CATHAY INTERNATIONAL HOLDINGS LIMITED

BUILDING MOMENTUM

Annual Report 2011

Contents

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Executive Director and Chairman of the Executive and Remuneration Committees

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Stephen B. Hunt
Non-executive Deputy Chairman

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Introduction

Cathay International Holdings Limited ("CIH") is an investment holding company and a leading investor in the growing healthcare sector in the People's Republic of China (the "PRC"). Taking advantage of the strong and growing domestic demand for high quality healthcare products in China, the Company and its subsidiaries (collectively the "Group") aim to identify high growth investment opportunities and build them into market sector leaders, with a clear exit strategy.

CIH's business portfolio includes:

Healthcare	
Lansen Group	The market leader in China of rheumatic medicines and a leading specialty pharmaceutical company in China, primarily engaged in the development, manufacture and sale of Western rheumatic specialty prescription medicines. Lansen also focuses on building collaborations with other pharmaceutical companies to help strengthen and expand its portfolio, specifically in the autoimmune related disease area.
Haotian Group	Engaged in the manufacture, marketing and sale of key active ingredients for healthcare products. The Group is building Haotian to become one of the largest producers of inositol in the world. Haotian focuses on identifying new products, which not only have good growth potential but also maintain synergies with Haotian's production and marketing expertise.
Research and Product Development	Botai and Longbai engaged in research and product development. Currently working to launch two new healthcare related entrants to the Chinese market.

Private equity investment	
Cathay International Capital ("CIC")	Private equity investment arm of CIH. Exploring exciting minority investment opportunities, in both private and public companies with an emphasis on the healthcare sector.

Hotel	
The Crowne Plaza Hotel & Suites Landmark Shenzhen	A leading luxury business hotel in the Lowu district of Shenzhen in the PRC. Managed by Intercontinental Hotels Group.

Chairman's Statement

A year of building momentum

During the year, the Group worked on major expansion projects at both Lansen and Haotian and broadened our product portfolios to achieve economies of scale and build momentum for future growth. The Group also focused on managing our cost base and improving operation efficiency against an inflationary environment in China. Haotian completed the expansion of its inositol and phytin facilities and restructured its non-inositol business to identify curcumin as a product for further growth. Lansen started the expansion of its herbal extracts facilities to increase the raw material supply for Pafulin and other health care products.

Total sales of Lansen's three core products, Pafulin, Tuoshu, and MMF, registered a 28.8% growth over a year ago. Lansen signed a collaborative agreement with Ethypharm, an European pharmaceutical company, to market and distribute their ketoprofen/omeprazole capsules in China, its first agency arrangement with a multinational company. Haotian has been selling its trial production output to target customers at market prices. Haotian is in discussions with potential customers on annual sales contracts in preparation for the nearing commercial production. Haotian would seek to establish market share through competitive cost advantages. Revenue of the Hotel increased 31.8% to approximately USD12 million. This was mainly due to an improvement in room occupancy to 54.6% and increase in average room rate to USD135. Botai expects to receive the production license for its collagen product in the first half of 2012.

In 2011, the Group recorded revenues growth of 12.0% to USD91.4 million up from USD81.6 million last year. The Group's gross profits grew by 14.5% to USD46.8 million (2010: USD40.9 million). Profits attributable to owners of the parent increased to USD1.4 million (2010: USD0.9 million).

The global economic growth, affected by the Euro zone debt crisis, slowed down to 3.8% in 2011, compared to 5.2% a year ago. The world financial markets have become more volatile since May 2011 and risks sharply escalated, resulting in declining equity markets and widening credit spreads. The global economic uncertainty has dented demand for goods exported from China. However, the Chinese government has shifted its focus to increase the domestic consumer demand rather than building exports in its 12th Five-Year Plan (2011-2015). Unlike Europe and the US, China has had to tighten its money supply and issue a series of control measures to rein in inflation and an overheated real estate market. In 2011, the Chinese economy still registered a 9.2% growth, down from 10.4% in 2010.

Healthcare is one of the sectors in China that benefit from the 12th Five-Year Plan. The Chinese government is committed to providing affordable healthcare and aiming at achieving 20% year-on-year growth in the pharmaceutical industry. In parallel with this, the Chinese government continues to control drug prices. Pharmaceutical companies see lower profit margins and depend on volume increases to grow. China's inflation peaked at 6.5% in July 2011 and stood at 5.8% towards year end after People's Bank of China raising interest rates three times. The inflation, along with various tax hikes, caused major increases in the Group's labor and raw material costs.

Facing the strong market growth and even stronger cost pressures, the Group's strategy has been to focus on managing its cost base, improving efficiency, and cautiously investing in new facilities across all its businesses to position its businesses in a competitive way so that they can capture the right opportunities through further market penetration.

Outlook

2012 will be a year of challenges and opportunities. A prolonged Euro debt crisis would limit the world economy growth and dampen demands for our exports. However, the cool down in the Chinese economy could also reduce inflation pressure on our cost structure. Our funding costs could increase due to widened credit spread resulting from a fragile banking system. On the other hand, the weak equities markets are also likely to provide us with more investment and acquisition opportunities this year for inorganic growth. With the momentum in our businesses, we will continue to drive growth while putting emphasis on efficiency, internal control and risk management.

Lansen will further diversify its product range through in-house product development, acquisitions and collaboration with multinational companies. It will improve its cost structure through better scale and further upstream integration.

Achieving operation efficiency and capturing market shares will be Haotian's priorities for its core products. We anticipate Haotian to make significant contributions to the Group's earnings this year when it begins to market inositol and DCP in commercial quantities, and when the restructuring of its non-inositol business shows results.

Once Botai receives its production license in the first half of 2012, it will begin sales and marketing of its collagen product towards end of 2012.

The Hotel will focus on bringing more corporate clients while achieving a better room rate along with the Shenzhen market.

CIC plans to widen its investment scope and explore new opportunities that will create synergies with the Group's current portfolio. Investments in both public and private companies will be considered.

On behalf of the board, I am grateful for your continued support of CIH and would like to thank all of our employees for their contributions in a demanding year 2011.

Sum Soon Lim
Chairman

Operation Review

FINANCIAL REVIEW

Since the beginning of 2011, the Chinese economy began to show signs of inflation. While both Lansen and the Hotel achieved strong revenue growths, their cost base, in both raw materials and labor, jumped and offset part of contributions from the additional revenues. Competition also intensified. The pharmaceutical industry went through a much more rigorous bidding process, with lower winning bids, due to the Government's medical reform program. In Shenzhen, the Hotel was affected by several new additions of international luxury hotels.

Lansen initiated series of strategic moves to strengthen its long term competitiveness, including establishing a plantation base in Anhui, expanding its plant extract capacity, signing its first foreign drugs agency agreement, and reducing its marketing expense ratio.

The Hotel enhanced its training and upgraded two of its food and beverages outlets to counter the new entrants. The management also remodeled the dormitory and the employee cafeteria to create an attractive working environment. Through quality service and proactive marketing, the Hotel gained recognition among individual travelers.

Haotian dedicated most of its resources to the construction of the inositol project. Management completed the construction of both Gongzhuling and Dunhua plants and focused on trial production and improving the operation efficiency. Haotian also reviewed its non-inositol business to identify products which it has either a manufacturing or marketing advantage for its future growth. Haotian is ready to build market shares in its four key products, inositol, DCP, bilberry and curcumin in 2012, and become a significant profit contributor to the Group going forward.

GROUP RESULTS

(Stated in USD'000)	Health Care Lansen Group	Health Care Haotian Group	Health Care Research & Product Development	Hotel Operations	Corporate Office	Total
For the year ended 31 December 2011						
Segment revenue	74,475	4,995	–	11,915	–	91,385
Segment gross profit	44,387	756	–	1,627	–	46,770
Segment operating profit/(loss)	13,942	(1,946)	(880)	1,286	(2,198)	10,204
Segment finance costs	(459)	(316)	–	(786)	(530)	(2,091)
Segment share of post-tax profit of associate	1,941	–	–	–	145	2,086
Segment profit/(loss) before income tax	15,424	(2,262)	(880)	500	(2,583)	10,199
Segment income tax expense	(2,695)	(1)	–	–	–	(2,696)
Segment profit/(loss) for the year before non-controlling interests	12,729	(2,263)	(880)	500	(2,583)	7,503
Segment profit/(loss) for the year attributable to owners of the parent	6,552	(2,239)	(802)	500	(2,583)	1,428
For the year ended 31 December 2010						
Segment revenue	58,607	13,983	–	9,040	–	81,630
Segment gross profit	38,433	1,109	–	1,313	–	40,855
Segment operating profit/(loss)	12,952	(2,431)	(756)	1,070	(1,038)	9,797
Segment finance costs	(388)	(303)	–	(897)	(929)	(2,517)
Segment share of post-tax profit of associate	221	–	–	–	17	238
Segment profit/(loss) before income tax	12,785	(2,734)	(756)	173	(1,950)	7,518
Segment income tax expense	(2,572)	(9)	–	–	–	(2,581)
Segment profit/(loss) for the year before non-controlling interests	10,213	(2,743)	(756)	173	(1,950)	4,937
Segment profit/(loss) for the year attributable to owners of the parent	6,084	(2,737)	(679)	173	(1,950)	891

Operation Review

The Group's revenue recorded a 12.0% increase to USD91,385,000 (2010: USD81,630,000). This reflected the continued growth in Lansen which, through its core products and modern Chinese medicines, increased 27.1% in revenue to USD74,475,000 (2010: USD58,607,000), and in the Hotel which revenue grew 31.8% to USD11,915,000 (2010: USD9,040,000). Haotian ceased or reduced to a limited scale manufacturing of all non-inositol products other than bilberry. As a result, its revenue dropped by 64.3% to USD4,995,000 (2010: USD13,983,000).

The Group's gross profits increased by 14.5% or USD5,915,000 to USD46,770,000 (2010: USD40,855,000). This was primarily due to the contribution from Lansen which gross profits increased by 15.5% or USD5,954,000 to USD44,387,000 (2010: USD38,433,000), although at a lower margin compared to 2011.

The Group's operating profits rose by USD407,000 to USD10,204,000 (2010: USD9,797,000). However, the combined operating profits of Lansen, Haotian and the Hotel, reached USD13,282,000, a 14.6% increase over last year's USD11,591,000, which was partially offset by an increase in corporate office expenses of USD1,160,000 (described below).

The Group's finance costs reduced by 16.9% to USD2,091,000 (2010: USD2,517,000) despite of an increase in our total borrowings. As the new borrowings were mainly for our expansion capital expenditure, part of the interest expenses were capitalised (2011: USD571,000 compared to 2010: USD325,000). The lower average borrowing costs at 2.41% (2010: 2.61%) also contributed to the reduction.

The Group's profit for the year attributable to owners of the parent recorded an increase of USD537,000 to USD1,428,000 (2010: USD891,000). The increase mainly came from the full year contribution of Starry, a 21.5% owned associate company that was acquired in November 2010.

Corporate office expenses

The corporate office expenses for the year were USD2,198,000 (2010: USD1,038,000) after a recognition of other income USD2,431,000 arising on maturity of loan receivables. Last year's corporate office expenses included the reversal of an expired warranty provision of £2,000,000 (or USD3,198,000) under the terms of the sale of Stonehill Industrial Park in 2003.

Excluding such one-off items, corporate office expenses for the year were USD4,629,000 (2010: USD4,236,000). The change came from an increase in salaries and amortisation of share options granted under the Company's share option plan.

Group's Net Assets and Gearing

The Group's net assets as at 31 December 2011 were USD200,177,000 (2010: USD189,400,000). Net assets per share as at 31 December 2011 were USD0.53 (2010: USD0.50).

To fund expansion, the Group increased its net bank borrowings to USD106,139,000 (2010: USD89,023,000), out of which USD10.0 million related to Lansen and USD7.1 million related to Haotian. Net gearing reached 44.4%, up from 33.5%. As of year-end 2011, short term borrowings were USD114,511,000 (2010: USD45,409,000). The management is actively discussing with banks to renew or extend existing facilities while exploring options to secure long term funding during the next twelve to eighteen months. Banks indicated preliminary interest to extend their facilities.

OPERATION REVIEW

HEALTH CARE BUSINESSES

The Lansen Group

Lansen's revenue increased by 27.1% to USD74,475,000 (2010: USD58,607,000). Revenue from rheumatic specialty prescription western pharmaceuticals amounted to USD49.1 million (2010: USD40.6 million), an increase of 21.1% over 2010, while revenue from other pharmaceuticals amounted to USD25.3 million (2010: USD18.0 million), an increase of 40.5% over 2010.

Revenue growth in rheumatic specialty prescription western pharmaceuticals was driven by 20.4% growth in Pafulin, 32.6% in Tuoshu and 343.2% in MMF (launched in May 2010). MMF, with its highly efficient and unique immunosuppressive effect and harmlessness to liver and kidneys, is used in the treatment of systemic lupus erythematous and lupus related kidney diseases. MMF generated revenue of USD2.1 million in 2011 (2010: USD0.5 million). It is on track to become another major revenue contributor. Revenue growth in other pharmaceuticals was primarily due to a 58.0% growth in modern Chinese medicines.

Lansen's core products

Lansen's top line growth was fueled by a growing population of patients suffering from autoimmune rheumatic diseases, increasing access to healthcare insurance and greater spending power. Both rounds of drug price control measures in last year, which affected antibiotics, cardiovascular, hormonal, endocrine and nervous system drugs, did not impact Lansen's specialty drugs.

Operation Review

To further enhance Pafulin's market leadership, Lansen has taken a series of strategic steps. In October 2011, Pafulin was awarded a National Torch Program Certificate by The Ministry of Science and Technology of the PRC. Endorsement from this program will significantly increase brand awareness and is expected to positively impact Pafulin's market position and help drive further sales growth.

Lansen started the expansion of its plant extract capacity to meet the future demand increase in Pafulin. The new facility, to be completed by 2013, will double the current capacity of Pafulin and other herbal healthcare products, providing more cost advantages to Lansen.

Lansen has established a white peony plantation base in Bozhou, Anhui Province. By integrating upstream, Lansen wishes to get a GAP ("Good Agriculture Practices") status for Pafulin, thus ensure better product quality. Lansen also wants to create better access to suppliers and market intelligence.

Lansen Pafulin production facility

Lansen's gross profit increased by 15.5% to USD44,387,000 (2010: USD38,433,000). However, its gross profit margin decreased to 59.6% in 2011 (2010: 65.6%), a drop of 6.0% in margin. The gross profit margin of Pafulin decreased from 81.4% to 77.0% while Tuoshu, the agency product maintained its gross profit margin at 78.1% (2010: 78.0%). The decrease in gross profit margin was mainly due to the surge in Chinese herbs prices including white peony (Pafulin's raw material) since 2010 and new taxes introduced in 2011 (effectively at 1.2% of revenue). Lansen managed to build up white peony inventory for 2010 and part of 2011 during the early part of the Chinese herbs price hike and sheltered part of its Pafulin gross margin. The white peony price began to soften towards end of 2011.

Lansen's operating profit increased by 7.6% to USD13,942,000 (2010: USD12,952,000). The operating profit margin was reduced to 18.7% (2010: 22.1%), a drop of 3.4% in margin which was better than the 6.0% decline in gross profit margin. The improvement was due to Lansen's effort to manage down its marketing and selling expenses to 33.3% of revenue (2010: 34.9%).

Lansen recorded an increase in profits after income tax by 24.6% to USD12,729,000 (2010: USD10,213,000), due to the contribution from Starry in which Lansen has a 20% equity interest. In 2011, Starry experienced strong growth in domestic as well as export sales. Starry's contribution to Lansen was USD1,941,000 (2010: USD221,000 post investment in Starry). Anticipating the increasing demand, Starry will double its iohexol annual capacity to 500 tonnes in the second quarter of 2012.

During the year, Lansen signed an exclusive agreement with Shanghai Ethypharm Pharmaceutical Co., Ltd and Ethypharm SA for the marketing and distribution in the PRC of the specialty analgesic and anti-inflammatory product, ketoprofen/omeprazole slow-release capsule. It was the first multinational agency arrangement for Lansen, a sign of recognition by global players. Lansen will continue to work with Ethypharm and other potential international partners on similar arrangements. In the beginning of 2012, Lansen also signed an exclusive distribution agreement with Shanghai Jahwa for the commercialisation of medical skin care products in the PRC. Such products will offer Lansen further penetration in the dermatology market.

The Haotian Group

In 2011, Haotian completed its expansion of the inositol production facilities with a designed annual capacity of 2,500 tonnes in Dunhua, Jilin Province. Haotian also completed the construction and trial production of its fifth phytin (raw material for inositol) plant in Gongzhuling, Jilin Province. The sixth phytin plant in Yushu, Jilin Province, to be operational by the second quarter of 2012, will support up to 75% of the designed inositol capacity. Haotian will build a seventh phytin plant, to be operational in the second half of 2012, and bring the inositol production to full capacity.

Inositol production facility in Dunhua, Jilin

Haotian's management has focused on improving production efficiency to enhance cost competitiveness. Haotian's management is discussing with potential customers regarding annual supply contracts and would seek to establish its market share through competitive cost advantages. Haotian has received the feed grade certificate for DCP and has been making sales in the domestic market in China. It is expected that Haotian will receive a food additive grade certificate for DCP in the second half of 2012.

Operation Review

In 2011, Haotian's non-inositol business revenue dropped by 64.3% to USD4,995,000 (2010: USD13,983,000) and the gross profit decreased by 31.8% to USD756,000 (2010: USD1,109,000). Due to the fast rising raw material prices, Haotian suffered operating losses in most of its non-inositol products. After reviewing its business model, Haotian stopped or reduced to a limited production of all non-inositol products other than bilberry in the first half of 2011. By eliminating unprofitable products, the gross profit margin improved from 7.9% to 15.1% this year. Haotian's operating loss reduced to USD1,946,000 (2010: USD2,431,000), in part, due to Government grants received as investment incentives.

Bilberry plant

Curcumin

In the second half of 2011, Haotian identified curcumin, an active ingredient in the yellowish Indian spice turmeric, as a new product. Curcumin has beneficial health properties including antioxidant and anti-inflammatory activities. It is commonly used as a dietary supplement as well as a spice and food-coloring agent. Healthcare bodies worldwide banned artificial color in food and curcumin is one of the EU approved natural food colorants. Curcumin is also Haotian's first step in exploring the natural food colorant market, which should reach an estimated USD1.6 billion in 2015.

Haotian completed feasibility study on curcumin and the production flow design. As Haotian is able to re-deploy its existing non-inositol facilities, with only some modification to the extraction process, curcumin production should commence in the first half of 2012.

Haotian has hired several senior managers with international management and business background, including a new Deputy Chief Executive Officer, Chief Operating Officer, Director of Sales and Director of Marketing. The management team is empowered to streamline production efficiency, drive business growth and enhance operation controls.

Research and Product Development

Operating loss in research and product development division increased from USD756,000 last year to USD880,000 in 2011. The increase was mainly due to increase in labor costs.

Botai is at the final stage of applying for the production license of its collagen product. The license should be granted in the first half of 2012. Botai is currently preparing for the production and sales of collagen as injectable cosmetic filler.

Longbai completed the clinical trial of misoprostol (used for inducing labor). Longbai is preparing application for the production license, which involves modifying production facilities, producing batch samples and arranging various regulatory inspections. The licensing process could take two to three years.

Cathay International Capital ("CIC")

With the depressed equities markets and tightened credit supply, we expect more opportunities this year. CIC plans to widen its investment scope and explore opportunities that will create synergies with the Group's current portfolio.

CIC's core focus will remain within the healthcare industry, which is one of the sectors that will receive a major boost from the China's 12th Five Year Plan. CIC is also reviewing opportunities in the healthcare related agricultural processing industry and the cosmaceuticals industry that could complement Haotian and Botai.

CIC will explore green technology and recycling and environment protection industries which will also benefit from the 12th Five Year Plan.

CIC will also consider minority investments in public companies operating in the sectors described, whenever attractive opportunities arise.

Operation Review

Hotel operations

Revenue of the Hotel increased 31.8% to USD11,915,000 (2010: USD9,040,000). This was mainly due to an improvement in room occupancy to 54.6% (2010: 43.8%) and increase in average room rate to USD135 (2010: USD128).

Studio Room

In 2011, the Hotel built a higher end business client base and increased coverage over local corporate clients. The Hotel achieved a growth rate of 24.7% in room occupancy, compared to the Shenzhen industry average of 2.7%.

The Hotel's gross profits increased by 23.9% to USD1,627,000 (2010: USD1,313,000), and operating profits increased 20.2% to USD1,286,000 (2010: USD1,070,000). The gross profit margin declined to 13.7% (2010: 14.5%) and the operating profit margin declined to 10.8% (2010: 11.8%). This was mainly due to a 28.9% increase in salaries and wages and related costs under regulatory requirements.

Colliers International (Hong Kong) Ltd, an independent firm of qualified professional valuers revalued the Hotel at USD129,000,000 (2010: USD122,000,000). The increase in revaluation was mainly due to better performance of the hotel in 2011.

The Shenzhen market has seen an increase in average room rate in 2012 as more high-end international hotels entered the market. The Hotel should also benefit from better market awareness. We expect the average room rate to improve further. Although three new hotels totaling over 900 rooms are expected to open this year, the Hotel will continue to enroll more local corporate clients and actively promote its Landmark VIP membership program to ensure a better occupancy.

PRINCIPAL RISKS AND UNCERTAINTIES

1. Risks relating to the CIH Group

1.1 A substantial portion of the Group's businesses rely on the PRC markets

All of the Group's businesses are primarily conducted in the PRC. The Board anticipates that a substantial portion of the Group's sales will continue to be generated in the PRC. If there is a significant decline in the conditions of the PRC economy and the Group is unable to divert its sales to other markets outside the PRC, the Group's profitability and prospects will be adversely affected.

1.2 The Group's future success is dependent on successful implementation of business plans and growth strategies

The Board believes that the Group's success in the future will, besides maintaining its competitiveness in the market, also depend on its ability to implement its business plans. The business plans of the Group are based on circumstances currently prevailing and the bases and assumptions that certain circumstances will or will not occur, as well as the risks and uncertainties inherent in various stages of development. The successful implementation of such plans may be influenced by a number of factors, which may or may not be within the Group's control. Such factors include the availability of funding to finance the Group's expansion and acquisition plans, and whether the PRC market will grow at a pace as expected by the Board. There is no assurance that the Group will be successful in implementing its strategies or that its strategies, even if implemented, will lead to successful achievement of its objectives. If the Group is not able to implement its strategies effectively, its business operations and financial performance may be adversely affected.

2. Risks relating to the hotel industry

2.1 The Group faces increasing competition in the hotel industry in the PRC

The Group's hotel business in Shenzhen continues to face increasing competition. Increase in competition may have an adverse effect on both the revenues from room and food and beverage sales and the pricing policy of the Group which in turn will have an adverse effect on the profitability of the Group.

2.2 The Group is exposed to the risk of events that adversely impact domestic or international travels

The room rates and occupancy levels of the Hotel could be adversely impacted by events that reduce domestic or international travel, such as actual or threatened acts of terrorism or war, epidemics, travel-related accidents, travel-related industrial action, increased transportation and fuel costs and natural disasters, including volcanic eruptions, disrupting worldwide or local travel. A decrease in the demand for hotel rooms as a result of such events may have an adverse impact on the Group's operations and financial results.

3. **Risks relating to the health care industry**

3.1 The health care business relies on a limited number of raw material suppliers for its pharmaceutical products

The health care business has not entered into any long term raw materials supply agreements with most of its suppliers. It cannot be assured that the health care business's suppliers will continue to be able to supply raw materials at prices and on terms and conditions acceptable to the health care business in the future. In particular, availability, supply and prices of raw materials may be adversely affected by such factors as general market conditions, demand and supply for the relevant raw materials, weather or natural disasters.

Any of the foregoing factors may affect or disrupt the supply of raw materials, cause the price of raw materials to increase and result in increases to the health care business's production costs. The health care business may not be able to entirely offset increased production costs by increasing the prices of its products due to market factors or price controls established by the PRC government. In the event that the health care business's suppliers cease their supply of their respective principal raw materials to it for any reason and no suitable replacement suppliers can be identified within a reasonable period of time, the health care business operational results may be adversely affected.

3.2 The health care business may be unable to successfully obtain and enforce patent protection for its products and processes

The success of the Group's pharmaceutical projects will depend in part on whether it is able to obtain and enforce patent protection for its products and processes. No assurance can be given as to when, if at all, patent rights may be granted or that the patents granted will be sufficiently broad in their scope to provide protection and exclude competitors with similar products. Even when granted the patents may still be susceptible to revocation or attack by third parties. Furthermore, the grant of a patent is no guarantee of a monopoly of the Group to utilise that patent. In certain circumstances, a compulsory licence may be granted to a third party permitting it to exploit the Group's granted patents. For example, such a licence may be granted if a national emergency or any extraordinary state of affairs occurs or where the public interest so requires, or if it is required by a qualified third party after the expiry of three years from the grant of the Group's patent, or if a refusal by the Group to grant a third party a licence over the Group's patents is preventing that third party from exploiting its own patent which (i) is technically more advanced than a patent of the Group granted earlier and (ii) depends on the exploitation of such a patent of the Group. The strength of the Group's patent portfolio from time to time is therefore uncertain and competitors may be able to design around the Group's patents. The extent to which the Group may be able to enforce its patent rights is also uncertain.

Further, there is no assurance that no other party is developing similar products or using the same or similar processes and methods more efficiently than the Group, nor that no other party has obtained or will obtain patents for such products, processes, methods which may be broader in scope, and which would challenge the Group's ability to protect its intellectual property rights.

Litigation regarding patents and other intellectual property rights is common in the pharmaceutical industry. In the event of an intellectual property dispute, the Group may become involved in the litigation. If the Group becomes involved in any litigation, interference or other administrative proceedings, it may incur substantial expense and the efforts of its technical and management personnel may be diverted. The outcome of any such litigation is inherently uncertain. Even if the Group is successful, the litigation may be costly and time-consuming.

If a third party successfully claims an intellectual property right to the concept, methods or approach used by the Group, it may force the Group to discontinue or alter its concept, methods and approach, pay licence fees or damages or account for profits for past infringement or cease certain activities.

3.3 Certain pharmaceutical products manufactured by companies in the Lansen Group are subject to price control by PRC state and provincial authorities

Certain pharmaceutical products are subject to PRC government price control, primarily those included in the Insurance Catalogue.

Many pharmaceutical products manufactured by the Lansen Group are listed in the Insurance Catalogue and therefore subject to price controls in the PRC, which typically involve the imposition of retail price ceilings. The nature and scope of price controls may be varied by the PRC Government from time to time.

In the event that the costs of sale of products of the Lansen Group which are under the price control lists increase and/or applications for price increase are not approved by the PRC regulatory authorities, the profitability of such products may be adversely affected. The PRC Government may further expand the list of products subject to price control, which may include other pharmaceutical products of the Lansen Group not currently in the list; further lower the price ceilings; or strengthen the existing price control measures. If such changes take place, the Lansen Group's pharmaceutical business may be adversely affected.

3.4 The health care business may incur liability in connection with defective products

Under the current PRC laws, manufacturers and vendors of defective products in the PRC may incur liability for loss and injury caused by such products. Pursuant to the General Principles of the Civil Law of the People's Republic of China (the "PRC Civil Law"), which took effect in 1987, a defective product which causes property damage or physical injury to any person may expose the manufacturer or vendor of such product to civil liability for such damage or injury.

In 1993, the PRC Civil Law was supplemented by the Product Quality Law of the People's Republic of China (the "Product Quality Law"), which was enacted to protect the legitimate rights and interests of the end-users and consumers and to strengthen the supervision and control of the quality of products.

Pursuant to the Product Quality Law, manufacturers who produce defective products may be subject to criminal liability and have their business licenses revoked.

In 1993, the Law of the People's Republic of China on Protection of Consumers' Rights and Interests (the "Consumers Protection Law") was promulgated which accords further protection to the legal rights and interests of consumers in connection with the purchase or use of goods and services. At present, all business entities must observe and comply with the Consumers Protection Law in providing goods and/or consumer services. Should any product liability claims made against any companies in the Group be successful, there would be an adverse impact on their operations, their financial condition and their reputation. The Group has not maintained any product liability insurance to cover any claim in this respect.

There is no assurance that companies in the Group will not receive claims against their products, whether accidental or not. Any such claim, regardless of its merits, could result in costly litigation fees and put a strain on their administrative resources. In addition, such claims could damage their relationship with their customers and result in negative publicity.

3.5 The health care business may be unable to renew its permits and business licenses

As a pre-requisite for carrying on pharmaceutical manufacturing and distribution business in the PRC, all pharmaceutical enterprises are required to obtain certain certificates, permits and business licenses from various regulatory authorities, including a Pharmaceutical Manufacturing Enterprise Permit and/or a Pharmaceutical Distribution Enterprise Permit (also known as a Drug Supply Certificate).

The Group has obtained all requisite certificates, permits and business licenses from the relevant regulatory authorities for the manufacture and/or distribution of its pharmaceutical products. However, these certificates, permits and business licenses are subject to periodic renewal, reassessment by the relevant PRC regulatory authorities and the standards of compliance required in relation thereto may from time to time be subject to changes.

If such permits are not renewed, it will have a material adverse effect on the operation of the Group's businesses. There may be a possibility that the Group will not be able to carry on its business without such permits and business licenses being renewed. In addition, it may be costly for the Group to comply with any subsequent modification of, additions or new restrictions to, these compliance standards. Should there be any subsequent modification of, addition or new restrictions to the above compliance standards, it would impose an additional burden on the Group which will directly affect its profitability.

3.6 Agricultural based raw material prices are highly volatile

Certain raw materials of the Group's products are extracted from spices, crops and herbs. The prices of these agricultural products are very volatile, affected by the then economic, climatic and environmental conditions. Any material adverse price movement of these agricultural products may steeply increase raw material costs and reduce profitability of the Group's products.

4. Risks relating to the PRC

4.1 Exchange rate fluctuations may adversely affect the Group's profitability

The value of the Renminbi ("RMB") is subject to, among other things, changes in the PRC's political and economic conditions as well as its peg against the US dollar. Under the present unified floating exchange rate system which is largely based on market supply and demand, the People's Bank of China publishes a daily exchange rate for RMB based on the previous day's dealings in the inter-bank foreign exchange market. Under this unified floating exchange rate system, fluctuations in the exchange rates of RMB against other currencies, such as the US dollar, are to a certain extent subject to market forces.

Moreover, there is no assurance that RMB will not be subject to devaluation or depreciation due to administrative or legislative intervention by the PRC Government or adverse market movements. As most of the sales of the Group's products are settled in RMB and RMB is still not a freely convertible currency, a devaluation of RMB may adversely affect the cash flow position of the Group in the payment of dividends on the shares of Group companies.

Certain companies in the Group currently receive their revenues and make payments in RMB. However, pursuant to the Regulations on the Administration of Foreign Exchange Settlement, Payment and Sale, foreign exchange required for the payment of dividends that are payable to Shareholders may be purchased from designated foreign exchange banks upon presentation of certain documentation such as the relevant board resolutions authorising the distribution of profits or dividends of the company concerned.

Under the current foreign exchange control system, there is no assurance that sufficient foreign currency will be available at a given exchange rate, which may have a negative effect on the results of the Group.

5. Risks relating to finance

The Group is exposed to a variety of financial risks which result from its operating and investing activities. The Group's risk management is coordinated at its Hong Kong office in close cooperation with the Board of Directors and focuses on actively securing the Group's short and medium term cash flows. Details of the Group's risk management on financial risks applicable to the Group are described in note 29 to the accounts.

Corporate Governance

The Board is committed to high standards of corporate governance.

This report sets out how, with limited exceptions, the Board has applied the principles set out in the new UK Corporate Governance Code (the "Code") published by the Financial Reporting Council on 28 May 2010. The Code applies to companies listed in the UK in respect of financial years beginning on or after 29 June 2010, and a copy may be viewed at www.frc.org.uk/corporate/ukcgcode.cfm.

COMPLIANCE

Following a review of our procedures the Board concluded that, throughout the accounting period, the Group complied with the provisions of the Code with certain exceptions relating to the composition of the Board and its committees as set out below:

(i) the Company does not currently have two independent non-executive directors as recommended by the Code (provision B.1.2 of the Code). Of the non-executive directors currently appointed, only Mr. Kenneth K. Toong is independent within the criteria set out in the Code. While the chairman of a company is not considered to be independent for the purpose of the Code, Mr. Sum Soon Lim, the Company's Chairman, met the criteria for independence on his appointment to the Board, and is not involved in the day-to-day business or affairs of the Group, therefore the Board considers him to be independent. The Board considers that its size and composition and that its balance of skills and experience is appropriate for the requirements of the business at the present time, but monitors the appointments to the Board on an ongoing basis, and will continue to evaluate whether there is a need to appoint additional independent non-executive directors in the future;

(ii) there is no senior independent director (provision A.4.1 of the Code) since, as set out above, there is only one director who is considered to be independent under the Code;

(iii) the Audit Committee is also chaired by the Chairman (provision C.3.1 of the Code). While the Code provides that the chairman should not chair the audit committee because he is not considered as independent for the purpose of the Code, however as described above, the Board considers the Chairman to be independent. The Chairman provides leadership and guidance to ensure the effective running of both the Board and audit committee meetings, ensures that all agenda items are properly reviewed, discussed and put to vote and ensures the effective contribution of the Board and Audit Committee members;

(iv) the Remuneration Committee and the Audit Committee do not consist exclusively of independent non-executive Directors (provisions D.2.1 and C.3.1 of the Code). Mr. Wu Zhen Tao, an executive director, is the Chairman of the Remuneration Committee and a member of the Audit Committee. The composition of the Board's committees are monitored on an ongoing basis;

(v) there is no separate nomination committee (provision B.2.1 of the Code). The Company is a smaller company according to the definition of the Code and the Board considers that the duties and responsibilities which would be carried out by a nomination committee are already effectively handled by the Remuneration Committee and the Board; and

(vi) whilst the performance of the executive directors is reviewed by the Remuneration Committee, and the Board monitors its performance and the performance of its Committees on an ongoing basis to ensure that they continue to operate effectively, there is no formal performance evaluation of the Board, its committees and its individual directors (provision B.6.1 of the Code) as this is not considered as necessary given the small size of the Board and the Committees.

The Board believes that these exceptions are appropriate given the current size of the Group. In addition, as the Company is a smaller company below the FTSE 350 companies, certain provisions of the Code do not apply, including the requirements that:

(i) directors must be put forward for re-election annually rather than once every three years (provision B.7.1 of the Code); and

(ii) the board should be evaluated externally at least once every three years (provision B.6.2 of the Code).

APPLICATION OF PRINCIPLES

Directors

The Board

Throughout the year under review, the Board consisted of a non-executive Chairman, four executive Directors and two other non-executive Directors. The non-executive members of the Board are independent of management and any business or other relationship which could interfere with the exercise of their independent judgment.

During the year, the Board held four meetings which included reviews of the financial and business performance of the Group. Management supply the Board with appropriate and timely information and the Directors are free to seek any further information they consider necessary. All Directors have access to advice from the company secretary and independent professionals at the Group's expense.

The Board has formally delegated specific responsibilities to the Executive Committee, the Audit Committee and the Remuneration Committee. Further details concerning the committees are set out below, and the terms of reference for these committees are available on the Company's website or on request from the Company Secretary.

Attendance of individual directors at Board and Committee meetings is as follows:

	Board meetings	Audit Committee meetings	Remuneration Committee meetings
Non-executive Chairman			
Sum Soon Lim	4/4	2/2	1/1
Executive Directors			
Wu Zhen Tao	4/4	2/2	1/1
Lee Jin-Yi	4/4		
Siu Ka Chi Eric	4/4		
Patrick Sung	4/4		
Non-executive Directors			
Stephen B. Hunt	4/4		
Kenneth K. Toong	4/4	2/2	1/1

Chairman and Chief Executive Officer

The roles of Chairman and Chief Executive Officer are separated and are held by different people to ensure a clear division of responsibility. The Chairman, Sum Soon Lim, is responsible for leadership of the Board, ensuring effectiveness in all aspects of its role, reviewing the Board's agenda and conducting Board meetings, and the conduct of shareholders' meetings. The Chairman met the independence criteria set out in the Code on his appointment on 30 April 2009, and the Board considers that he continues to be independent (although the test is no longer relevant to him after his appointment under the Code). The Chief Executive Officer, Lee Jin-Yi, has responsibility for implementing the Board's strategy and managing day to day business activities of the Group with executive directors and senior managers, in particular, all significant strategies, decisions and actions will conduct through the Executive Committee.

Re-election

Directors are subject to election by shareholders at the first opportunity after their appointment. Each Director is also subject to retirement by rotation and each Director is subject to re-election at intervals of no more than three years. Non-executive Directors are appointed for specific terms subject to re-election and to the provisions set out in the Bye-laws of the Company relating to the removal of a Director. Their reappointment is not automatic. At the forthcoming Annual General Meeting, the directors retiring by rotation are Wu Zhen Tao and Stephen B. Hunt, who being eligible, offer themselves for re-election. Biographical information on the Directors is included on pages 33 to 34.

Remuneration

Details of Directors' remuneration are set out in the Directors' Remuneration Report at pages 27 to 32. The report details the Company's compliance with the Code's requirements with regard to remuneration matters. The remuneration to the executive directors comprises of share options of the Company and it is linked to corporate and individual performance.

Evaluation of Board performance

The Board recognises the importance of evaluating its performance and the performance of its committees and individual directors, so as to ensure the effective performance of the Board for the benefit of the Group. At this stage in the Company's development, the Board does not consider that a formal evaluation process is necessary, but the need for such a process is monitored on an ongoing basis, and the Board will consider instituting a formal evaluation process at the appropriate time. At present, evaluation of the executive directors is undertaken by the Remuneration Committee, and the Board monitors its performance and the performance of its Committees on an ongoing basis to ensure that they continue to operate effectively.

Relations with Shareholders

The Group values the views of its shareholders and recognises their interests in the Group's strategy and performance, Board membership and quality of management. Our management maintains regular meetings with the shareholders of the Company and keeps them informed of the performance and prospects of the Group. In addition, Peel Hunt LLP, appointed as our corporate brokers, regularly produce research reports on the Group, maintain dialogues with our shareholders and arrange roadshow for the Company. The Company also engaged M: Communications, investor relations professionals, to facilitate communication with the investor community, media and research analysts.

The Company's annual general meetings are used to communicate with shareholders and they are encouraged to participate. Members of the Audit and Remuneration Committees are available to answer questions at those meetings. Separate resolutions are proposed on each issue so that they can be given proper consideration and there is a resolution to approve the annual report and financial statements. The Group counts all proxy votes and indicates the level of proxies lodged on each resolution after it has been dealt with by a show of hands.

In addition, shareholders in the Company can gain access to information regarding:

(a) the operations of the Crowne Plaza Hotel & Suites Landmark Shenzhen through its website address at www.szlandmark.com.cn;

(b) the operations of Lansen Group through its website address at www.lansen.com.cn;

(c) the operations of Haotian Group through its website address at www.htinc.cn; or

(d) the Company through its website address at www.cathay-intl.com.hk.

Executive Committee

The Executive Committee comprises of all the Company's executive directors and such other senior executives as the Board shall appoint. The Executive Committee, which is accountable to the Board, assists the Board in monitoring and supervising the operations of the Group and reviews and discusses all matters which require approval from the Board under relevant laws and regulations. Matters to be discussed and approved by the Executive Committee include the development of corporate strategies, financial budgets and major investment projects.

The membership of the Committee is as follows:

Wu Zhen Tao *(Chairman)*
Lee Jin-Yi
Siu Ka Chi Eric
Patrick Sung

Audit Committee

The Audit Committee comprises three members, namely Sum Soon Lim (Chairman), Wu Zhen Tao and Kenneth K. Toong. The biographies of each member of the Audit Committee, including their qualifications, are set out on pages 33 and 34.

The Audit Committee is required by its terms of reference to meet not less than twice a year, and to meet the Group's auditor at least once a year without the presence of the Company's management. Its principal function is to review the Group's interim and annual accounts before submission for approval by the Board and in addition it considers any matters raised by the Group's auditor focusing particularly on:

(a) any changes in accounting policies and practices;
(b) major judgmental areas;
(c) the going concern assumption;
(d) consideration of and approval of related party transactions;
(e) compliance with accounting standards;
(f) compliance with Stock Exchange and legal requirements; and
(g) maintenance of relationships with external auditor and nature and extent of non-audit activity, which may affect their independence.

The Group does not have a formal internal audit department at present, but internal audit of the Group's business units is conducted regularly by dedicated staff from the Group's asset management department.

Remuneration Committee

Details of the Remuneration Committee are set out in Directors' Remuneration Report on pages 27 to 32.

GOING CONCERN

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

INTERNAL CONTROL

The Board is responsible for establishing and maintaining the Group's system of internal control to safeguard shareholders' investment and the Group's assets. Internal control systems are designed to meet the particular needs of the Group and the risk to which it is exposed, and by their nature can provide reasonable but not absolute assurance against material misstatement or loss.

The Board has reviewed its risk management and identified areas where procedures need to be managed or installed. An ongoing process for identifying, evaluating and managing significant risks faced by the Group was set up and is regularly reviewed by the Board in accordance with Turnbull guidance.

The Directors confirm that they have undertaken a full risk and control assessment and the process for identifying, evaluating and managing significant risks is in place. The Directors view this as an ongoing process.

The key procedures which the Directors have established with a view to providing effective internal control are as follows:

Management Structure

The Board has overall responsibility for the Group and for setting and reviewing the Group's long-term objectives and commercial strategy and there is a formal schedule of matters specifically reserved for the Board.

The organisational structure, which is the framework through which business activities are controlled and monitored, has specified the key areas and limits of authority.

The Board identified several business, financial and operation risks that affect the Group's business activities. Control policies addressing these risks were in place throughout the period under review. Details of these policies are described below.

Responsibilities and accountabilities in each area are properly defined. A reporting system, including budgetary control and a monthly financial reporting system, gives the Board sufficient, accurate and timely information to manage the business in pursuit of its business objectives.

Quality and Integrity of Personnel

The Group has maintained a team of experienced and professional staff of the necessary calibre to fulfill their allotted responsibilities. Through high professional standards and on-the-job training, the integrity and competence of personnel is ensured.

Corporate Accounting and Procedures Manual

The Group's policies and procedures have been established with procedures for reporting weaknesses and for monitoring corrective action.

Moreover, responsibility levels are communicated throughout the Group in accordance with the corporate accounting and procedures manual which sets out the general ethos of the Group, delegation of authority and authorisation levels, segregation of duties and other control procedures. The manual is updated on a regular basis.

Budgetary Process

Each year the Board approves the annual budget for the following year and key risk areas are identified. Performance is monitored and relevant action is taken throughout the year through monthly reporting to the Board of the key variances from the budget.

Information Systems

In order to exercise effective control over the business and the risks the Group faces, the most up to date data and information are always available for the Board to monitor the actual performance of the organisation against past and planned performance and to identify changes, problems and opportunities. In addition, regular reports have been prepared and reviewed by the Board on the Group's operating segments.

Investment Appraisal

Capital expenditure is regulated by the budgetary process and through setting authorisation limits within the Group hierarchy. For expenditure beyond specific levels, detailed written proposals have to be submitted to the Board. Reviews are carried out after the acquisition is completed, and for some projects, during the acquisition period, to monitor expenditure. Major overruns are investigated.

Due diligence work is carried out if a business is to be acquired.

Internal Audit

The Group's Hong Kong office asset management department undertakes periodic examination of business processes and ensures divisional management follow up on recommendations to improve controls. The principal subsidiaries have already initiated their own internal audit programme starting from their respective main activities, for instance, sales and receipts, purchases and payments, and inventory cycles.

Quality of Properties

In order to maintain the competitiveness of the Hotel, the Group adopted a policy of regular maintenance and refurbishment for the Hotel property. Based on its condition, management prepares an annual maintenance and refurbishment program for the Hotel. The progress of these programs is closely monitored. In addition, the Group closely monitors on the upkeep of all the properties held.

Government Policies

Changes in government policies, especially in developing economies, could have a significant effect on the Group's results. The management maintains a close relationship with local government authorities to keep abreast of government policy developments.

Directors' Remuneration Report

The Board recognises that directors' remuneration is of legitimate concern to the shareholders and is committed to following current best practice.

THE REMUNERATION COMMITTEE

The Remuneration Committee has responsibility for making recommendations to the Board on the Company's general policy on remuneration of senior management, including specific packages for individual executive Directors. The Remuneration Committee also advises on recruitment and termination packages. It carries out the policy on behalf of the Board.

The membership of the Committee is as follows:

Wu Zhen Tao *(Chairman)*
Sum Soon Lim
Kenneth K. Toong

Sum Soon Lim is the non-executive Chairman and Kenneth K. Toong is an independent non-executive Director. Neither of them has any personal financial interest in the matters to be decided (other than as shareholders), potential conflicts of interest arising from cross-directorships or any day-to-day involvement in running the business.

The Remuneration Committee is required by its terms of reference to meet not less than once a year. As well as considering conditions in the Group as a whole, it takes into account the position of the Company relative to other companies and is aware of what these companies are paying, though comparisons are treated with caution to avoid an upward ratchet in remuneration. The Remuneration Committee consults the Chief Executive Officer, has access to professional advice within the Company and, when appropriate, obtains its own independent professional advice from outside the Company.

Policy on Executive Directors' Remuneration

The policy of the Board is to provide executive remuneration packages designed to attract, motivate and retain directors of the calibre necessary to maintain the Group's position as an investor in China and to reward them for enhancing shareholder value. It aims to provide sufficient levels of remuneration to do this, but to avoid paying more than is necessary. The remuneration should also reflect the directors' responsibilities to deliver the Company's objectives.

Directors' Remuneration Report

Main Elements of Remuneration

1. **Basic salary**

   Each executive Director's basic salary is reviewed annually by the Remuneration Committee. In deciding upon appropriate levels of remuneration the Remuneration Committee believes that the Company should offer average levels of base pay reflecting individual responsibilities compared to similar jobs in comparable companies.

2. **Share option plan**

   The Company has adopted a share option plan as an incentive to executive directors and eligible employees, details of the share option plan are set out in note 28 to the consolidated financial statements.

3. **Discretionary bonus and share grant**

   The Company's employees may be entitled to a discretionary bonus, which is subject to the approval of the Remuneration Committee and the financial condition of the Company. Lee Jin-Yi is also entitled to a grant of 1,842,353 Common Shares ("Grant Shares"), which will be issued in five approximately equal tranches over a five year period. The Grant Shares will only be issued to Mr. Lee at the discretion of the Company if approved by the Remuneration Committee of the Company, and only where to do so would not cause the percentage of the Company's Common Shares held in public hands to fall below twenty five per cent.

Service Contracts

There are no Director's service contracts which are not terminable on one year's notice or less.

Directors' Pension Arrangements

The Company has no pension arrangement for Directors.

Non-executive Directors

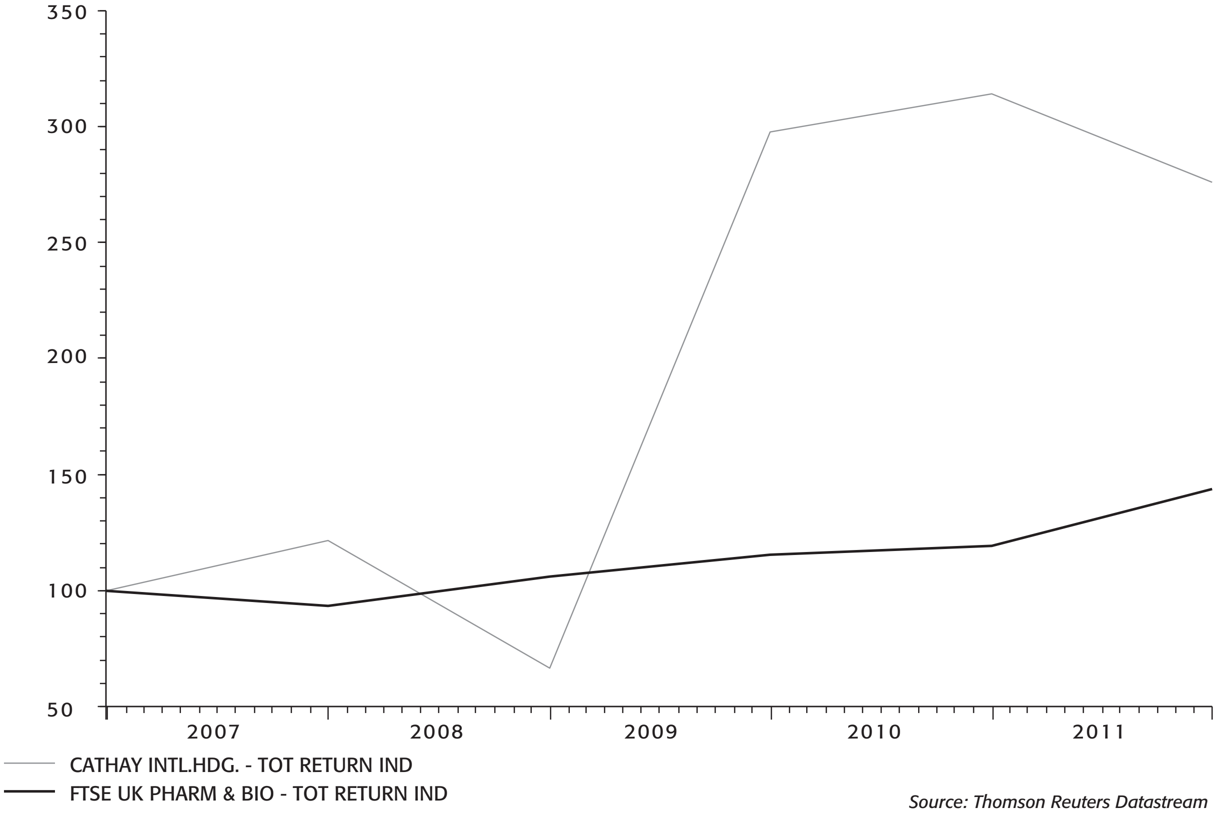
The remuneration of the non-executive Directors is determined by the Board in accordance with the Company's Bye-Laws. Non-executive directors are appointed for an initial term of three years from the annual general meeting following their joining the board, and are subject to the requirement that one-third of all the directors shall retire from office by rotation at each annual general meeting pursuant to the bye-laws of the Company.

The non-executive Directors are not involved in any decisions about their own remuneration.

PERFORMANCE GRAPHS

CATHAY INTERNATIONAL HOLDINGS LTD (CTI) VS FTSE UK PHARMACEUTICAL & BIOTECHNOLOGY SECTOR INDEX

TSR Performance Graph



Source: Thomson Reuters Datastream

The above graph shows the Company's Total Shareholder Return (TSR) performance compared to the TSR of the FTSE UK Pharmaceutical & Biotechnology Sector Index over the past five years. TSR is defined as the percentage change over the period in market price assuming the re-investment of income and funding of liabilities of the theoretical holding.

The Directors do not believe that there is a more appropriate comparator group upon which a broad equity market index is calculated. TSR has been calculated on a one month averaging basis in order to reduce the volatility associated with spot prices.

INFORMATION ON SERVICE CONTRACTS AND APPOINTMENT LETTERS

The following are particulars of the Directors' existing service contracts:

(i) Lee Jin-Yi was appointed under a service contract with Cathay International Services Limited (a wholly-owned subsidiary of the Company) dated 25 January 2010. His appointment may be terminated by either party with three month's notice.

(ii) Wu Zhen Tao was appointed under a service contract with Cathay International Holdings Limited (a U.K. wholly-owned subsidiary of the Company) dated 15 December 2011 and Cathay International Services (Hong Kong) Limited (a wholly-owned subsidiary of the Company) dated 1 January 2012. His employment may be terminated by either party with one month's notice.

(iii) Stephen B. Hunt was appointed as a non-executive Director of the Company under a letter of appointment dated 3 June 2010. His employment may be terminated by either party with immediate effect by written notice.

(iv) Siu Ka Chi Eric was appointed under a service contract with Cathay International Services Limited and Cathay International Services (Hong Kong) Limited dated 15 June 2007. His appointment may be terminated by either party with immediate effect by written notice.

(v) Patrick Sung was appointed under a service contract with Cathay International Services Limited and Bon House Development Limited dated 10 January 2009. His employment may be terminated by either party with immediate effect by written notice.

(vi) Sum Soon Lim was appointed as a non-executive Director of the Company under a letter of appointment dated 30 April 2009. His appointment may be terminated with immediate effect by the Company giving written notice.

(vii) Kenneth K. Toong was appointed as a non-executive Director of the Company under a letter of appointment dated 30 April 2009. His appointment may be terminated with immediate effect by the Company giving written notice.

Directors are subject to election by shareholders at the first opportunity after their appointment and to re-election at intervals of no more than three years. A Director retiring by rotation is eligible for reappointment and acts as a Director throughout the meeting at which he retires.

DIRECTORS' EMOLUMENTS AND COMPENSATION

The emoluments of the Directors are as follows:

	Fees & salary USD'000	Bonuses USD'000	Total 2011 USD'000	Total 2010 USD'000
Executive Directors				
Wu Zhen Tao	580	49	629	509
Lee Jin-Yi	502	42	544	469
Siu Ka Chi Eric	222	18	240	330
Patrick Sung	195	16	211	289
Non-executive Directors				
Sum Soon Lim	85	–	85	85
Stephen B. Hunt	114	–	114	216
Kenneth K. Toong	50	–	50	50
Total	1,748	125	1,873	1,948

There are no arrangements in place to provide Directors with performance related pay or pension contributions. There were no emoluments waived during the year.

DIRECTORS' INTEREST IN SHARE OPTIONS

Details of share options of the Company held by Directors, all of which have been granted at no cost to the Directors, are set out below:

Name	At 1 January 2011	Granted during the year	At 31 December 2011	Exercise price per share	Period from which exercisable	Expiry date
	Number of share options					
Lee Jin-Yi	**921,177**	**–**	**921,177**	39.81 pence	19 July 2013 to 18 July 2015	18 July 2015
	–	**921,176**	**921,176**	41.37 pence	16 March 2014 to 15 March 2016	15 March 2016
	–	**2,000,000**	**2,000,000**	41.17 pence	31 March 2014 to 30 March 2016	30 March 2016
	921,177	**2,921,176**	**3,842,353**			
Siu Ka Chi Eric	**380,000**	**–**	**380,000**	39.81 pence	19 July 2013 to 18 July 2015	18 July 2015
	–	**380,000**	**380,000**	41.17 pence	31 March 2014 to 30 March 2016	30 March 2016
	380,000	**380,000**	**760,000**			
Patrick Sung	**300,000**	**–**	**300,000**	39.81 pence	19 July 2013 to 18 July 2015	18 July 2015
	–	**300,000**	**300,000**	41.17 pence	31 March 2014 to 30 March 2016	30 March 2016
	300,000	**300,000**	**600,000**			

Further details of the terms of the share option plan are contained in note 28 to the financial statements.

ON BEHALF OF THE BOARD

Sum Soon Lim

Director

28 March 2012

Directors

The current Directors and secretary of the Company are as follows:

*+ Sum Soon Lim *(Non-executive Chairman)*

+# Wu Zhen Tao *(Executive Director and Chairman of the Executive and Remuneration Committees)*

Lee Jin-Yi *(Chief Executive Officer)*

* Stephen B. Hunt *(Non-executive Deputy Chairman)*

Siu Ka Chi Eric *(Finance Director)*

Patrick Sung *(Director and Controller)*

*+ Kenneth K. Toong *(Non-executive Director)*

* *Non-executive*

+ *Member of Audit and Remuneration Committees*

Member of the Executive Committee

Yip Pui Ling Rebecca, Secretary

There are no family relationships between any members of the Board.

SUM SOON LIM

Mr. Sum, 69, is non-executive Director and Chairman of the Company. He has worked with the Singapore Economic Development Board, DBS Bank, J.P. Morgan Inc., Overseas Union Bank and Nuri Holdings (s) Pte. Ltd. He was previously also a corporate adviser to the Singapore Technologies Group and Temasek Holdings of Singapore. He is now chairman of Bright Vision Hospital, and also sits on the boards of Singapore Technologies Telemedia, Singapore Press Holdings and Eastern Health Alliance (Singapore). Mr. Sum holds a Bachelor of Science (Hons) in Production Engineering from the University of Nottingham in England.

WU ZHEN TAO

Mr. Wu, 58, is Executive Director and Chairman of the Executive and Remuneration Committees of the Company and founder of the Group, which has over 20 years of history of business and investment focused on the PRC. He was born and educated in Beijing and is a graduate of Beijing Industrial University. He also has a degree in Business Administration. Following a period as a senior executive in government scientific institutes, he held posts as managing director of two newly established state owned financial institutions. Since 1988 Mr. Wu has, through companies, invested in and developed the Landmark Hotel (now called Crowne Plaza Hotel & Suites Landmark Shenzhen) in Shenzhen and established the Cathay International Water Limited group of companies, which made substantial investments in public utility and infrastructure in the PRC. Strategic shareholders were JP Morgan, Singapore Technologies, UBS, Banco Santander and Nomura JAFCO, and this business was once the largest foreign investor in water and waste water treatment projects in the PRC with net assets of over USD1 billion.

Directors

LEE JIN-YI

Mr. Lee, 54, is Chief Executive Officer of the Company. He was Managing Director and Chief Executive Officer of Fubon Bank (Hong Kong) Ltd. for five and half years and a director of Fubon Financial Holding Co., Ltd. and Xiamen City Commercial Bank. Mr. Lee has extensive experience in the banking industry. He was the Head of Corporate Finance, Asia and a member of the Management Committee of BNP Paribas Peregrine. Prior to that, he worked at JP Morgan for 17 years, most recently as Managing Director and China Senior Country Officer of J.P. Morgan Chase & Co. Mr. Lee was also a committee member of the Hong Kong Association of Banks from 1998 to 2000. Mr. Lee is currently an independent director of Taichung Bank, which is listed on the Taiwan Stock Exchange. He is also a director and Vice-Chairman of the Company's subsidiary, Lansen Pharmaceutical Holdings Limited, which is listed on the Hong Kong Stock Exchange. Mr. Lee graduated from National Taiwan University and obtained an MBA from Harvard University.

STEPHEN B. HUNT

Mr. Hunt, 72, is non-executive Deputy Chairman of the Company. He was formerly managing director of Aliant Capital, a merchant bank in Hong Kong. Mr. Hunt, a US citizen, spent 24 years with Bank of America in management and lending positions including posts in New York, Singapore, London, Amsterdam and Taiwan. He was formerly a senior vice-president and area general manager for Bank of America located in Hong Kong and President of the American Chamber of Commerce in Hong Kong. Mr. Hunt served as a member of the Main Board and GEM Listing Committee of the Hong Kong Stock Exchange from November 2004 to June 2011. Mr. Hunt is currently Chairman of the Company's subsidiary, Lansen Pharmaceutical Holdings Limited, which is listed on the Hong Kong Stock Exchange.

SIU KA CHI ERIC

Mr. Siu, 49, is Finance Director of the Company. He joined Cathay in 1998, bringing with him over 14 years of banking and finance experience in the areas of corporate finance, mergers and acquisitions, and structured finance advisory services. Prior to joining Cathay, he worked with Banco Santander Group, Barclays Bank Group and Ernst & Young. He is a member of the Institute of Chartered Accountants in England and Wales and a fellow member of the Association of Chartered Certified Accountants.

PATRICK SUNG

Mr. Patrick Sung, 50, is a Director and Controller of the Company. Mr. Sung has a degree in Business Administration from Simon Fraser University in Canada. He is a member of the Institute of Chartered Accountants of British Columbia and a member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group as Financial Controller in January 1994, he had over eight years of experience with international accounting firms, PricewaterhouseCoopers and Ernst & Young, in Canada and Hong Kong.

KENNETH K. TOONG

Mr. Toong, 64, is a non-executive Director of the Company. He has over 30 years' experience in the banking industry and was most recently the Chairman Asia for Clariden Leu Asset Management. Prior to that, he was the deputy head of Asia and head of North Asia, Private Wealth Management for Deutsche Bank AG. He also spent 20 years in commercial and investment banking with J.P. Morgan. Mr. Toong holds a B.A. degree in Microbiology and an MBA in Finance and Marketing from Southern Illinois University, U.S.A.

Directors' Report

The Directors present their Report together with the Accounts for the year ended 31 December 2011. So far as the Directors are aware there is no relevant audit information of which the Company's auditor is unaware and has taken all steps that ought to have been taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

1. PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

A review of the Group's principal activities and its business are contained in the Operation Review on pages 6 to 19.

2. RESULTS AND DIVIDENDS

The results are set out in the Consolidated Income Statement on page 42.

No interim dividend has been paid and the Directors do not recommend payment of a final dividend on the Common Shares or the A Shares.

3. DIRECTORS AND THEIR INTERESTS

The Directors and their interests and those of their families in the share capital of the Company shown in the Register of Directors' interests as at the dates indicated below were as follows:

	Common Shares of USD0.05 each			A Shares of USD0.05 each		
	23.3.2012	**31.12.2011**	**1.1.2011**	**23.3.2012**	**31.12.2011**	**1.1.2011**
Sum Soon Lim	2,000,000	2,000,000	2,000,000	–	–	–
Wu Zhen Tao	224,269,544	224,269,544	224,269,544	8,249,276	8,249,276	8,249,276
Lee Jin-Yi	550,000	550,000	550,000	–	–	–
Stephen B. Hunt	–	–	–	–	–	–
Siu Ka Chi Eric	–	–	–	–	–	–
Patrick Sung	–	–	–	–	–	–
Kenneth K. Toong	2,000,000	2,000,000	2,000,000	–	–	–

1. Mr. Wu Zhen Tao's interest arises as a result of his indirect beneficial interest in Cathay International Enterprises Limited.

2. Mr. Lee Jin-Yi paid cash consideration of USD1,000,000 for 1,842,353 new Common Shares in February 2010. 550,000 new Common Shares were issued to Mr. Lee. The remaining 1,292,353 Common Shares will be issued to Mr. Lee when the Company is able to do so in circumstances which would not cause the percentage of the Company's Common Shares held in public hands to fall below twenty five per cent.

No rights to subscribe for shares in or debentures of the Company or any subsidiary undertakings existed at 31 December 2011.

Directors are subject to election by shareholders at the first opportunity after their appointment. Each Director is also subject to retirement by rotation and each Director is subject to re-election at intervals of no more than three years. Biographical information on the Directors is included on pages 33 to 34. A Director retiring by rotation is eligible for reappointment and acts as a Director throughout the meeting at which he retires.

Non-executive Directors are appointed for specified terms subject to re-election and to the provisions set out in the Bye-laws of the Company relating to the removal of a Director. Their reappointment is not automatic.

There are no Directors' service contracts which are not terminable on one year's notice or less.

There are no significant contracts between the Company and any of the Directors entered in the year.

4. SHARE OPTIONS

Details of movements in the Company's share options during the year are set out in note 28 to the financial statements.

5. DIRECTORS AND OFFICERS LIABILITY INSURANCE

The Company has in place a qualifying third party indemnity insurance for Directors and officers.

6. PROPERTY, PLANT AND EQUIPMENT

Changes in property, plant and equipment together with details of revaluations of certain of these assets are shown in note 13 of the consolidated financial statements.

7. SIGNIFICANT SHAREHOLDINGS

At 23 March 2012, save as shown in the Directors' shareholdings on page 35, there were the following interests in 3% or more of the Company's issued share capital.

	Common Shares of USD0.05 each	% of issued Common Share Capital	A Shares of USD0.05 each	% of issued A Share Capital
Alphagan Volantis Fund	23,776,355	6.41	–	–
Simon Phillips	23,260,994	6.27	270,975	2.63
Charles Stanley	19,468,781	5.25	3,682	0.04

8. TERMS OF AGREEMENT WITH SUPPLIERS

The Group agrees payment terms and conditions with individual suppliers which vary according to the commercial relationship and the terms of agreements reached. It is the policy of the Group that whenever possible payments to suppliers are made in accordance with the terms agreed.

At 31 December 2011, the Group had an average of 72 days purchases outstanding in trade creditors (2010: 73 days).

9. AUDITOR

The BDO Limited audit engagement partner has served in that capacity for six years which exceeds the maximum period of five years as recommended by the Ethical Standards of the Auditing Practices Board to ensure independence but is subject to the Audit Committee discretion to extend for a further period of not more than two years.

The Audit Committee has determined that in view that a subsidiary was listed on the Hong Kong Stock Exchange in year 2010 and the business structure of a major subsidiary has undergone significant changes, it is in the best interest of audit quality that the current audit engagement partner should continue in his role for a further period of not more than two years. The Audit Committee is satisfied that by the application of safeguards, the extension does not undermine the objectivity and independence of the auditor. BDO Limited has agreed to this extension which will bring the total period served by the audit engagement partner to seven years.

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO Limited as auditor of the Company.

10. ANNUAL GENERAL MEETING

This year's Annual General Meeting will be held at Penha Room 2, Grand Lapa Macau, 956-1110 Avenida da Amizade, Macau SAR on 25 May 2012 at 11:30 a.m. (Macau time). In addition, a shareholder information session is to be held on 17 April 2012 at the offices of Peel Hunt LLP at Moor House, 120 London Wall, London EC2Y 5ET, United Kingdom at 11:00 a.m. Notice of the Annual General Meeting will be sent to shareholders by way of a separate circular.

By order of the Board
Yip Pui Ling Rebecca
Secretary

28 March 2012

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable Bermudan company law, the listing requirements of the London Stock Exchange and International Financial Reporting Standards.

Bermudan company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

– select suitable accounting policies and then apply them consistently;

– make judgements and estimates that are reasonable and prudent;

– state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;

– prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

In so far as the Directors are aware:

– there is no relevant audit information of which the Company's auditor are unaware; and

– the Directors have taken all steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

The Directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Bermudan Companies Act 1981. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in Bermuda and the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the directors confirms that, to the best of his knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and

- the Chairman's Statement on pages 4 to 5 and the Operation Review on pages 6 to 19 include a fair review of the development and performance of this business and the position of the Group, together with a description of the principal risks and uncertainties that they face.

Independent Auditor's Report

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To the shareholders of Cathay International Holdings Limited
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Cathay International Holdings Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 42 to 92, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards, 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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 90 of the Companies Act, 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 International Standards on Auditing. 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 auditor's judgement, 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 auditor considers internal control relevant to the entity's preparation of the 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 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 audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2011 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards.

REPORT ON OTHER REGULATORY REQUIREMENTS

The listing rules of the Financial Services Authority in the United Kingdom (the "Listing Rules") require certain disclosures of directors' remuneration to be included within the scope of this report. For those disclosures, we will report only if those disclosures do not comply with the Listing Rules.

BDO Limited
Certified Public Accountants
Chiu Wing Cheung Ringo
Practising Certificate Number P04434

Hong Kong, 28 March 2012

Consolidated Income Statement

	Notes	**2011 USD'000**	2010 USD'000
Revenue	6	**91,385**	81,630
Cost of sales		**(44,615)**	(40,775)
Gross profit		**46,770**	40,855
Other income	7	**7,394**	5,642
Selling and distribution expenses		**(25,413)**	(21,011)
Administrative expenses		**(18,547)**	(15,689)
Profit from operations	8	**10,204**	9,797
Finance costs	9	**(2,091)**	(2,517)
Share of post-tax profit of associate	17	**2,086**	238
Profit before income tax		**10,199**	7,518
Income tax expense	11	**(2,696)**	(2,581)
Profit for the year		**7,503**	4,937
Profit for the year attributable to:			
Owners of the parent		**1,428**	891
Non-controlling interests		**6,075**	4,046
		7,503	4,937
Earnings per share attributable to owners of the parent	12		
Basic and diluted		**0.38 cents**	0.24 cents

Consolidated Statement of Comprehensive Income

	Notes	**2011 USD'000**	2010 USD'000
Profit for the year		**7,503**	4,937
Other comprehensive income			
Exchange differences on translating foreign operations		**7,206**	2,899
Surplus on revaluation of hotel properties		**6,719**	858
Deferred tax relating to surplus on revaluation of hotel properties	25	**(4,784)**	(626)
Other comprehensive income, net of tax		**9,141**	3,131
Total comprehensive income for the year		**16,644**	8,068
Total comprehensive income attributable to:			
Owners of the parent		**8,200**	4,022
Non-controlling interests		**8,444**	4,046
		16,644	8,068

Consolidated Statement of Financial Position

	Notes	2011 USD'000	2010 USD'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment, comprise:	13	**190,863**	166,973
Hotel properties, at valuation (of which, equity investment cost was USD93,135,000 (2010: USD95,092,000))		**128,871**	121,856
Other property, plant and equipment		**61,992**	45,117
Prepaid land lease payment	14	**4,103**	3,458
Intangible assets	15	**6,994**	5,607
Goodwill	16	**25,622**	25,622
Interest in associate	17	**29,760**	26,209
Available-for-sale financial assets	18	**385**	–
Loans to non-controlling interests		**686**	686
		258,413	228,555
CURRENT ASSETS			
Inventories	19	**18,102**	14,226
Trade and other receivables	20	**66,187**	48,439
Available-for-sale financial assets	18	**–**	385
Prepaid land lease payment	14	**94**	79
Pledged bank deposits	21	**17,529**	10,210
Cash and cash equivalents	21	**20,166**	25,860
		122,078	99,199
TOTAL ASSETS		**380,491**	327,754
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Called up share capital	22	**19,062**	19,062
Share premium		**51,035**	51,035
Share option reserve		**408**	60
Treasury shares		**(1,737)**	(1,737)
Capital and special reserve		**97,502**	97,502
Revaluation reserve		**8,827**	6,892
Foreign exchange reserve		**(18,037)**	(22,874)
Statutory reserve		**5,293**	2,618
Profit and loss account		**(19,137)**	(17,059)
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		**143,216**	135,499
NON-CONTROLLING INTERESTS		**56,961**	53,901
TOTAL EQUITY		**200,177**	189,400
NON-CURRENT LIABILITIES			
Borrowings	24	**9,157**	53,824
Deferred tax liabilities	25	**25,155**	20,584
		34,312	74,408
CURRENT LIABILITIES			
Borrowings	24	**114,511**	45,409
Current tax liabilities		**1,656**	1,498
Trade and other payables	26	**29,835**	17,039
		146,002	63,946
TOTAL LIABILITIES		**180,314**	138,354
TOTAL EQUITY AND LIABILITIES		**380,491**	327,754

Approved and authorised for release by the Board on 28 March 2012

Sum Soon Lim

Directors

Lee Jin-Yi

Consolidated Statement of Changes in Equity

	Attributable to owners of the parent										Non-controlling Interests	Total Equity
	Share Capital	Share Premium	Share Option Reserve	Treasury Shares	Capital and Special Reserve	Revaluation Reserve	Foreign Exchange Reserve	Statutory Reserve	Profit and Loss Account	Total		
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Balance at 1 January 2010	18,875	49,187	–	–	97,502	6,660	(25,773)	2,011	(48,261)	100,201	14,570	114,771
Loan to non-controlling interests offset against earn-out shares	–	–	–	–	–	–	–	–	–	–	(193)	(193)
Dividend to non-controlling interests	–	–	–	–	–	–	–	–	–	–	(882)	(882)
Issue of share capital (note 22)	27	271	–	–	–	–	–	–	–	298	–	298
Issue of treasury shares (note 22)	160	1,577	–	(1,737)	–	–	–	–	–	–	–	–
Recognition of share-based payments	–	–	60	–	–	–	–	–	–	60	–	60
Write off of contingent consideration	–	–	–	–	–	–	–	–	770	770	(770)	–
Disposal of interest in a subsidiary	–	–	–	–	–	–	–	–	30,148	30,148	37,130	67,278
Transaction with owners	187	1,848	60	(1,737)	–	–	–	–	30,918	31,276	35,285	66,561
Profit for the year	–	–	–	–	–	–	–	–	891	891	4,046	4,937
Other comprehensive income:												
Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	2,899	–	–	2,899	–	2,899
Surplus on revaluation of hotel properties	–	–	–	–	–	858	–	–	–	858	–	858
Income tax relating to components of other comprehensive income	–	–	–	–	–	(626)	–	–	–	(626)	–	(626)
Total comprehensive income for the year	–	–	–	–	–	232	2,899	–	891	4,022	4,046	8,068
Transfer of reserve	–	–	–	–	–	–	–	607	(607)	–	–	–
Balance at 31 December 2010	19,062	51,035	60	(1,737)	97,502	6,892	(22,874)	2,618	(17,059)	135,499	53,901	189,400
Balance at 1 January 2011	19,062	51,035	60	(1,737)	97,502	6,892	(22,874)	2,618	(17,059)	135,499	53,901	189,400
Acquisition of non-controlling interests	–	–	–	–	–	–	–	–	(831)	(831)	(378)	(1,209)
Dividend to non-controlling interests	–	–	–	–	–	–	–	–	–	–	(5,006)	(5,006)
Recognition of share-based payments	–	–	348	–	–	–	–	–	–	348	–	348
Transaction with owners	–	–	348	–	–	–	–	–	(831)	(483)	(5,384)	(5,867)
Profit for the year	–	–	–	–	–	–	–	–	1,428	1,428	6,075	7,503
Other comprehensive income:												
Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	4,837	–	–	4,837	2,369	7,206
Surplus on revaluation of hotel properties	–	–	–	–	–	6,719	–	–	–	6,719	–	6,719
Income tax relating to components of other comprehensive income	–	–	–	–	–	(4,784)	–	–	–	(4,784)	–	(4,784)
Total comprehensive income for the year	–	–	–	–	–	1,935	4,837	–	1,428	8,200	8,444	16,644
Transfer of reserve	–	–	–	–	–	–	–	2,675	(2,675)	–	–	–
Balance at 31 December 2011	19,062	51,035	408	(1,737)	97,502	8,827	(18,037)	5,293	(19,137)	143,216	56,961	200,177

Consolidated Statement of Cash Flows

	2011 USD'000	2010 USD'000
Cash flows from operating activities		
Profit before income tax	**10,199**	7,518
Adjustments for:		
Finance costs recognised	**2,091**	2,517
Interest income	**(3,365)**	(232)
Provision for impairment of trade receivables	**85**	153
Provision for/(Reversal of) impairment of other receivables	**9**	(440)
Depreciation of property, plant and equipment	**2,738**	2,629
Amortisation of prepaid land lease payment	**93**	85
Write off of intangible assets	**137**	51
(Gains)/Losses on disposals of property, plant and equipment	**(17)**	368
Provision for/(Reversal of) impairment of obsolete inventories	**9**	(26)
Gain on disposal of investment property	**–**	(69)
Share-based payments expenses	**348**	60
Write back of other payables	**(264)**	(3,198)
Share of post-tax profit of associate	**(2,086)**	(238)
Operating cash flows before movements in working capital	**9,977**	9,178
Increase in inventories	**(3,066)**	(2,443)
Increase in trade and other receivables	**(12,124)**	(7,233)
Increase/(Decrease) in trade and other payables	**9,464**	(5,534)
Cash generated from/(used in) operations	**4,251**	(6,032)
Interest paid	**(2,091)**	(2,517)
Income tax paid	**(2,753)**	(1,691)
Net cash used in operating activities	**(593)**	(10,240)
Cash flows from investing activities		
Purchases of property, plant and equipment	**(17,367)**	(9,889)
Purchases of prepaid land lease payment	**(558)**	–
Purchases of intangible assets	**(1,212)**	(1,680)
Proceeds on disposals of property, plant and equipment	**135**	16
Proceeds from sales of investment property	**–**	1,678
Acquisition of interest in associate	**–**	(25,751)
Capital contribution to associate	**(429)**	–
Dividend received from associate	**386**	–
Interest received	**291**	232
Increase in pledged bank deposits	**(7,120)**	(9,385)
Net cash used in investing activities	**(25,874)**	(44,779)
Cash flows from financing activities		
Proceeds from borrowings	**30,193**	52,047
Repayment of borrowings	**(6,649)**	(59,099)
Proceeds from issue of shares, net of expenses	**–**	298
Proceeds from loans to non-controlling interests	**–**	15
Loans to non-controlling interests	**–**	(879)
Dividend paid to non-controlling interests	**(5,006)**	(882)
Capital injection from non-controlling interests	**–**	53,150
Acquisition of non-controlling interests	**(1,209)**	(11,257)
Net proceeds on disposal of partial interest in a subsidiary (without losing control)	**–**	14,128
Amount due to a director	**–**	701
Increase in amount due to an intermediate parent undertaking	**2,584**	–
Net cash generated from financing activities	**19,913**	48,222
Net decrease in cash and cash equivalents	**(6,554)**	(6,797)
Cash and cash equivalents at beginning of year	**25,860**	31,800
Effects of exchange rate changes	**860**	857
Cash and cash equivalents at end of year	**20,166**	25,860

1. GENERAL INFORMATION

Cathay International Holdings Limited (the "Company") is a limited company incorporated in Bermuda. The address of its registered office and principal place of business are disclosed in the section headed 'Directors and Advisers' of the annual report. The Company and its subsidiaries (the "Group") are principally engaged in healthcare business and hotel operations. Details of the principal activities of the Company's subsidiaries are described in note 32.

The financial statements for the year ended 31 December 2011 were approved for issue by the board of directors on 28 March 2012.

2. BASIS OF PREPARATION AND GOING CONCERN ASSUMPTION

The consolidated financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standards, International Accounting Standards and Interpretations (hereinafter collectively referred to as "IFRSs") issued by the International Accounting Standards Board ("IASB"), including all new and revised standards effective for the period commencing 1 January 2011.

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

The consolidated financial statements have been prepared under historical cost convention as modified by the revaluation of hotel properties and financial instruments. The measurement bases are fully described in the accounting policies set out below. The consolidated financial statements are presented in United States Dollars ("USD") and all values are rounded to the nearest thousand except when otherwise indicated.

The preparation of financial statements in accordance with IFRSs requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 5.

The financial statements have been prepared on a going concern basis which assumes the realisation of assets and satisfaction of liabilities in the ordinary course of business notwithstanding that the Group had net current liabilities of approximately USD23,924,000 as at 31 December 2011. Of the total bank borrowings, approximately USD114,511,000 are due for repayment within one year from 31 December 2011 (2010: USD45,409,000). The increase in short-term bank borrowings was mainly due to a reclassification of a 5 years term loan, amounted to USD46,400,000, which is due for repayment within one year. The net gearing of the Group was 44.4% (2010: 33.5%) which is considered reasonable.

The net current liabilities condition indicates the existence of uncertainty which may affect the Group's ability to continue as a going concern and hence, its ability to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, the financial statements have been prepared based on the assumption that the Group can be operated as a going concern and will have sufficient working capital to finance its operation in the next twelve months from 31 December 2011.

The Group has received from the banks their preliminary interests to extend or renew the bank borrowings. As in the past, the Group will start discussions with the banks on extension or renewal of the bank borrowings a few months prior to their maturity and will receive the bank approvals before maturity. The Group does not foresee that the bank borrowings will not be renewed or extended before maturity. The Group is also exploring options to secure long term funding, including debt and/or equity, to replace part of the bank borrowings. Accordingly, the Group should be able to meet in full its financial obligations as and when they fall due for the next twelve months from 31 December 2011 without significant curtailment of operations and are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

Should the Group be unable to continue in business as a going concern, adjustments would have to be made to the financial statements accordingly.

3. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

3.1 Adoption of new/revised IFRSs – effective 1 January 2011

IFRSs (Amendments)	Improvements to IFRSs issued in 2010
IAS 24 (Revised 2009)	Related Party Disclosures

The adoption of these new or revised standards and interpretations has no significant impact on the Group's financial statements.

3.2 New and revised IFRSs that have been issued but are not yet effective

The Group has not applied the following new and revised IFRSs, that have been issued, but are not yet effective in these financial statements.

Amendment to IFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adoption[1]
Amendment to IFRS 7	Disclosures – Transfer of Financial Assets[1]
	Disclosures – Offsetting Financial Assets and Financial Liabilities[4]
IFRS 9	Financial Instruments[6]
IFRS 10	Consolidated Financial Statements[4]
IFRS 11	Joint Arrangements[4]
IFRS 12	Disclosure of Interests in Other Entities[4]
IFRS 13	Fair Value Measurement[4]
Amendment to IAS 1 (Revised)	Presentation of Items of Other Comprehensive Income[3]
Amendment to IAS 12	Deferred Taxes – Recovery of Underlying Assets[2]
IAS 19 (2011)	Employee Benefits[4]
IAS 27 (2011)	Separate Financial Statements[4]
IAS 28 (2011)	Investments in Associates and Joint Ventures[4]
Amendment to IAS 32	Presentation-Offsetting Financial Assets and Financial Liabilities[5]
IFRIC – Interpretation 20	Stripping Costs in the Production Phase of a Surface Mine[4]

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

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's financial statements is provided below.

IFRS 9 Financial Instruments

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

In October 2010, the IASB issued additions to IFRS 9 to address financial liabilities (the "Additions") and incorporated in IFRS 9 the current derecognition principles of financial instruments of IAS 39. Most of the Additions were carried forward unchanged from IAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt IFRS 9 from 1 January 2015.

IFRS 10 – Consolidated Financial Statements

IFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns. IFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduces the concept of "de facto" control where an investor can control an investee while holding less than 50% of the investee's voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them. The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agents of the investor. An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority. The implementation of IFRS 10 may result in changes in those entities which are regarded as being controlled by the Group and are therefore consolidated in the financial statements. The accounting requirements in the existing IAS 27 on other consolidation related matters are carried forward unchanged. IFRS 10 is applied retrospectively subject to certain transitional provision.

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 integrates and makes consistent the disclosures requirements about interests in subsidiaries, associates and joint arrangements. It also introduces new disclosure requirements, including those related to unconsolidated structured entities. The general objective of the standard is to enable users of financial statements to evaluate the nature and risks of a reporting entity's interests in other entities and the effects of those interests on the reporting entity's financial statements.

The directors are in process of making an assessment of the potential impact of these new and revised IFRSs and so far concluded that the application of these new and revised IFRSs will have no material impact on the Group's financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF CONSOLIDATION

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. When 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, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. 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 Company had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). 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 IAS 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.

Subsequent to acquisition, the carrying amount of non-controlling interest is the amount of those interests at initial recognition plus the non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

BUSINESS COMBINATIONS

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

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

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 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 IFRS 2 *Share-based Payment* at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 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 fair value or, when applicable, on the basis specified in another IFRSs.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Contingent consideration balances arising from business combinations whose acquisition dates preceded 1 January 2010 (i.e. the date the Group first applied IFRS 3 (2008)) have been accounted for in accordance with the transition requirements in the standard. Such balances are not adjusted upon first application of the standard. Subsequent revisions to estimates of such consideration are treated as adjustments to the cost of these business combinations and are recognised as part of goodwill.

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 at the acquisition date that, if known, would have affected the amounts recognised at that date.

GOODWILL

Goodwill arising on the acquisition represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquirees recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGUs") expected to benefit from the synergies of the combination. CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than the carrying amount of the unit, 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. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described in interest in associate.

INTEREST IN ASSOCIATE

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under equity method, an investment in associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

FOREIGN CURRENCIES

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group entity are expressed in USD, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing 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 at historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the year in which they arise except for:

- exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings;

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the exchange equalisation reserve and recognised in profit or loss on disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in USD using exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that year, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising on translating the opening statement of financial position and profit for the year at closing rate are recognised in other comprehensive income and accumulated in the Group's foreign exchange reserve.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

PROPERTY, PLANT AND EQUIPMENT

Hotel properties

Hotel properties are stated at open market value based on annual professional valuations. Hotel valuations are inclusive of all fixtures and equipment, and thus the revaluation surplus/deficit on hotel properties is shown after deducting the net book value of separable and non-integrated fixtures and equipment. Changes in the value of hotel properties are dealt with as movements in the revaluation reserve, unless it represents the reversal of a revaluation decrease of same hotel property previously recognised as an expense, in which case it should be recognised as income. If the balance of this reserve is insufficient to cover a deficit, on an individual hotel basis, the excess of the deficit is charged to the profit and loss account.

It is the Group's practice to maintain hotel properties and integral fixed plant in a continual state of sound repair, such that their value is not diminished by the passage of time. Accordingly, the directors consider that the useful economic lives of these assets are sufficiently long and their residual values, based on prices prevailing at the time of valuation, are sufficiently high that their depreciation is insignificant. The cost of maintenance and repairs of the properties is charged to the group profit or loss as incurred and the cost of significant improvements is capitalised.

Other property, plant and equipment

Other property, plant and equipment are stated at cost less accumulated depreciation and any impairment loss, if any.

The cost of other property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Other property, plant and equipment are depreciated so as to write off the cost of other property, plant and equipment less their estimated residual value over their estimated useful lives. The major categories of other property, plant and equipment are depreciated as follows:

Plant and equipment, fixtures and fittings	3-40 years
Motor vehicles	5-12 years
Computer equipment	5 years
Leasehold properties and improvements	Residual lease term

The assets' estimated residual values, estimated useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Assets in the course of construction for production, rental or administrative purposes, are carried at cost, less any recognised impairment loss, if any. Cost includes professional fees and for qualifying assets, borrowing cost capitalised in accordance with the Group's accounting policy. No provision for depreciation is made on construction for production until such time as the relevant assets are completed and ready for intended use. Such assets are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use, and depreciated in accordance with the policies as stated above.

Any gain or loss arising on the disposal or retirement of an item 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.

PREPAID LAND LEASE PAYMENT

Prepaid land lease payment represent up-front payments to acquire long term interest in the usage of land. The payments are stated at cost less accumulated amortisation and any impairment losses. Amortisation is calculated on straight-line method over the lease terms between 48 to 50 years.

INTANGIBLE ASSETS (OTHER THAN GOODWILL) AND RESEARCH AND DEVELOPMENT ACTIVITIES

Intangible assets (other than goodwill)

Intangible assets acquired separately are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any impairment losses. Amortisation for intangible assets with finite useful lives is provided on straight-line method over their estimated useful lives. Amortisation commences when the intangible assets are available for use.

Intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses. Intangible assets are tested for impairment annually, and where there is an indication that the asset may be impaired.

Research and development costs

Costs associated with research activities are expensed in profit or loss as they occur. An intangible asset arising from development expenditure on an individual project is recognised provided they meet the following recognition requirements:

(i) demonstration of technical feasibility of the prospective product for internal use or sale;
(ii) there is an intention to complete the intangible asset and use or sell it;
(iii) the Group's ability to use or sell the intangible asset is demonstrated;
(iv) the intangible asset will generate probable economic benefits through internal use or sale;
(v) sufficient technical, financial and other resources are available for completion; and
(vi) the expenditure attributable to the intangible asset can be reliably measured

Development expenditure which does not meet the above criteria is expensed when incurred.

Capitalised development costs that have a finite useful life are amortised from the commencement of the commercial production of the product on straight-line method over the period of its expected benefit. Capitalised development costs with indefinite useful lives are tested for impairment annually.

IMPAIRMENT OF NON-FINANCIAL ASSETS EXCLUDING GOODWILL

Intangible assets with indefinite useful lives are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable. 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). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

The 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 risk specific to the assets.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined, net of any depreciation or amortisation, if no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated net selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

FINANCIAL INSTRUMENTS

The Group's financial assets comprise available-for-sale financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables

Bills receivables, trade and other receivables, pledged bank deposits and cash and cash equivalents that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. These are initially recognised at fair value and subsequently measured at amortised cost using effective interest method, less any impairment. Discounting is omitted where the effect of discounting is immaterial. Interest income is recognised by applying effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables. All available-for-sale financial assets are measured at fair value. Gains and losses are recognised in other comprehensive income and reported within the available-for-sale reserve within equity, except for impairment losses, which are recognised in profit or loss. When the asset is disposed of or is determined to be impaired the cumulative gain or loss recognised in other comprehensive income is reclassified from equity reserve to profit or loss and presented as a reclassification adjustment within other comprehensive income. Interest and dividends earned, if any, are reported as interest income and dividend income respectively and are recognised in the income statement as 'Other income'. Reversals of impairment losses are recognised in other comprehensive income, except for financial assets that are debt securities which are recognised in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

For available-for-sale investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, there are measured at cost less any identified impairment losses at each reporting date subsequent to initial recognition.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the 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 affected.

For financial assets, 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 and 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; or
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

For loans and receivables

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

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

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. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

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

For available-for-sale financial assets

The amount of impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversed in subsequent periods.

Derecognition of financial assets

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

Financial liabilities and equity

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

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

Financial liabilities are obligations to pay cash or other financial assets including borrowings, trade and other payables are recognised when the Group becomes party to the contractual obligations of the instrument and are initially recorded at fair value, net of issue costs. They are subsequently measured at amortised cost, using effective interest method.

Derecognition of financial liabilities

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent cash at banks and in hand, demand deposits with banks and short-term highly liquid investment with original maturities of three months or less that are readily convertible into a known amount of cash and which are subject to insignificant risk of changes in value.

TREASURY SHARES

Own equity instruments which are issued to a subsidiary (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in share premium. Voting rights related to treasury shares are nullified for the Group.

REVENUE RECOGNITION

Revenue consists of sale of goods, hotel and food and beverage revenue net of sales tax.

Revenue from sale of goods is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, net of value added tax ("VAT"), discounts and rebates.

Sale of goods are recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

Revenue from room rental, food and beverage sales and other ancillary services in the hotel are recognised when the relevant services have been rendered.

Interest income is accrued on time basis on the principal outstanding at effective interest rate.

LEASES

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

Assets held under finance lease arrangements are included in property, plant and equipment and are depreciated in accordance with the property, plant and equipment depreciation policy. Obligations under such agreements are included in borrowings net of finance charges allocated to future periods. Finance charges are taken to the profit and loss account so that the annual rate of charge on the outstanding obligations at the end of each accounting period is approximately constant.

Rental income from operating leases is recognised in the profit or loss on straight-line method over the term of the relevant lease.

Rentals payable under operating leases are charged to the profit or loss on straight-line method over the term of the relevant lease.

RETIREMENT BENEFIT COSTS

Retirement benefits to employees are provided through defined contribution plans.

The Group operates a defined contribution retirement benefit plan under the Mandatory Provident Fund Schemes Ordinance ("MPF Scheme"), for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries or the maximum mandatory contribution as required by the MPF Scheme.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of its payroll costs to the central pension scheme. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The contributions recognised in respect to defined contribution benefit plans are expenses as they fall due. Liabilities and assets may be recognised if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short term nature.

SHARE-BASED PAYMENT ARRANGEMENTS

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 28.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on straight-line method over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

GOVERNMENT GRANTS

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are recognised in the income statement on straight-line method over the expected lives of the related assets. Government grants related to assets are presented in the statement of financial position by setting up the grant as deferred income.

Government grants relating to income are presented in gross under "Other income" in the consolidated income statement.

TAXATION

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

Current tax assets and current tax liabilities are presented in net if, and only if,

(a) the Group has the legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

   (a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

   (b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

      (i) the same taxable entity; or

      (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

RELATED PARTIES

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

(a) the party is a person or a close member to that person's family and 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;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group 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 entity;

(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;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(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).

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

SEGMENT REPORTING

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about allocation of resources to the Group's business components and for their review of the performance of those components.

The measurement policies the Group uses for reporting segment results under IFRS 8 are the same as those used in its financial information under IFRSs, except that:

– income tax

– corporate income and expenses which are not directly attributable to the business activities of any operating segment are not included in arriving at the operating results of the operating segment.

All assets are allocated to reportable segments. Goodwill is allocated to reportable segments described in note 16. In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

Segment liabilities exclude corporate liabilities which are not directly attributable to the business activities of any operating segment and are not allocated to a segment. These include deferred tax liabilities and corporate borrowings.

No asymmetrical allocations have been applied to reportable segments.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The estimates and underlying assumptions used in the preparation of these financial statements 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.

KEY SOURCES OF ESTIMATION UNCERTAINTY

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

5.1 IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS

Determining whether goodwill and intangible assets with indefinite useful lives are impaired requires an estimation of the value in use of the CGUs to which goodwill and intangible assets with indefinite useful lives have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value. Details of the assumptions and basis of the recoverable amount calculation are set out in note 16.

5.2 FAIR VALUE OF HOTEL PROPERTIES

The hotel properties of the Group are stated at fair value in accordance with accounting policy. The fair value of the hotel properties are determined by a firm of independently qualified professional valuers and the fair value of hotel properties as at their respective year ends are set out in note 13. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. The key assumptions relate to the estimation of cash inflows/outflows which included budgeted room rate, occupancy rate and food and beverage revenue, such estimation is based on the hotel's past performance and the expectations for the market development.

Consideration has been given to assumptions that are mainly based on market conditions existing at the reporting dates and appropriate capitalisation rates. These estimates are regularly compared to actual market data.

5.3 IMPAIRMENT OF RECEIVABLES

Impairment of receivables is made based on an assessment of the recoverability of receivables from customers. The identification of the impairment requires management judgements and estimates where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the receivables and impairment losses/reversal of impairment losses in the period in which such estimate has been changed – note 20.

5.4 USEFUL LIVES OF INTANGIBLE ASSETS

The directors estimate the development costs, which represented the intellectual property rights in pharmaceutical industry, have indefinite useful lives as they believe that there is no foreseeable limit on the period of time over which these intellectual property rights is expected to provide cash flows and these intellectual property rights can be renewable in a period of time at minimal cost and the products are continuing in the market.

The estimated useful lives for the exclusive distribution right were made by the management with reference to the legal limits on the use of the assets and the estimated periods that the Group intends to derive future economic benefits from the use of intangible assets. It could change significantly as a result of technical innovations, changed customer behavior and competitor actions in response to industry cycles.

Management will increase the amortisation charge where useful lives are less than previously estimated lives, or will recognise impairment loss when future cash flows are less than expectation and fall below the carrying amount of the intangible assets.

6. SEGMENT INFORMATION

6.1 Revenue

An analysis of the Group's revenue for the year is as follows:

	2011 **USD'000**	2010 USD'000
Revenue from sale of goods	**79,470**	72,590
Revenue from rendering of services	**11,915**	9,040
	91,385	81,630

6.2 Operating Segments

Management currently identifies the Group's four products and service lines as operating segments as follows:

(1) the Lansen Group segment is focused on the manufacture, marketing and sale of speciality western pharmaceuticals, modern Chinese medicine extracts and generic pharmaceuticals in the People's Republic of China (the "PRC");

(2) the Haotian Group segment is involved in the manufacture, marketing and sale of key active ingredients for healthcare products. The Haotian Group is also in the process of building an inositol plant;

(3) the research and product development segment is engaged in the development of pharmaceutical products; and

(4) the hotel operations segment is a hotel located in the Lowu district of Shenzhen in the PRC.

These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results. Segment information can be analysed as follows for the reporting periods under review.

	Health Care			Hotel Operations	Total
	Lansen Group 2011 USD'000	Haotian Group 2011 USD'000	Research & Product Development 2011 USD'000	2011 USD'000	2011 USD'000
Segment revenue	**74,475**	**4,995**	**–**	**11,915**	**91,385**
Segment operating profit/(loss)	**13,942**	**(1,946)**	**(880)**	**1,286**	**12,402**
Segment finance costs	**(459)**	**(316)**	**–**	**(786)**	**(1,561)**
Segment share of post-tax profit of associate	**1,941**	**–**	**–**	**–**	**1,941**
Segment profit/(loss) before income tax	**15,424**	**(2,262)**	**(880)**	**500**	**12,782**
Depreciation and amortisation of non-financial assets	**1,352**	**1,007**	**215**	**192**	**2,766**
Provision for impairment of trade and other receivables	**94**	**–**	**–**	**–**	**94**
(Losses)/Gains on disposals of property, plant and equipment	**(9)**	**35**	**–**	**(9)**	**17**
Segment assets	**138,734**	**71,637**	**4,152**	**134,301**	**348,824**
Segment liabilities	**45,105**	**13,772**	**49**	**38,730**	**97,656**
Additions to non-current segment assets	**4,236**	**14,338**	**144**	**413**	**19,131**

	Health Care			Hotel Operations	Total
	Lansen Group 2010 USD'000	Haotian Group 2010 USD'000	Research & Product Development 2010 USD'000	2010 USD'000	2010 USD'000
Segment revenue	58,607	13,983	–	9,040	81,630
Segment operating profit/(loss)	12,952	(2,431)	(756)	1,070	10,835
Segment finance costs	(388)	(303)	–	(897)	(1,588)
Segment share of post-tax profit of associate	221	–	–	–	221
Segment profit/(loss) before income tax	12,785	(2,734)	(756)	173	9,468
Depreciation and amortisation of non-financial assets	1,109	1,096	249	190	2,644
Reversal of impairment of trade and other receivables	287	–	–	–	287
Losses on disposals of property, plant and equipment	(20)	(341)	(1)	(6)	(368)
Segment assets	106,951	57,878	4,130	141,118	310,077
Segment liabilities	20,346	5,092	63	32,659	58,160
Additions to non-current segment assets	4,427	6,303	544	208	11,482

The totals presented for the Group's operating segments reconcile to the entity's key financial figures as presented in its financial statements as follows:

	2011 **USD'000**	2010 USD'000
Reportable segment finance costs	**(1,561)**	(1,588)
Unallocated corporate finance costs	**(530)**	(929)
Finance costs	**(2,091)**	(2,517)
Reportable segment profit	**12,782**	9,468
Unallocated corporate income	**3,513**	3,284
Unallocated corporate expenses	**(6,096)**	(5,234)
Profit before income tax	**10,199**	7,518
Reportable segment assets	**348,824**	310,077
Other corporate assets	**31,667**	17,677
Group assets	**380,491**	327,754
Reportable segment liabilities	**97,656**	58,160
Unallocated corporate borrowings	**77,260**	68,216
Other corporate liabilities	**5,398**	11,978
Group liabilities	**180,314**	138,354
Reportable depreciation and amortisation of non-financial assets	**2,766**	2,644
Unallocated corporate depreciation	**65**	70
Group depreciation and amortisation of non-financial assets	**2,831**	2,714

The Group's revenue and its non-current assets (other than financial instruments) are divided into the following geographical areas:

	Revenue		**Non-current assets**	
	2011 **USD'000**	2010 USD'000	**2011** **USD'000**	2010 USD'000
The PRC (domicile)	**85,752**	67,623	**257,342**	227,869
Overseas	**5,633**	14,007	**–**	–
Total	**91,385**	81,630	**257,342**	227,869

The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the non-current assets is based on the physical location of the asset.

No single customer's revenue amounted to 10% or more of the Group's revenue for both 2011 and 2010.

7. OTHER INCOME

	2011 **USD'000**	2010 USD'000
Interest income from:		
Bank deposits	**324**	187
Loans and receivables	**3,041**	45
Gain on disposal of investment property	**–**	69
Government grants	**3,486**	2,109
Sub-contracting service income	**179**	–
Write back of other payables	**264**	3,198
Other miscellaneous income	**100**	34
	7,394	5,642

The Group received grants from local government in the PRC as recognition of the Group's performance and to support the development of high technology products. The grants received were not subject to any conditions.

8. PROFIT FROM OPERATIONS

The Group's profit from operations has been arrived at after charging/(crediting):

	2011 **USD'000**	2010 USD'000
Auditor's remuneration		
– audit services	**381**	306
– non-audit services	**8**	70
Depreciation of property, plant and equipment	**2,738**	2,629
Amortisation of prepaid land lease payment	**93**	85
Provision for impairment of trade receivables	**85**	153
Provision for/(Reversal of) impairment of other receivables	**9**	(440)
Exchange gain	**(469)**	(485)
Research and development expenditure	**1,266**	517
Cost of inventories recognised as expense	**34,327**	33,047
Provision for/(Reversal of) impairment of obsolete inventories	**9**	(26)
Rental income	**–**	(161)
Operating expenses in respect of sub-lease premises	**–**	127
Operating expenses in respect of rented premises	**1,019**	848
Write off of intangible assets	**137**	51
(Gains)/Losses on disposals of property, plant and equipment	**(17)**	368
Gain on disposal of investment property	**–**	(69)

Non-audit services include the services related to the flotation of subsidiary and United Kingdom ("UK") taxation compliance services.

9. FINANCE COSTS

	2011 USD'000	2010 USD'000
Interest on bank borrowings wholly repayable within 5 years	**2,624**	2,820
Interest payable to an intermediate parent undertaking	**38**	22
Total borrowing costs	**2,662**	2,842
Less: Interest capitalised included in construction in progress	**(571)**	(325)
	2,091	2,517

The weighted average capitalisation rate on funds borrowed generally is 2% per annum (2010: 3%).

10. PARTICULARS OF EMPLOYEES

The average number of persons (including directors) employed by the Group during the year was:

	2011 Number	2010 Number
Hotel operations	**393**	340
Healthcare	**1,356**	1,268
Corporate office	**21**	21
	1,770	1,629

The aggregate cost of employing those detailed above (including directors' remuneration) was:

	2011 USD'000	2010 USD'000
Wages and salaries	**15,038**	13,061
Share-based payments expenses (note 28)	**348**	60
Payroll taxes	**26**	28
Pension contributions	**976**	866
	16,388	14,015

11. INCOME TAX EXPENSE

	2011 USD'000	2010 USD'000
Current tax		
– PRC Enterprise Income Tax ("EIT")	**2,696**	2,581

Tax on assessable profits arising in the PRC has been calculated at the applicable rates of tax prevailing in the tax jurisdiction in which the Group operates.

Certain subsidiaries of the Group operate in Shenzhen Special Economic Zone and enjoy preferential Enterprise Income Tax rates, its tax rate will increase gradually to reach the standard rate at 25% in 2012. A subsidiary has been certified as a new high technology enterprise in the PRC and enjoys a preferential Enterprise Income Tax rate of 15% from 1 January 2010.

A subsidiary of the Group is a wholly-owned foreign enterprises in accordance with the Income Tax Law of the PRC for Enterprise with Foreign Investment and Foreign Enterprises and is entitled to full exemption from EIT for two years and a 50% reduction in the following three years thereafter starting from the first profit making year after offsetting prior years' tax losses, its tax rate will reach the standard rate at 25% in 2013.

Reconciliation between tax expense and accounting profit is as follows:

	2011 USD'000	2010 USD'000
Profit before income tax	**10,199**	7,518
Less: Loss arising in non-taxable environment	**(6,866)**	(3,612)
	17,065	11,130
Tax on profit at the rates applicable to the jurisdictions concerned	**3,547**	2,157
Tax effect on non-deductible expenses	**100**	142
Tax effect on non-taxable income	**(277)**	(246)
Unrecognised tax losses	**558**	740
Utilisation of tax losses not previously recognised	**(1,013)**	(37)
Tax exempt	**(219)**	(175)
Income tax expense for the year	**2,696**	2,581

The Group has tax losses of approximately USD3.6 million (2010: USD4.3 million) available to carry forward against taxable profits made in the UK in future years. These losses, which are not recognised in these financial statements, are not available to the Group to relieve against profits earned in the PRC or elsewhere. No deferred tax asset has been taken up for these tax losses.

12. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

Basic and diluted earnings per share is based upon the profit after tax attributable to owners of the parent of USD1,428,000 (2010: USD891,000) and the following weighted average number of A Shares and Common Shares in issue during the year:

	2011		2010	
	Common Shares	**A Shares**	Common Shares	A Shares
Amounts in thousand:				
Weighted average number of shares used in basic and diluted earnings per share	**367,571**	**10,472**	367,314	10,619

For the year ended 31 December 2011, the computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price for shares nor does it include the 1,292,353 Common Shares contingently issuable to Mr. Lee Jin-Yi, as described in note 22, as the conditions for their issue were not met throughout the year.

13. PROPERTY, PLANT AND EQUIPMENT

	Hotel properties USD'000	Construction in progress USD'000	Leasehold properties and improvements USD'000	Plant and other equipment USD'000	Total USD'000
COST OR VALUATION					
At 1 January 2010	121,721	7,295	4,623	35,753	169,392
Exchange adjustment	–	224	141	1,078	1,443
Additions	208	7,418	–	2,263	9,889
Disposals	(6)	–	–	(769)	(775)
Transfer from construction in progress	–	(3,725)	–	3,725	–
Surplus on revaluation credited to revaluation reserve	858	–	–	–	858
At 1 January 2011	122,781	11,212	4,764	42,050	180,807
Exchange adjustment	–	781	250	2,394	3,425
Additions	366	15,404	–	1,597	17,367
Disposals	(9)	–	–	(249)	(258)
Transfer from construction in progress	–	(7,519)	–	7,519	–
Surplus on revaluation credited to revaluation reserve	6,719	–	–	–	6,719
At 31 December 2011	129,857	19,878	5,014	53,311	208,060
ACCUMULATED DEPRECIATION					
At 1 January 2010	(886)	–	(1,242)	(9,136)	(11,264)
Exchange adjustment	(27)	–	(38)	(267)	(332)
Charge for the year	(12)	–	(115)	(2,502)	(2,629)
Eliminated on disposals	–	–	–	391	391
At 1 January 2011	(925)	–	(1,395)	(11,514)	(13,834)
Exchange adjustment	(49)	–	(73)	(643)	(765)
Charge for the year	(12)	–	(122)	(2,604)	(2,738)
Eliminated on disposals	–	–	–	140	140
At 31 December 2011	(986)	–	(1,590)	(14,621)	(17,197)
NET BOOK VALUE					
At 31 December 2011	128,871	19,878	3,424	38,690	190,863
At 31 December 2010	121,856	11,212	3,369	30,536	166,973
At 31 December 2009	120,835	7,295	3,381	26,617	158,128

The net book value of the hotel properties:

	2011 USD'000	2010 USD'000
At valuation:		
Hotel properties in the PRC with lease term expiring in 2033	**128,871**	121,856

The hotel situated in Shenzhen, the PRC was valued at 31 December 2011 (2010: 31 December 2010) by Colliers International (Hong Kong) Ltd, an independent firm of qualified professional valuers, using a discounted cash flow method at USD129,000,000 (2010: USD122,000,000). Key assumptions used are budgeted room rate, occupancy rate and food and beverage revenue estimated based on hotel's past performance and the expectations for market development and a discount rate of 10%. The equity investment cost of the hotel property situated in Shenzhen, the PRC to the Group was USD93,135,000 (2010: USD95,092,000).

The Group has the option to continue to lease the land under normal circumstances under the current PRC legislation. The Group intends to exercise the option during the renewal of the lease.

As at 31 December 2011, the hotel properties and certain plants with the carrying amount of USD7,679,000 (2010: USD3,138,000) were pledged to secure bank borrowings (note 24).

14. PREPAID LAND LEASE PAYMENT

	2011 USD'000	2010 USD'000
COST		
At 1 January	**3,850**	3,735
Exchange adjustment	**214**	115
Additions	**558**	–
At 31 December	**4,622**	3,850
ACCUMULATED AMORTISATION		
At 1 January	**(313)**	(221)
Exchange adjustment	**(19)**	(7)
Charge for the year	**(93)**	(85)
At 31 December	**(425)**	(313)
Represented by:		
Non-current portion	**4,103**	3,458
Current portion	**94**	79
Total	**4,197**	3,537

As at 31 December 2011, prepaid land lease payment with the carrying amount of USD1,271,000 (2010: USD833,000) was pledged to secure bank borrowings (note 24).

As at 31 December 2011, the legal titles of prepaid land lease payment amounted to USD558,000 had not been obtained by the Group. As assessed by the directors, the outstanding procedures are customary and nothing has come to their attention that would hinder the completion of transfer.

15. INTANGIBLE ASSETS

	Exclusive distribution rights USD'000 (note a)	Development costs USD'000 (note b)	Total USD'000
COST			
At 1 January 2010	–	3,979	3,979
Exchange adjustment	–	121	121
Additions	–	17	17
Internal developments	–	1,663	1,663
Write off	–	(51)	(51)
At 1 January 2011	–	5,729	5,729
Exchange adjustment	4	321	325
Additions	155	–	155
Internal developments	–	1,057	1,057
Write off	–	(137)	(137)
At 31 December 2011	159	6,970	7,129
ACCUMULATED IMPAIRMENT			
At 1 January 2010	–	(118)	(118)
Exchange adjustment	–	(4)	(4)
At 1 January 2011	–	(122)	(122)
Exchange adjustment	–	(13)	(13)
At 31 December 2011	–	(135)	(135)
CARRYING AMOUNT			
At 31 December 2011	159	6,835	6,994
At 31 December 2010	–	5,607	5,607
At 31 December 2009	–	3,861	3,861

Notes:

(a) In 2011, a subsidiary of the Group entered into an exclusive agreement with Shanghai Ethypharm Pharmaceutical Co. Ltd and Ethypharm SA (collectively referred to as "Ethypharm").

Under the agreement, the Group has been granted the exclusive rights for the marketing and distribution of ketoprofen/omeprazole slow-release capsules (the "Drug") in the PRC for a period of 10 years from the launch date of the Drug.

Pursuant to the agreement of this exclusive distribution rights, the Group is committed to pay USD238,000 (equivalent to approximately RMB1,500,000) to Ethypharm on the date of the grant of the Import Drug License ("IDL") from the State Food and Drug Administration ("SFDA"); and committed to pay USD1,033,000 (equivalent to approximately RMB6,500,000) for the clinical studies that required from SFDA to apply the IDL application. The consideration of the distribution rights had been disclosed as commitment at the end of the reporting period (note 27). Up to the date of approval for these consolidated financial statements, the registration process is still in progress.

(b) Development costs represent intellectual property rights ("IPR") acquired/developed for the pharmaceutical technology. The directors consider that these IPR have indefinite useful lives as there is no foreseeable limit on the period of time over which the IPR in the pharmaceutical industry is expected to provide cash flows. These IPR can be renewed in a period of time at minimal cost and the products are continuing in the market. If the IPR becomes impaired, the carrying amount of the asset should be written down or written off immediately to expense. IPR with indefinite useful lives are not amortised and are tested for impairment annually. As at 31 December 2011, IPR with indefinite useful lives were tested for impairment using the method and assumptions set out for goodwill in note 16. No impairment was identified.

16. GOODWILL

	2011 USD'000	2010 USD'000
COST AND CARRYING AMOUNT		
At 1 January and 31 December	**25,622**	25,622

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

For the purpose of impairment testing, goodwill and intangible assets with indefinite useful lives have been allocated to three individual CGUs as follows:

	2011		2010	
	Intangible assets with indefinite useful lives USD'000	**Goodwill USD'000**	Intangible assets with indefinite useful lives USD'000	Goodwill USD'000
Healthcare – Haotian Group	**1,799**	**17,788**	1,622	17,788
Healthcare – Lansen Group	**3,727**	**7,356**	2,878	7,356
Healthcare – Research and product development	**1,309**	**478**	1,107	478
	6,835	**25,622**	5,607	25,622

The recoverable amount of the healthcare-Lansen Group unit is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 10% which reflects specific risks relating to the CGU. The growth rate of 20% is based on pharmaceutical industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in key assumptions on which the recoverable amount is based would not cause the pharmaceutical-production, marketing and distribution carrying amount to exceed its recoverable amount.

The recoverable amount of the healthcare-Haotian Group unit is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 10% which reflects specific risks relating to the CGU, with an estimated growth rate of 10% which does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in key assumptions on which the recoverable amount is based would not cause the health care operation carrying amount to exceed its recoverable amount.

17. INTEREST IN ASSOCIATE

	2011 USD'000	2010 USD'000
At 1 January	**26,209**	–
Acquisition	**–**	25,751
Share of post-tax profit of associate	**2,086**	238
Capital contribution	**429**	–
Dividend after tax	**(386)**	–
Exchange adjustment	**1,422**	220
At 31 December	**29,760**	26,209

Details of the Group's associate at the end of the year are as follows:

Name of associate	**Principal activity**	**Place of incorporation and operation**	**Proportion of ownership interest and voting power held by the Group** **2011**	 2010
Zhejiang Starry Pharmaceutical Co. Ltd.	Production of bulk pharmaceuticals and intermediates	the PRC	**21.50%**	21.50%

The Group has a 1.5% equity interest in Zhejiang Starry Pharmaceutical Co. Ltd. ("Starry") through a wholly-owned subsidiary, and Lansen, a 50.56%-owned subsidiary of the Group, has a 20% equity interest in Starry. The Group can exercise significant influence through Lansen.

Summarised financial information in respect of the Group's associate is set out below.

	2011 **USD'000**	2010 USD'000
Total assets	**115,042**	75,688
Total liabilities	**(67,091)**	(41,612)
Net assets	**47,951**	34,076
Group's share of net assets of associate	**9,867**	7,326

	2011 **USD'000**	2010 USD'000
Total revenue for the year	**78,542**	6,013
Total profit for the year	**10,662**	1,214
Group's share of post-tax profit of associate	**2,086**	238

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2011 **USD'000**	2010 USD'000
Non-current		
Unlisted equity investment, at cost:		
Intelligent Sensor Systems Limited	**385**	–
Current		
Unlisted equity investment, at cost:		
Intelligent Sensor Systems Limited	**–**	385

Intelligent Sensor Systems Limited ("ISS") is headquartered in the UK and has development centre at Kent University, UK. ISS sells fibre optic sensor systems and monitoring services principally to the energy, mining and medical industries.

In the opinion of the directors, the fair value of this unlisted equity investment cannot be reliably measured because (a) this investment does not have quoted market prices in an active market; (b) the range of reasonable fair value estimates is significant for this investment; and (c) the probabilities of the various estimates cannot be reasonably assessed and used in estimating fair value. As such, all this unlisted equity investment is stated at cost less any impairment losses. As at 31 December 2011, the Group has no intention to sell this investment in short term and reclassified from current to non-current assets.

19. INVENTORIES

	2011 **USD'000**	2010 USD'000
Raw materials	**6,950**	4,679
Work-in-progress	**3,796**	3,194
Finished goods	**7,194**	6,196
Hotel inventories	**162**	157
	18,102	14,226

All inventories are stated at cost net of an amount of USD58,000 (2010: USD46,000) resulting from write down of inventories.

20. TRADE AND OTHER RECEIVABLES

	2011 **USD'000**	2010 USD'000
Trade receivables	**31,125**	22,016
Less: provision for impairment of trade receivables	**(2,501)**	(2,294)
	28,624	19,722
Bills receivables	**10,438**	7,130
Prepayments and other receivables	**12,874**	8,043
Loan receivables	**14,251**	13,544
	66,187	48,439

The directors consider that the carrying amounts of trade and other receivables approximate their fair values.

The fair values of trade and other receivables are the same as book values as credit risk has been addressed as part of impairment provisioning and, due to the short term nature of the receivables, they are not subject to other ongoing fluctuations in market rates.

The Group has a policy of allowing an average credit period of 90 days to its customers (2010: 90 days).

Based on the invoice date, ageing analysis of trade receivables, net, of the Group as at the end of the reporting date is as follows:

	2011 USD'000	2010 USD'000
90 days or below	**26,760**	15,686
91 – 180 days	**977**	3,241
181 – 365 days	**41**	485
Over 365 days	**846**	310
	28,624	19,722

As of 31 December 2011, trade receivables of USD1,864,000 (2010: USD4,036,000) were past due but not impaired. These balances relate to a number of independent customers of whom there is no recent history of default. Based on past experience, the directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has 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. The ageing of these receivables is as follows:

The Group's ageing analysis of past due but not impaired trade receivables is as follows:

	2011 USD'000	2010 USD'000
Past due 1-90 days	**977**	3,241
Past due 91-275 days	**41**	485
Past due over 276 days	**846**	310
	1,864	4,036

Movements of provision for impairment of trade receivables are as follows:

	2011 USD'000	2010 USD'000
At 1 January	**2,294**	2,141
Exchange adjustment	**122**	66
Provision for impairment of trade receivables	**85**	153
Amounts written off as uncollectible	**–**	(66)
	2,501	2,294

The above provision for impairment of trade receivables is made for individually impaired trade receivables. The individually impaired receivables mainly relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral over these balances.

As at 31 December 2011, trade receivables of USD26,760,000 (2010:USD15,686,000) were neither past due nor impaired. These balances relate to a large number of diversified customers for whom there is no recent history of default.

As at 31 December 2011, the Group discounted certain bills receivables of approximately USD961,000 (2010: nil) to a bank in exchange for cash with recourse in the ordinary course of business. The Group continues to recognise the full carrying amount of the discounted bills receivables as financial assets and has recognised the cash received from discounting the bills as financial liabilities, namely bank advance for discounted bills which are included in borrowings (note 24).

As at 31 December 2011, a provision for impairment of other receivables of USD994,000 (2010: USD936,000) was recognised as the outstandings had been aged a long period of time and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral over these balances.

Movements of the provision for impairment of other receivables are as follows:

	2011 **USD'000**	2010 USD'000
At 1 January	**936**	1,335
Exchange adjustment	**49**	41
Provision for/(Reversal of) impairment of other receivables	**9**	(440)
	994	936

Except for the amount impaired, none of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

Loans receivables are secured by unlisted shares of a PRC entity.

21. CASH AND CASH EQUIVALENTS

	2011 **USD'000**	2010 USD'000
Cash and bank balances	**37,695**	36,070
Less: Pledged bank deposits	**(17,529)**	(10,210)
Cash and cash equivalents	**20,166**	25,860

Pledged bank deposits represent the Group's bank deposits pledged to secure certain bills payables (note 26) and loans facilities (note 24) granted to the Group by banks.

As of 31 December 2011, included in cash and bank balances of the Group was USD18,096,000 (2010: USD20,218,000) of bank balances denominated in Renminbi ("RMB") placed with banks in the PRC. RMB is not a freely convertible currency.

22. SHARE CAPITAL

	2011 USD'000	2010 USD'000
Authorised		
544,474,103 Common Shares of USD0.05 each	**27,224**	27,224
14,042,105 A Shares of USD0.05 each	**702**	702
	27,926	27,926
Alloted, called up and fully paid		
370,942,548 (2010: 370,652,595)		
Common Shares of USD0.05 each	**18,547**	18,533
10,300,226 (2010: 10,590,179) A Shares of USD0.05 each	**515**	529
	19,062	19,062

The A Shares and the Common Shares rank equally in all respects save that each A Share carries 20 votes and each Common Share carries one vote. A Shares are convertible into Common Shares on a one for one basis by application in accordance with the Bye-Laws of the Company. During the year, 289,953 A Shares were converted into 289,953 Common Shares by the application of holders of A Shares.

In March 2010, the Company issued 3,200,000 new Common Shares of USD0.05 each to a wholly owned subsidiary of the Company at a subscription price of 33 pence per share for a total cash of consideration of USD1,736,909. The shares are held as treasury shares.

Mr. Lee Jin-Yi paid a cash consideration of USD1,000,000 for 1,842,353 new Common Shares in February 2010. 550,000 new Common Shares were issued to Mr. Lee. The remaining 1,292,353 Common Shares will be issued to Mr. Lee when the Company is able to do so in circumstances which would not cause the percentage of the Company's Common Shares held in public hands to fall below twenty five per cent. The amount of unissued Common Shares of USD701,000 is recognised as an amount payable.

The summary of the transactions during the year with reference to the above movements in the issued share capital is as follows:

	Number of A Shares in issue	Number of Common Shares in issue	Share capital USD'000
At 1 January 2010	10,703,622	366,789,152	18,875
Conversion of A Shares	(113,443)	113,443	–
Issue of shares	–	550,000	27
Issue of treasury shares	–	3,200,000	160
At 1 January 2011	10,590,179	370,652,595	19,062
Conversion of A Shares	(289,953)	289,953	–
At 31 December 2011	10,300,226	370,942,548	19,062

23. RESERVES

Share premium represents the excess over the nominal value for shares allotted.

Share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 4 to the financial statements. The amount will either be transferred to the issued capital account and the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

Treasury share reserve represents the cost of own shares held by the subsidiary.

Capital and special reserve represents the difference between the nominal value of shares issued and the nominal value of shares received in exchange during the Group reorganisation, and the gain on the purchase of preference shares of a subsidiary.

Revaluation reserve represents the net revaluation surplus on hotel properties arising from annual professional valuations. This reserve is non-distributable.

Foreign exchange reserve represents exchange differences arising from the re-translation of the net investment in subsidiaries and the net difference of translation of foreign currency borrowings raised to acquire foreign assets and translation of such assets.

Statutory reserve represents the appropriation of profits of the PRC subsidiaries to a non-distributable reserve fund account as required by the relevant PRC statute.

24. BORROWINGS

	2011 USD'000	2010 USD'000
Non-current		
Bank loans-secured	**5,979**	53,824
Bank loans-unsecured	**3,178**	–
	9,157	53,824
Current		
Bank advance for discounted bills	**961**	–
Bank loans-secured	**98,828**	34,774
Bank loans-unsecured	**14,722**	10,635
	114,511	45,409
Total borrowings	**123,668**	99,233
Analysed as:		
Bank advance for discounted bills	**961**	–
Bank loans are repayable as follows:		
Within one year or on demand	**113,550**	45,409
In second year	**8,037**	49,124
In the third year to fifth years, inclusive	**1,120**	4,700
	123,668	99,233
Represented by:		
Borrowings in RMB	**24,115**	12,529
Borrowings in HKD	**15,675**	38,987
Borrowings in USD	**83,878**	47,717
	123,668	99,233

The secured bank loans are secured by charge over assets of the Group. The details of assets have been pledged as collateral to secure the bank borrowings are set out in notes 13, 14 and 21.

The unsecured bank loans are guaranteed by certain subsidiaries of the Group.

Bank advance for discounted bills of USD961,000 represented the discounted bills with recourse as at 31 December 2011 and were unsecured. These borrowings matured within one year and were repayable in RMB.

The fixed-rate bank loans of USD7,150,000 (2010: USD453,000) has an effective interest rate ranges from 7.216% to 7.648% (2010: 5.31%) per annum. The variable-rate bank loans of USD115,557,000 (2010: USD98,780,000) have effective interest rates ranging from 1.395% to 7.872% (2010: 1.3% to 6.116%) per annum.

The directors consider the carrying amounts of the bank loans approximate their fair values.

25. DEFERRED TAX LIABILITIES

	Revaluation of hotel properties USD'000	Distributable profits of the Group's PRC subsidiaries USD'000	Total USD'000
At 1 January 2010	19,564	394	19,958
Charge to other comprehensive income	626	–	626
At 1 January 2011	20,190	394	20,584
Charge to other comprehensive income	4,784	–	4,784
Paid during the year	–	(213)	(213)
At 31 December 2011	24,974	181	25,155

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to the profits earned by the PRC subsidiaries amounting to USD21,601,000 (2010: USD10,758,000).

26. TRADE AND OTHER PAYABLES

	2011 USD'000	2010 USD'000
Amount due to an intermediate parent undertaking	**2,886**	302
Amount due to a director (note 22)	**701**	701
Trade and bills payables	**11,671**	6,551
Accruals and other payables	**14,577**	9,485
	29,835	17,039

The bills payables of USD632,000 (2010: USD185,000) are secured by the pledge of deposits (note 21).

The amount due to the intermediate parent company is unsecured, bearing interest at 3.5% (2010: 3.5%) plus London Interbank Offered Rate per annum, and repayable on demand.

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

The directors consider that the carrying amounts of trade and other payables approximate to their fair values.

27. FINANCIAL COMMITMENTS

Operating lease – as lessee

	2011 USD'000	2010 USD'000
Payments recognised as an expense:		
Minimum lease payments	**1,019**	975
Sub-lease payments received	**–**	(161)
	1,019	814
Future minimum rentals payable under non-cancellable operating leases are as follows:		
Within one year	**522**	314
Between two and five years	**649**	284
	1,171	598

The Group leases certain properties under operating leases. The leases run for an initial period of one to three years, with options to renew the lease terms at the expiry dates or at days as mutually agreed between the Group and the respective landlords. None of these leases includes any contingent rentals.

Capital commitment

	2011 USD'000	2010 USD'000
Capital commitments authorised and contracted for:		
Constructions and equipment	**5,569**	2,442
Intangible assets	**2,363**	1,190
	7,932	3,632

28. SHARE-BASED PAYMENTS

The Company operates a share option plan (the "Plan") for the purpose of aligning the interests of executives and employees with those of shareholders of the Company and to enable the development of the Group's businesses by attracting, retaining and motivating personnel with appropriate skills. The Plan was adopted on 3 June 2010 and unless otherwise cancelled or amended, will remain in force for 10 years from that date.

Under the Plan, selected eligible employees and executive directors of the Company (the "Eligible Participants") may be granted awards of options exercisable into common shares of the Company at not less than an amount equal to the average of the closing middle-market quotations of the Company's share, as derived from the Daily Official List of the London Stock Exchange over such number of days (not exceeding 30) immediately preceding the date of grant as the Remuneration Committee may decide.

The options so granted cannot be exercised during the first three years from the time of grant. At the expiry of the three year period from the date of grant, subject to satisfaction of performance conditions to the exercise of options under the Plan, Eligible Participants can exercise options granted in whole or in part at any time but in any event not later than the tenth anniversary from the time of grant. The market value of options at the time of grant to any Eligible Participants will be limited to not more than 200% of his/her annual base salary in the year of grant. The total number of shares of the Company to be issued under the Plan will be limited to 5% of the Company's issued share capital from time to time, in any rolling ten year period.

The Plan is administered and managed by the Company's Executive Committee and approved by the Remuneration Committee.

Share options granted carry no rights to dividends and no voting rights.

The following share options were outstanding under the Plan during the year:

	2011		2010	
	Number of options	**Weighted average exercise price pence**	Number of options	Weighted average exercise price pence
At 1 January	**2,751,177**	**39.81**	–	–
Granted during the year	**5,171,176**	**41.21**	2,751,177	39.81
Forfeited during the year	**(320,000)**	**40.49**	–	–
At 31 December	**7,602,353**	**40.73**	2,751,177	39.81

The exercise price and the exercise periods of the share options outstanding at the end of the year are as follows:

2011

Number of options	Exercise price pence per share	Exercise period
2,591,177	**39.81**	**19 July 2013 to 18 July 2015**
921,176	**41.37**	**16 March 2014 to 15 March 2016**
4,090,000	**41.17**	**31 March 2014 to 30 March 2016**
7,602,353		

2010

Number of options	Exercise price pence per share	Exercise period
2,751,177	39.81	19 July 2013 to 18 July 2015

Fair value of share options granted in the year

The fair value of the share options granted is approximately GBP776,000 in aggregate, of which the Group recognised a share option expense of GBP216,000 (USD348,000) (2010: GBP38,000 (USD60,000)) during the year ended 31 December 2011. Options were priced using a binomial option pricing model. The following table lists the inputs into the model:

Grant date share price on 16 March 2011	39.5 pence
Expected volatility	33.101%
Expected Life of Option	5 years
Dividend yield	nil
Risk-free rate	2.258%
Grant date share price on 31 March 2011	41.25 pence
Expected volatility	32.837%
Expected Life of Option	5 years
Dividend yield	nil
Risk-free rate	2.440%

The expected volatility was determined by reference to historical data. Due to the lack of liquidity of the Company's shares for some periods in the past, the historical volatility of the Company before 17 November 2009 may be a good estimation of the expected volatility in the future. Instead, the average implied volatility of the Company after 17 November 2009 (345 days) has been employed. The risk-free rate is the yield of UK Gilts Generic yield with maturity matching the expected life of the Option as at the valuation date as obtained from Bloomberg. No special features pertinent to the options granted were incorporated into measurement of fair value.

The share options outstanding at the end of the year had a weighted average remaining contractual life of 4 years (2010: 4.5 years).

29. FINANCIAL RISK MANAGEMENT

The Group is exposed to a variety of financial risks which result from its operating and investing activities. The Group's risk management is coordinated at its Hong Kong office in close cooperation with the board of directors and focuses on actively securing the Group's short to medium term cash flows.

The directors consider the book value of all instruments to be their fair value.

Credit Risk

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment.

In order to minimise credit risk, the management of the Group has formulated defined credit policies with respect to the businesses of each of operating subsidiaries and the implementation of credit limits or approvals and monitoring procedures is decentralised to the respective operating subsidiaries level with periodical reporting back to the management.

The credit risk on loans receivable is limited because Group indirectly holds unlisted shares as collateral to cover this credit risk. The credit risk on liquid funds is limited because the counterparties are reputable international banks with high quality external credit ratings.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Liquidity Risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or financial asset. The directors of the Company have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group, which relies partially on financial support from its parents and ultimate controlling shareholder, manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

As disclosed in note 2, the Group's current liabilities has exceeded its current assets by USD23,924,000 as at 31 December 2011. The liquidity of the Group is primarily dependent on its ability to obtain external financing. Further details are set out in note 2. The directors of the Company have carried out a detailed review of the cash flow projection of the Group for the next twelve months from the reporting date. Based on such projection, the directors have determined that adequate liquidity exists to finance its working capital and financing activities of the Group for that period. The directors are of the opinion that the assumptions which are included in the cash flow projection are reasonable.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	2011			
	Within one year USD'000	**Between one and two years USD'000**	**Between two and five years USD'000**	**Total USD'000**
Interest-bearing bank and other borrowings	**116,514**	**8,336**	**1,172**	**126,022**
Trade and bills payables	**11,671**	**–**	**–**	**11,671**
Accruals and other payables	**14,577**	**–**	**–**	**14,577**
Amount due to a director	**701**	**–**	**–**	**701**
Amount due to an intermediate parent undertaking	**3,019**	**–**	**–**	**3,019**
	146,482	**8,336**	**1,172**	**155,990**

	2010			
	Within one year USD'000	Between one and two years USD'000	Between two and five years USD'000	Total USD'000
Interest-bearing bank and other borrowings	47,073	49,624	4,753	101,450
Trade and bills payables	6,551	–	–	6,551
Accruals and other payables	9,485	–	–	9,485
Amount due to a director	701	–	–	701
Amount due to an intermediate parent undertaking	313	–	–	313
	64,123	49,624	4,753	118,500

Foreign Currency Risk

As a result of significant investment operations in China, the Group's statement of financial position can be affected significantly by movements in the USD/RMB exchange rates. The Group has minimal transactional currency exposure to foreign currency risk as most of the financial assets and liabilities held by the Group's overseas subsidiaries (except for the Group's treasury investments which are mainly denominated in USD) are denominated in the respective functional currency of such subsidiaries.

The Group does not have material exposure to fluctuations in exchange rates.

The overall net exposure in respect of the carrying amount of the Group's foreign currency denominated financial assets and liabilities in net position were GBP24,000 (2010: GBP993,000).

The following table illustrates the sensitivity of the Group's profit after tax for the year and equity in regards to a 5% (2010: 5%) appreciation in the group entities' functional currencies against GBP. The rate is the rate used when reporting foreign currency risk internally to key management personnel and represents management's best assessment of the possible change in foreign exchange rates.

The sensitivity analysis of the Group's exposure to foreign currency risk at the reporting date has been determined based on the assumed percentage changes in foreign currency exchange rates taking place at the beginning of the financial year and held constant throughout the year.

	Impact of GBP	
	2011	2010
	USD'000	USD'000
Sensitivity rate	**5%**	5%
Profit or loss	**2**	77
Equity	**2**	77

The same % depreciation in the group entities' functional currencies against the respective foreign currencies would have the same magnitude on the Group's profit for the year and equity but of opposite effect.

These are the same method and assumption used in preparing the sensitivity analysis included in the financial statements of the year ended 31 December 2010.

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Interest Rate Risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with floating interest rates. The interest rate and terms of repayment of bank borrowings of the Group are disclosed in note 24. The Group currently does not have an interest rate hedging policy.

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the reporting date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the reporting date 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 2011 would decrease/increase by USD574,000 (2010: decrease/increase by USD493,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings; and

- The Group's equity as at 31 December 2011 would decrease/increase by USD574,000 (2010: decrease/increase by USD493,000).

The Group's sensitivity to interest rates has increased during the current period mainly due to the increase in variable rate borrowings.

Summary of financial assets and liabilities by category

The carrying amounts presented in the statement of financial position relate to the following categories of financial assets and financial liabilities.

	2011 USD'000	2010 USD'000
Financial assets		
Loans and receivables		
Loans to non-controlling interests	**686**	686
Trade and other receivables	**62,693**	48,439
Pledged bank deposits	**17,529**	10,210
Cash and cash equivalents	**20,166**	25,860
Available-for-sale financial assets	**385**	385
	101,459	85,580
Financial liabilities		
Financial liabilities at amortised cost:		
Borrowings	**123,668**	99,233
Trade and other payables	**28,401**	17,039
	152,069	116,272

Capital management

The Group manages its capital to ensure that entities in 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.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 24, cash and bank balances and equity attributable to owners of the parent, comprising issued capital, reserves and retained profits.

The Group's risk management reviews the capital structure on a semi-annual basis. As part of this review, the audit committee considers the cost of capital and the risks associated with each class of capital.

The Group sets the amount of capital in proportion to its overall financing structure. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The Group had net current liabilities of USD23,924,000 as at 31 December 2011. Basis of preparation in respect of going concern has been disclosed in note 2. The directors of the Company have carried out a detailed review of the cash flow projection of the Group for the next twelve months from the reporting date. The Directors have determined that adequate liquidity exists to finance its working capital and financing activities of the Group for that period.

Net gearing ratio at the year end was as follows:

	2011 **USD'000**	2010 USD'000
Borrowings	**123,668**	99,233
Amount due to an intermediate parent undertaking	**2,886**	302
Cash and bank balances (note 21)	**(37,695)**	(36,070)
Net debt	**88,859**	63,465
Equity	**200,177**	189,400
Net debt to equity ratio	**44.4%**	33.5%

30. RELATED PARTY TRANSACTIONS

At 31 December 2011, a loan from Cathay International EW No.43 Limited, the immediate parent undertaking of Cathay International Enterprises Limited, which is itself the immediate parent undertaking of the Company, amounted to USD2,886,000 (2010: USD302,000). The amount is payable on demand and bears interest at 3.5% (2010: 3.5%) over London Interbank Offered Rate per annum. During the year, interest charged on the loan payable to the intermediate parent undertaking amounted to USD38,000 (2010: USD22,000).

At 31 December 2011, loans to non-controlling interests amounted to USD686,000 (2010: USD686,000) and amount due to a director amounted to USD701,000 (2010: USD701,000). Details regarding the amount due to a director are set out in notes 22 and 26.

Remuneration for key personnel of the Group, including amounts paid to the Company's directors, are disclosed in the Directors' Remuneration Report.

31. CONTROLLING PARTIES

In the directors' opinion, the Company's immediate parent undertaking is Cathay International Enterprises Limited whose accounts are not a matter of public record.

Mr. Wu Zhen Tao is the Company's controlling party by virtue of his controlling beneficial interest in the shares of the Company.

32. SUBSIDIARIES

The directors of the Company are of the opinion that a complete list of the particulars of all the subsidiaries is of excessive length and therefore the following list contains only the particulars of the subsidiaries which materially affect the results or assets of the Group. Details of principal subsidiaries are as follows:

Name of subsidiary	Place of registration	Proportion of ownership interest % 2011	2010	Principal activities
Cathay International Holdings Limited*	England and Wales	**100**	100	Investment holding
Cathay International Landmark Holdings Limited*	The British Virgin Islands (The"BVI")	**100**	100	Investment holding
Koon Hay Investment Limited*	The BVI	**100**	100	Investment holding
Cathay International Biotech Company Limited*	The BVI	**100**	100	Investment holding
Bon House Development Limited	Hong Kong	**100**	100	Investment holding
Calfin Holdings Limited	The BVI	**100**	100	Investment holding
Statelink Investment Limited	Hong Kong	**100**	100	Investment holding
Fuyuan Landmark (Shenzhen) Limited	The PRC	**100**	100	Hotel ownership
Sharp Asset Development Limited	Hong Kong	**100**	100	Property ownership
Cathay International Changchun Biotechnology and Pharmaceutical Limited	The BVI	**100**	100	Pharmaceutical investments
Changchun Botai Medicine and Biological Technology Company Limited	The PRC	**100**	100	Pharmaceutical business
Tianjin Longbai Biological Engineering and Technology Company Limited	The PRC	**65**	65	Pharmaceutical business
Lansen Pharmaceutical Holdings Limited	Cayman Islands	**50.56**	50.56	Pharmaceutical investments
Lansen Pharmaceutical Holdings Limited	The BVI	**50.56**	50.56	Pharmaceutical investments
Lansen Medicine (Shenzhen) Company Limited	The PRC	**50.56**	50.56	Pharmaceutical business
Ningbo Liwah Pharmaceutical Company Limited	The PRC	**50.56**	50.56	Pharmaceutical business
Ningbo Liwah Plant Extraction Technology Limited	The PRC	**50.56**	50.56	Pharmaceutical business
Ningbo Lansen Pharmaceutical Company Limited	The PRC	**50.56**	50.56	Pharmaceutical business
Bozhou Lansen Herbal Industry Limited	The PRC	**50.56**	–	Pharmaceutical business
Haotian Holdings Limited	The BVI	**100**	100	Pharmaceutical investments
Xian Haotian Bio-Engineering Technology Co. Limited	The PRC	**100**	100	Pharmaceutical business
Yangling Haotian Bio-Engineering Technology Co. Limited	The PRC	**100**	100	Pharmaceutical business
Shenyang Haotian-Wanjia Medical Technology Co. Limited	The PRC	**51**	51	Pharmaceutical business
Jilin Haizi Bio-Engineering Technology Co. Limited	The PRC	**100**	100	Pharmaceutical business
Gongzhuling Huatian Bio-Engineering Technology Co. Limited	The PRC	**100**	100	Pharmaceutical business
Siping Jinrui Trading Co. Limited	The PRC	**91**	91	Pharmaceutical business
Linqing Haotian Bio-Engineering Technology Co. Limited	The PRC	**100**	100	Pharmaceutical business
Leling Haotian Bio-Engineering Technology Co. Limited	The PRC	**100**	100	Pharmaceutical business
Huxian Haotian Bio-Engineering Technology Co. Limited	The PRC	**100**	100	Pharmaceutical business
Gongzhuling Haizi Bio-Engineering Technology Co. Limited	The PRC	**100**	100	Pharmaceutical business
Yushu Haizi Bio-Engineering Technology Co. Limited	The PRC	**100**	–	Pharmaceutical business

* Investments held directly by the Company