determining whether 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 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 and 21, respectively.

Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will accordingly be adjusted in the relevant tax account in the year in which such determination is made.

Useful lives of property, plant and equipment

In accordance with HKAS 16, the Group estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service output of the assets. The Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid.

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 note which were disclosed in Notes 30 and 31 respectively, and equity attributable to owners of the Company, comprising issued share capital and reserves.

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

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial assets				
Loans and receivables:				
— Trade receivables	**46,947**	77,808	**—**	—
— Other receivables, prepayments and deposits	**175,830**	28,234	**1,894**	3,102
— Amount due from a non-controlling shareholder of a subsidiary	**5,556**	—	**—**	—
— Amounts due from subsidiaries	**—**	—	**316,353**	312,944
— Promissory note receivable	**478**	450	**478**	450
— Cash and bank balances	**115,980**	49,706	**1,748**	2,534
	344,791	156,198	**320,473**	319,030
Financial liabilities				
At amortised cost:				
— Other payables and accruals	**32,998**	39,234	**16,667**	11,869
— Amount due to a director	**5,250**	—	**5,250**	—
— Amounts due to subsidiaries	**—**	—	**43,901**	43,906
— Borrowings	**93,691**	105,026	**93,691**	105,026
— Guaranteed convertible note	**1,000**	1,000	**—**	—
	132,939	145,260	**159,509**	160,801

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, other receivables, prepayments and deposits , promissory note receivable, amount due from a non-controlling shareholder of a subsidiary, cash and bank balances, other payables and accruals, amount due to a director, borrowings and guaranteed convertible note. The Company's major financial instruments include other receivables, prepayments and deposits, promissory note receivable, amounts due from subsidiaries, cash and bank balances, other payables and accruals, amount due to a director, 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 2012 and 2011, 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 and the statement of financial position; and

- the amount in relation to financial guarantees issued by the Company as at 31 December 2012 and 2011 as disclosed in Note 39.

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.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers.

In addition, the Group and the Company have gross promissory note receivable in connection with the disposal of jointly-controlled entities amounting to HK$478,000 (2011: HK$450,000), which expose the Group and the Company to the concentration 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 16% (2011: 28%) and 88% (2011: 70%) 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) Foreign currency risk management

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	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Liabilities				
Japanese Yen ("JPY")	**93,691**	105,026	**93,691**	105,026

Foreign currency sensitivity analysis

At 31 December 2012 and 2011, 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 Hong Kong dollars 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 an increase in profit/a decrease in loss where HK$ strengthens 5% against the JPY. For a 5% weakening of Hong Kong dollars against the JPY, there would be an equal and opposite impact on the profit/loss and the balances below would be negative.

	Impact of JPY			
	The Group		The Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Profit or loss (note)	**4,685**	5,251	**4,685**	5,251

Note:

This is mainly attributable to the exposure outstanding on payables denominated in JPY not subject to cash flow hedge at the end of the reporting period.

6. FINANCIAL INSTRUMENTS — continued

(b) Financial risk management objectives and policies — continued

(ii) Market risk — continued

(ii) Interest rate risk management

The Group's fair value interest rate risk relates primarily to promissory note receivable and fixed-rate guaranteed convertible note (see Notes 24 and 31 respectively for details). The Group currently does not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group's cash flow interest rate risk relates primarily to variable-rate bank balances and variable-rate borrowings (see Notes 26 and 30 respectively for details).

Interest rate 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 profit for the year ended 31 December 2012 would increase by HK$102,000 (2011: loss would increase by HK$290,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank balances and borrowings.

6. FINANCIAL INSTRUMENTS — continued

(b) Financial risk management objectives and policies — continued

(ii) Market risk — continued

(iii) Liquidity risk management

The Group has net current assets as at 31 December 2012 and 2011. 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.

The following tables detail the Group's and the Company's remaining 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	Over 1 year	Total undiscounted cash flows	Carrying amount
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
2012					
Borrowings	**2.475%**	**93,691**	**—**	**93,691**	**93,691**
Other payables and accruals	**2.475%**	**32,998**	**—**	**32,998**	**32,998**
Amount due to a director	**—**	**5,250**	**—**	**5,250**	**5,250**
Guaranteed convertible note	**5.000%**	**1,000**	**—**	**1,000**	**1,000**
		132,939	**—**	**132,939**	**132,939**
2011					
Borrowings	2.475%	105,026	—	105,026	105,026
Other payables and accruals	2.475%	39,234	—	39,234	39,234
Guaranteed convertible note	5.000%	1,000	—	1,000	1,000
		145,260	—	145,260	145,260

6. FINANCIAL INSTRUMENTS — continued

(b) Financial risk management objectives and policies — continued

(ii) Market risk — continued

(iii) Liquidity risk management — continued

The Company

	Weighted average effective interest rate	On demand or within 1 year	Over 1 year	Total undiscounted cash flows	Carrying amount
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
2012					
Amounts due to subsidiaries	**—**	**43,901**	**—**	**43,901**	**43,901**
Borrowings	**2.475%**	**93,691**	**—**	**93,691**	**93,691**
Other payables and accruals	**2.475%**	**16,667**	**—**	**16,667**	**16,667**
Amount due to a director	**—**	**5,250**	**—**	**5,250**	**5,250**
		159,509	**—**	**159,509**	**159,509**
Financial guarantee issued — maximum amount granted		**1,000**	**—**	**1,000**	**—**
2011					
Amounts due to subsidiaries	—	43,906	—	43,906	43,906
Borrowings	2.475%	105,026	—	105,026	105,026
Other payables and accruals	2.475%	11,869	—	11,869	11,869
		160,801	—	160,801	160,801
Financial guarantee issued — maximum amount granted		1,000	—	1,000	—

6. FINANCIAL INSTRUMENTS — continued

(c) Fair value of financial instruments

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

(i) The fair values 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 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.

(iii) The fair values of other financial assets and financial liabilities (excluding those described above) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The Directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate to their fair values.

Fair value measurements recognised in the consolidated statement of financial position

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 quoted 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 and the Company 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 years.

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 2012 and 2011 represented the leasing and service income from operations of medical equipment.

8. SEGMENT INFORMATION

During the years ended 31 December 2012 and 2011, 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 2012 and 2011.

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

For the year ended 31 December 2011, there were 3 customers with whom transactions have exceeded 10% of the Group's revenues, which amounted to approximately HK$41,482,000, HK$32,043,000 and HK$20,819,000, respectively.

9. OTHER GAINS AND LOSSES

	2012 ***HK$'000***	2011 *HK$'000*
Interest income on:		
Bank balances	**419**	163
Promissory note receivable	**28**	28
	447	191
Loss on disposal of property, plant and equipment	**(7)**	—
Write-off of property, plant and equipment	**(82)**	(2,948)
Gain on disposal of promissory note	**—**	1,000
Exchange gain, net	**12,672**	—
Bad debts written back	**466**	—
Others	**63**	346
	13,559	(1,411)

10. FINANCE COSTS

	2012	2011
	HK$'000	*HK$'000*
Interest on:		
Bank borrowings wholly repayable within five years	**—**	596
Loans from a former intermediate holding company and a former fellow subsidiary wholly repayable within five years	**3,256**	2,334
Guaranteed convertible note (Note 31)	**50**	58
	3,306	2,988

11. INCOME TAX

	2012	2011
	HK$'000	*HK$'000*
PRC Enterprise income tax	**8,448**	9,460
Deferred taxation	**(12,739)**	(8,075)
Tax (credit)/charge for the year	**(4,291)**	1,385

No Hong Kong profits tax has been provided as the Group did not have assessable profits arising in Hong Kong during the year (2011: 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 2012 and 2011. Pursuant to the relevant laws and regulations in the PRC, a subsidiary of the Company is in its third year of 50% reduction of PRC Enterprise income tax for three years.

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11. INCOME TAX — continued

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

	2012	2011
	HK$'000	*HK$'000*
Profit/(loss) before taxation	**56,970**	(265,504)
Taxation at Hong Kong statutory income tax rate of 16.5% (2011: 16.5%)	**9,400**	(43,808)
Tax effect of income not taxable for tax purpose	**(19,277)**	(4,669)
Tax effect of expenses not deductible for tax purpose	**4,815**	46,004
Tax effect of tax losses not recognised	**2,212**	3,028
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	**(1,179)**	717
Release of withholding taxes of dividend	**—**	(2,353)
(Over)/under provision of profits tax in prior year	**(262)**	2,466
Tax (credit)/charge for the year	**(4,291)**	1,385

12. PROFIT/(LOSS) FOR THE YEAR

	2012	2011
	HK$'000	*HK$'000*
Profit/(loss) for the year has been arrived at after charging:		
Depreciation of property, plant and equipment (Note 18)	**14,408**	27,451
Depreciation of jointly-controlled assets (Note 18)	**3,557**	8,475
Amortisation of other intangible assets included in cost of services (Note 21)	**8,929**	23,612
Amortisation of land use right (Note 19)	**86**	86
Total depreciation and amortisation	**26,980**	59,624
Auditors' remuneration	**1,237**	1,237
Write-off of trade receivables	**—**	809
Exchange loss, net	**—**	1,472
Employee benefit expenses, including directors' emoluments (Note 13):		
— salaries and other benefits	**22,342**	25,928

13. DIRECTORS' EMOLUMENTS

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

For the year ended 31 December 2012

	Tang Chi Chiu *HK$'000* (Note (a))	Wang Jianguo *HK$'000*	Wu Chi Keung *HK$'000* (Note (a))	Kwok Chung On *HK$'000* (Note (b))	Wu Yan *HK$'000*	Pang Wai Hong *HK$'000* (Note (c))	Wang Yongchang *HK$'000* (Note (c))	Geng Xiaobing *HK$'000* (Note (c))	Wu Zhenfang *HK$'000* (Note (d))	Total *HK$'000*
Directors										
— fees	144	—	120	120	100	—	—	—	37	521
— salaries and other benefits	—	600	—	—	—	—	—	—	106	706
— employer's contribution to pension scheme	—	—	—	—	—	—	—	—	—	—
	144	600	120	120	100	—	—	—	143	1,227

For the year ended 31 December 2011

	Wang Jianguo *HK$'000* (Note (e))	Wu Zhenfang *HK$'000*	Wu Yan *HK$'000* (Note (e))	Pang Wai Hong *HK$'000*	Wang Yongchang *HK$'000*	Geng Xiao Bing *HK$'000*	Sui Xueqing *HK$'000* (Note (f))	Wang Jianjun *HK$'000* (Note (f))	Ding Nan *HK$'000* (Note (f))	Total *HK$'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

Notes:

(a) Appointed on 3 January 2012.

(b) Appointed on 16 January 2012.

(c) Resigned on 3 January 2012.

(d) Resigned on 15 May 2012.

(e) Appointed on 14 June 2011.

(f) Resigned on 14 June 2011.

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 2012 and 2011. None of the Directors has waived any emolument during the year ended 31 December 2012 and 2011.

14. EMPLOYEES' AND SENIOR MANAGEMENT EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, one (2011: two) was/were Directors of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining four individuals (2011: three) were as follows:

	2012	2011
	HK$'000	*HK$'000*
Salaries and other benefits	**4,413**	2,129
Employer's contribution to pension scheme	**48**	27
Total	**4,461**	2,156

The emoluments of the four (2011: three) non-director individuals with the highest emoluments were within the following bands:

	2012	2011
	No. of employees	*No. of employees*
Nil to HK$1,000,000	**2**	2
HK$1,000,001 to HK$1,500,000	**1**	1
HK$1,500,001 to HK$2,000,000	**0**	0
HK$2,000,001 to HK$2,500,000	**1**	0

There is no emolument paid by the Group to any of the five highest paid individuals and senior management as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2012 and 2011. None of the five highest paid individuals and senior management has waived any emolument during the years ended 31 December 2012 and 2011.

15. DIVIDEND

The Directors do not recommend the payment of any dividend for the year ended 31 December 2012 (2011: HK$Nil).

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

The calculation of the basic earnings/(loss) per share is based on the earnings/(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 earnings/(loss) per share is based on the earnings/(loss) for the year attributable to owners of the Company, adjusted to reflect the interest on the guaranteed convertible note, 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 earnings/(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 earnings/(loss) per share attributable to owners of the Company is based on the following data:

Earnings/(loss)

	2012	2011
	HK$'000	*HK$'000*
Profit/(loss) for the purpose of basic earnings/(loss) per share	**61,261**	(266,889)
Interest on guaranteed convertible note*	**—**	—
Profit/(loss) for the purpose of diluted earnings/(loss) per share	**61,261**	(266,889)

Number of shares

	2012	2011
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	**13,545,113**	13,545,113
Effect of diluted potential ordinary shares:		
— Share options*	**—**	—
— Guaranteed convertible note*	**—**	—
Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share	**13,545,113**	13,545,113

* The guaranteed convertible note and share options have an anti-dilutive effect on the basic earnings/(loss) per share of the Group for the years ended 31 December 2012 and 2011. Accordingly, the effect of the guaranteed convertible note and share options was not included in the calculation of diluted earnings/(loss) per share for the years ended 31 December 2012 and 2011.

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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$5,995,000 (2011: HK$22,528,000) 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 2011		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
Additions		89	—	35,123	195	1,069	78	4,746	41,300
Disposals		—	—	—	(12)	—	(6)	—	(18)
Write-off		(126)	—	(821)	(162)	—	—	—	(1,109)
At 31 December 2012		4,368	4,926	474,201	1,245	5,186	313	16,968	507,207
Accumulated depreciation and impairment									
At 1 January 2011		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
Provided for the year	12	896	236	15,974	195	602	62	—	17,965
Eliminated upon disposals		—	—	—	(5)	—	(3)	—	(8)
Write-off		(69)	—	(818)	(140)	—	—	—	(1,027)
At 31 December 2012		1,509	394	335,945	397	1,668	157	—	340,070
Carrying amount									
At 31 December 2012		**2,859**	**4,532**	**138,256**	**848**	**3,518**	**156**	**16,968**	**167,137**
At 31 December 2011		3,723	4,768	119,110	877	3,051	143	12,222	143,894

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 2012 were jointly-controlled assets of HK$31,481,000 (2011: HK$34,863,000). Details of the financial information of the jointly-controlled assets are set out in Note 23.

For medical equipment pledged for banking facilities, please refer to Note 37.

At 31 December 2012 and 2011, the relevant licenses were obtained for all of the Group's medical equipment.

During the year ended 31 December 2012, the Group carried out a review of the recoverable amount of the medical equipment. These assets are used in the Group's medical network business segment. No impairment loss was recognised in the consolidated income statement for the year ended 31 December 2012 (2011: HK$93,285,000). 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 14.72% (2011: 19.04%) 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 2011	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
Additions	—	11	—	77	88
Disposals	—	(12)	—	(6)	(18)
Write-off	(13)	(34)	—	—	(47)
At 31 December 2012	518	370	677	312	1,877
Accumulated depreciation					
At 1 January 2011	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
Provided for the year	163	45	169	62	439
Eliminated upon disposals	—	(5)	—	(4)	(9)
Write-off	(5)	(17)	—	—	(22)
At 31 December 2012	223	221	366	157	967
Carrying amount					
At 31 December 2012	**295**	**149**	**311**	**155**	**910**
At 31 December 2011	466	207	480	142	1,295

As at 31 December 2012 and 2011, the deposits balance of the Group represented deposits paid for acquisition of items of property, plant and equipment.

19. LAND USE RIGHT

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Carrying amount:		
At 1 January	**4,056**	3,948
Exchange realignment	**—**	194
Amortisation of land use right (Note 12)	**(86)**	(86)
At 31 December	**3,970**	4,056
Analysed for reporting purpose as:		
Non-current assets	**3,884**	3,970
Current assets	**86**	86
	3,970	4,056

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

20. GOODWILL

	HK$'000
The Group	
Cost	
At 1 January 2011, 31 December 2011, 1 January 2012 and 31 December 2012	661,428
Accumulated impairment	
At 1 January 2011, 31 December 2011, 1 January 2012 and 31 December 2012	661,428
Carrying amount	
At 31 December 2012	**—**
At 31 December 2011	—

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.

20. GOODWILL — continued

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 5-year period, and discount rate of per 14.72% annum. The cash flows beyond the 5-year period are extrapolated using an annual growth rate of 3%. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted leasing and service income and gross margin, such estimation is based on the CGU's past performance and management's expectations for the market development.

The Directors reassessed the recoverable amount of CGU as at 31 December 2012 by reference to the valuation as at 31 December 2012 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. These calculations resulted in a value in use amount higher than the carrying amount of all the underlying assets of CGU as at 31 December 2012.

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.

21. OTHER INTANGIBLE ASSETS

	HK$'000
The Group	
Cost	
At 1 January 2011	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 and 2012	312,138
Accumulated amortisation and impairment	
At 1 January 2011	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
Provided for the year (Note 12)	8,929
At 31 December 2012	227,601
Carrying amount	
At 31 December 2012	**84,537**
At 31 December 2011	93,466

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 6 to 22 years (2011: 7 to 23 years).

At 31 December 2012 and 2011, the relevant licenses were obtained for all of those medical equipment which underlie the Group's other intangible assets.

During the year ended 31 December 2012, the Group carried out a review of the recoverable amount of the contract based other intangible assets related to underlying medical equipment. No impairment loss was recognised in the consolidated income statement for the year ended 31 December 2012 (2011: HK$66,876,000). 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 14.72% (2011: 19.04%) per annum.

22. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2012	2011
	HK$'000	*HK$'000*
Unlisted shares, at cost	**985,263**	985,263
Less: impairment losses recognised	**(984,976)**	(976,624)
	287	8,639
Amounts due from subsidiaries	**728,037**	732,981
Less: impairment losses recognised	**(411,684)**	(420,037)
	316,353	312,944

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 42.

An accumulated allowance of impairment for investment costs and amounts due from subsidiaries of HK$984,976,000 (2011: HK$976,624,000) and HK$411,684,000 (2011: HK$420,037,000) respectively was provided as at 31 December 2012 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 2012, the Group entered into certain arrangements with third parties to acquire/retain interests of ranging from 40% to 70% (2011: 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	
	2012	2011
	HK$'000	*HK$'000*
Non-current assets (Note 18)	**31,481**	34,863
Income	**44,821**	63,419
Expenses (Note 12)	**3,557**	8,475

24. PROMISSORY NOTE RECEIVABLE

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 note receivable as at 31 December 2012 represented the fair value of the promissory note at the time of initial recognition of HK$344,000 and the net interest receivables of the Company of HK$134,000 (2011: HK$106,000). The average effective interest rate of the promissory notes receivables is 6.18% per annum (2011: 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 had 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	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade receivables	**46,947**	77,808	**—**	—
Other receivables, prepayments and deposits	**175,830**	28,234	**1,894**	3,102
	222,777	106,042	**1,894**	3,102

The Group generally allows an average credit period of 180 days (2011: 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	
	2012	2011
	HK$'000	*HK$'000*
0–180 days (neither past due nor impaired)	**46,947**	70,754
181–270 days (1 to 3 months past due)	**—**	7,054
	46,947	77,808

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

At 31 December 2012, trade receivables of HK$46,947,000 (2011: HK$70,754,000) are neither past due nor impaired. The Group considers the credit quality of the trade receivables within the credit limit set by the Group using the internal assessment taking into account of the repayment history and financial difficulties (if any) of the trade debtors and did not identify any credit risk on these trade receivables. Included in the Group's trade receivables balance of HK$Nil (2011: HK$7,054,000) at 31 December 2012 were past due at 31 December 2012 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.

Included in other receivables, prepayments and deposits of approximately HK$108,642,000 are refundable deposits paid to a number of investment consulting companies.

26. CASH AND BANK BALANCES

The Group's bank balances of HK$114,149,000 (2011: HK$47,123,000) carried variable-rate interest at 0.35%–3.05% per annum (2011: 0.001%–0.5% per annum).

At the end of reporting period, the bank balances and cash of the Group denominated in RMB amounted to HK$114,232,000 (2011: HK$47,163,000). 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	
	2012	2011
	HK$'000	*HK$'000*
Property, plant and equipment (Note 18)	—	76,347
Other intangible assets (Note 21)	—	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 equipment as at 31 December 2011. The Group is on 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 classified as held for sale as at 31 December 2011.

The disposal was completed during the year ended 31 December 2012.

28. OTHER PAYABLES AND ACCRUALS

Included in the Group's other payables and accruals as at 31 December 2012 and 2011 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 (2011: 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 considered that no further provision was required as at 31 December 2012 and 2011.

29. AMOUNT DUE TO A DIRECTOR

The amount due to a director is unsecured, interest-free and repayable on demand.

30. BORROWINGS

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Unsecured interest-bearing borrowings				
Loan from former intermediate holding Company (Note (a))	**13,461**	15,089	**13,461**	15,089
Loan from a former fellow subsidiary (Note (b))	**80,230**	89,937	**80,230**	89,937
	93,691	105,026	**93,691**	105,026

As at 31 December 2012 and 2011, total current borrowings were repayable as follows:

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
On demand or within one year shown under current liabilities	**93,691**	105,026	**93,691**	105,026

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 note issued in August 2002 (Note 31).

(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 note issued in August 2002 (Note 31).

The effective interest rate on the Group's borrowings denominated in Japanese Yen was 2.475% (2011: 2.475%) per annum.

31. GUARANTEED CONVERTIBLE NOTE

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Carrying amount of liability component of guaranteed convertible note issued/extended on:		
— 28 August 2008 ("2011 5% Notes") (Note (a))	**1,000**	1,000
Less: Amounts due within one year shown under current liabilities	**(1,000)**	(1,000)
Amounts due after one year shown under non-current liabilities	**—**	—

The guaranteed convertible note was 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 note.

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

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

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

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Carrying amount at the beginning of the year	**1,000**	992
Interest accrued		
— Imputed interest	**—**	41
— Overdue interest	**—**	17
Interest paid	**—**	(50)
Carrying amount at the end of the year	**1,000**	1,000

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31. GUARANTEED CONVERTIBLE NOTE — continued

Notes:

(a) On 28 August 2002, SIIS Treasury Limited issued HK$156,400,000 5% guaranteed convertible note 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 note whereby the maturity date of the outstanding convertible note 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 note matured on 29 August 2011. According to the guaranteed convertible note agreement, the holder could not exercise conversion to shares of the Company after maturity date. Therefore, the amount of guaranteed convertible note — equity component reserve of approximately HK$36,000 was released to accumulated losses during the year ended 31 December 2011.

As at 31 December 2012, the outstanding principal amount of the 2011 5% Notes was HK$1,000,000 (2011: HK$1,000,000).

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

32. 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 2011	2,353	23,040	25,393
Charged/(credited) to consolidated income statement for the year:			
— 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
Credited to consolidated income statement for the year:			
— release upon amortisation of other intangible assets	—	(394)	(394)
At 31 December 2012	**—**	**5,647**	**5,647**

At the end of reporting period, the Group had unused tax losses of HK$314,776,000 (2011: HK$301,424,000) 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 2012 and 2011.

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33. SHARE CAPITAL

	The Company			
	2012		2011	
	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

34. RESERVES OF THE COMPANY

	Share premium	**Capital redemption reserve**	**Share option reserve**	**Guaranteed convertible note-equity component reserve**	**Accumulated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note (i))	(Note (i))	(Note (ii))	(Note (iv))		
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 and 1 January 2012	981,858	1,899	35,415	—	(2,205,520)	(1,186,348)
Loss for the year	—	—	—	—	(5,995)	(5,995)
Transaction cost attributable to issue of ordinary shares	(7)	—	—	—	—	(7)
At 31 December 2012	**981,851**	**1,899**	**35,415**	**—**	**(2,211,515)**	**(1,192,350)**

Notes:

(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.

34. RESERVES OF THE COMPANY — continued

(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 note — equity component reserve

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

35. 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, was expired 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 2012, the number of shares in respect of which options was granted and remained outstanding under the Scheme was 611,716,000 (2011: 626,816,000), representing 4.5% (2011: 4.6%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 30% of the shares of the Company in issue at any point in time. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. An option may be exercised in accordance with terms of the Scheme at any time during a period to be notified by the Board to each grantee, such period of time not exceeding 10 years from the date of grant of the option.

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

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35. SHARE-BASED PAYMENTS — continued

The options outstanding at 31 December 2012 had the weighted average exercise price of HK$0.138 (2011: HK$0.142) and weighted average remaining contractual life of 4.1 years (2011: 5.0 years).

The following table discloses movements of the Company's share options during the year ended 31 December 2012:

					Number of share options				
Grantee	**Date of grant**	**Vesting period**	**Exercisable period**	**Exercise price per share** *HK$*	**At 1 January 2012**	**Granted during the year**	**Exercised during the year**	**Lapsed during the year**	**At 31 December 2012**
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	26-04-2007 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
					141,832,000	—	—	(1,500,000)	140,332,000
Consultants/Advisors	21-02-2002	21-02-2002 to 21-02-2005	21-02-2002 to 20-02-2012	0.280	13,600,000	—	—	(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	98,914,000	—	—	—	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
					484,984,000	—	—	(13,600,000)	471,384,000
				TOTAL:	626,816,000	—	—	(15,100,000)	611,716,000
Weighted average exercise price					0.142	—	—	0.280	0.138
Exercisable at the end of the year									611,716,000

35. SHARE-BASED PAYMENTS — continued

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

Grantee	Date of grant	Vesting period	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 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	26-04-2007 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

* 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).

The Group had fully amortised the fair value of the share options previously granted, which was calculated using Black-Scholes Option Pricing Model over the relevant vesting period in previous years. Accordingly, no amount was charged as an equity-settled share-based payment expense in consolidated income statement for the years ended 31 December 2012 and 2011.

36. OPERATING LEASE COMMITMENTS

The Group as lessee

Minimum lease payments paid under operating leases:

	2012	2011
	HK$'000	*HK$'000*
Premises	**2,956**	3,240
Servicing contracts for medical equipment	**6,049**	5,062
	9,005	8,302

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

	2012	2011
	HK$'000	*HK$'000*
Within one year	**3,320**	2,540
In the second to fifth years inclusive	**3,048**	3,045
Over five years	**—**	28
	6,368	5,613

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 six 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 (2011: 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.

37. PLEDGE OF ASSETS

Banking facilities of approximately HK$37,037,000 (equivalent to RMB30,000,000) are secured by pledge of the Group's medical equipment with aggregate carrying value of HK$13,009,000 and assets classified as held for sale with an aggregate carrying value of HK$22,222,000 as at 31 December 2011. As at 31 December 2011, approximately HK$37,037,000 banking facilities were unused. No assets of the Group was pledged and all banking facilities were released as at 31 December 2012.

38. COMMITMENTS

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Contracted for but not provided in respect of acquisition of property, plant and equipment	**4,959**	13,535

39. GUARANTEES

As further disclosed in Note 31(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.

40. 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 before June 2012 and HK$1,250 per month on and after June 2012. 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$307,000 (2011: HK$261,000) 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.

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41. 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) 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.

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2012 are as follows:

Name of subsidiaries	Place of incorporation	Issued and fully paid share capital/ registered	Proportion of nominal value of issued share capital 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
Tianjin Anping Medical Treatment Technology Co., Ltd.	PRC	RMB4,000,000	—	100%	Leasing of medical equipment and provision of services on operations of medical equipment
Wuhu Puhui Medical Investment Management Co., Ltd.	PRC	RMB55,440,000	—	54.55%	Leasing of medical equipment and provision of services on operations of medical equipment

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

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

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$31,810,000 which were settled by deposit paid to acquisition of property, plant and equipment paid during the year ended 31 December 2011 (2011: HK$22,086,000).

(b) There is interest payable of approximately HK$3,306,000 which were included in other payables and accruals of the Group as at 31 December 2012 (2011: HK$2,334,000).

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 2012.

45. RECLASSIFICATION OF COMPARATIVES

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

FIVE YEARS FINANCIAL SUMMARY

RESULTS

For the year ended 31 December

	2008 *HK$'000*	2009 *HK$'000*	2010 *HK$'000*	2011 *HK$'000*	**2012** ***HK$'000***
Turnover — continuing operations	207,600	180,834	177,549	152,302	**134,438**
Continuing operations:					
Profit/(loss) before taxation	58,037	(567,335)	(408,449)	(265,504)	**56,970**
Income tax	(5,915)	6,355	32,879	(1,385)	**4,291**
Profit/(loss) for the year from continuing operations	52,122	(560,980)	(375,570)	(266,889)	**61,261**
Discontinued operations:					
Profit for the year from discontinued operations	1,789	—	—	—	**—**
Profit/(loss) for the year	53,911	(560,980)	(375,570)	(266,889)	**61,261**
Profit/(loss) attributable to:					
— Owners of the Company	53,911	(560,980)	(375,570)	(266,889)	**61,261**
— Non-controlling interests	—	—	—	—	**—**
	53,911	(560,980)	(375,570)	(266,889)	**61,261**

ASSETS AND LIABILITIES

As at 31 December

	2008 *HK$'000*	2009 *HK$'000*	2010 *HK$'000*	2011 *HK$'000*	**2012** ***HK$'000***
Total assets	1,671,836	1,243,270	844,664	598,081	**668,116**
Total liabilities	(236,328)	(232,020)	(174,294)	(163,646)	**(141,316)**
Net assets	1,435,508	1,011,250	670,370	434,435	**526,800**
Equity attributable to owners of the Company	1,435,508	1,011,250	670,370	434,435	**495,689**
Non-controlling interests	—	—	—	—	**31,111**
	1,435,508	1,011,250	670,370	434,435	**526,800**