CATHAY INTERNATIONAL HOLDINGS LIMITED

ANNUAL REPORT 2014

Contents

Directors and Advisers

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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

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Patrick Sung
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Kenneth K. Toong
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Introduction

Cathay International Holdings Limited ("CIH") is a leading investor and operator in the growing healthcare sector in the People's Republic of China (the "PRC"). The Company and its subsidiaries (collectively the "Group") aim to leverage on growth opportunities in the strong and growing domestic demand for high quality healthcare products in China and build its portfolio companies into market sector leaders with competitive edge.

CIH's business portfolio includes:

Healthcare	
Lansen	Lansen, listed on the main board of the Hong Kong Stock Exchange, is a leading pharmaceutical company in China which focuses on the rheumatic specialty prescription western pharmaceuticals for the treatment of autoimmune rheumatic diseases and dermatology indications. Lansen group is engaged in the manufacture, distribution and development of rheumatic drugs, with a leading position in the disease-modifying anti-rheumatic drugs ("DMARDs") market in the PRC. Lansen is also engaged in the production and sales of plant extracts and healthcare products.
Haizi	Haizi is engaged in the manufacture, marketing and sales of inositol and its by-product, di-calcium phosphate and has capacity to produce 2,500 tonnes of inositol per annum, the second largest in the PRC.
Yangling	Yangling is engaged in the production and sales of plant extracts, such as bilberry, gingko extract and ginseng extract, for use as key active ingredients in healthcare products.
Botai	Botai is engaged in collagen products and has received the first ever domestic production license in China for collagen injectable filler from State Food and Drug Administration ("SFDA") in China. Modification and expansion of production facilities expected to complete in 2015.

Hotel	
The Crowne Plaza Hotel & Suites Landmark Shenzhen	This is a leading luxury business hotel, managed by InterContinental Hotels Group, and located in the Lowu district of Shenzhen in the PRC.

Chairman's Statement

China's economic growth slowed to 7.4% in 2014 (2013: 7.7%) as demand for exports decreased, the real estate sector cooled-off and overcapacity remained in many industries. This year saw the Chinese Government begin to restructure the economy, focusing on raising standards of living, expanding domestic demand and increasing its energy-saving and emission-reduction efforts. As a result, China has entered into an expected period of slower growth.

The pharmaceutical sector was less affected by the slowing local economy but more by the continuing government reforms to expand the national healthcare coverage system and to bring down retail drug prices. In 2014, pharmaceutical growth slowed to 13% (2013: 17.9%), dragged by centralized bidding procurement which effectively lowered the price hospitals pay for drugs, and also by the use of caps on reimbursement paid by the national health insurance schemes to encourage the use of lower cost drugs. Pharmaceutical companies in China have suffered not only from margin decline due to increased pressure on drug prices, but also from the increase in operating expenses to meet the new GMP standards, and rising labor costs.

On the other hand, the growth in household income and the increased awareness of healthcare in China has led to an increased demand for health and nutrition supplements. The consumer base has been expanded from the elderly and infant population to include women and younger people and consumption patterns for spending on health areas such as disease prevention, anti-ageing, cerebral stimulation and cosmetics have become higher. China's 12th Five-Year Plan (2011-2015) outlined the opportunity for the health and nutrition supplement industry to reach approximately RMB1 trillion (USD160 billion) by 2015, with a CAGR of 20%.

Anticipating this growth in China's healthcare market, the Group has, over the past few years, built upon its pharmaceutical expertise to diversify into health and nutrition supplements via Lansen and Yangling, with a strategy to develop a portfolio of supplements with a competitive edge. In 2014, plant extracts and ingredients for health supplements contributed 40% towards the Group's pharmaceutical and healthcare revenue, compared to 27% in 2012 and 34% in 2013.

Haizi's focus is on inositol and di-calcium phosphate ("DCP"), a by-product. Haizi has the world's second largest inositol production capacity at 2,500 tonnes per annum. Its production process produces organic inositol, and its strategy is to develop premium quality organic inositol at a competitive price as the market preference is for organic over inorganic sourced inositol. Due to the market being flooded with new supply capacities from Haizi and its major competitors during 2014, inositol selling price dropped from an average of USD17.2 per kg in the first half and stabilized at around USD8 per kg towards year end. This price erosion has significantly affected Haizi's contribution to the Group for 2014. While the continued demand growth of inositol would help its price to recover over time, Haizi is also working towards producing higher margin food grade DCP in the latter part of 2015 to improve the overall profit contribution.

Yangling and Lansen's plant extract division ("Zhiti") have collaborated closely in 2014 and established a position as market leaders in bilberry, gingko extract, and ginseng extract. With the completion of Yangling's multi-function workshop and synthesis workshop for plant extracts expected in the first quarter of 2015, the Group will further expand its product portfolio leveraging on Yangling's production expertise and Lansen Zhiti's market access and R&D capabilities.

During the year, Lansen expanded its specialty drug portfolio for the treatment of autoimmune disorders in rheumatologic indications to include dermatologic indications. Lansen acquired Sicorten Plus, a corticosteroid cream marketed and sold in China for dermatologic indications, from Novartis; and obtained the exclusive distribution rights for Kefumei, a collagen dressing product used in medical skincare, from Shaanxi Biogene Technology Co., Ltd.

At the end of 2014, the distribution agreement with Fujian Huitian Bio-Pharma Co., Ltd., for the exclusive distributorship for leflunomide tablets branded "Tuoshu" was not renewed upon expiry. To replace Tuoshu, Lansen has entered into a new distribution agreement with Dalian Merro Pharmaceutical Factory as the exclusive distributor for leflunomide tablets branded "Hepai" for a term of ten years commencing 1 January 2015. Tuoshu was a key rheumatology product for Lansen, but the discernible trend has been that leflunomide is turning into an over-the-counter product. Lansen expects the market pricing of leflunomide tablets will decline expeditiously, with more than a 20% drop anticipated in 2015. The addition of Hepai would enable Lansen to recapture market share in leflunomide tablets, although at low margins in the medium term. The growth of new drugs in Lansen's product portfolio, including Sicorten Plus and Kefumei, will be a greater contributing factor to mitigate the potential loss of contribution from leflunomide.

Lansen also diversified its distribution channels in 2014 and sold 21% of its specialty drug products through non hospital channels, a 14% increase year on year. Over the next couple of years, it is anticipated that China will gradually start to allow the distribution of prescription drugs via the internet. In anticipation of this potential market opening, the Group has already built pharmacy and internet distribution channels for its dermatology products, currently mainly sold over the counter.

Performance

In 2014, the Group revenue grew 30.6% to USD150.0 million. Haizi recorded its first full year sales of inositol and DCP of USD15.2 million (2013: USD4.0 million – two months of sales from commencement in November 2013) although the sharp fall in inositol price limited Haizi's potential contribution. Lansen's sales increased 22.9%, primarily due to growth in sales of specialty pharmaceutical products. Yangling's sales were relatively small as it was still in the midst of business volume expansion. Botai had not commenced production or sales. The Hotel maintained its 10% contribution to the Group revenue, continued to outperform the competition in terms of occupancy rate and registered a 4.4% growth in sales.

Due to improved performance at Lansen and Haizi, the Group operating profit (before finance costs and tax) increased by 129.5% to USD15.8 million. The Group finance costs increased by 49.0% to USD7.8 million as a result of the increase in average borrowing costs and net bank borrowings.

The Group's profit (after finance costs and tax) was USD5.5 million, compared to a loss of USD0.5 million in 2013. After deducting the minority interests of Lansen, the Group's loss attributable to owners of the parent for the year significantly reduced to USD1.3 million from a loss of USD6.2 million in 2013.

Outlook

There will continue to be challenges to retail drug pricing for pharmaceutical companies operating in China. During recent provincial level drug auctions, local governments set ceiling prices to force pharmaceutical companies to follow. Governments are also encouraging hospitals to conduct second rounds of bidding to further lower retail drug prices. Over time, however, the government would like to abolish price control on most drugs and leave the pricing mechanism to the market. Companies with strong products and competitive costs should prosper.

Lansen will continue to expand its specialty drug portfolio in immunology related indications, through acquisitions, collaborations, in-licensing and product development. Recently, Lansen formed a team of senior financial and production personnel to explore ways to improve its efficiencies in purchasing, manufacturing and sales and marketing activities. Facing a fast changing environment, Lansen must rely on its people, its innovative internet selling model and treatment protocol to create long term competitiveness.

Botai plans to complete the expansion of its collagen injectable filler facility in the first half of 2015. Botai is also exploring the possibilities of leveraging on Lansen's infrastructure to distribute its collagen fillers and create synergies to tap into the potential within the cosmeceutical market in China.

On the other hand, the Group sees sustained growth potential in the health and nutrition supplements business in China. Lansen will lead the Group's venture into the healthcare end-product markets by initially building a small production facility and obtaining licenses for a couple of bilberry/ginseng related products. Lansen and Yangling will collaborate on business synergies in this regard.

We anticipate operating cash flow to improve in all business segments, and will focus on reducing borrowings and finance costs in 2015.

After six years of service as Chairman, I am retiring from this position as Chairman with effect from the end of this year's Annual General Meeting but will remain as a director of the Company. Mr. Wu Zhen Tao, executive director of the Company, will take up the Chairman role. A full announcement concerning his appointment will be made in due course.

On behalf of the Board, I am grateful for your continued support of Cathay and would like to thank all of our employees for their contributions last year.

Sum Soon Lim
Chairman

FINANCIAL REVIEW

GROUP RESULTS

Group's revenue recorded a 30.6% increase to USD150,023,000 (2013: USD114,836,000). The increase mainly came from Lansen and Haizi. Having benefited from organic growth, Lansen's sales grew 22.9% to USD116,817,000 (2013: USD95,074,000). In 2014, Haizi recorded its first full year of sales of inositol and DCP at USD13,828,000 (2013: USD2,777,000 – two months of sales from commencement in November 2013). Part of the inositol sales, amounting to USD1,360,000 (2013: USD1,218,000) were not attributed to Haizi as it was not sold through them, and were instead attributed to Yangling. The Hotel revenue grew 4.4% to USD14,596,000 (2013: USD13,984,000). Yangling's revenue increased by 59.3% to USD4,782,000 (2013: USD3,001,000) due to increased sales of bilberry.

Group's gross profit increased by 25.2% or USD14,243,000 to USD70,671,000 (2013: USD56,428,000) as a result of strong revenue growth. Lansen's gross profit increased by USD10,233,000 to USD62,471,000 (2013: USD52,238,000) and Haizi's gross profit increased by USD2,869,000 to USD4,589,000 (2013: USD1,720,000). Group's gross profit margin decreased to 47.1% (2013: 49.1%), which was mainly due to the decline in Lansen's gross margin resulting from the drop of profit margin for specialty drugs and an increase in the proportion of sales of lower margin products.

Group's operating profit increased by 129.5% or USD8,887,000 to USD15,751,000 (2013: USD6,864,000), of which USD3,776,000 was from Lansen, USD1,644,000 from Haizi and USD2,219,000 from Yangling. Apart from a higher reversal of share option expenses of USD766,000 (2013: USD396,000), the corporate office expenses were at similar level as last year.

Group's finance costs increased by 49.0% to USD7,814,000 (2013: USD5,243,000) mainly due to an increase in the Group's total borrowings and a rise in average borrowing costs. The average borrowing costs during the year was 4.47% (2013: 4.15%). No further interest expense was capitalised during the year (2013: USD1,153,000).

Group share of profit from Starry, a 21.5% owned associate company which is primarily engaged in the production and sales of iohexol for X-CT scan, was USD2,156,000 (2013: USD1,590,000).

Group's profit (after finance costs and tax) was USD5,536,000, compared to a loss of USD501,000 in 2013. After deducting the minority interests of Lansen, Group's loss for the year attributable to owners of the parent was USD1,297,000 (2013: USD6,191,000).

(stated in USD'000)	Lansen	Healthcare Haizi	Healthcare Yangling	Botai	Hotel Operations	Corporate Office	Inter-segment Elimination	Total
For year ended 31 December 2014								
REVENUE								
External sales	116,817	13,828	4,782	–	14,596	–	–	150,023
Inter-segment sales	–	1,360	974	–	–	–	(2,334)	–
Segment revenue	116,817	15,188	5,756	–	14,596	–	(2,334)	150,023
Segment gross profit	62,471	4,589	928	–	2,683	–	–	70,671
Segment operating profit/(loss)	19,499	980	(1,770)	(842)	2,559	(4,675)	–	15,751
Segment finance costs	(3,010)	(519)	(38)	–	(727)	(3,520)	–	(7,814)
Segment share of post-tax profit of associate	2,156	–	–	–	–	–	–	2,156
Segment profit/(loss) before income tax	18,645	461	(1,808)	(842)	1,832	(8,195)	–	10,093
Segment income tax expense	(4,088)	(414)	(55)	–	–	–	–	(4,557)
Segment profit/(loss) for the year before non-controlling interests	14,557	47	(1,863)	(842)	1,832	(8,195)	–	5,536
Segment profit/(loss) for the year attributable to owners of the parent	7,645	70	(1,857)	(792)	1,832	(8,195)	–	(1,297)
For year ended 31 December 2013								
REVENUE								
External sales	95,074	2,777	3,001	–	13,984	–	–	114,836
Inter-segment sales	–	1,218	23	–	–	–	(1,241)	–
Segment revenue	95,074	3,995	3,024	–	13,984	–	(1,241)	114,836
Segment gross profit	52,238	1,720	45	–	2,425	–	–	56,428
Segment operating profit/(loss)	15,723	(664)	(3,989)	(1,096)	2,312	(5,422)	–	6,864
Segment finance costs	(1,653)	(205)	(501)	–	(760)	(2,124)	–	(5,243)
Segment share of post-tax profit of associate	1,590	–	–	–	–	–	–	1,590
Segment profit/(loss) before income tax	15,660	(869)	(4,490)	(1,096)	1,552	(7,546)	–	3,211
Segment income tax expense	(3,390)	(272)	(50)	–	–	–	–	(3,712)
Segment profit/(loss) for the year before non-controlling interests	12,270	(1,141)	(4,540)	(1,096)	1,552	(7,546)	–	(501)
Segment profit/(loss) for the year attributable to owners of the parent	6,489	(1,108)	(4,534)	(1,044)	1,552	(7,546)	–	(6,191)

Group's Net Assets and Gearing

The Group's net assets as at 31 December 2014 were USD187,848,000 (2013: USD190,321,000). Net assets per share as at 31 December 2014 were USD0.50 (2013: USD0.50).

The Group increased its net borrowings to USD133,688,000 (2013: USD120,966,000), of which there was a net increase of USD13.0 million related to Lansen; a net increase of USD6.0 million related to Haizi and a repayment of USD6.1 million at the corporate level. Net gearing reached 68.7%, up from 59.2%. At year end, short term borrowings were USD104,306,000 (2013: USD94,811,000). During the year, the Group refinanced USD60,528,000 of the loan facility to a five year term loan facility.

Subsequent to the year end, on 23 February 2015, the Group obtained a new three year term loan facility of USD20,000,000 and repaid a bank loan of USD9,544,000.

OPERATION REVIEW

HEALTHCARE

Lansen

Lansen's revenue increased by 22.9% to USD116,817,000 (2013: USD95,074,000) due to strong growth from all segments.

Revenue from specialty pharmaceuticals increased 22.9% to USD70,730,000 (2013: USD57,571,000), while revenue from plant extracts increased by 24.8% to USD35,854,000 (2013: USD28,720,000) and generic drugs increased by 16.5% to USD 10,233,000 (2013: USD8,783,000).

Within the specialty pharmaceuticals, revenue growth of the three core rheumatoid arthritis ("RA") drugs were 26.9% in Pafulin, 12.3% in Tuoshu and 8.7% in MMF. The new additions of skincare products, Sicorten Plus from Novartis and Kefumei from Shaanxi Biogene Technology Company Limited contributed revenue of USD2,254,000 this year.

Lansen's gross profit increased by 19.6% to USD62,471,000 (2013: USD52,238,000). Gross profit margin dropped 1.4% to 53.5% in 2014 (2013: 54.9%) mainly due to a rise in raw material and packaging material costs of its specialty pharmaceuticals. The gross profit margin of its specialty pharmaceuticals decreased to 71.7% (2013: 75.4%). Generic drugs' gross profit margin increased to 39.7% (2013: 38.0%) and plant extracts' gross profit margin increased to 21.5% (2013: 19.1%).

Lansen's operating profit increased by 24.0% to USD19,499,000 (2013: USD15,723,000). The operating profit margin increased slightly to 16.7% (2013: 16.5%), an improvement of 0.2% in margin which was better than the 1.4% decline in gross profit margin. The improvement was due to Lansen's effort to manage down its selling expenses to 28.7% (2013: 29.2%) and administration expenses to 11.2% of revenue (2013: 12.0%).

Lansen recorded an increase in profits after income tax by 18.6% to USD14,557,000 (2013: USD12,270,000). Benefited from the expanded iohexol production capacity, contribution from Starry increased to USD 2,156,000 (2013: USD1,590,000) during the year.

At year end, the distribution agreement with Fujian Huitian Bio-Pharma Co., Ltd., the exclusive distributor for leflunomide tablets branded "Tuoshu" was not renewed. To replace Tuoshu, Lansen has entered into a new distribution agreement with Dalian Merro Pharmaceutical Factory as the exclusive distributor for leflunomide tablets branded "Hepai" for a term of ten years commencing 1 January 2015.

Haizi

Haizi is focused on the inositol and DCP businesses. During the year, Haizi produced 1,447 tonnes and sold 996 tonnes of inositol, and produced 7,906 tonnes and sold 8,338 tonnes of DCP. It produced 171 tonnes of inositol in November 2014, achieving an annualized run rate of 2,000 tonnes. Due to the market being flooded with new supply capacities from Haizi and its major competitors, inositol selling price dropped from an average of USD17.2 per kg in the first half and stabilized at around USD8 per kg towards year end. With the continued market growth of the nutrition supplements using inositol, the price should gradually recover.

Haizi's revenue was USD15,188,000 (2013: USD3,995,000), of which USD1,360,000 (2013: USD1,218,000) was sold through Yangling. Haizi's gross profit contribution and the gross margin were USD4,589,000 (2013: USD1,720,000) and 30.2% (2013: 43.1%) respectively. The operating profit was USD980,000 (2013: loss of USD664,000). After deducting the finance costs of USD519,000 (2013: USD205,000) and income tax expense of USD414,000 (2013: USD272,000), the profit contribution of Haizi was USD70,000 (2013: loss of USD1,108,000).

With the steady increase in phytin supply, inositol production should continue to climb. We will also work on modifying the additional processes in order to produce higher margin food grade DCP to improve profits.

Yangling

Yangling's business continued to increase during the year. Its revenue, comprising primarily of bilberry and inositol sales, increased by 90.3% to USD5,756,000 (2013: USD3,024,000) and gross profit increased by USD883,000 to USD928,000 (2013: USD45,000). Yangling's operating loss decreased to USD1,770,000 (2013: USD3,989,000).

With its multi-function workshop and synthesis workshop completing in 2015, Yangling will continue to work closely with Lansen on business synergy in marketing and production and for suitable plant extract products and health supplements.

Botai

Botai's operating loss decreased to USD842,000 (2013: USD1,096,000).

Botai should complete its expansion and modification of its collagen production facilities in first half of 2015 and commence trial production thereafter.

HOTEL

Hotel revenue increased 4.4% to USD14,596,000 (2013: USD13,984,000). This was mainly due to an improvement in room occupancy from 61.4% to 68.7%. The average room rate decreased to USD132 (2013: USD141) due to an increase in room sales to large, multinational, corporate clients at preferential corporate rates. Revenue per room, however, increased to USD90 (2013: USD87).

In 2014, the Hotel achieved a strong performance outperforming competing upscale hotels in the Luohu area. Overall, room occupancy grew by 11.9% to 68.7% (2013: 61.4%) while the Shenzhen Industry average occupancy only grew by 3.5%. Special rates were offered to transient bookings and wholesale segment in soft periods which has led to significant volume increases, particularly in the summer and holiday periods. It has also broadened the hotel's client base which contributed further to volume growth. With increased revenue from all outlets, revenue from the food and beverage segment increased by 4.6% to USD4,347,000 (2013: USD4,155,000).

The Hotel's gross profits increased by 10.6% to USD2,683,000 (2013: USD2,425,000), and operating profits increased 10.7% to USD2,559,000 (2013: USD2,312,000). The gross profit margin increased to 18.4% (2013: 17.3%) and the operating profit margin improved to 17.5% (2013: 16.5%).

The Hotel consistently achieved high customer satisfaction and was frequently rated by Tripadvisor as one of the top 10 hotels in Shenzhen.

The Hotel will continue to improve service quality by conducting staff training and addressing individual customer needs. We will continue to focus on attracting more corporate clients to further position our Hotel as one of the high end business hotels in Shenzhen.

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, completion risk of new or expansion projects 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 healthcare industry**

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

The healthcare business has not entered into any long term raw materials supply agreements with most of its suppliers. It cannot be assured that the healthcare business's suppliers will continue to be able to supply raw materials at prices and on terms and conditions acceptable to the healthcare 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 healthcare business's production costs. The healthcare 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 healthcare 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 healthcare business operational results may be adversely affected.

3.2 The healthcare 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 healthcare 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 healthcare 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 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 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 30 to the accounts.

The Board is committed to high standards of corporate governance.

The UK Listing Rules stipulate that listed companies must include in their annual report a statement of whether a company has complied with all the relevant provisions of the UK Corporate Governance Code 2012 (the "Code") published by the Financial Reporting Council in September 2012. This report sets out how, with limited exceptions, the Board has complied throughout the year ended 31 December 2014 with the principles set out in the Code. The Code applies to companies listed in the UK in respect of accounting periods beginning on or after 1 October 2012 and before 1 October 2014, and a copy may be viewed on the Financial Reporting Council's website at http://www.frc.org.uk.

COMPLIANCE

Following a review of our procedures the Board concluded that, throughout the accounting period 1 January to 31 December 2014, the Group complied with the required governance provisions of the Code, with certain exceptions as set out and explained below:

(i) Board Composition

The Code requires that the Company has two independent non-executive directors (provision B.1.2 of the Code). The Company currently only has one non-executive director, Mr. Kenneth K. Toong, who is independent as to character and judgment 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 (under the criteria in A.3.1 and B.1.1 of the Code) and, as he is not involved in the day-to-day business or affairs of the Group the Board considers him to be independent. The Board considers that the size and composition of the Board with the current balance of skills, experience, independence and knowledge 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) Senior Independent Director

The Code requires that the Board should appoint one of the independent non-executive directors to be the senior independent director (provision A.4.1 of the Code). The Company does not have a senior independent director as there is only one director who is considered to be independent under the Code (see paragraph (i) above);

(iii) Chairman of the Audit Committee

The Code requires that the Chairman should not chair the Audit Committee because he is not considered as independent for the purpose of the Code (provision C.3.1 of the Code). 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. As described in paragraph (i) above, the Board considers the Chairman to be independent;

(iv) Composition of the Remuneration Committee and Audit Committee

The Code requires that the Remuneration Committee and the Audit Committee are each established with two independent non-executive directors (provisions D.2.1 and C.3.1 of the Code respectively). Mr. Kenneth K Toong, who is a member on both the Remuneration and Audit Committees, is an independent non-executive director. The other two members on the Remuneration and Audit Committees are Mr. Sum Soon Lim (Chairman of the Audit Committee) and Mr. Wu Zhen Tao (Chairman of the Remuneration Committee). The Board continues to monitor the composition of the Board's committees on an ongoing basis;

(v) Nomination Committee

The Code requires that there should be a Nomination Committee to lead the process for board appointments and make recommendations to the Board (provision B.2.1 of the Code). The Company does not have a Nomination Committee as it 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;

(vi) Evaluation

The Code requires that the board should state how the performance evaluation of the board, its committees and individual directors has been conducted (provision B.6.1 of the Code). The Code also requires that annual evaluation of the board should consider the balance of skills, experience, independence and knowledge of the Company on the board, its diversity, including gender, how the board works together as a unit, and other factors relevant to its effectiveness (principle B.6 of the Code). The Company does not conduct a formal performance evaluation of the Board, its Committees and individual directors, as this is not considered necessary given the small size of the Board and the Committees. However, the performance of the executive directors and the Chairman 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; and

(vii) Board diversity

The Code requires a description of the work of the nomination committee, including the process on board appointments. As described in (v) above, the Company does not have a Nomination Committee. The Code also requires a description of the policy on board diversity, including gender, any measurable objectives that it has set for implementing the policy, and progress on achieving the objectives (provision B.2.4 of the Code). The Company does not have a formal policy on board appointments and diversity, as these are not considered necessary given the small size of the Company and the Board. However, the board appointments, structure, size and diversity are reviewed by the Remuneration Committee and recommendations are made to the Board for approval and implementation.

The Board believes that these exceptions are appropriate given the current size of the Group. In addition, as the Company is a smaller company outside the FTSE 350 and has been throughout the year immediately prior to the reporting year, 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);

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

(iii) the external audit contract should be put out to tender at least every ten years (provision C.3.7 of the Code).

and where there is different criteria for a smaller company on a provision, the Company has reported on such criteria and requirements for smaller companies.

APPLICATION OF PRINCIPLES

Directors

The Board

Throughout the year ended 31 December 2014, the Board consisted of Mr. Sum Soon Lim (non-executive Chairman); Mr. Wu Zhen Tao, Mr. Lee Jin-Yi, Mr. Siu Ka Chi Eric, Mr. Patrick Sung (the four executive directors); and Mr. Stephen B. Hunt and Mr. Kenneth K. Toong (the two other non-executive directors). Mr. Kenneth K. Toong is independent. Biographies of the Board members are set out on pages 32 and 33. 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 and objective judgment.

During the year, the Board held four meetings which included reviews of the financial and business performance of the Group. The role of the Board is to take major decisions of the Company and review the Group's strategies. In addition, the Chairman and the non-executive directors meet from time to time without the executive directors being present in compliance with the Code. 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 Chairman also meets with the directors to review and agree their training and development needs.

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 during the year ended 31 December 2014 is as follows:

	Board meetings	Audit Committee meetings	Remuneration Committee meetings
Non-executive Chairman			
Sum Soon Lim	4/4	3/3	1/1
Executive Directors			
Wu Zhen Tao	4/4	3/3	1/1
Lee Jin-Yi	4/4	n/a	n/a
Siu Ka Chi Eric	4/4	n/a	n/a
Patrick Sung	4/4	n/a	n/a
Non-executive Directors			
Stephen B. Hunt	3/4	n/a	n/a
Kenneth K. Toong	4/4	3/3	1/1

Note: n/a denotes that the director is not a member of this committee, but may attend by invitation.

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, Mr. Sum Soon Lim, is responsible for leadership of the Board, ensuring effectiveness in all aspects of its role, reviewing the Board's agenda, conducting Board meetings and the conduct of shareholders' meetings. The Chairman met the independence criteria set out in the Code on his appointment on 29 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, Mr. Lee Jin-Yi, has responsibility for implementing the Board's strategy and managing the day to day business activities of the Group with executive directors and senior managers. In particular, all significant strategies, decisions and actions are conducted through the Executive Committee. The duties and responsibilities of the Chairman and Chief Executive Officer are set out in writing and have been agreed by the board.

Re-election

Directors are subject to election by shareholders at the next Annual General Meeting after their appointment by the board of directors. 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 Mr. Wu Zhen Tao and Mr. Stephen Burnau Hunt, who being eligible, offer themselves for re-election. Biographical information on the directors is included on pages 32 and 33.

Remuneration

Details of directors' remuneration are set out in the Directors' Remuneration Report at pages 26 to 31. The report details the Company's compliance with the Code's requirements with regard to remuneration matters. The remuneration of executive directors includes share options of the Company which are 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 interest 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. The Company is in the process of engaging a new corporate broker, replacing Peel Hunt LLP. The role of our corporate broker is to regularly produce research reports on the Group, maintain dialogues with shareholders and arrange roadshows for the Company. Consilium Strategic Communications, the Group's UK investor relations professionals, facilitate communications with the investor community, media and research analysts. In taking these steps, the members of the Board and, in particular, the non-executive directors have developed an understanding of the views of the major shareholders, about the Company.

The Company's annual general meetings are used to communicate with shareholders and shareholders 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;
(d) the Company through its website address at www.cathay-intl.com.hk.

Mr Kenneth K. Toong, as the independent non-executive director, is available to shareholders if they have any concerns, which contact through the normal channels of chairman, chief executive or other executive directors has failed to resolve or for which such contact is inappropriate.

Executive Committee

The Executive Committee comprises of all the 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:

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

Audit Committee

The Audit Committee comprises three members, namely Mr. Sum Soon Lim (Chairman), Mr. Wu Zhen Tao and Mr. Kenneth K. Toong. The biographies of each member of the Audit Committee, including their qualifications, are set out on pages 32 and 33.

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;
(g) any significant issues in relation to the financial statements and, if required, to review, discuss, assess and advise management on taking appropriate actions; and
(h) maintenance of relationships with the external auditor and nature and extent of non-audit activity, which may affect its independence.

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

As requested by the Board, the Audit Committee advises that the annual report and consolidated financial statements of the Group for the year ended 31 December 2014, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

The Code requires that this Annual Report separately describes the work of the Audit Committee and how it discharged its responsibilities. The Audit Committee focused particularly on compliance with legal requirements, accounting standards and the Code and on ensuring that an effective system of internal financial controls was maintained. The ultimate responsibility for reviewing and approving the financial statements in the interim and annual reports remained with the Board. Written terms of reference are modelled on the Code provisions and set out the main roles and responsibilities of the Audit Committee. The Audit Committee reports to the Board, identifying any need for action or improvement on any of these terms of reference and making recommendations as to the steps to be taken. The Board reviews the effectiveness of the Audit Committee annually.

The Audit Committee meets with the external auditor at least once a year without management present and its Chairman maintains regular contact, as required, with the key people involved in the Group's governance, including the Chief Executive Officer, the Director and Controller and the external audit engagement partner.

The Audit Committee reviewed the financial integrity of the Group's financial statements including corporate governance statements prior to Board submission.

In assessing the effectiveness of the external audit process, the Audit Committee was responsible for making recommendations to the Board on the appointment and reappointment of external auditor and assessed annually the objectivity and independence of the external auditor as well as the effectiveness of the audit process. The Board took the same position as the Audit Committee in relation to the appointment and reappointment of the external auditor. BDO Limited continued to act as the external auditor of the Company for the year ended 31 December 2014. BDO was appointed on 25 November 2010 and its length of tenure is four years. The Audit Committee is satisfied with the performance of the external auditor during the year and the policies and procedures it has in place to maintain its objectivity and independence, and has recommended that it be re-appointed at the forthcoming Annual General Meeting.

Any non-audit services that are to be provided by the external auditor are reviewed in order to safeguard the auditor's objectivity and independence. The non-audit services provided by BDO Limited mainly consist of professional services in relation to disclosure of transactions in accordance with the Hong Kong listing rules and BDO LLP on UK taxation services. On this basis, the Board confirmed that during the reporting period there have not been any non-audit services that are considered to have impaired the objectivity and independence of the external auditor.

Remuneration Committee

Details of the Remuneration Committee are set out in Directors' Remuneration Report on pages 26 to 31.

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. The directors have reported in the annual and half-yearly financial statements that the business is a going concern, with supporting assumptions or qualifications as necessary and details of which are set out on note 2 to the financial statements on page 46.

INTERNAL CONTROL

The Board is responsible for establishing and maintaining the Group's systems 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

Business plans provide a framework from which annual budgets and forecasts are agreed with each subsidiary or business unit, including financial and strategic targets against which business performance is monitored. These plans are reviewed by senior management, and then by the Board for final approval. The Business Plan assists the Company to generate or preserve value over the long term and provides a strategy for delivering the objectives of the Company.

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, forecast and previous year.

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 Control

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 continued their internal control review programme covering their respective main activities, for instance, purchases and payments of raw materials, fixed assets and inventory management cycles.

Lansen performed an internal control review covering the key controls on infrastructure management, personnel management on staff joining and leaving and procurement management.

The InterContinental Hotels Group carried out an independent internal audit on the Hotel's internal controls and found that these internal controls are effective.

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 programme for the Hotel. The progress of these programmes is closely monitored. In addition, the Group closely monitors 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 reasonable periodic dialogue 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. This Directors' Remuneration Report sets out information regarding the remuneration arrangements for the executive and non-executive directors.

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:

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

Mr. Sum Soon Lim is the non-executive Chairman and Mr. 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.

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 29 to the consolidated financial statements.

3. **Discretionary bonus and share grant**

   The Company's employees may be entitled to a discretionary bonus and share grant, which are subject to the approval of the Remuneration Committee and the financial condition of the Company.

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

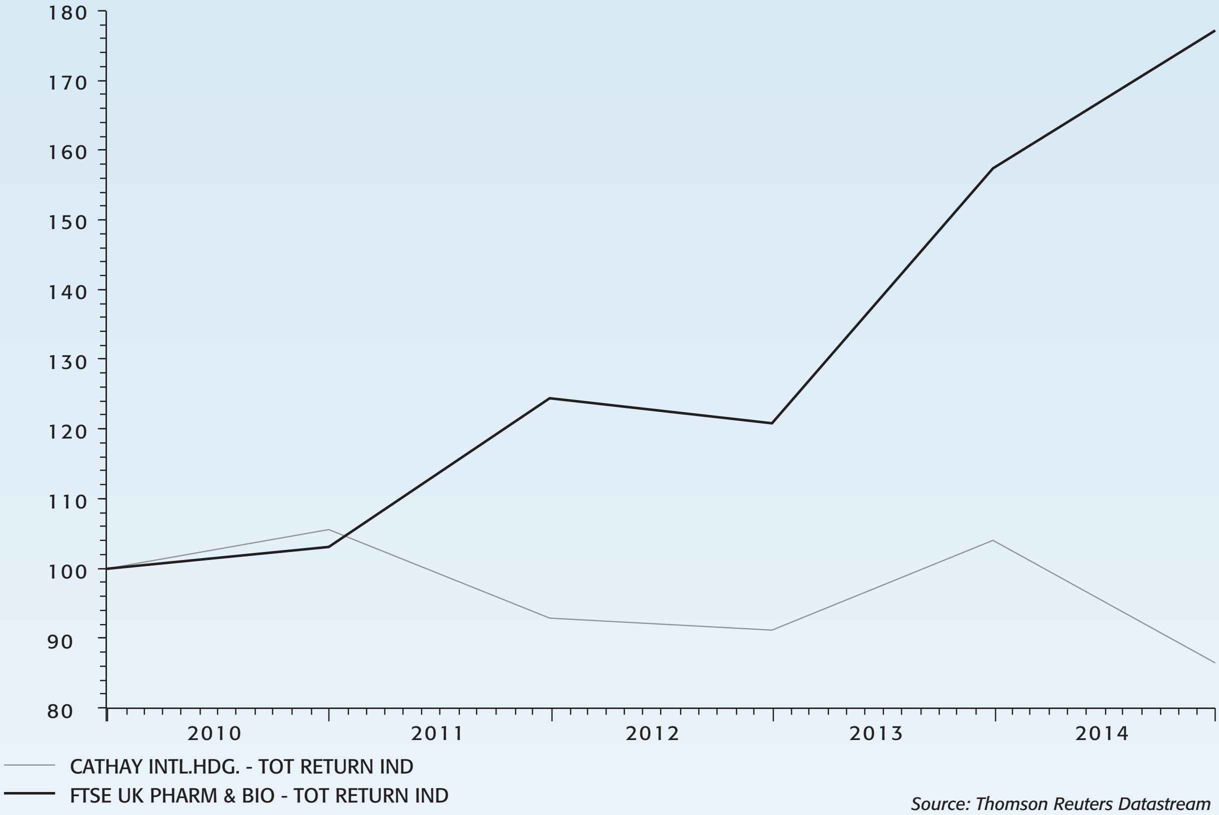
The remuneration of the non-executive directors is determined by the Board in accordance with the Company's Bye-Laws and in particular their remuneration reflects the time and commitment and responsibilities of their roles. Non-executive directors are appointed for an initial term of three years from 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) Mr. Lee Jin-Yi was appointed under a service contract with Cathay International Services Limited (a wholly-owned subsidiary of the Company) dated 20 January 2015. His appointment may be terminated by either party with three months' written notice.

(ii) Mr. Wu Zhen Tao was appointed under a service contract with Cathay International Holdings Limited (a U.K. wholly-owned subsidiary of the Company) dated 1 January 2012. His appointment may be terminated by either party by giving one month's written notice. Mr. Wu Zhen Tao was also appointed under a separate service contract with Cathay International Services (Hong Kong) Limited (a wholly-owned subsidiary of the Company) dated 12 April 2012. His employment may be terminated by either party giving three months' written notice.

(iii) Mr. 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 giving one month's written notice.

(iv) Mr. Siu Ka Chi Eric was appointed under a service contract with Cathay International Services Limited (a wholly-owned subsidiary of the Company) dated 3 April 2007. His appointment may be terminated by either party giving four months' written notice. Mr. Siu Ka Chi Eric entered into a separate service contract with Cathay International Services (Hong Kong) Limited dated 3 April 2007. His appointment may be terminated by either party giving four months' written notice.

(v) Mr. Patrick Sung was appointed under a service contract with Cathay International Services Limited dated 10 January 2009. His employment may be terminated by either party giving one month's written notice. Mr. Patrick Sung entered into a separate service contract with Bon House Development Limited (a wholly-owned subsidiary of the Company) dated 10 January 2009. His employment may be terminated by either party giving three months' written notice.

(vi) Mr. 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 by either party with one month's written notice.

(vii) Mr. 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 by either party with one month's written notice.

Directors are subject to election by shareholders at the next Annual General Meeting after their appointment by the board of directors 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 2014 USD'000	Total 2013 USD'000
Executive Directors				
Wu Zhen Tao	606	49	655	646
Lee Jin-Yi	523	43	566	556
Siu Ka Chi Eric	231	19	250	245
Patrick Sung	203	17	220	216
Non-executive Directors				
Sum Soon Lim	93	–	93	93
Stephen B. Hunt	114	–	114	114
Kenneth K. Toong	50	–	50	50
Total	1,820	128	1,948	1,920

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:

	Number of share options						
Name	At 1 January 2014	Granted during the period	Forfeited during the period	At 20 March 2015	Exercise price per share	Period from which exercisable	Expiry date
Lee Jin-Yi	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
	2,300,000	–	–	2,300,000	29.88 pence	3 April 2015 to 2 April 2017	2 April 2017
	2,000,000	–	–	2,000,000	32.55 pence	27 March 2016 to 26 March 2018	26 March 2018
		4,142,353	–	4,142,353	37.275 pence	1 April 2017 to 31 March 2019	31 March 2019
	7,221,176	4,142,353	(2,921,176)	8,442,353			
Siu Ka Chi Eric	380,000	–	(380,000)	–	41.17 pence	31 March 2014 to 30 March 2016	30 March 2016
	200,000	–	–	200,000	29.88 pence	3 April 2015 to 2 April 2017	2 April 2017
	330,000	–	–	330,000	32.55 pence	27 March 2016 to 26 March 2018	26 March 2018
		760,000	–	760,000	37.275 pence	1 April 2017 to 31 March 2019	31 March 2019
	910,000	760,000	(380,000)	1,290,000			
Patrick Sung	300,000	–	(300,000)	–	41.17 pence	31 March 2014 to 30 March 2016	30 March 2016
	250,000	–	–	250,000	29.88 pence	3 April 2015 to 2 April 2017	2 April 2017
	270,000	–	–	270,000	32.55 pence	27 March 2016 to 26 March 2018	26 March 2018
		600,000	–	600,000	37.275 pence	1 April 2017 to 31 March 2019	31 March 2019
	820,000	600,000	(300,000)	1,120,000			

Further details of the terms of the share option plan are contained in note 29 to the financial statements. Share options forfeited during the period represented those granted in 2011, whereby the vesting period expired in March 2014 but the exercise condition was not met.

ON BEHALF OF THE BOARD
Sum Soon Lim
Director

27 March 2015

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, 72, is a Non-executive Director and is the 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 and National Neuroscience Institute. Mr. Sum holds a Bachelor of Science (Hons) in Production Engineering from the University of Nottingham in England.

WU Zhen Tao

Mr. Wu, 61, is an Executive Director and is the Chairman of the Executive and Remuneration Committees of the Company and founder of the Group, which has over 20 years' history of business and investment focused in 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.

LEE Jin-Yi

Mr. Lee, 57, is the 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, Deputy Chairman of the Board and Chairman of the Executive Committee 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, 75, is the 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. Since October 2012, Mr. Hunt has been a director and Chief Executive Officer of Solar Plus (HK) Limited, a private investment company incorporated in Hong Kong.

SIU Ka Chi Eric

Mr. Siu, 52, is the 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. Sung, 53, is a Director and Controller of the Company. He 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, 67, is a Non-executive Director of the Company. He has over 30 years' experience in the banking industry. He is a non-executive director of Sun Life Hong Kong Limited. Until his retirement in 2008, he was the deputy head of Asia and head of North Asia, Private Wealth Management for Deutsche Bank AG. Between 2009 and 2011, he was the Chairman, Asia for Clariden Leu Asset Management (Hong Kong) Limited, a wholly-owned subsidiary of Credit Suisse Group. He also spent 20 years in commercial and investment banking with J.P. Morgan. Mr. Toong holds a B.A. degree in Microbiology and a MBA in Finance and Marketing from Southern Illinois University, U.S.A.

The directors present their Report together with the Accounts for the year ended 31 December 2014. 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 7 to 16.

2. RESULTS AND DIVIDENDS

The results are set out in the Consolidated Statement of Profit or Loss on page 41.

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		
	20.3.2015	**31.12.2014**	**1.1.2014**	**20.3.2015**	**31.12.2014**	**1.1.2014**
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 interests in Circle Finance Limited and Mega Worldwide Services 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 2014.

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 32 and 33. 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 into in the year.

4. SHARE OPTIONS

Details of movements in the Company's share options during the year are set out in note 29 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 20 March 2015, save as shown in the directors' shareholdings on page 34, the Company had been informed of the following beneficial 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
Alphagen Volantis Fund	25,094,170	6.75	–	–
Simon Phillips	23,263,549	6.25	270,975	2.92

Note: Alphagen Volantis Fund is managed by Henderson Volantis Capital. In addition, Strathclyde Pension Fund, Gartmore UK Small Cap Best Ideas Fund and Henderson UK & Irish Small Co's Strategy Fund, which are managed by Henderson Volantis Capital, hold respectively 10,378,943, 4,975,518 and 2,786,774 Common Shares of USD0.05 each in the Company, representing 2.79%, 1.34%, 0.75% of the issued Common Share Capital of the Company. These funds do not hold any A Shares of the Company.

8. RELATIONSHIP AGREEMENT WITH CONTROLLING SHAREHOLDER

In May 2014, the Listing Rules (Listing Regime Enhancements) Instrument 2014 came into effect. The new Listing Rules 6.1.4D and 9.2.2A(2)(a) require that a premium listed company should enter into a relationship agreement with its controlling shareholder in order to ensure that the company operates independently. The Board confirms that the Company entered into a relationship agreement with Circle Finance Limited and Mega Worldwide Services Limited, together the Company's controlling shareholder, as defined under the Listing Rules, dated 30 January 2015.

From the period 16 November 2014 to 30 January 2015 the Board understood that the controlling shareholder would sign the relationship agreement and in any event the Company and the controlling shareholder were in fact complying with the required independence provisions. As such the Company did not notify the FCA of the delay in signing the relationship agreement since it was in the process of being formally put in place and assurances had been received from the controlling shareholder to this effect. Whilst the enhanced oversight provisions under the Listing Rules were triggered during this period, there was no requirement for any shareholder voting to take place.

The Board confirms that (i) the Company has complied with the independence provisions set out in the relationship agreement, since it was entered into and since 16 November 2014; and (ii) so far as the Company is aware, the controlling shareholder and its associates have complied with the independence provisions set out in the relationship agreement since it was entered into and since 16 November 2014.

9. AUDITOR

BDO Limited continued to act as the auditor of the Company for the year ended 31 December 2014 and the audit engagement partner is Ms. Yu Tsui Fong, who is also the audit engagement partner of Lansen. The Independent Auditor's Report on pages 39 and 40 includes a statement by the auditor of the Company about its reporting responsibilities.

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 the Company's Hong Kong Office at Suites 1203-4, 12/F, Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong on 5 June 2015 at 10:00 a.m. (Hong Kong time). 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

27 March 2015

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 as adopted by European Union.

The Company's bye-laws require the directors to keep accounting records sufficient to give a true and fair view of the state of affairs of the Company. The Bermudan Companies Act 1981 requires that the directors, at least once in every year, lay before the company in general meeting:

(i) financial statements for the period, which shall include

(aa) a statement of the results of operations for such period;

(bb) a statement of retained earnings or deficits;

(cc) a balance sheet at the end of such period;

(dd) a statement of changes in the financial position for the period;

(ee) notes to the financial statements;

(ff) such further information as required by the Companies Act and the company's memorandum of association and its bye-laws;

(ii) the report of the auditor in respect of the financial statements described above based upon the results of the audit made in accordance with generally accepted accounting principles; and

(iii) the notes referred to in paragraph (ee) above shall include a description of the generally accepted accounting principles used in the preparation of the financial statements and where the accounting principles used are those of a country or jurisdiction other than Bermuda the notes shall disclose this fact and shall name the country or jurisdiction.

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.

Statement of Directors' Responsibilities

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 as adopted by European Union, 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 6 and the Operation Review on pages 7 to 16 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.

On behalf of the Board
Patrick Sung
Director

27 March 2015

By Order of the Board
Yip Pui Ling Rebecca
Secretary

27 March 2015

BDO

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To the shareholders of Cathay International Holdings Limited

(incorporated in Bermuda with limited liability)

REPORT ON FINANCIAL STATEMENTS

We have audited the consolidated financial statements of Cathay International Holdings Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 41 to 100, which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of profit or loss, 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 as adopted by the European Union, 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 Bermuda Companies Act 1981, 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 issued by International Auditing and Assurance Standards Board. 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.

BDO Limited
香港立信德豪會計師事務所有限公司

BDO Limited, a Hong Kong limited company, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

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 2014 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

REPORT ON OTHER REGULATORY REQUIREMENTS

Under the listing rules of the Financial Conduct Authority in the United Kingdom (the "Listing Rules"), we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Under the Listing Rules, we are required to review the directors' statement set out on page 23 in relation to going concern.

BDO Limited
Certified Public Accountants
Yu Tsui Fong
Practising Certificate Number P05440

Hong Kong, 27 March 2015

Consolidated Statement of Profit or Loss

	Notes	2014 USD'000	2013 USD'000
Revenue	6	**150,023**	114,836
Cost of sales		**(79,352)**	(58,408)
Gross profit		**70,671**	56,428
Other income	7	**3,908**	2,891
Selling and distribution expenses		**(34,981)**	(28,717)
Administrative expenses		**(23,847)**	(23,738)
Profit from operations	8	**15,751**	6,864
Finance costs	9	**(7,814)**	(5,243)
Share of post-tax profit of associate	17	**2,156**	1,590
Profit before income tax		**10,093**	3,211
Income tax expense	11	**(4,557)**	(3,712)
Profit/(Loss) for the year		**5,536**	(501)
Profit/(Loss) for the year attributable to:			
Owners of the parent		**(1,297)**	(6,191)
Non-controlling interests		**6,833**	5,690
		5,536	(501)
Losses per share attributable to owners of the parent	12		
Basic and diluted		**(0.34 cents)**	(1.64 cents)

Consolidated Statement of Comprehensive Income

	Notes	**2014 USD'000**	2013 USD'000
Profit/(Loss) for the year		**5,536**	(501)
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**(1,526)**	3,717
Items that will not be reclassified to profit or loss:			
(Deficit)/Surplus on revaluation of hotel properties	13	**(206)**	3,739
Deferred tax relating to revaluation of hotel properties	25	**(1,771)**	(2,108)
		(1,977)	1,631
Other comprehensive income, net of tax		**(3,503)**	5,348
Total comprehensive income for the year		**2,033**	4,847
Total comprehensive income attributable to:			
Owners of the parent		**(4,199)**	(2,569)
Non-controlling interests		**6,232**	7,416
		2,033	4,847

Consolidated Statement of Financial Position

	Notes	**2014 USD'000**	2013 USD'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment, comprise:	13	**218,295**	220,854
Hotel properties, at valuation (of which, equity investment cost was USD83,200,000 (2013: USD86,897,000))		**134,925**	134,902
Other property, plant and equipment		**83,370**	85,952
Prepaid land lease payment	14	**5,208**	5,389
Intangible assets	15	**22,127**	11,119
Goodwill	16	**19,501**	19,501
Interest in associate	17	**35,113**	34,109
Available-for-sale financial assets	18	**385**	385
		300,629	291,357
CURRENT ASSETS			
Inventories	19	**23,158**	22,074
Trade and other receivables	20	**71,256**	58,494
Prepaid land lease payment	14	**125**	126
Tax recoverable		**210**	500
Pledged bank deposits	21	**35,020**	26,745
Cash and cash equivalents	21	**19,360**	16,804
		149,129	124,743
TOTAL ASSETS		**449,758**	416,100
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Called up share capital	22	**19,062**	19,062
Share premium		**51,035**	51,035
Share option reserve		**967**	1,109
Treasury shares		**(1,737)**	(1,737)
Capital and special reserve		**97,502**	97,502
Revaluation reserve		**8,323**	10,300
Foreign exchange reserve		**(16,663)**	(15,738)
Statutory reserve		**9,181**	7,957
Profit and loss account		**(37,279)**	(34,758)
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		**130,391**	134,732
NON-CONTROLLING INTERESTS		**57,457**	55,589
TOTAL EQUITY		**187,848**	190,321
NON-CURRENT LIABILITIES			
Borrowings	24	**64,402**	52,900
Deferred tax liabilities	25	**31,746**	29,306
		96,148	82,206
CURRENT LIABILITIES			
Borrowings	24	**104,306**	94,811
Current tax liabilities		**1,777**	1,674
Trade and other payables	26	**58,563**	47,088
Other financial liabilities	27	**1,116**	–
		165,762	143,573
TOTAL LIABILITIES		**261,910**	225,779
TOTAL EQUITY AND LIABILITIES		**449,758**	416,100

Approved and authorised for issue by the Board on 27 March 2015

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 USD'000	Share Premium USD'000	Share Option Reserve USD'000	Treasury Shares USD'000	Capital and Special Reserve USD'000	Revaluation Reserve USD'000	Foreign Exchange Reserve USD'000	Statutory Reserve USD'000	Profit and Loss Account USD'000	Total USD'000	USD'000	USD'000
Balance at 1 January 2013	19,062	51,035	930	(1,737)	97,502	8,669	(17,729)	6,654	(27,264)	137,122	59,886	197,008
Dividends to non-controlling interests	–	–	–	–	–	–	–	–	–	–	(4,906)	(4,906)
Loan to non-controlling interests waived	–	–	–	–	–	–	–	–	–	–	(686)	(686)
Contingent consideration adjustment on past business combination (note 16)	–	–	–	–	–	–	–	–	–	–	(6,121)	(6,121)
Recognition of share-based payments	–	–	179	–	–	–	–	–	–	179	–	179
Transactions with owners	–	–	179	–	–	–	–	–	–	179	(11,713)	(11,534)
(Loss)/Profit for the year	–	–	–	–	–	–	–	–	(6,191)	(6,191)	5,690	(501)
Other comprehensive income:												
Exchange differences on translating foreign operations	–	–	–	–	–	–	1,991	–	–	1,991	1,726	3,717
Surplus on revaluation of hotel properties	–	–	–	–	–	3,739	–	–	–	3,739	–	3,739
Income tax relating to components of other comprehensive income	–	–	–	–	–	(2,108)	–	–	–	(2,108)	–	(2,108)
Total comprehensive income for the year	–	–	–	–	–	1,631	1,991	–	(6,191)	(2,569)	7,416	4,847
Appropriations to statutory reserve	–	–	–	–	–	–	–	1,303	(1,303)	–	–	–
Balance at 31 December 2013	19,062	51,035	1,109	(1,737)	97,502	10,300	(15,738)	7,957	(34,758)	134,732	55,589	190,321
Balance at 1 January 2014	19,062	51,035	1,109	(1,737)	97,502	10,300	(15,738)	7,957	(34,758)	134,732	55,589	190,321
Dividends to non-controlling interests	–	–	–	–	–	–	–	–	–	–	(4,364)	(4,364)
Recognition of share-based payments	–	–	(142)	–	–	–	–	–	–	(142)	–	(142)
Transactions with owners	–	–	(142)	–	–	–	–	–	–	(142)	(4,364)	(4,506)
(Loss)/Profit for the year	–	–	–	–	–	–	–	–	(1,297)	(1,297)	6,833	5,536
Other comprehensive income:												
Exchange differences on translating foreign operations	–	–	–	–	–	–	(925)	–	–	(925)	(601)	(1,526)
Deficit on revaluation of hotel properties	–	–	–	–	–	(206)	–	–	–	(206)	–	(206)
Income tax relating to components of other comprehensive income	–	–	–	–	–	(1,771)	–	–	–	(1,771)	–	(1,771)
Total comprehensive income for the year	–	–	–	–	–	(1,977)	(925)	–	(1,297)	(4,199)	6,232	2,033
Appropriations to statutory reserve	–	–	–	–	–	–	–	1,224	(1,224)	–	–	–
Balance at 31 December 2014	19,062	51,035	967	(1,737)	97,502	8,323	(16,663)	9,181	(37,279)	130,391	57,457	187,848

Consolidated Statement of Cash Flows

	2014 USD'000	2013 USD'000
Cash flows from operating activities		
Profit before income tax	**10,093**	3,211
Adjustments for:		
Finance costs recognised	**7,814**	5,243
Interest income	**(682)**	(561)
Provision for/(Reversal of) impairment of trade receivables	**16**	(553)
Provision for impairment of other receivables	**117**	194
Impairment of property, plant and equipment	**36**	828
Depreciation of property, plant and equipment	**7,078**	3,775
Amortisation of prepaid land lease payment	**132**	132
Amortisation of intangible assets	**33**	–
Write off of intangible assets	**729**	328
Losses on disposals of property, plant and equipment	**19**	203
Gains on disposals of intangible assets	**(34)**	–
(Reversal of)/Provision for impairment of obsolete inventories	**(214)**	173
Share-based payments expenses	**(142)**	179
Share of post-tax profit of associate	**(2,156)**	(1,590)
Operating cash flows before movements in working capital	**22,839**	11,562
Increase in inventories	**(1,061)**	(4,276)
(Increase)/Decrease in trade and other receivables	**(14,014)**	2,223
Increase in trade and other payables	**6,110**	4,571
Cash generated from operations	**13,874**	14,080
Interest paid	**(7,776)**	(5,243)
Income tax paid	**(3,489)**	(3,129)
Net cash generated from operating activities	**2,609**	5,708
Cash flows from investing activities		
Purchase of property, plant and equipment	**(6,042)**	(13,840)
Purchase of intangible assets	**(11,160)**	(2,155)
Proceeds from disposals of property, plant and equipment	**530**	151
Proceeds from disposals of intangible assets	**402**	–
Dividend received from associate	**836**	426
Interest received	**682**	561
Increase in pledged bank deposits	**(8,344)**	(7,666)
Decrease in pledged other receivables	**659**	2,670
Net cash used in investing activities	**(22,437)**	(19,853)
Cash flows from financing activities		
Proceeds from borrowings	**159,464**	86,241
Repayment of borrowings	**(138,205)**	(68,476)
Dividends paid to non-controlling interests	**(4,364)**	(4,906)
Increase in amount due to an intermediate parent undertaking	**5,645**	741
Loan from a director	**–**	3,095
Net cash generated from financing activities	**22,540**	16,695
Net increase in cash and cash equivalents	**2,712**	2,550
Cash and cash equivalents at beginning of year	**16,804**	14,603
Effects of exchange rate changes	**(156)**	(349)
Cash and cash equivalents at end of year	**19,360**	16,804

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 principal activity of the Company is investment holding. The principal activities of the subsidiaries (together with the Company referred to as the "Group") are principally engaged in healthcare business and hotel operations. The principal activities of the Group are carried out in the People's Republic of China (the "PRC") and are set out in note 33. There were no significant changes in the Group's operations during the year.

The financial statements for the year ended 31 December 2014 were approved and authorised for issue by the board of directors on 27 March 2015.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS 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"). The consolidated financial statements also comply with IFRSs as issued by the IASB as adopted by the European Union. The differences between IFRSs as adopted by the European Union and IFRS as issued by the IASB have not had a material impact on the consolidated financial statements for the years presented.

The consolidated financial statements have been prepared under historical cost basis except for the hotel properties and certain financial liabilities that are measured at fair values at the end of each reporting period. The measurement bases are fully described in the accounting policies set out below. The consolidated financial statements are presented in United States Dollars ("USD"), which is the same as the functional currency of the Company, and all values are rounded to the nearest thousand except when otherwise indicated.

At the end of reporting period, the Group had current liabilities exceeded its current assets by USD16,633,000. 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 2014.

In February 2015, the Group obtained a three year banking facility of USD20 million. This facility will be used to re-finance existing borrowings and for corporate funding requirements. Also, as in the past, the Group will start negotiation with the relevant banks on extension or renewal of the bank borrowings few months prior to their respective maturities and obtain the approvals from the relevant banks before their respective maturities. 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 re-finance 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 2014 without significant curtailment of operations and the directors of the Company are satisfied that it is appropriate to prepare the consolidated 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 consolidated financial statements accordingly.

3. ADOPTION OF NEW AND REVISED IFRSS

3.1 Adoption of new and revised IFRSs has been issued by IASB – effective 1 January 2014 and has been endorsed for use in European Union

Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to IFRS 10, IFRS 12 and IAS 27 (2011)	Investment Entities
IFRIC 21	Levies

Except as explained below, the adoption of these amendments has no material impact on the Group's financial statements.

Amendments to IAS 32, Offsetting Financial Assets and Financial Liabilities
The amendments clarify the offsetting requirements by adding application guidance to IAS 32 which clarifies when an entity "currently has a legally enforceable right to set off" and when a gross settlement mechanism is considered equivalent to net settlement. The amendments are applied retrospectively. The adoption of the amendments has no impact on these financial statements as the Group does not have any offsetting arrangements.

The Group has assessed whether certain of its financial assets and financial liabilities qualify for offset based on the criteria set out in the amendments and concluded that the application of the amendments has had no impact on the amounts recognised in the Group's consolidated financial statements.

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

The following new and revised IFRSs have been issued, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. Certain new and revised IFRSs have yet been endorsed by the European Union.

IFRSs (Amendments)	Annual Improvements 2010-2012 Cycle [2]
IFRSs (Amendments)	Annual Improvements 2011-2013 Cycle [1]
IFRSs (Amendments)	Annual Improvements 2012-2014 Cycle [3]*
IFRS 9 (2014)	Financial Instruments [5]*
IFRS 15	Revenue from Contracts with Customers [4]*
Amendment to IAS 1	Disclosure Initiative [3]*
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture [3]*
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation [3]*
Amendments to IAS 27	Equity Method in Separate Financial Statements [3]*

[1] Effective for annual periods beginning on or after 1 July 2014
[2] Effective for annual periods beginning, or transactions occurring, on or after 1 July 2014
[3] Effective for annual periods beginning on or after 1 January 2016
[4] Effective for annual periods beginning on or after 1 January 2017
[5] Effective for annual periods beginning on or after 1 January 2018
* Not yet endorsed by the European Union

IFRS 9 (2014), Financial Instruments

IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income ("FVTOCI") if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at fair value through profit or loss ("FVTPL").

IFRS 9 (2014) includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in IAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

IFRS 9 (2014) carries forward the recognition, classification and measurement requirements for financial liabilities from IAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, IFRS 9 (2014) retains the requirements in IAS 39 for derecognition of financial assets and financial liabilities.

IFRS 15, Revenue from Contracts with Customers

IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective. The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition: 1) identify the contract(s) with a customer; 2) identify the performance obligations in the contract; 3) determine the transaction price; 4) allocate the transaction price to the performance obligations in the contract; and 5) recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The directors of the Company do not anticipate that the adoption of IFRS 15 in the future will have a significant impact on the amounts reported and disclosures made in the Group's consolidated financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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 over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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.

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. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Company had directly disposed of the related assets or liabilities of the subsidiary (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.

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 the relevant CGUs, 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 policy for associate.

ASSOCIATE

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint arrangement. 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. 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.

An interest in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the interest in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee 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 and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's interest in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with an associate of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interest in the associate that are not related to the Group.

PROPERTY, PLANT AND EQUIPMENT

Hotel properties

Hotel properties are stated at fair value based on annual 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 estimated 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 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 losses, 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 (other than properties under construction) are depreciated so as to write off the cost of other property, plant and equipment less their estimated residual values over their estimated useful lives, using straight-line method. The estimated residual lives, estimated residual values and depreciation methods are reviewed, and adjusted if appropriate, at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The major categories of other property, plant and equipment are depreciated as follows:

Plant and equipment, fixtures and fittings	3-50 years
Motor vehicles	5-12 years
Computer equipment	5 years
Leasehold properties and improvements	Residual lease term

Construction in progress is stated at cost less impairment losses. Costs include professional fees, direct costs of construction and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the net sales proceeds and its carrying amount, and is recognised in profit or loss on disposal.

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 COSTS

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. The amortisation expense is recognised in profit or loss and included in administrative expenses.

Intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

Research and development costs

An intangible asset arising from development expenditure on an individual project is recognised provided they meet the following recognition requirements:

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

Development expenditure which does not meet the above criteria and expenditure on the research phase of internal projects are recognised in profit or loss when incurred.

Capitalised development costs that have finite useful lives are amortised on straight-line method over their estimated useful lives, when the products are available for use. The amortisation expense is recognised in profit or loss and included in administrative expenses. Capitalised development costs with indefinite useful lives are tested for impairment annually.

IMPAIRMENT OF NON-FINANCIAL ASSETS (OTHER THAN GOODWILL)

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired.

At the end of the reporting period, the Group reviews the carrying amounts of non-financial assets that have finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the 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 values 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 (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) 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. If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall be recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in the equity under the heading of revaluation surplus.

Where an impairment loss of other non-financial assets (other than goodwill) 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 selling price in the ordinary course of business less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

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

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. Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below). Discounting is omitted where the effect of discounting is immaterial. Interest income is recognised by applying the 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 and foreign exchange gains and losses on monetary instruments, 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 consolidated statement of profit or loss 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 equity investments 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, they are measured at cost less any identified impairment losses at each reporting date subsequent to initial recognition.

Effective interest method

The 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;
- breach of contract, such as default or delinquency in interest and principal payments;
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation;
- 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 and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account.

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

Where a decline in the fair value constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in profit or loss.

For available-for-sale equity investment that is carried at cost, 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 the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Financial liabilities are classified as either "financial liabilities at amortised cost" or "financial liabilities at fair value through profit or loss".

Financial liabilities at amortised cost
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.

Financial liabilities at fair value through profit or loss
Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or is designated as at fair value through profit or loss on initial recognition.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

Equity instruments
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.

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 profit or loss 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.

FOREIGN CURRENCIES

Transactions entered into by the group entities in currencies other than the currency of the primary economic environment in which it/they operate(s) (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. USD) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

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.

LEASES

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

The Group as lessee

The total rentals payable under operating leases are charged to the profit or loss on straight-line method over the term of the relevant lease. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the 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 29.

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.

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

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 statement of profit or loss 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 consolidated statement of profit or loss on straight-line method over the expected lives of the related assets.

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

INCOME TAXES

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the assets or liabilities is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associate, 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.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

RELATED PARTIES

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

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

(ii) has significant influence over the Group; or

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

(b) An entity is related to the Group if any of the following conditions applies:

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

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

(iii) 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 members of the family of a person 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

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

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

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 the management as 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 fair value measurement of the Group's hotel properties utilises market observable inputs and data as far as possible. The key assumptions relate to the estimation of cash inflows/outflows which included average room rate, occupancy rate, discount rate, growth of room rate and average 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 inputs used in determining fair value measurements are categoried into different levels based on how observable the inputs used in the valuation technique utilised are the "fair value hierarchy":

Level 1: Quoted prices in active markets for identical items (unadjusted);
Level 2: Observable direct or indirect inputs other than Level 1 inputs;
Level 3: Unobservable inputs (i.e. not derived from market data).

For more detailed information in relation to the fair value measurement of hotel property, please refer to note 13.

5.3 FAIR VALUE OF CONTINGENT CONSIDERATION

The Group determines the fair value of contingent consideration of purchase of intangible assets as disclosed in note 27 based on the forecast of future performance results of the related pharmaceutical product and terms of acquisition agreement. The fair value of contingent consideration will be revised upward or downward where future performance results are different from previous forecast and as a result, the change of fair value of contingent consideration will affect the Group's financial position and results of operations.

5.4 IMPAIRMENT OF RECEIVABLES

Impairment of receivables is made based on an assessment of the recoverability of receivables from customers/debtors. 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.

5.5 USEFUL LIVES OF INTANGIBLE ASSETS

The management estimates the development costs, which represented the intellectual property rights in pharmaceutical industry and technical know-how with perpetual royalty-free license with no termination, have indefinite useful lives as they believe that there is no foreseeable limit on the period of time over which these intangibles are 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 rights 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.

5.6 CURRENT INCOME TAX AND DEFERRED TAX

The Group is subject to income taxes in the PRC. Significant judgement is required in determining the amount of the provision for taxation and the timing of payment of the related taxations. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises taxes based on estimates of the likely outcome with reference to current tax laws and practices. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provision in the period in which such determination is made.

6. SEGMENT INFORMATION

6.1 Revenue

An analysis of the Group's revenue, which is also the Group's turnover, for the year is as follows:

	2014 **USD'000**	2013 USD'000
Revenue from sale of goods	**135,427**	100,852
Revenue from rendering of services	**14,596**	13,984
	150,023	114,836

6.2 Operating Segments

Information reported to the executive directors, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance based on the types of goods delivered.

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

1) the Lansen segment is focused on the manufacture, marketing and sale of specialty western pharmaceuticals, plant extracts and healthcare products and generic pharmaceuticals in the PRC;

2) the Haizi segment is engaged in the manufacture, marketing and sale of inositol and its by-product, di-calcium phosphate;

3) the Yangling segment is engaged in the production and sales of plant extracts for use as key active ingredients in healthcare products;

4) the Botai segment is engaged in collagen products; and

5) 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.

Inter-segment transactions are priced with reference to prices charged to external parties for similar order. Central revenue and expenses are not allocated to the operating segments as they are not included in the measure of the segments' profit/(loss) that is used by CODM for assessment of segment performance.

	Healthcare				Hotel Operations	Elimination	Total
	Lansen	Haizi	Yangling	Botai			
	2014	2014	2014	2014	2014	2014	2014
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
REVENUE							
External sales	116,817	13,828	4,782	-	14,596	-	150,023
Inter-segment sales	-	1,360	974	-	-	(2,334)	-
Segment revenue	116,817	15,188	5,756	-	14,596	(2,334)	150,023
Segment operating profit/(loss)	19,499	980	(1,770)	(842)	2,559	-	20,426
Segment finance costs	(3,010)	(519)	(38)	-	(727)	-	(4,294)
Segment share of post-tax profit of associate	2,156	-	-	-	-	-	2,156
Segment profit/(loss) before income tax	18,645	461	(1,808)	(842)	1,832	-	18,288
Depreciation and amortisation of non-financial assets	2,721	3,470	659	185	171	-	7,206
Provision for impairment of trade and other receivables	25	102	6	-	-	-	133
Provision for/(Reversal of) impairment of obsolete inventories	247	(3)	(458)	-	-	-	(214)
Impairment of property, plant and equipment	-	36	-	-	-	-	36
(Losses)/Gains on disposals of property, plant and equipment	(12)	(13)	(2)	-	8	-	(19)
Gains on disposals of intangible assets	34	-	-	-	-	-	34
Segment assets	223,054	61,615	14,963	7,673	140,793	-	448,098
Segment liabilities	116,677	20,439	2,677	489	12,046	-	152,328
Additions to non-current segment assets	14,598	629	1,014	1,591	342	-	18,174

	Healthcare				Hotel Operations	Elimination	Total
	Lansen	Haizi	Yangling	Botai			
	2013	2013	2013	2013	2013	2013	2013
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
REVENUE							
External sales	95,074	2,777	3,001	–	13,984	–	114,836
Inter-segment sales	–	1,218	23	–	–	(1,241)	–
Segment revenue	95,074	3,995	3,024	–	13,984	(1,241)	114,836
Segment operating profit/(loss)	15,723	(664)	(3,989)	(1,096)	2,312	–	12,286
Segment finance costs	(1,653)	(205)	(501)	–	(760)	–	(3,119)
Segment share of post-tax profit of associate	1,590	–	–	–	–	–	1,590
Segment profit/(loss) before income tax	15,660	(869)	(4,490)	(1,096)	1,552	–	10,757
Depreciation and amortisation of non-financial assets	1,847	945	687	225	170	–	3,874
(Reversal of)/Provision for impairment of trade and other receivables	(572)	8	205	–	–	–	(359)
Provision for/(Reversal of) impairment of obsolete inventories	95	(52)	130	–	–	–	173
Impairment of property, plant and equipment	–	828	–	–	–	–	828
(Losses)/Gain on disposals of property, plant and equipment	(137)	(38)	(2)	(29)	3	–	(203)
Segment assets	182,348	56,314	17,375	6,491	141,234	–	403,762
Segment liabilities	81,354	9,986	4,042	86	12,629	–	108,097
Additions to non-current segment assets	8,402	5,618	78	1,558	325	–	15,981

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:

	2014 **USD'000**	2013 USD'000
Reportable segment finance costs	**(4,294)**	(3,119)
Unallocated corporate finance costs	**(3,520)**	(2,124)
Finance costs	**(7,814)**	(5,243)
Reportable segment profit	**18,288**	10,757
Unallocated corporate income	**104**	103
Unallocated corporate expenses	**(8,299)**	(7,649)
Profit before income tax	**10,093**	3,211
Reportable segment assets	**448,098**	403,762
Other corporate assets	**1,660**	12,338
Group assets	**449,758**	416,100
Reportable segment liabilities	**152,328**	108,097
Deferred tax liabilities	**31,746**	29,306
Unallocated corporate borrowings	**60,092**	76,011
Other corporate liabilities	**17,744**	12,365
Group liabilities	**261,910**	225,779
Reportable depreciation and amortisation of non-financial assets	**7,206**	3,874
Unallocated corporate depreciation	**37**	33
Group depreciation and amortisation of non-financial assets	**7,243**	3,907
Reportable additions to non-current segment assets	**18,174**	15,981
Unallocated corporate additions	**106**	14
Group additions to non-current assets	**18,280**	15,995

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

	Revenue		**Non-current assets**	
	2014 **USD'000**	2013 USD'000	**2014** **USD'000**	2013 USD'000
The PRC (domicile)	**135,741**	106,007	**300,244**	290,972
Overseas	**14,282**	8,829	**–**	–
Total	**150,023**	114,836	**300,244**	290,972

The geographical location of customers is based on the location at which the services were provided or the goods delivered. The Company is an investment holding company incorporated in Bermuda where the Group does not have any activities, the Group has the majority of its operations and workforce in the PRC, and therefore, the PRC is considered as the Group's country of domicile for the purpose of the disclosures as required by IFRS 8 *Operating Segments*. The geographical location of the non-current assets is based on the physical location of the assets.

No single customer's revenue amounted to 10% or more of the Group's revenue for both 2014 and 2013.

7. OTHER INCOME

	2014 **USD'000**	2013 USD'000
Interest income from:		
Bank deposits	**682**	537
Loans and receivables	**–**	24
Government grants	**2,282**	2,131
Transition income	**729**	–
Other miscellaneous income	**215**	199
	3,908	2,891

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.

In March 2014, the Group reached an agreement with Novartis AG and Novartis Pharma AG (collectively the "Novartis") to acquire the rights and know-how related to pharmaceutical product. As the Group has not obtained the required licences to manufacture or import the pharmaceutical product in the PRC during the transition period, Novartis would supply the transition services to the Group which include the supply of the pharmaceutical product for sale carried out by Novartis in the PRC. Transition income represented the transfer of profit generated from the sales of pharmaceutical product by Novartis. The Certificate of Pharmaceutical Product was transferred to the Group in March 2015. The management expects the transition period will be ended by the end of 2015.

8. PROFIT FROM OPERATIONS

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

	2014 **USD'000**	2013 USD'000
Auditor's remuneration		
– audit services	**408**	380
– non-audit services	**18**	18
Depreciation of property, plant and equipment	**7,078**	3,775
Amortisation of prepaid land lease payment	**132**	132
Amortisation of intangible assets	**33**	–
Provision for/(Reversal of) impairment of trade receivables	**16**	(553)
Provision for impairment of other receivables	**117**	194
Impairment of property, plant and equipment	**36**	828
Exchange loss/(gain)	**55**	(215)
Research and development costs	**1,611**	1,480
Cost of inventories recognised as expense	**65,977**	45,820
(Reversal of)/Provision for impairment of obsolete inventories	**(214)**	173
Operating expenses in respect of rented premises	**973**	1,067
Write off of intangible assets	**729**	328
Losses on disposals of property, plant and equipment	**19**	203
Gains on disposals of intangible assets	**(34)**	–

9. FINANCE COSTS

	2014 USD'000	2013 USD'000
Interest on borrowings wholly repayable within 5 years	**7,371**	6,215
Interest payable to an intermediate parent undertaking	**275**	144
Interest payable to directors	**130**	37
Unwinding of discount on provisions (note 27)	**38**	–
Total interest expenses	**7,814**	6,396
Less: Interest capitalised included in construction in progress	**–**	(1,153)
	7,814	5,243

For year ended 31 December 2013, the weighted average capitalisation rate on funds borrowed generally was 3% per annum.

10. PARTICULARS OF EMPLOYEES

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

	2014 Number	2013 Number
Hotel operations	**396**	393
Healthcare	**1,552**	1,519
Corporate office	**21**	21
	1,969	1,933

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

	2014 USD'000	2013 USD'000
Wages and salaries	**22,404**	20,102
Share-based payments expenses (note 29)	**(142)**	179
Payroll taxes	**13**	16
Pension contributions	**3,236**	2,726
	25,511	23,023

11. INCOME TAX EXPENSE

	2014 **USD'000**	2013 USD'000
PRC Enterprise Income Tax ("EIT")		
Current year	**3,820**	3,251
(Over)/Under provision in respect of prior years	**(9)**	54
	3,811	3,305
Deferred tax (note 25)	**746**	407
	4,557	3,712

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.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% (2013: 25%).

A subsidiary of the Group 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 enterprise 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 reached the standard rate at 25% in 2013.

According to the EIT law, its rules and regulations, enterprises that engage in certain qualifying agricultural business are eligible for certain tax benefits, including full EIT exemption on profits derived from such business. A subsidiary of the Group in the PRC engaged in qualifying agricultural business is entitled to full exemption of EIT.

The income tax expense for the year can be reconciled to the profit before income tax per the consolidated statement of profit or loss as follows:

	2014 **USD'000**	2013 USD'000
Profit before income tax	**10,093**	3,211
Less: Loss arising in non-taxable environment	**(4,120)**	(3,777)
	14,213	6,988
Tax on profit at the rates applicable to the jurisdictions concerned	**2,878**	1,384
Tax effect on non-deductible expenses	**1,258**	647
Tax effect on non-taxable income	**(165)**	(314)
Tax effect of share of post-tax profits of an associate	**(356)**	(262)
(Over)/Under provision in respect of prior years	**(9)**	54
Unrecognised tax losses	**1,476**	2,826
Utilisation of tax losses not previously recognised	**(466)**	(770)
Tax exemption granted to PRC subsidiaries	**(83)**	(111)
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	**55**	41
Others	**(31)**	217
Income tax expense for the year	**4,557**	3,712

Deferred tax asset in respect of tax losses has not been recognised in these financial statements due to the unpredictability of future profit streams against which the tax losses can be utilised. The Group has tax losses of approximately USD3,614,000 (2013: USD3,827,000) available be carried forward against taxable profits made in the United Kingdom ("UK") in future years. The tax losses of the subsidiaries operating in PRC amounted to USD16,318,000 (2013: USD15,413,000) can be carried forward for five years.

12. LOSSES PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

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

	2014	2013
	USD'000	USD'000
Loss		
Loss for the year attributable to owners of the Company for the purpose of basic and diluted losses per share	**(1,297)**	(6,191)

	2014	2013
	Thousands	Thousands
Number of shares		
Common Shares		
Weighted average number of Common Shares for the purpose of basic and diluted losses per share	**368,746**	368,508
A Shares		
Weighted average number of A Shares for the purpose of basic and diluted losses per share	**9,297**	9,535

For the years ended 31 December 2014 and 2013, the computation of diluted losses per share does not 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.

For the years ended 31 December 2014 and 2013, the computation of diluted losses per share did not assume the incremental shares from outstanding share options because the share options have anti-dilutive effect.

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 2013	131,885	30,753	5,407	58,120	226,165
Exchange adjustment	3	558	152	2,075	2,788
Additions	324	10,418	–	3,098	13,840
Disposals	–	–	–	(1,763)	(1,763)
Transfer from construction in progress	–	(33,290)	–	33,290	–
Surplus on revaluation credited to revaluation reserve	3,739	–	–	–	3,739
At 1 January 2014	135,951	8,439	5,559	94,820	244,769
Exchange adjustment	1	(94)	(50)	(775)	(918)
Additions	230	2,666	–	3,146	6,042
Disposals	–	–	–	(1,031)	(1,031)
Transfer from construction in progress	–	(6,873)	–	6,873	–
Deficit on revaluation debited to revaluation reserve	(206)	–	–	–	(206)
At 31 December 2014	135,976	4,138	5,509	103,033	248,656
ACCUMULATED DEPRECIATION AND IMPAIRMENT					
At 1 January 2013	(1,008)	–	(1,744)	(17,377)	(20,129)
Exchange adjustment	(28)	–	(50)	(514)	(592)
Impairment losses recognised in profit or loss	–	–	–	(828)	(828)
Charge for the year	(13)	–	(199)	(3,563)	(3,775)
Eliminated on disposals	–	–	–	1,409	1,409
At 1 January 2014	(1,049)	–	(1,993)	(20,873)	(23,915)
Exchange adjustment	11	–	17	158	186
Impairment losses recognised in profit or loss	–	–	–	(36)	(36)
Charge for the year	(13)	–	(197)	(6,868)	(7,078)
Eliminated on disposals	–	–	–	482	482
At 31 December 2014	(1,051)	–	(2,173)	(27,137)	(30,361)
NET BOOK VALUE					
At 31 December 2014	**134,925**	**4,138**	**3,336**	**75,896**	**218,295**
At 31 December 2013	134,902	8,439	3,566	73,947	220,854
At 31 December 2012	130,877	30,753	3,663	40,743	206,036

The net book value of the hotel properties:

	2014 USD'000	2013 USD'000
At valuation:		
Hotel properties in the PRC with lease term expiring in 2033	**134,925**	134,902

The hotel situated in Shenzhen, the PRC, was valued at 31 December 2013 by Colliers International (Hong Kong) Ltd., an independent firm of qualified professional valuers, using a discounted cash flow method at USD135,000,000. The management considers that there have been no material changes in the fair value of hotel properties during the year ended 31 December 2014. The equity investment cost of the hotel property situated in Shenzhen, the PRC to the Group was USD83,200,000 (2013: USD86,897,000).

The fair value of land and buildings is a level 3 recurring fair value measurement. A reconciliation of the opening and closing fair value balance is provided below.

	2014 USD'000
Opening balance (level 3 recurring fair value)	**134,902**
Purchases	**230**
Loss: included in other comprehensive income	**(206)**
Exchange adjustment	**12**
Depreciation	**(13)**
Closing balance (level 3 recurring fair value)	**134,925**

The fair value of hotel properties was estimated using income approach. Fair value is determined based on occupancy rate, average room rate, food and beverage revenue, discount rate and growth rate with significant adjustments for differences in the location or condition of the hotel properties. These adjustments are based on unobservable inputs.

Significant unobservable inputs	Range of significant unobservable inputs	Relationship of unobservable inputs to fair value
Occupancy rate	Occupancy rate, taking into account the location, quality of the hotel, the seasonality, the demand and supply of the hotel market, the past performance of the subject hotel and management projections, comparable hotels and adjustment to reflect which is in the range of 70% to 76%	The increase in the average occupancy rate would result in an increase in fair value.
Growth rate	Growth rate, taking into account inflation, GDP growth, past performance, comparable hotels and adjustment, which is in the range of 5% to 8%	The increase in the growth of room rate would result in an increase in fair value.
Discount rate	Discount rate, taking into account of the US risk-free rate, equity risk premium for hotels and country risk premium, which is 10%	The increase in the discount rate would result in a decrease in fair value.
Average room rate	Average room rate, taking into account the seasonality, the demographics, the hotel market, the economic condition, the past performance of the subject hotel and management projections, comparable hotels and adjustment to reflect which is the range of RMB965 per night to RMB1,253 per night in the future 5 years and will grow in 2019 onwards	The increase in the average room rate would result in an increase in fair value.
Average food and beverage revenue	Average food and beverage sales, taking into account the economic condition, customer spending, the past performance of the subject hotel and management projections, comparable hotels and adjustment to reflect which is the range of 28% to 31% of total hotel revenue	The increase in the average food and beverage revenue would result in an increase in fair value.

There are inter-relationships between unobservable inputs.

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.

During the year, the directors conducted a review of the Group's plant and machinery and determined that a number of those assets were impaired, due to physical damage and obsolescence after technical modification. Accordingly, impairment losses of USD36,000 (2013: USD828,000) was recognised in respect of plant and other equipment to write down the carrying amount of equipment to its recoverable amount to zero, which are used in Haizi reportable segment.

As at 31 December 2014, the hotel properties and certain plants with the carrying amounts of USD15,039,000 (2013: USD17,774,000) were pledged to secure banking facilities and bank borrowings (note 24).

14. PREPAID LAND LEASE PAYMENT

	2014 **USD'000**	2013 USD'000
COST		
At 1 January	**6,223**	6,054
Exchange adjustment	**(55)**	169
At 31 December	**6,168**	6,223
ACCUMULATED AMORTISATION		
At 1 January	**(708)**	(559)
Exchange adjustment	**5**	(17)
Charge for the year	**(132)**	(132)
At 31 December	**(835)**	(708)
Represented by:		
Non-current portion	**5,208**	5,389
Current portion	**125**	126
Total	**5,333**	5,515

As at 31 December 2014, certain prepaid land lease payment with the carrying amounts of USD2,719,000 (2013: USD2,699,000) were pledged to secure banking facilities and bank borrowings (note 24).

15. INTANGIBLE ASSETS

	Exclusive distribution rights USD'000 (note a)	Development costs USD'000 (note b)	Indefinite-lived technical know-how USD'000 (note c)	Total USD'000
COST				
At 1 January 2013	160	9,050	–	9,210
Exchange adjustment	10	254	–	264
Additions	325	–	–	325
Internal developments	–	1,830	–	1,830
Write off	–	(328)	–	(328)
At 1 January 2014	495	10,806	–	11,301
Exchange adjustment	(5)	(107)	–	(112)
Additions	–	–	9,078	9,078
Internal developments	–	3,160	–	3,160
Disposals	–	(368)	–	(368)
Write off	–	(729)	–	(729)
At 31 December 2014	490	12,762	9,078	22,330
ACCUMULATED AMORTISATION AND IMPAIRMENT				
At 1 January 2013	–	(146)	–	(146)
Exchange adjustment	–	(36)	–	(36)
At 1 January 2014	–	(182)	–	(182)
Exchange adjustment	–	12	–	12
Charge for the year	(33)	–	–	(33)
At 31 December 2014	(33)	(170)	–	(203)
CARRYING AMOUNT				
At 31 December 2014	**457**	**12,592**	**9,078**	**22,127**
At 31 December 2013	495	10,624	–	11,119
At 31 December 2012	160	8,904	–	9,064

During the year ended 31 December 2014, the Group decided to terminate several research and development projects which were under development, mainly due to the surging bulk pharmaceutical cost. An impairment loss of USD729,000 was recognised in administrative expenses to write down the carrying amount of the intangible assets to its recoverable amount of zero.

Notes:

(a) Exclusive distribution rights

(i) 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 USD245,000 (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 USD1,062,000 (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 date (note 28). Up to the date of approval for these consolidated financial statements, the registration process is still in progress.

(ii) In December 2013, a subsidiary of the Group entered into an exclusive agreement with a supplier to secure the distribution rights of 10 years for one pharmaceutical product in the PRC. This exclusive right will amortise on a straight-line basis over 10 years, being the period of the distribution right, starting from 1 January 2014.

(b) Development costs represent intellectual property rights ("IPRs") acquired/developed for certain pharmaceutical technologies.

The directors consider that these IPRs 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 at each financial year end or more frequently if there are indicators that IPR with indefinite useful lives might be impaired. As at 31 December 2014, 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.

(c) Indefinite-lived technical know-how represents a perpetual royalty-free licence with no termination.

On 28 March 2014, a subsidiary of the Group entered into (i) the asset purchase agreement with Novartis pursuant to which Novartis agrees to transfer to the subsidiary the transferred assets (including know-how, books and records, specified trademarks, commercial information and medical information relating to the pharmaceutical product), and (ii) the licence agreement to grant the licences, relating to the pharmaceutical product in the territory (i.e. the PRC, cludes Hong Kong, Macau and Taiwan) for a total cash consideration comprising an upfront payment of USD8,000,000, plus additional milestone payments of a total maximum USD1,500,000, linked to sales achieved by the subsidiary.

The pharmaceutical product contains specific active pharmaceutical ingredients and it is marketed and sold as a cream under trademark Sicorten Plus in the territory. It will primarily be used to treat certain corticosteroid-responsive inflammatory skin diseases secondary infection.

16. GOODWILL

	2014 **USD'000**	2013 USD'000
COST AND CARRYING AMOUNT		
At 1 January	**19,501**	25,622
Adjustments to the contingent consideration related to the business combinations prior to 1 January 2010	**–**	(6,121)
31 December	**19,501**	19,501

In accordance with the agreements on acquisition of subsidiaries in prior years, an issue of up to 7,000,000 shares in Haotian Holdings Limited, a subsidiary of the Company, would be issued to the management of Xian Haotian Bio-Engineering Technology Co., Limited if certain milestones achieve in future years following the acquisition date. The fair value of these shares ("earnout shares") to be issued was accounted for as contingent consideration and was included in non-controlling interests upon the acquisition. In 2013, no milestones had been achieved upon the expiration of the period in which the milestones are to be met and all earnout shares were therefore forfeited.

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 four individual CGUs as follows:

	2014		2013	
	Intangible assets with indefinite useful lives USD'000	**Goodwill USD'000**	Intangible assets with indefinite useful lives USD'000	Goodwill USD'000
Healthcare – Lansen	**17,595**	**7,356**	6,915	7,356
Healthcare – Haizi	**42**	**9,657**	42	9,657
Healthcare – Yangling	**2,048**	**2,010**	1,939	2,010
Healthcare – Botai	**1,985**	**478**	1,728	478
	21,670	**19,501**	10,624	19,501

The recoverable amount of the healthcare-Lansen 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% (2013: 11%) which reflects specific risks relating to the CGU. The growth rate used to extrapolate the cash flows beyond the five-year period is 0% which does not exceed the long-term growth rate. 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 – Haizi 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 14% (2013: 15%). The growth rate used to extrapolate the cash flows beyond the five-year period is 0% which does not exceed the long-term growth rate. 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 healthcare operation carrying amount to exceed its recoverable amount.

The recoverable amount of the healthcare-Yangling 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 13% (2013: 15%). The growth rate used to extrapolate the cash flows beyond the five-year period is 0% which does not exceed the long-term growth rate. 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 healthcare operation carrying amount to exceed its recoverable amount.

17. INTEREST IN ASSOCIATE

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

Name of associate	Principal activity	Place of incorporation and principal place of business	Proportion of ownership interest and voting power held by the Group	
			2014	2013
Zhejiang Starry Pharmaceutical Co. Ltd.	Production of bulk pharmaceuticals and intermediates	The PRC	**21.50%**	21.50%

The Group has a 21.50% equity interest in Zhejiang Starry Pharmaceutical Co. Ltd. ("Starry") through Lansen, a 50.56%-owned subsidiary of the Group. The Group can exercise significant influence over Starry through Lansen.

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

	2014 USD'000	2013 USD'000
Year ended 31 December		
Revenue	**107,152**	111,627
Profit for the year	**11,017**	8,126
Other comprehensive income for the year	**–**	–
Total comprehensive income for the year	**11,017**	8,126
Dividends received from the associate	**836**	426
As at 31 December		
Current assets	**65,832**	61,488
Non-current assets	**127,708**	104,885
Current liabilities	**(81,937)**	(80,088)
Non-current liabilities	**(40,981)**	(22,613)

Reconciliation of the above summarised financial information to the carrying amount of the interest in associate recognised in the consolidated financial statements:

	2014 USD'000	2013 USD'000
Equity attributable to owners of Starry	**68,817**	62,728
Proportion of the Group's ownership interest in Starry	**21.5%**	21.5%
	14,796	13,487
Goodwill	**20,462**	20,648
Other adjustments	**(145)**	(26)
Carrying amount of the Group's interest in Starry	**35,113**	34,109

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2014 USD'000	2013 USD'000
Unlisted equity investment, at cost:		
Intelligent Sensor Systems Limited	**385**	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, this unlisted equity investment is stated at cost less any impairment losses. As at 31 December 2014, the Group has no intention to sell this investment in short term.

19. INVENTORIES

	2014 **USD'000**	2013 USD'000
Raw materials	**2,845**	6,176
Work-in-progress	**8,774**	7,722
Finished goods	**11,407**	8,041
Hotel inventories	**132**	135
	23,158	22,074

All inventories are stated at cost net of an amount of USD2,627,000 (2013: USD2,868,000) resulting from write down of inventories.

The reversal of impairment of obsolete in inventories arising from an increase in realisable value was caused by the increase in estimated scrap value and increase in sales prices.

20. TRADE AND OTHER RECEIVABLES

	2014 **USD'000**	2013 USD'000
Trade receivables	**41,888**	36,530
Less: provision for impairment of trade receivables	**(967)**	(1,653)
	40,921	34,877
Bills receivables	**19,539**	15,282
Prepayments and other receivables	**10,796**	8,335
	71,256	58,494

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 to 120 days to its customers (2013: 90 to 120 days).

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

	2014	2013
	USD'000	USD'000
90 days or below	**33,516**	29,741
91 – 180 days	**6,604**	3,993
181 – 365 days	**522**	1,097
Over 365 days	**279**	46
	40,921	34,877

As at 31 December 2014, trade receivables of USD6,311,000 (2013: USD4,525,000) 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 Group's ageing analysis of past due but not impaired trade receivables is as follows:

	2014	2013
	USD'000	USD'000
Past due 1-90 days	**5,510**	3,381
Past due 91-275 days	**522**	1,097
Past due over 275 days	**279**	47
	6,311	4,525

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

	2014	2013
	USD'000	USD'000
At 1 January	**1,653**	2,601
Exchange adjustment	**(18)**	60
Provision for/(Reversal of) impairment of trade receivables	**16**	(553)
Amounts written off as uncollectible	**(684)**	(455)
At 31 December	**967**	1,653

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 2014, trade receivables of USD34,610,000 (2013: USD30,352,000) 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.

During the year ended 31 December 2013, the Group discounted part of its bills receivables with full recourse to financial institutions. In the event of default by the bills receivables, the Group is obliged to pay the financial institutions the amount in default. Interest is charged at 5.6 % per annum on the proceeds received from the financial instructions until the date the bills receivables pay. The Group was therefore exposed to the risks of credit losses and late payment in respect of the discounted bills. There were no discounted bills as at 31 December 2014.

The discounting transactions do not meet the requirements in IAS 39 for derecognition of financial assets as the Group retains substantially all of the risks and rewards of ownership of the discounted bills receivables. At 31 December 2013, bills receivables of USD130,000 continued to be recognised in the Group's financial statements even though they have been legally transferred to the financial institutions. The proceeds of the discounting transactions were included in borrowings as asset-backed financing (note 24) until the bills receivables were collected or the Group settles any losses suffered by the financial institutions. At 31 December 2013, the asset-backed financing liability relating to discounted bills amounted to USD130,000.

Because the bills receivables have been transferred to the financial institutions legally, the Group did not have the authority to determine the disposition of the bills receivables.

As at 31 December 2014, certain trade receivables with carrying amounts of USD515,000 (2013: nil) were pledged to secure bank borrowings (note 24).

As at 31 December 2014, certain bills receivables with carrying amounts of USD14,668,000 (2013: USD4,642,000) were pledged to secure bank borrowings (note 24). The carrying amount of the associated liability was USD12,000,000 (2013: USD7,100,000).

As at 31 December 2013, certain other receivables with carrying amounts of USD659,000 were pledged to secure bank borrowings (note 24). Such receivables matured on 24 June 2014 and carried interests at 2% per annum. The carrying amount of the associated liability was USD1,289,000. There were no other receivables pledged to secure bank borrowings as at 31 December 2014.

As at 31 December 2014, a provision for impairment of other receivables of USD903,000 (2013: USD1,457,000) was recognised as the outstanding balances 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:

	2014 **USD'000**	2013 USD'000
At 1 January	**1,457**	1,281
Exchange adjustment	**(13)**	38
Provision for impairment of other receivables	**117**	194
Amounts written off as uncollectible	**(658)**	(56)
At 31 December	**903**	1,457

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.

21. CASH AND CASH EQUIVALENTS

	2014 **USD'000**	2013 USD'000
Cash and bank balances	**54,380**	43,549
Less: Pledged bank deposits	**(35,020)**	(26,745)
Cash and cash equivalents	**19,360**	16,804

Cash and bank balances comprise cash at banks and in hand, and short-term bank deposits with an original maturity of three months or less.

Pledged bank deposits represent the Group's bank deposits pledged to secure certain banking facilities, bank borrowings (note 24) and bills payables (note 26) as of 31 December 2014 and 2013.

As at 31 December 2014, included in cash and bank balances of the Group was USD47,166,000 (2013: USD29,307,000) of bank balances denominated in Renminbi ("RMB") placed with banks in the PRC. RMB is not a freely convertible currency.

22. SHARE CAPITAL

	2014 **USD'000**	2013 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		
371,956,355 (2013: 371,927,101) Common Shares of USD0.05 each	**18,598**	18,596
9,286,419 (2013: 9,315,673) A Shares of USD0.05 each	**464**	466
	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, 29,254 A Shares were converted into 29,254 Common Shares by the application of holders of A 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 other payables (note 26).

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 2013	10,187,332	371,055,442	19,062
Conversion of A Shares	(871,659)	871,659	–
At 1 January 2014	9,315,673	371,927,101	19,062
Conversion of A Shares	(29,254)	29,254	–
At 31 December 2014	9,286,419	371,956,355	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 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

	2014 USD'000	2013 USD'000
Non-current		
Bank borrowings-secured	**64,402**	52,900
Current		
Assets-backed financing	**–**	130
Bank borrowings-secured	**74,187**	69,903
Bank borrowings-unsecured	**30,119**	24,778
	104,306	94,811
Total borrowings	**168,708**	147,711
Fixed-rate bank borrowings	**27,843**	20,284
Variable-rate bank borrowings	**140,865**	127,297
Assets-backed financing	**–**	130
	168,708	147,711
Analysed as:		
Assets-backed financing due within one year	**–**	130
Bank borrowings are repayable as follows:		
Within one year or on demand	**104,306**	94,681
In the second year	**8,165**	46,900
In the third year to fifth year, inclusive	**56,237**	6,000
	168,708	147,711
Represented by:		
Borrowings in RMB	**52,732**	36,755
Borrowings in HKD	**55,382**	2,063
Borrowings in USD	**60,594**	108,893
	168,708	147,711

The secured bank borrowings are secured by charge over assets of the Group. The details of assets have been pledged as collateral to secure the banking facilities and bank borrowings are set out in notes 13, 14, 20 and 21. Certain secured bank borrowings are guaranteed by the Company and certain subsidiaries of the Group.

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

As at 31 December 2014 and 2013, certain banking facilities are subject to the fulfillment of covenants relating to certain of the Group's financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants, the drawn down facilities would become repayable on demand.

The Group regularly monitors its compliance with these covenants, up to date, makes repayments in accordance with the repayment schedule of the term loans and does not consider it is probable that the bank will exercise its discretion to demand repayment for as long as the Group continues to meet these requirements. As at 31 December 2014 and 2013, none of the covenants relating to drawn down facilities had been breached.

The asset-backed financing represented the amount of financing obtained in factoring transactions which did not meet the de-recognition requirements in IAS 39. The corresponding financial assets were included in trade and other receivables (note 20). These borrowings matured within one year and were repayable in RMB. Such borrowings have been fully repaid during the year.

As at 31 December 2013, the current liabilities include bank borrowings of USD8,808,000 that were not scheduled to repay within one year. They were classified as current liabilities as the related loan agreements contained a repayment on demand clause.

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

	2014	2013
Effective interest rate per annum:		
Bank borrowings	**4.49%**	4.18%

25. DEFERRED TAX LIABILITIES

	Revaluation of hotel properties USD'000	**Distributable profits of the Group's PRC subsidiaries** USD'000	**Deferred development costs** USD'000	**Others** USD'000	**Total** USD'000
At 1 January 2013	26,607	181	–	–	26,788
Charge to other comprehensive income	2,108	–	–	–	2,108
Charge to profit or loss (note 11)	–	41	166	200	407
Exchange adjustment	–	–	3	–	3
At 1 January 2014	28,715	222	169	200	29,306
Charge to other comprehensive income	1,771	–	–	–	1,771
Charge to profit or loss (note 11)	–	55	604	87	746
Paid during the year	–	–	–	(78)	(78)
Exchange adjustment	–	–	1	–	1
At 31 December 2014	30,486	277	774	209	31,746

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred tax liabilities have not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to USD55,954,000 (2013: USD44,648,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

26. TRADE AND OTHER PAYABLES

	2014 USD'000	2013 USD'000
Amount due to an intermediate parent undertaking	**11,673**	6,028
Amount due to a director	**3,795**	3,796
Trade and bills payables	**19,549**	15,415
Accruals and other payables	**23,546**	21,849
	58,563	47,088

As at 31 December 2014, bills payables of USD8,262,000 (2013: USD1,557,000) were secured by the pledge of bank deposits (note 21).

The amount due to the intermediate parent company is unsecured, repayable on demand and interest-bearing at 3.5% (2013: 3.5%) plus London Interbank Offered Rate per annum.

The amount due to a director is unsecured, repayable on demand and interest-free, except for an amount of USD3,094,000 (2013: USD3,095,000), which bears interest at 3.5% plus Hong Kong Interbank Offered Rate per annum and repayable within one year.

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

27. OTHER FINANCIAL LIABILITIES

	USD'000
At 1 January 2013, 31 December 2013 and 1 January 2014	–
Contingent consideration arose from the acquisition of indefinite-lived technical know-how (note 15c)	**1,078**
Unwinding of discount on provision charged to profit or loss (note 9)	**38**
At 31 December 2014	**1,116**

28. FINANCIAL COMMITMENTS

Operating lease commitment

	2014 USD'000	2013 USD'000
Future minimum rentals payable under non-cancellable operating leases are as follows:		
Within one year	**469**	219
Between two and five years	**368**	109
	837	328

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

	2014 USD'000	2013 USD'000
Capital commitments authorised and contracted for:		
Constructions and equipment	**376**	393
Intangible assets	**6,341**	3,887
	6,717	4,280

29. 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:

	2014		2013	
	Number of options	**Weighted average exercise price pence**	Number of options	Weighted average exercise price pence
At 1 January	**12,121,176**	**35.10**	11,722,353	36.77
Granted during the year	**7,390,353**	**37.275**	3,490,000	32.55
Forfeited during the year	**(5,001,176)**	**40.90**	(3,091,177)	38.55
At 31 December	**14,510,353**	**34.21**	12,121,176	35.10

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

2014

Number of options	**Exercise price pence per share**	**Exercise period**
3,860,000	**29.88**	**3 April 2015 to 2 April 2017**
3,370,000	**32.55**	**27 March 2016 to 26 March 2018**
7,280,353	**37.275**	**1 April 2017 to 31 March 2019**
14,510,353		

2013

Number of options	Exercise price pence per share	Exercise period
921,176	41.37	16 March 2014 to 15 March 2016
3,870,000	41.17	31 March 2014 to 30 March 2016
3,960,000	29.88	3 April 2015 to 2 April 2017
3,370,000	32.55	27 March 2016 to 26 March 2018
12,121,176		

Fair value of share options granted in the year

The fair value of the share options granted is approximately GBP1,224,000 in aggregate, of which the Group recognised a reversal of share option expense of GBP105,000 (USD142,000) (2013: GBP119,000 (USD179,000)) during the year ended 31 December 2014. Options were priced using a Black-Scholes option pricing model. The following table lists the inputs into the model:

Grant date share price	37.275 pence
Expected volatility	26.524%
Expected Expired Life Period	4 years
Dividend yield	nil
Risk-free rate	1.664%

The expected volatility was based on the statistical analysis of daily share prices over the last five years The risk-free rate is the yield of GBP United Kingdom Sovereign Curve with maturity matching the time to the contractual life of share 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 3.5 years (2013: 3.1 years).

30. 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.

As of 31 December 2014, 20% (2013: 20%) of the total trade receivables was due from the Group's largest customer.

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, compliance with the loan covenants and matching the maturity profiles of financial assets and liabilities.

As disclosed in note 2, the Group's current liabilities exceeded its current assets by USD16,633,000 as at 31 December 2014. 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 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. Specifically, bank borrowings with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates. Bank borrowings with a repayment on demand clause are included in "within one year or on demand" time band in the below maturity analysis. As at 31 December 2013, the aggregate undiscounted principal amounts of these bank borrowings amounted to USD9,250,000. Taking into account the Group's financial position, the directors did not believe that it was probable that the banks would exercise their discretionary rights to demand immediate repayment. The directors believed that such bank borrowings would be repaid or refinanced within two years after the year ended 31 December 2013 in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to USD10,347,000.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

	2014				
	Within one year or on demand USD'000	**Between one and two years USD'000**	**Between two and five years USD'000**	**Over five years USD'000**	**Total contractual undiscounted cash flows USD'000**
Interest-bearing bank and other borrowings	**108,333**	**11,210**	**63,691**	**–**	**183,234**
Trade and bills payables	**19,549**	**–**	**–**	**–**	**19,549**
Accruals and other payables	**23,546**	**–**	**–**	**–**	**23,546**
Amount due to a director	**3,881**	**–**	**–**	**–**	**3,881**
Amount due to an intermediate parent undertaking	**12,155**	**–**	**–**	**–**	**12,155**
Other financial liabilities	**–**	**–**	**–**	**1,500**	**1,500**
	167,464	**11,210**	**63,691**	**1,500**	**243,865**

	2013			
	Within one year or on demand USD'000	Between one and two years USD'000	Between two and five years USD'000	Total contractual undiscounted cash flows USD'000
Interest-bearing bank and other borrowings	98,743	49,093	6,470	154,306
Trade and bills payables	15,415	–	–	15,415
Accruals and other payables	21,849	–	–	21,849
Amount due to a director	3,882	–	–	3,882
Amount due to an intermediate parent undertaking	6,274	–	–	6,274
	146,163	49,093	6,470	201,726

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 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 debt obligations of the Group are disclosed in note 24 and 26 respectively. 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:

- Loss for the year ended 31 December 2014 would increase/decrease by USD679,000 (2013: increase/decrease by USD616,000). 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 2014 would decrease/increase by USD679,000 (2013: decrease/increase by USD616,000).

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.

	2014 **USD'000**	2013 USD'000
Financial assets		
Loans and receivables:		
Trade and other receivables	**65,373**	54,199
Pledged bank deposits	**35,020**	26,745
Cash and cash equivalents	**19,360**	16,804
Available-for-sale financial assets	**385**	385
	120,138	98,133
Financial liabilities		
Financial liabilities at amortised cost:		
Borrowings	**168,708**	147,711
Trade and other payables	**55,731**	45,540
	224,439	193,251
Financial liabilities at fair value through profit or loss:		
Other financial liabilities	**1,116**	–

Fair value measurement of other financial liabilities

On 28 March 2014, the Group reached an agreement with Novartis to acquire the rights and know-how related to pharmaceutical product. The total cash consideration of the transaction comprised an upfront payment of USD8,000,000, plus additional milestone payments of a total maximum amount of USD1,500,000, which would be linked to the sales amount achieved by the Group subsequently.

The potential undiscounted amount of all future payments that the Group could be required to make under this contingent consideration arrangement is between USD0 and USD1,500,000.

No gain or loss relating to this contingent consideration has been recognised in profit or loss for the current period.

The fair value of the contingent consideration is a level 3 recurring fair value measurement and is estimated by applying the discounted cash flow. The determination of fair value is based on certain parameters including the discount rate, the probability of sales achievement and the period of sales achievement, which are unobservable. The significant unobservable inputs and relationship of these inputs to fair value contingent consideration are shown as below:

Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Discount rate of 4.7%	The higher the discount rate, the lower the fair value.
Probability of sales achievement, which is 100%	The higher the probability of sales achievement, the higher the fair value.
Period of sales achievement, which are year 2019 and year 2021	The earlier the period of sales achievement, the higher the fair value.

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 USD16,633,000 as at 31 December 2014. Basis of preparation in respect of going concern has been disclosed in note 2. The directors of the Company have carried out a 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:

	2014 USD'000	2013 USD'000
Borrowings	**168,708**	147,711
Amount due to an intermediate parent undertaking	**11,673**	6,028
Amount due to a director	**3,094**	3,095
Pledged other receivables (note 20)	**–**	(659)
Cash and bank balances (note 21)	**(54,380)**	(43,549)
Net debt	**129,095**	112,626
Equity	**187,848**	190,321
Net debt to equity ratio	**68.7%**	59.2%

31. RELATED PARTY TRANSACTIONS

Related party relationship	Type of transaction	Notes	Transaction amount		Balance owed	
			2014 USD'000	2013 USD'000	**2014 USD'000**	2013 USD'000
An intermediate parent undertaking of the Company	Interest charged	(a)	**275**	144	**11,673**	6,028
Directors	Interest charged	(b)	**130**	37	**3,795**	3,796
Non-controlling interests	Interest income	(c)	**–**	24	**–**	–

(a) The outstanding balance is unsecured, repayable on demand and interest-bearing at 3.5% (2013: 3.5%) over London Interbank Offered Rate per annum.

(b) The outstanding balance comprise of a loan of USD3,094,000 (2013: USD3,095,000), which is unsecured, repayable within one year and interest-bearing at 3.5% plus Hong Kong Interbank Offered Rate per annum; and a payable of unissued Common Shares of USD701,000 (2013: USD701,000), as described in notes 22 and 26 respectively.

(c) The amount bore interest at 6% per annum.

Key management personnel of the Group represents the Company's executive directors, their remunerations are disclosed in the Directors' Remuneration Report.

32. CONTROLLING PARTIES

In the directors' opinion, the Company's controlling shareholders are Circle Finance Limited and Mega Worldwide Services 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.

33. SUBSIDIARIES

General information of the 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	Principal place of business	Proportion of ownership interest %		Principal activities
			2014	2013	
Cathay International Holdings Limited*	England and Wales	Hong Kong	**100**	100	Investment holding
Cathay International Landmark Holdings Limited*	The British Virgin Islands (The "BVI")	Hong Kong	**100**	100	Investment holding
Koon Hay Investment Limited*	The BVI	Hong Kong	**100**	100	Investment holding
Bon House Development Limited	Hong Kong	Hong Kong	**100**	100	Investment holding
Calfin Holdings Limited	The BVI	Hong Kong	**100**	100	Investment holding
Statelink Investment Limited	Hong Kong	Hong Kong	**100**	100	Investment holding
Fuyuan Landmark (Shenzhen) Limited	The PRC	Hong Kong	**100**	100	Hotel ownership
Sharp Asset Development Limited	Hong Kong	Hong Kong	**100**	100	Investment holding
Noble Faith Investment Limited	The BVI	Hong Kong	**100**	100	Investment holding
Cathay International Capital Limited*	The BVI	Hong Kong	**100**	100	Investment holding
Cathay International Biotech Company Limited*	The BVI	Hong Kong	**100**	100	Investment holding
Cathay International Pharmaceutical Limited	The BVI	Hong Kong	**100**	100	Investment holding
Cathay International Biotechnology and Pharmaceutical (China) Limited	The BVI	Hong Kong	**100**	100	Investment holding
Cathay International Changchun Biotechnology and Pharmaceutical Limited	The BVI	Hong Kong	**100**	100	Investment holding
Cathay International Pharma Manufacture & Distribution (China) Limited	The BVI	Hong Kong	**100**	100	Investment holding
Changchun Botai Medicine and Biological Technology Company Limited	The PRC	The PRC	**100**	100	Pharmaceutical business
Tianjin Longbai Biological Engineering and Technology Company Limited	The PRC	The PRC	**65**	65	Pharmaceutical business
Lansen Pharmaceutical Holdings Limited	The Cayman Islands	Hong Kong	**50.56**	50.56	Investment holding
Lansen Pharmaceutical Holdings Limited	The BVI	Hong Kong	**50.56**	50.56	Investment holding
Lansen Medicine (Shenzhen) Company Limited	The PRC	The PRC	**50.56**	50.56	Pharmaceutical business
Ningbo Liwah Pharmaceutical Company Limited	The PRC	The PRC	**50.56**	50.56	Pharmaceutical business
Ningbo Liwah Plant Extraction Technology Limited	The PRC	The PRC	**50.56**	50.56	Pharmaceutical business
Ningbo Lansen Pharmaceutical Company Limited	The PRC	The PRC	**50.56**	50.56	Pharmaceutical business
Bozhou Lansen Herbal Industry Limited	The PRC	The PRC	**50.56**	50.56	Pharmaceutical business
Ningbo Lansen Pharmaceutical Technology Company Limited	The PRC	The PRC	**50.56**	50.56	Pharmaceutical business
Haotian Holdings Limited	The BVI	The PRC	**100**	100	Investment holding
Xian Haotian Bio-Engineering Technology Co. Limited	The PRC	The PRC	**100**	100	Pharmaceutical business
Yangling Haotian Bio-Engineering Technology Co. Limited	The PRC	The PRC	**100**	100	Pharmaceutical business
Shenyang Haotian-Wanjia Medical Technology Co. Limited	The PRC	The PRC	**51**	51	Pharmaceutical business

Name of subsidiary	Place of registration	Principal place of business	Proportion of ownership interest % 2014	Proportion of ownership interest % 2013	Principal activities
Jilin Haizi Bio-Engineering Technology Co. Limited	The PRC	The PRC	**100**	100	Pharmaceutical business
Gongzhuling Huatian Bio-Engineering Technology Co. Limited	The PRC	The PRC	**–**[(1)]	100	Pharmaceutical business
Siping Jinrui Trading Co. Limited	The PRC	The PRC	**91**	91	Pharmaceutical business
Linqing Haotian Bio-Engineering Technology Co. Limited	The PRC	The PRC	**100**	100	Pharmaceutical business
Leling Haotian Bio-Engineering Technology Co. Limited	The PRC	The PRC	**100**	100	Pharmaceutical business
Huxian Haotian Bio-Engineering Technology Co. Limited	The PRC	The PRC	**100**	100	Pharmaceutical business
Gongzhuling Haizi Bio-Engineering Technology Co. Limited	The PRC	The PRC	**100**	100	Pharmaceutical business
Yushu Haizi Bio-Engineering Technology Co. Limited	The PRC	The PRC	**100**	100	Pharmaceutical business

* Investments held directly by the Company

(1) The subsidiary was deregistered during the year.

Composition of the Group

Principal activities	Place of incorporation/ establishment	Number of wholly-owned subsidiaries 2014	Number of wholly-owned subsidiaries 2013
Pharmaceutical business	The PRC	**10**	10
Pharmaceutical business	The BVI	**1**	1
Hotel ownership	The PRC	**1**	1
Investment holding	Hong Kong	**9**	9
Investment holding	The BVI	**17**	16
Investment holding	England and Wales	**1**	1
Administration	Hong Kong	**4**	4
Administration	The BVI	**3**	5
Administration	England and Wales	**1**	1
		47	48

Principal activities	Place of incorporation/ establishment	Number of non-wholly-owned subsidiaries 2014	Number of non-wholly-owned subsidiaries 2013
Pharmaceutical business	The PRC	9	9
Investment holding	Hong Kong	6	5
Investment holding	The BVI	5	5
Investment holding	The Cayman Islands	1	1
		21	20

34. NON-CONTROLLING INTERESTS

Lansen Pharmaceutical Holdings Limited and its subsidiaries ("Lansen Group"), a 50.56%-owned subsidiary of the Company has material non-controlling interests ("NCI"). The NCI of all other subsidiaries that are not 100% owned by the Company are considered to be immaterial. The principal place of its business is in the PRC.

Summarised financial information in relation to the NCI of Lansen Group, before intra-group eliminations, is presented below:

	2014	2013
	USD'000	USD'000
Year ended 31 December		
Revenue	**116,817**	95,074
Profit for the year	**13,980**	11,691
Profit attributable to owners of the Company	**7,068**	5,911
Profit attributable to NCI	**6,912**	5,780
Profit for the year	**13,980**	11,691
Other comprehensive income attributable to owners of the Company	**(606)**	1,759
Other comprehensive income attributable to NCI	**(593)**	1,720
Other comprehensive income for the year	**(1,199)**	3,479
Total comprehensive income attributable to owners of the Company	**6,462**	7,670
Total comprehensive income attributable to NCI	**6,319**	7,500
Total comprehensive income for the year	**12,781**	15,170
Dividends paid to NCI	**4,364**	4,906
Net cash inflow from operating activities	**11,693**	4,326
Net cash outflow from investing activities	**(23,854)**	(11,326)
Net cash inflow from financing activities	**17,028**	6,388
Net cash inflow/(outflow)	**4,867**	(612)
As at 31 December		
Non-current assets	**102,409**	91,686
Current assets	**129,866**	100,696
Non-current liabilities	**(993)**	(378)
Current liabilities	**(116,677)**	(81,354)
Accumulated NCI	**56,661**	54,705

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