CATHAY INTERNATIONAL HOLDINGS LIMITED

ANNUAL REPORT 2017

Contents

Directors and Advisers

DIRECTORS

Wu Zhen Tao
Executive Chairman and Chairman of the Executive and Remuneration Committees

Sum Soon Lim
Independent Non-executive Director and Chairman of the Audit Committee

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
Independent Non-executive Director

Chan Ching Har Eliza
Independent Non-executive Director

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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 the PRC 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 Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"), is a leading pharmaceutical company in the PRC 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, and covers sale of diagnostic kits and cosmeceutical products.
Haizi	Haizi is engaged in the manufacture, marketing and sales of inositol and di-calcium phosphate and has capacity to produce 2,500 tonnes of inositol per annum, the second largest in the PRC.
Natural Dailyhealth	Natural Dailyhealth is engaged in the production and sales of plant extracts, such as bilberry, ginkgo extract and ginseng extract, for use as key active ingredients in health products.
Botai	Botai is engaged in the production and sales of collagen injectable fillers and development of collagen related products.

Hotel	
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

The Group continues to focus on businesses with sustained growth potential in China's fast growing economic environment. This focus continues to be on the development of its pharmaceutical, healthcare and cosmetics segments and, as in previous years, the Group's largest contribution comes from the pharmaceutical business with the healthcare and cosmetic sectors still being in the early stages of growth.

During the year, Group revenue decreased by 2.6% to USD115.3 million (2016: USD118.4 million). Group recorded net profit of USD0.7 million in 2017, as compared with a net loss of USD10.2 million in 2016. Group loss attributable to owners of the parent company reduced to USD6.9 million, compared to USD11.8 million in 2016.

Pharmaceutical segment

The PRC government has recently implemented policies and guidelines to reduce drug prices and simplify drug supply and distribution chains. In response to these policies, Lansen has drawn up some strategic adjustments which it will gradually start to implement.

For specialty drugs, Lansen aims to expand its hospital coverage and, as such, has started to reorganise its sales team and optimise its incentive scheme to sales staff. In addition, Lansen also plans to manage down its expenses and enhance efficiency in order to improve its competitiveness and profitability.

It is currently a national strategy in China to put emphasis on the development of traditional Chinese medicines. Lansen is exploring its own list of Chinese patent medicines and will devote more resources to feature these pharmaceuticals in its product portfolio, enhancing its efforts on expanding the retail market whilst also maintaining sales to hospitals. These "traditional" pharmaceuticals are expected to be less price sensitive to government policies than specialty drugs.

Lansen plans to gradually diversify from its current, single core specialty drug product to build a portfolio of core products comprising of specialty drugs and featured pharmaceuticals. Meanwhile, Lansen intends to improve its hospital coverage of pharmaceutical products and implement stringent control on expenses in order to upgrade the product structure, income structure and profitability of the pharmaceutical segment.

On 1 March 2018, Mr. Chen Li ("Mr. Chen") took over as Chief Executive Officer of Lansen and will actively promote the business development of Lansen and implement Lansen's new business strategies.

Healthcare segment

Haizi

A key project of the Group's healthcare segment is Haizi's inositol and di-calcium phosphate ("DCP") production with Haizi's strategy to become one of the largest high-quality inositol suppliers and the only volume producer of plant-based, food grade, DCP in the world. Haizi has been progressing with these objectives over the past few years and, although the initial progress was slower than expected, the research and development, plant construction and trial production phases were largely completed in 2017.

Haizi's food grade DCP will be marketed globally and the initial production level will be determined by the number of sales orders received on market entrance. Any excess DCP capacity post fulfilling the initial demand for food grade DCP, will be utilised as feed grade production. It is expected that when the production and sales volume of food grade DCP reach scale, the overall cost competitiveness of Haizi's inositol and DCP business will surpass the industry standard.

In 2017, the Group's phytin plants focused on two projects: (i) to study, alongside its starch factory supplier of corn fluid, the optimum selection and fermentation time of enzymes needed to meet starch factory's production requirement and to provide Haizi maximum level of organic phosphorus in the corn fluid; and (ii) the level of modifications required in the phytin plants for the production of food grade DCP. Both projects have almost been completed but the projects did mean the overall production volume of phytin in 2017 was reduced, resulting in the lower production of inositol and DCP.

During the year, the average market price of inositol fell to USD5 per kg (2016: USD6 per kg). However, due to underproduction of starch factories and rising environmental measures in the China market, market supply of phytin decreased, and the inositol price began to increase in the fourth quarter of 2017.

Natural Dailyhealth

Natural Dailyhealth's strategy is to generate stable cash flow and profits through the production and sales, of bulk ingredients for healthcare supplements and gradually expand, downstream, to healthcare products.

Natural Dailyhealth aims to market high quality plant extracts products or to offer customised plant extracts to large and high end pharmaceutical companies which should generate reasonable profit and stable cash flow for its development of downstream business. During the year, Natural Dailyhealth completed the filing of ginkgo extract with China Food and Drug Administration ("CFDA") and it is in the process of being certified by targeting pharmaceutical customers on a case-by-case basis. Natural Dailyhealth also achieved a breakthrough in its business negotiations with several large customers of choline glycerophosphate products.

Natural Dailyhealth is actively preparing its downstream healthcare business with 26 healthcare product applications completed and a further 23 applications currently being prepared. The completed applications are expected to start being approved from 2018 onward. Natural Dailyhealth intends to implement its strategic plan through cooperation with internationally renowned brands of healthcare products, investment in healthcare product factories and OEM production.

In 2018, Natural Dailyhealth is committed to improving its production efficiency of health supplement ingredients; strictly controlling expenses; striving to develop high-end pharmaceutical customers and expanding the customised business whilst also actively promoting the research and development of downstream healthcare products.

Cosmetics segment

The Group began to build its cosmetic business through the sales of Fillderm, the only collagen injectable product approved by the CFDA in China. After two years of market exploration, the Group has decided to market Fillderm through two complementary channels: Botai will sell Fillderm to aesthetic clinics through cooperation with partners and distributors, where Fillderm will compete with other injectable type products in the market. Lansen, on the other hand, will acquire and run aesthetic clinics to bring in customers through franchise cooperations with cosmetology salons, where Fillderm will be the only injectable type product there.

The Group will focus on developing non-medical cosmetic products in 2018. By cooperating with agents, independent research and development institutes and third parties, the Group plans to develop cosmetic products including facial masks and skin care products. Completing the product line will play a positive role in the cooperation with cosmetics institutions, expansion of customer base and wider market coverage, which in turn would have synergies with Fillderm.

Investment

On 15 March 2017, Lansen disposed 4,175,000 Starry shares at a price of RMB43.11 per share for aggregate proceeds of RMB180.0 million (equivalent to USD26.1 million, before deducting transaction costs and related tax). The disposal bought cash flow to the Group and was beneficial to the operation of the Group. The Group plans to continue reducing its holding in Starry shares as and when appropriate in 2018.

Hotel

The hotel achieved strong results in 2017 following the rapid development of Shenzhen's economy. Occupancy rates increased to 73.2% from 69.4% in 2016 and overall income increased by 6.6%. The Group will focus on improving food quality, increasing food and beverage sales and profitability, as well as raising room prices in order to increase the overall profitability of the hotel in 2018.

Finally, I would like to express my gratitude to our shareholders and the directors for their continuous support. During the coming year, management will continue its efforts to complete the Group's ongoing business development strategy.

Wu Zhen Tao
Chairman

GROUP RESULTS

Group's revenue decreased by 2.6% to USD115,338,000 compared to last year. Due to a decrease in the sales of Collagen Injectable Fillers ("Fillderm") and plant extract products, Lansen's sales were USD86,379,000 (2016: USD92,833,000). Haizi's sales of inositol and DCP were USD6,845,000 (2016: USD8,140,000) mainly due to lower inositol market price in 2017. The average price of Inositol dropped to USD5 per kg, compared to USD6 per kg in 2016. Natural Dailyhealth's sales continued to increase to USD8,306,000 (2016: USD4,674,000) resulted from the synergy with Lansen. Hotel revenue grew by 6.6% to USD13,604,000 (2016: USD12,756,000).

Group's gross profit decreased by 7.5% to USD53,014,000 (2016: USD57,282,000), mainly due to lower Fillderm sales and the lower inositol market price. Gross profit at Lansen decreased to USD51,889,000 (2016: USD53,776,000) and the gross loss of Haizi increased to USD3,027,000 (2016: USD1,784,000). Botai's gross profit decreased to USD619,000 (2016: USD1,864,000) due to slower market penetration of Fillderm. Natural Dailyhealth and Hotel's gross profit increased to USD1,610,000 (2016: USD1,298,000) and USD2,763,000 (2016: USD2,280,000) respectively. Group's gross profit margin decreased to 46.0% (2016: 48.4%) mainly due to the lower profit margin of Haizi resulting from the lower inositol market price. Lansen reported a slight increase in profit margin due to a larger proportion of sales coming from high margin pharmaceutical products.

Group's operating profit decreased by USD2,574,000 to USD480,000 (2016: USD3,054,000) due to a decline of operating profits from Lansen and an increase in operating loss from Haizi, Natural Dailyhealth and Botai. This was, however, partially offset by the increase in the hotel's operating profit. The decrease in corporate expenses was mainly due to a reversal of share option expenses of USD944,000 (2016: USD450,000).

Group's finance costs increased by 18.4% to USD10,167,000 (2016: USD8,585,000) due to the increase in the effective LIBOR borrowing rate and the expensing of the unamortised bank fee (USD608,000) on a facility refinance prior to its maturity. Interest expense capitalised during the year was USD266,000 (2016: nil). The effective interest rate was 4.50% (2016: 4.25%).

Group's share of profits from Starry, a 12.6% owned associate company primarily engaged in the production and sales of iohexal for X-CT scanners, was maintained at USD1,731,000 (2016: USD1,720,000) even with the disposal of 3.5% equity interest in Starry in March 2017.

During the year, the Group received insurance proceeds of USD2,565,000 against Lansen's stock loss caused by flood in 2015. The Group also reached an out of court settlement with Shenzhen Neptunus Pharmaceutical Company Limited and made a provision of USD4,637,000 against its gingko claim.

Group's profit for the year was USD656,000 (2016: loss of USD10,233,000). After deducting the non-controlling interests of Lansen, Group's loss for the year attributable to owners of the parent was USD6,921,000 (2016: USD11,816,000).

(stated in USD'000)	Lansen	Haizi	Natural Dailyhealth	Botai	Hotel Operations	Corporate Office	Inter-segment Elimination	Total
	Healthcare							
For year ended 31 December 2017								
REVENUE								
External sales	86,379	6,845	8,306	204	13,604	–	–	115,338
Inter-segment sales	3,105	69	720	1,221	–	–	(5,115)	–
Segment revenue	89,484	6,914	9,026	1,425	13,604	–	(5,115)	115,338
Segment gross profit/(loss)	51,889	(3,027)	1,610	619	2,763	–	(840)	53,014
Segment operating profit/(loss)	9,984	(5,364)	(1,463)	(903)	2,661	(4,273)	(162)	480
Segment non-operating income/(expenses)	10,874	(38)	(142)	(272)	–	(385)	–	10,037
Segment fair value loss on derivative financial instrument	(564)	–	–	–	–	–	564	–
Segment finance costs	(4,016)	(973)	–	(147)	(1,099)	(4,066)	134	(10,167)
Segment share of post-tax profit of associate	1,295	–	–	–	–	–	436	1,731
Segment profit/(loss) before income tax	17,573	(6,375)	(1,605)	(1,322)	1,562	(8,724)	972	2,081
Segment income tax expense	(1,416)	(9)	–	–	–	–	–	(1,425)
Segment profit/(loss) for the year before non-controlling interests	16,157	(6,384)	(1,605)	(1,322)	1,562	(8,724)	972	656
Segment profit/(loss) for the year attributable to owners of the parent	8,430	(6,381)	(1,169)	(1,175)	1,562	(8,724)	536	(6,921)
For year ended 31 December 2016								
REVENUE								
External sales	92,833	8,140	4,674	–	12,756	–	–	118,403
Inter-segment sales	1,991	163	1,530	2,433	–	–	(6,117)	–
Segment revenue	94,824	8,303	6,204	2,433	12,756	–	(6,117)	118,403
Segment gross profit/(loss)	53,776	(1,784)	1,298	1,864	2,280	–	(152)	57,282
Segment operating profit/(loss)	11,564	(5,180)	(1,037)	266	2,152	(4,720)	9	3,054
Segment non-operating expenses	(3,221)	–	–	(738)	–	–	600	(3,359)
Segment fair value gain on derivative financial instrument	1,129	–	–	–	–	–	(1,129)	–
Segment finance costs	(3,367)	(654)	–	(3)	(788)	(3,773)	–	(8,585)
Segment share of post-tax profit of associate	1,454	–	–	–	–	–	266	1,720
Segment profit/(loss) before income tax	7,559	(5,834)	(1,037)	(475)	1,364	(8,493)	(254)	(7,170)
Segment income tax expense	(3,190)	146	(19)	–	–	–	–	(3,063)
Segment profit/(loss) for the year before non-controlling interests	4,369	(5,688)	(1,056)	(475)	1,364	(8,493)	(254)	(10,233)
Segment profit/(loss) for the year attributable to owners of the parent	2,472	(5,685)	(790)	(164)	1,364	(8,493)	(520)	(11,816)

Group's Net Assets and Gearing

The Group's assets decreased by USD1,491,000 to USD436,592,000 (2016: USD438,083,000) mainly due to decrease in trade receivables and interest in associate but partly offset by revaluation surplus on the hotel property and increase in plant and equipment. The Group's liabilities also decreased by USD2,726,000 to USD286,200,000 (2016: USD288,926,000) mainly due to decrease in bank borrowings and trade and bills payables but partly offset by increase in deferred tax liabilities and other payables.

Net current liabilities were USD58,771,000 (2016: USD56,833,000) and cash and cash equivalents decreased slightly to USD13,237,000 (2016: USD14,338,000).

The Group's net assets at 31 December 2017 were USD150,392,000 (2016: USD149,157,000). Net assets per share at 31 December 2017 were USD0.39 (2016: USD0.39).

The Group's carrying amount of investment in Starry was USD28,164,000 under the equity accounting basis. Based on Starry's closing price on 31 December 2017, the market value of the investment in Starry was approximately USD67,233,000. The difference between the carrying value and the market value of Starry was not included in the consolidated financial statements.

The Group reduced its net borrowings to USD157,944,000 (2016: USD165,920,000) mainly due a net decrease of USD11,499,000 and USD4,022,000 in Lansen and in Corporate Office respectively while Haizi and Botai increased their borrowings by USD5,186,000 and USD2,034,000 respectively. Net gearing ratios for the Group and Lansen were 105.6% (2016: 110.7%) and 56.5% (2016: 75.1%). Taking Starry's market value as at 31 December 2017 into consideration, Group's net gearing ratio was 83.8%.

Lansen

Lansen's revenue decreased to USD89,484,000 from USD94,824,000. There was an increase in pharmaceutical sales which was offset by a decrease in sales from cosmeceutical and health products.

Sales from pharmaceutical products was up 5.8% to USD68,229,000 (2016: USD64,460,000), of which Pafulin's sales grew by 15.2% to USD50,454,000 (2016: USD43,790,000), sales of MMF tablets were down 19.3% to USD4,133,000 (2016: USD5,124,000) and sales of Hepai decreased by 5.3% to USD2,345,000 (2016: USD2,228,000). Sales of Bio-Rad and Sicorten Plus were USD872,000 (2016: USD1,375,000) and USD3,385,000 (2016: USD4,697,000) respectively. Generic drugs sales were down by 8.6% to 6,569,000 (2016: USD7,190,000).

Sales of cosmeceutical products decreased by 26.9% mainly due to the market inventories of the new product Fillderm is still in the digestion stage. To accelerate Fillderm sales, Lansen and Botai will target different distribution channels. Lansen will establish its own aesthetic clinics in key cities and work with cosmeceutical beauty care providers to serve their customers. While Botai has established a sales team to work with aesthetic clinics only. Sales of Comfy Collagen Dressing mask (Kefumei) and Yuze brand skincare products continued to grow and went up by 26.3% to USD7,109,000 (2016: USD5,629,000) and 21.0% to USD5,015,000 (2016: USD4,144,000) respectively. In January 2017, Lansen signed an agency agreement with Robustnique Corporation Limited to sell its Bribrilliant brand cosmetic products in China and Lansen sold USD1,072,000 worth of Bribrilliant products during the year. It is expected that the implementation of two-invoices system introduced by the Chinese government, will have an adverse impact on the sales of Kefumei in 2018.

Sales of healthcare products (including plant extract and healthcare products) decreased by 34.6% to USD8,059,000 (2016: USD12,315,000) due to the strategic realignment in production capacity and management structure of the plant extract business within the Group.

Lansen's gross profit decreased by 3.5% to USD51,889,000 (2016: USD53,776,000) mainly due to lack of Fillderm sales this year but partly offset by strong sales in Pafulin. The gross profit margin increased to 58.0% (2016: 56.7%) mainly due to higher proportion of high gross margin Pafulin sales. The gross profit margin for pharmaceutical product decreased to 67.2% (2016: 69.3%) mainly due to decrease in Pafulin selling price in winning new hospital tender contracts.

Lansen's operating profit decreased to USD9,984,000 (2016: USD11,564,000). Operating profit margin maintained at 11.2% (2016: 12.2%). Administrative expenses decreased to 13.7% of revenue (2016: 15.9%) due to a reduction in one-off items in 2017.

During the year, Lansen sold 4,175,000 Starry shares and made a gain of USD15,422,000. As at 31 December 2017, Lansen still holds 15,175,000 shares in Starry. Lansen received insurance proceeds of USD2,565,000 against a stock loss claim caused by flood in 2015. Lansen also provided USD4,637,000 as settlement against the ginkgo claim by Shenzhen Neptunus Pharmaceutical Company Limited. Certain intangible assets of USD2,476,000 (2016: USD1,546,000) were written off and impaired. Net effects of one-off items was profit of USD10,874,000 (2016: loss of USD3,221,000).

Botai

Under the revised distribution agreement entered in March 2017, Botai continues to sell Fillderm to Lansen. In addition, Botai began to set up its own sales team in March 2017 to sell Fillderm in selected markets via agreements with other partners and distributers. Botai has also worked on developing small molecule collagen masks mainly for Fillderm customers to enrich the product line.

Botai's revenue was USD1,425,000 (2016: USD2,433,000). Its gross profit was USD619,000 (2016: USD1,864,000) and its operating loss was USD903,000 (2016: operating profit was USD266,000).

Natural Dailyhealth

Following the realignment of the plant extract and health supplement businesses between Lansen and Natural Dailyhealth, Natural Dailyhealth's revenue increased by 45.5% to USD9,026,000 (2016: USD6,204,000) mainly due to the increase in sales of choline glycerophosphate extracts. Gross profit increased by 24.0% to USD1,610,000 (2016: USD1,298,000). Operating loss was USD1,463,000 (2016: USD1,037,000) mainly due to the increase of selling and distribution expenses to expand its client base.

Natural Dailyhealth completed the filing of ginkgo extract with the CFDA and is in the process of receiving certification from individual target pharmaceutical customers. Natural Dailyhealth has made licence applications for 26 health supplement products which are expected to be approved starting in the second half of 2018. It also plans to apply for another 23 health supplement product licences in 2018.

Haizi

During the year, Haizi produced 1,090 tonnes (2016: 1,481 tonnes) and sold 1,233 tonnes (2016: 1,252 tonnes) of inositol and produced 6,504 tonnes (2016: 7,894 tonnes) and sold 6,110 tonnes (2016: 6,699 tonnes) of DCP.

During the year, Haizi worked with its starch factory supplier of corn fluid on optimum selection and fermentation time of enzymes to meet each other's production requirements; and modification required in the phytin plants for the production of food grade DCP. It resulted in a drop in the output of phytin and therefore inositol and DCP. Together with the continued decline of average inositol price during the year, Haizi's revenue decreased by 16.7% to USD6,914,000 (2016: USD8,303,000). Haizi's gross loss was USD3,027,000 (2016: USD1,784,000) and operating loss was USD5,364,000 (2016: USD5,180,000).

Management has worked on fine tuning the quality and colored impurities of food grade DCP and started test marketing in late 2017. Haizi will continue to improve its costs by improving capacity utilisation whilst reducing expenses. In addition, the sales price of inositol has started to recover during the fourth quarter of 2017.

Hotel Operations

Benefitting from a strong Shenzhen market, the Hotel's revenue increased by 6.6% to USD13,604,000 (2016: USD12,756,000). Revenues from both rooms, and food and beverage have shown improvement this year and went up by 4.5% and 12.6%. Average room rates maintained at USD113 (2016: USD115) and revenue per room was USD83 (2016: USD80).

Room occupancy increased to 73.2% (2016: 69.4%) due to an increase in transient customers and more bookings from international corporate clients. Food and beverage revenue increased to USD4,166,000 (2016: USD3,700,000) due to an increase in its newly refurbished western restaurant business and strong banquet sales.

The Hotel's gross profit increased by 21.2% to USD2,763,000 (2016: USD2,280,000) and operating profit increased by 23.7% to USD2,661,000 (2016: USD2,152,000). The gross profit margin increased to 20.3% (2016: 17.9%) resulting from growth in room revenue.

Colliers International (Hong Kong) Limited, an independent firm of qualified professional valuers, revalued the Hotel at USD154,000,000 (2016: USD151,000,000). The Company has considered the hotel's current room configuration does not optimise its room revenue and has accordingly drawn up plans to reconfigure its room sizes. Discussions with IHG are well underway. The existing revaluation is based on a best use scenario and the current proposed reconfiguration plan.

The Hotel provides high service quality to its customers and was also frequently rated by Tripadvisor as one of the top 10 hotels in Shenzhen.

In October 2017, a new general manager with strong Southern China experience came on board. The Hotel will continue to improve its quality of service by conducting staff training and continuing to address customers' needs. It will also focus on increasing higher end corporate clients to improve average room rates and its food and beverage business.

Analysis of the Group's Revenue and Gross Profit by Business Sectors

The Group's revenue and gross profits classified into its three focused business sectors, namely, pharmaceutical, healthcare and cosmetics; together with the hotel, were as follows:

(stated in USD'000)	Lansen	Healthcare: Haizi	Healthcare: Natural Dailyhealth	Botai	Hotel Operations	Inter-segment Elimination	Total
For year ended 31 December 2017							
REVENUE							
Pharmaceutical	68,229	–	–	–	–	–	68,229
Healthcare	8,059	6,914	9,026	–	–	(3,894)	20,105
Cosmetics	13,196	–	–	1,425	–	(1,221)	13,400
Hotel	–	–	–	–	13,604	–	13,604
	89,484	6,914	9,026	1,425	13,604	(5,115)	115,338
GROSS PROFIT/(LOSS)							
Pharmaceutical	45,849	–	–	–	–	–	45,849
Healthcare	1,108	(3,027)	1,610	–	–	(395)	(704)
Cosmetics	4,932	–	–	619	–	(445)	5,106
Hotel	–	–	–	–	2,763	–	2,763
	51,889	(3,027)	1,610	619	2,763	(840)	53,014
For year ended 31 December 2016							
REVENUE							
Pharmaceutical	64,460	–	–	–	–	–	64,460
Healthcare	12,315	8,303	6,204	–	–	(3,684)	23,138
Cosmetics	18,049	–	–	2,433	–	(2,433)	18,049
Hotel	–	–	–	–	12,756	–	12,756
	94,824	8,303	6,204	2,433	12,756	(6,117)	118,403
GROSS PROFIT/(LOSS)							
Pharmaceutical	44,685	–	–	–	–	–	44,685
Healthcare	(85)	(1,784)	1,298	–	–	(245)	(816)
Cosmetics	9,176	–	–	1,864	–	93	11,133
Hotel	–	–	–	–	2,280	–	2,280
	53,776	(1,784)	1,298	1,864	2,280	(152)	57,282

PRINCIPAL RISKS AND UNCERTAINTIES

We have carried out a robust assessment of our principal risks and uncertainties including those that would threaten our business model, future performance solvency or liquidity. Our principal risks are set out below.

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.

The Group reviews and monitors from time to time proper implementation of the prevailing business plans and growth strategies.

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.

The Group's hotel reviews market competition from time to time and determines the most appropriate marketing and pricing strategy at then prevailing market conditions. The Group also provides high service quality to its customers to ensure its success is not solely dependent on pricing policy.

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 factors such 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.

The Group monitors closely its inventory levels and maintains communication with key suppliers and backup suppliers to minimise disruption risk of its raw material supplies.

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 Lansen 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 Lansen 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 Lansen 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 Lansen not currently in the list; further lower the price ceilings; or strengthen the existing price control measures. If such changes take place, Lansen's pharmaceutical business may be adversely affected.

The Group diversifies its pharmaceutical product ranges to cover products that are not subject to government price control to minimise the impact, if any, on its product prices. The Group also continues to manage down its costs to improve profitability.

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 licences 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.

The Group has established a quality management system. The Group is properly organised with various departments each of which has its own responsibility for quality and has quality control personnel with appropriate qualification who will be responsible for the training and appraisal of relevant staff. We have formulated a system of good supply practice and operation code for its products in accordance with the relevant laws and regulations of the PRC and will make relevant amendments according to applicable laws and regulations and the actual practice of the Group. The Group also has implemented a GMP management model to ensure all products have met the quality standard.

3.5 The healthcare business may be unable to renew its permits and business licences

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 licences 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 licences from the relevant regulatory authorities for the manufacture and/or distribution of its pharmaceutical products. However, these certificates, permits and business licences 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 licences 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.

Each major operating subsidiary of the Group has its own administration department to ensure its permits and business licences are renewed on timely basis.

3.6 Agricultural based raw material prices are highly volatile

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

4. Risks relating to 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. 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 35 to the consolidated financial statements.

Risks can materialise and impact on both the achievement of business strategy and the successful running of our business. A key element in achieving our strategy and maintaining services to customers is the management of these risks. Our risk management strategy is therefore to support the successful running of the business by identifying and managing risks to an acceptable level and delivering assurances on this.

The Board is committed to high standards of corporate governance. The United Kingdom Listing Authority listing rules (the "Listing Rules") stipulate that premium 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 (the "Code") published by the Financial Reporting Council in April 2016. This report sets out how, with limited exceptions, the Board has complied throughout the year ended 31 December 2017 with the principles set out in the Code. A copy of the Code 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 2017, the Group complied with the required governance provisions of the Code as it applies to smaller companies, with certain exceptions as set out and explained below:

(i) Chairman of the Board

Mr. Wu Zhen Tao is the Chairman of the Board, the founder of the Group, an executive director of the Company and is the Chairman of the Executive and Remuneration Committees of the Company. Mr. Wu did not meet the independence criteria set out in provisions A.3.1 and B.1.1 of the Code, due to his executive position with the Company and his significant shareholding in the Company. Mr. Wu has been a leading driver behind the development of the Company's business and investment in the PRC. The other members of the Board consider that Mr. Wu Zhen Tao's continued involvement as an executive director is important for the future of the business, given his experience and expertise with pharmaceutical and healthcare businesses in the PRC. The Board believes that his knowledge and judgement should make a significant contribution to the Company in his role as Chairman and should help to preserve good corporate governance.

(ii) Senior Independent Director

Code provision A.4.1 requires that the Board appoint one of the independent non-executive directors to be the senior independent director to provide a sounding board for the chairman and to serve as an intermediary for the other directors when necessary. Due to the small size of the Company and the excellent working relationship between its directors, the Board does not consider it necessary to appoint a senior independent director at this time.

(iii) Chairman of the Remuneration Committee

The Code requires that the Chairman should not chair the Remuneration Committee because he is not considered as independent for the purpose of the Code (provision D.2.1 of the Code). The Chairman provides leadership and guidance to ensure the effective running of both the Board and remuneration committee meetings, ensures that all agenda items are properly reviewed, discussed and put to vote and ensures the effective contribution of the Board and Remuneration Committee members.

(iv) 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.

(v) Audit Committee

Provision C.3.1 of the Code states that the Chairman may be a member of the Audit Committee of a smaller company if he was considered independent on appointment as Chairman. Mr. Wu Zhen Tao is a member of the Audit Committee and as set out in (i) above he is not independent. The Board believe his knowledge and judgement should make a significant contribution to the Company in his role as a member of the Audit Committee and help preserve good corporate governance.

(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.

(vii) Board diversity

The Code requires a description of the work of the nomination committee, including the process on Board appointments. As described in (iv) 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.

(viii) Viability statement

Code provision C2.2 requires an explicit statement on the Board's broader assessment of the Company's ongoing viability. The period of time to be covered by this viability statement is for the Board's professional judgement but it is noted that the Financial Reporting Council's guidance is for a period significantly longer than twelve months from approval of the consolidated financial statements and that a period of three to five years is commonly used. The Board's viability statement, set out on page 47, is for a period of twelve months. This time period was chosen as most of the Company's subsidiaries currently have a twelve month planning period for their respective business plans. The Board will consider in the future the business case for employing longer term business plans for all members of the Group.

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);

(iii) the non-executive directors, led by the senior independent director, should be responsible for performance evaluation of the Chairman, taking into account the views of executive directors (provision B.6.3 of the Code);

(iv) 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 2017, the Board consisted of; Mr. Wu Zhen Tao (executive Chairman), Mr. Lee Jin-Yi, Mr. Siu Ka Chi Eric, Mr. Patrick Sung (the four executive directors); and Mr. Sum Soon Lim, Mr. Stephen B. Hunt, Mr. Kenneth K. Toong and Dr. Chan Ching Har Eliza (the four non-executive directors). Mr. Sum Soon Lim, Mr. Kenneth K. Toong and Dr. Chan Ching Har Eliza are independent. Biographies of the Board members are set out on pages 38 to 40. 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 judgement.

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 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 Audit Committee and Remuneration Committee 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 2017 was as follows:

	Board meetings	Audit Committee meetings	Remuneration Committee meetings
Executive Chairman			
Wu Zhen Tao	4/4	2/2	1/1
Executive Directors			
Lee Jin-Yi *(Chief Executive Officer)*	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			
Sum Soon Lim	4/4	2/2	1/1
Stephen B. Hunt	4/4	n/a	n/a
Kenneth K. Toong	4/4	2/2	1/1
Chan Ching Har Eliza	4/4	n/a	n/a

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. Wu Zhen Tao, 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 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. 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 38 to 40.

Remuneration

Details of directors' remuneration are set out in the Directors' Remuneration Report at pages 32 to 37. 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 identifying a suitable financial adviser and corporate broker whose role is to advise the Company on applicable rules and regulations, maintain dialogues with shareholders and arrange roadshows for the Company. Consilium Strategic Communications, the Group's UK investor relations professionals, continues to 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 consolidated 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 Crowne Plaza Hotel & Suites Landmark Shenzhen through its website address at www.szlandmark.com.cn;
(b) the operations of Lansen through its website address at www.lansen.com.cn;
(c) the operations of Haizi through its website address at www.falconwealth.com.cn;
(d) the operations of Natural Dailyhealth through its website address at www.htinc.lansen.com.cn; and
(e) the Company through its website address at www.cathay-intl.com.hk.

Mr. Sum Soon Lim, Mr. Kenneth K. Toong and Dr. Chan Ching Har Eliza, as the independent non-executive directors, are available to shareholders if they have any concerns, which contact through the normal channels of chairman, chief executive officer 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 38 to 40.

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 consolidated financial statements 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 consolidated 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 audits of the Group's business units are conducted regularly by dedicated staff from the Group's asset management department. Lansen Group, an independently managed Hong Kong listed subsidiary group, conducts its own internal audits on areas according to risk assessment ranking.

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 2017, 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 consolidated 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 Board considers that Mr. Sum Soon Lim has recent and relevant financial experience to act as the Chairman of the Audit Committee and that the Audit Committee as a whole has competence relevant to the sector in which the Company operates.

The Audit Committee meets with the external auditor 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 Finance Director and the Controller and the external audit engagement partner.

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

Significant judgements and issues

The significant areas of focus considered by the Committee in relation to the 2017 consolidated financial statements, and how these were addressed, are outlined below. We have discussed these with the external auditor during the year and, where appropriate, how these have been addressed by areas of audit focus.

Revenue Recognition – certain transactions require management to make judgements as to whether and to what extent they should be recognised as revenue in the year. Revenue recognition is significant to the Group as there is a risk of overstatement or deferral of revenue (and revenue profit) to assist in meeting market expectations. The auditor reviewed and tested individual transactions on a sample basis to ensure there was a contractual relationship and consistency of accounting treatment between last year and this year. In its assessment, the audit committee, in consultation with the auditor, considered all relevant facts, challenged the options that management had in terms of accounting treatment and the appropriateness of the judgements made by management. Both the audit committee and the auditor concurred with the judgements made by management and were satisfied that the revenue reported for the year had been appropriately recognised.

Hotel Property Valuation – the valuation of the Group’s hotel property is an area of significant judgement and focus. Although the hotel property valuation is conducted externally by an independent valuer, the nature of the valuation estimates is inherently subjective and requires the making of significant judgements and assumption by management and the valuer. Based on the degree of oversight and challenge applied to the valuation process, the audit committee concluded that the valuation had been conducted appropriately, independently and in accordance with the valuer’s professional standards.

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 the external auditor, the objectivity and independence of the external auditor and 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 (“BDO”) was first appointed on 25 November 2010 and continued to act as the external auditor of the Company for the year ended 31 December 2017. 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 mainly consist of professional services in relation to disclosure of transactions of a major subsidiary in accordance with the Hong Kong listing rules and 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.

We believe that the activities of the audit committee during the year have enabled us to gain a good understanding of the culture of the organisation, the risks and challenges faced and the adequacy and timeliness of the actions being taken to address them. The Chairman of the Audit Committee together with the members have regular meetings with Group’s senior management and the external auditor. This confirmed that the Committee remained effective at meeting its objectives. Taking the above review into account, the Audit Committee concluded that the auditor remained objective and independent in their role as external auditor.

The external auditor's objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an independent auditor's report that includes auditor's opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Remuneration Committee

Details of the Remuneration Committee are set out in Directors' Remuneration Report on pages 32 to 37.

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 consolidated financial statements. The directors have reported in the annual and half-yearly consolidated financial statements that the business is a going concern, with supporting assumptions or qualifications as necessary, the details of which are set out on note 2 to the consolidated financial statements on page 61.

INTERNAL CONTROL AND RISK MANAGEMENT

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 provision C.2 of the Code.

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 and risk management 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. Since its listing on the main board of the Hong Kong Stock Exchange on 7 May 2010, Lansen has been managed by its own board of directors independently and maintains its own internal controls and accounting systems which are operated separately from CIH.

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/Audit

The Group's Hong Kong office asset management department undertakes periodic examination of business processes and ensures divisional management follow up on recommendations to improve controls. The principal subsidiaries continued their internal control/audit 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 audit during the year ended 31 December 2017 according to a risk assessment ranking prioritised on high risk items. This covered the key controls on social and public opinion risk, policy and regulation compliance risks, and internal control system processes smoothening. During the year ended 31 December 2017, Lansen conducted internal audits covering the procurement of Liwah, information system construction and security; warehouse logistics system flow of Liwah, sales centre of Zhiti, quality centre and business centre. Lansen also conducted an internal audit on procurement and reviewed and revised internal control system of Natural Dailyhealth.

Jilin Haizi Bio-Engineering Technology Co. Limited and its phytin plants companies performed an internal control review covering logistics and transportation bidding control, procurement control, infrastructure technical process control and infrastructure completion acceptance control.

The InterContinental Hotels Group ("IHG") 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 and Mr. Kenneth K. Toong are independent non-executive directors. 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 Board believes 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 awards**

   The Company's employees may be entitled to a discretionary bonus, which is subject to the approval of the Remuneration Committee and the financial condition of the Company. Mr. Lee Jin-Yi is also granted share awards USD1,000,000 worth of the Company's Common Shares, which will be become vested evenly over a period of five years starting from the second quarter of 2015. The share awards will only be issued to Mr. Lee where to do so would not cause the percentage of the Company's Common Shares held in public hands to fall below twenty-five percent.

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.

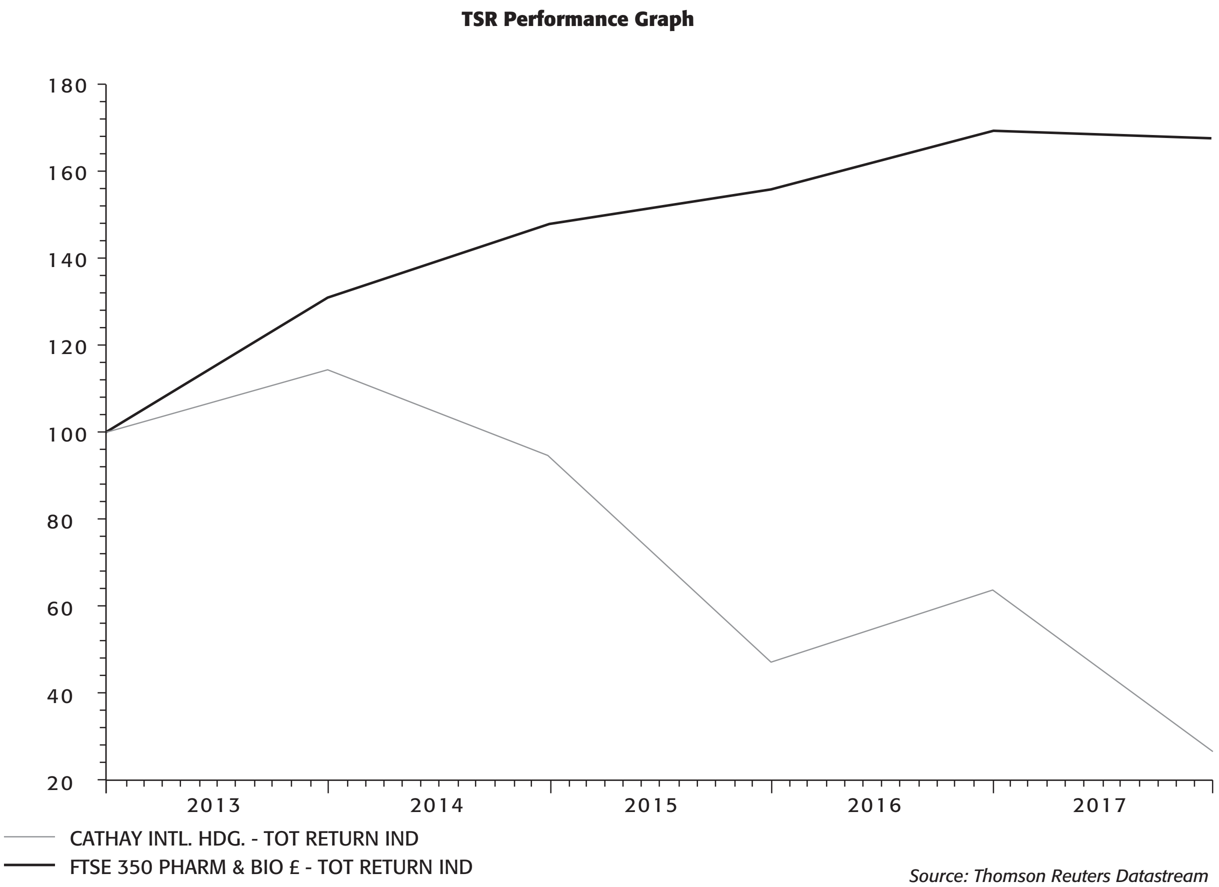
Non-executive Directors

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 them 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



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 (a wholly-owned subsidiary of the Company) dated 10 January 2009. His employment may be terminated by either party with immediate effect by 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 an independent non-executive director of the Company under a letter of appointment dated 7 May 2015. His appointment may be terminated by either party with one month's written notice.

(vii) Mr. Kenneth K. Toong was appointed as an independent non-executive director of the Company under a letter of appointment dated 7 May 2015. His appointment may be terminated by either party with one month's written notice.

(viii) Dr. Chan Ching Har Eliza was appointed as an independent non-executive director of the Company under a letter of appointment dated 29 March 2016. Her 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 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	Share-based payments USD'000	Bonuses USD'000	Total 2017 USD'000	Total 2016 USD'000
Executive Directors					
Wu Zhen Tao	**640**	**–**	**–**	**640**	633
Lee Jin-Yi	**551**	**(421)**	**–**	**130**	558
Siu Ka Chi Eric	**258**	**(78)**	**16**	**196**	279
Patrick Sung	**224**	**(61)**	**13**	**176**	242
Non-executive Directors					
Sum Soon Lim	**73**	**–**	**–**	**73**	80
Stephen B. Hunt	**113**	**–**	**–**	**113**	114
Kenneth K. Toong	**46**	**–**	**–**	**46**	50
Chan Ching Har Eliza	**50**	**–**	**–**	**50**	38
Total	**1,955**	**(560)**	**29**	**1,424**	1,994

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 2017	Granted during the period	Forfeited/Lapsed during the period	At 3 April 2018	Exercise price per share	Period from which exercisable	Expiry date
Lee Jin-Yi	2,300,000	–	(2,300,000)	–	29.88 pence	3 April 2015 to 2 April 2017	2 April 2017
	4,142,353	–	(4,142,353)	–	37.275 pence	1 April 2017 to 31 March 2019	31 March 2019
	2,250,000	–	(2,250,000)	–	20.00 pence	31 March 2018 to 30 March 2020	30 March 2020
	8,692,353	–	(8,692,353)	–			
Siu Ka Chi Eric	200,000	–	(200,000)	–	29.88 pence	3 April 2015 to 2 April 2017	2 April 2017
	760,000	–	(760,000)	–	37.275 pence	1 April 2017 to 31 March 2019	31 March 2019
	400,000	–	(400,000)	–	20.00 pence	31 March 2018 to 30 March 2020	30 March 2020
	1,360,000	–	(1,360,000)	–			
Patrick Sung	250,000	–	(250,000)	–	29.88 pence	3 April 2015 to 2 April 2017	2 April 2017
	600,000	–	(600,000)	–	37.275 pence	1 April 2017 to 31 March 2019	31 March 2019
	330,000	–	(330,000)	–	20.00 pence	31 March 2018 to 30 March 2020	30 March 2020
	1,180,000	–	(1,180,000)	–			

Further details of the terms of the share option plan are contained in note 29 to the consolidated financial statements. Share options forfeited/lapsed during the period represented (i) those granted in April 2012, whereby the vesting period lapsed on 2 April 2017; (ii) those granted in April 2014 as the exercise condition was not met and that the vesting period expired in April 2017; and (iii) those granted in March 2015 as the exercise condition was not met and that the vesting period expired in March 2018.

ON BEHALF OF THE BOARD
Wu Zhen Tao
Director

9 April 2018

Directors

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

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

*+ Sum Soon Lim *(Non-executive Director and Chairman of the Audit Committee)*

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)*

* Chan Ching Har Eliza *(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.

WU Zhen Tao

Mr. Wu, 64, is an Executive Chairman 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. Since 30 March 2017, Mr. Wu has been the 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.

SUM Soon Lim

Mr. Sum, 75, is an independent Non-executive Director and is the Chairman of the Audit Committee 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 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.

LEE Jin-Yi

Mr. Lee, 60, 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 a half years and a director of Fubon Financial Holding Co., Ltd. and Xiamen City Commercial Bank. Mr. Lee has extensive experience in the banking industry. He was the Head of Corporate Finance, Asia and a member of the Management Committee of BNP Paribas Peregrine. Prior to that, he worked at JP Morgan for 17 years, most recently as Managing Director and China Senior Country Officer of J.P. Morgan Chase & Co. Mr. Lee was also a committee member of the Hong Kong Association of Banks from 1998 to 2000. Mr. Lee is currently an independent director of Taichung Bank, which is listed on the Taiwan Stock Exchange. He is also a director and Deputy Chairman of the Board of the Company's subsidiary, Lansen Pharmaceutical Holdings Limited. Mr. Lee graduated from National Taiwan University and obtained an MBA from Harvard University.

Stephen B. HUNT

Mr. Hunt, 78, is a 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. From 2012 to 2015, Mr. Hunt was a director and Chief Executive Officer of Solar Plus (HK) Limited, a private investment company incorporated in Hong Kong. Mr. Hunt is currently a director of the Company's subsidiary, Lansen Pharmaceutical Holdings Limited.

SIU Ka Chi Eric

Mr. Siu, 55, 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, 56, is 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, 70, is an independent Non-executive Director of the Company. He has over 30 years' experience in the banking industry. 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.

CHAN Ching Har Eliza, JP, SBS

Dr. Chan, 61, is an independent Non-executive Director of the Company. She is a Senior Consultant of Zhong Lun Law Firm. She is a Member of the National Committee of the Chinese People's Political Consultative Conference (CPPCC), a Standing Member of the CPPCC Tianjin Committee, an arbitrator of the China International Economic and Trade Arbitration Commission (CIETAC), and a China-Appointed Attesting Officer appointed by Ministry of Justice. Dr. Chan was formerly Chairman of the Hong Kong CPPCC (Provincial) Members Association Limited and is presently its Honorary Chairman. She is the Honorary President of The Hong Kong China Chamber of Commerce and Governor of The Canadian Chamber of Commerce in Hong Kong. Dr. Chan has served as a Member of the Hong Kong Hospital Authority, Chairman of Kowloon Hospital, Chairman of Hong Kong Eye Hospital, Member of the Hong Kong Public Service Commission, Member of the Board of Education, Member of the Hong Kong Examination and Assessment Authority, Member of the Medical Council of Hong Kong, Member of Hospital Governing Committee of Queen Elizabeth Hospital, Chairman of Pensions Appeal Board, Member of the Administrative Appeals Board, Disciplinary Panel and Investigation Panel Member of the Hong Kong Institute of Certified Public Accountants, and Member of the Hong Kong Immigration Tribunal. She has also served as Council Member of The Hong Kong University of Science and Technology and Member of the Board of the Hong Kong Science and Technology Park Corporation. She is Chairman of Tseung Kwan O Hospital. She has been a Non-Executive Director of China Aerospace International Holdings Limited (Stock code: 31), a company listed on Hong Kong Stock Exchange. She is a Non-Executive Director of Tianjin Development Holdings Limited (Stock Code: 882), a company listed on the Hong Kong Stock Exchange. She obtained her B.Sc from University of British Columbia and LL.B and LL.D (Hon) from University of Victoria.

The directors present their Report together with the consolidated financial statements for the year ended 31 December 2017. 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 Financial and Operation Review on pages 8 to 20.

2. RESULTS AND DIVIDENDS

The results are set out in the Consolidated Statement of Profit or Loss on page 56.

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		
	3.4.2018	**31.12.2017**	**1.1.2017**	**3.4.2018**	**31.12.2017**	**1.1.2017**
Wu Zhen Tao	225,156,434	225,156,434	225,156,434	8,249,276	8,249,276	8,249,276
Stephen B. Hunt	–	–	–	–	–	–
Sum Soon Lim	2,000,000	2,000,000	2,000,000	–	–	–
Kenneth K. Toong	2,000,000	2,000,000	2,000,000	–	–	–
Chan Ching Har Eliza	–	–	–	–	–	–
Lee Jin-Yi	550,000	550,000	550,000	–	–	–
Siu Ka Chi Eric	–	–	–	–	–	–
Patrick Sung	–	–	–	–	–	–

1. Mr. Wu Zhen Tao's interest arises as a result of his indirect beneficial interest 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 percent.

No rights to subscribe for shares in or debentures of the Company or any subsidiary undertakings existed at 31 December 2017.

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 38 to 40. 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 during 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 consolidated 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 14 to the consolidated financial statements.

7. LISTING RULES COMPLIANCE WITH LR 9.8.4C

LR 9.8.4 sub-section	Description	Location
(1)	Interest capitalised by the Group	Note 14 to the Consolidated Financial Statements
(4)	Details of any long-term incentive scheme	Directors' Remuneration Report, MAIN ELEMENTS OF REMUNERATION – Share option plan
(10)	Details of any contract of significance	Directors' Report, Note 3
(14)	Agreement with controlling shareholder	Directors' Report, Note 9

The above table sets out only those sub-sections of LR 9.8.4 which are relevant. The remaining sections of LR 9.8.4 are not applicable.

8. SIGNIFICANT SHAREHOLDINGS

At 3 April 2018, save as shown in the directors' shareholdings on page 41, the Company had been informed of the following beneficial interests in 5% 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 Capital Limited	26,052,503	7.00	–	–
Simon Phillips	23,263,549	6.25	257,075	2.87

Note: AlphaGen Capital Limited is managed by Henderson Group plc. 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 Group plc, hold respectively 12,675,610, 5,005,518 and 3,059,580 Common Shares of USD0.05 each in the Company, representing 3.40%, 1.34%, 0.82% of the Issued Common Shares Capital of the Company. These funds do not hold any A Shares of the Company.

9. RELATIONSHIP AGREEMENT WITH CONTROLLING SHAREHOLDER

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 (the "Controlling Shareholder"), dated 30 January 2015. 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 (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 1 January 2015.

10. AUDITOR

BDO Limited continued to act as the auditor of the Company for the year ended 31 December 2017 but the audit engagement director was changed from Ms. Yu Tsui Fong to Mr. Jonathan Russell Leong since the audit for the year ended 31 December 2017, as Ms. Yu had served as the key audit partner of Lansen Group, the principal subsidiary group of the Company, for seven consecutive years since its listing on the Hong Kong Stock Exchange in May 2010. The change was made in compliance with the Revised Ethical Standard 2016 issued by Financial Reporting Council in June 2016 on auditors' integrity, objectivity and independence (paragraphs 3.10R, 3.14 and 3.15 of the Standard). The Independent Auditor's Report on pages 48 to 55 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.

11. 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 2018 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

9 April 2018

The directors are responsible for preparing the Annual Report and the consolidated 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 the 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 deficit;

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

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

  (ee) notes to the financial statements;

  (ff) such further information as required by the Bermudan Companies Act 1981 or 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 identify the generally accepted accounting principles so used.

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/her knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the 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 7 and the Financial and Operation Review on pages 8 to 20 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

9 April 2018

By Order of the Board
Yip Pui Ling Rebecca
Secretary

9 April 2018

Viability Statement

The directors have assessed the prospects of the Company for the next twelve months from 31 December 2017 in accordance with provision C.2.2 of the Code, and confirm that they have a reasonable expectation that the Group will continue in operation and meet its liabilities as they fall due over the period of their assessment. Details of which are set out on note 2 to the consolidated financial statements on page 61.

A period of twelve months from 31 December 2017 has been chosen as this is the timeframe currently adopted by the Board as its strategic and financial planning horizon. This assessment of viability has been made with reference to the Group's current position and future prospects, its strategy, the market outlook, the financing and the principal risk and management thereof.

The strategy and principal risks of the Group are reviewed by the directors and when the prospects of each business are discussed; assumptions are made regarding entering into new business, about future growth rates of the existing businesses and about the acceptable performance of existing businesses. This review considers the Group's growth potential, its cash flows, financing options and the potential impacts these risks would have on the Group's business model, future performance, solvency or liquidity over the assessment period. It also takes into account business development, and any potential merger and acquisition transactions.

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To the shareholders of Cathay International Holdings Limited

(incorporated in Bermuda with limited liability)

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Cathay International Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 56 to 124, which comprise the consolidated statement of financial position as at 31 December 2017, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' "Code of Ethics for Professional Accountants" (the "IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of Our Report

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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of hotel properties

(Refer to note 14 to the consolidated financial statements and the Group's critical accounting estimates and judgements in relation to hotel properties' valuation set out in note 5.2)

The carrying value of the Group's hotel properties at 31 December 2017 was USD153,977,000 (2016: USD150,972,000). Hotel properties are stated at fair value, with any changes therein recognised in revaluation reserve. The fair value of hotel properties was determined by an independent firm of qualified professional valuers. The valuation of hotel properties is dependent on certain key assumptions that require significant management judgement including proposed reconfiguration plans, renewal of hotel management contract, average room rate, occupancy rate, discount rate, growth of room rate and average food and beverage revenue.

We identified valuation of hotel properties as a key audit matter because of its significance to the consolidated financial statements and uncertainty involved in forecasting future cash flows due to significant degree of judgement and estimation made by management.

See note 14 to the consolidated financial statements where the key assumptions used in the valuation model have been disclosed.

Our response:

Our procedures in relation to hotel valuation included:

– Evaluating the independent external valuers' competence, capabilities and objectivity;

– Engaging our valuation specialists to assist us in evaluating and assessing the valuation methodologies used and the appropriateness of the key assumptions used in the valuation;

– With input from our valuation specialists, challenging the critical judgement areas and the key assumptions used in determining the fair value of the hotel properties. This included a comparison of occupancy rates, average room rate, growth of room rate and discount rate, with externally derived data including external hotel industry reports;

– Reviewing progress to date on the Group's reconfiguration plans, including status of discussion with InterContinental Hotels Group, funding negotiation with the Group's bankers and initial floor plans and conceptual room design layouts;

– Performing our own assessment of key inputs by considering the historical data and directors' estimates; and

– Performing sensitivity analysis to assess the impact of the reasonably possible changes in key inputs.

Impairment assessment of goodwill and intangible assets with indefinite useful lives

(Refer to notes 16 and 17 to the consolidated financial statements and the Group's critical accounting estimates and judgements in relation to impairment of goodwill and intangible assets with indefinite useful lives set out in note 5.1)

The Group had goodwill of USD19,501,000 (2016: USD19,501,000) and intangible assets with indefinite useful lives of USD24,790,000 (2016: USD24,964,000) as at 31 December 2017. Management have performed an impairment review in accordance with the requirements of International Accounting Standard 36 "Impairment of Assets". Recoverable amounts of cash-generating units are determined based on value in use calculations and fair value less costs of disposal calculations respectively, which include significant assumptions and judgements made by management concerning estimated future cash flows.

We identified the impairment assessment of goodwill and intangible assets with indefinite useful lives as a key audit matter because of its significance to the consolidated financial statements and because this area involves a significant degree of judgement and estimation made by management, in particular the estimation of future cash flows and discount rate.

Our response:

Our procedures in relation to management's impairment assessment of goodwill and intangible assets with indefinite useful lives included:

– Discussing cash flow projections with senior management;

– Assessing the reasonableness of key assumptions based on our knowledge of the business and industry and by considering the historical accuracy of budgeting; and

– Performing sensitivity analysis including assessing the effect of a reasonably possible change in discount rate and cash flows.

Impairment assessment of trade receivable due from a major customer

(Refer to note 21(a) to the consolidated financial statements and the Group's critical accounting estimates and judgement in relation to impairment of receivables set out in note 5.4)

As explained in note 21(a), included in trade receivables of USD44,772,000 was an amount due from a major customer of the Group in the amount of USD6,217,000 (the "Outstanding Balance"). This balance was derived from the sales of a new cosmetic product to the major customer in October and November 2016, for which the original credit term of sale was 90 days. The major customer is a major distributor of cosmetic-related products in the PRC, but due to various factors, sales of the new product to its final customers have not gone as well as hoped.

The Group has agreed to an extension of payment of the Outstanding Balance to 31 December 2018. The Group considered that the major customer should have the financial ability to settle the Outstanding Balance even if it is unable to sell the remaining products it has bought from the Group. The fact that repayment date is 12 months from the reporting date has required the Group's management to assess the range of possible outcomes of this arrangement and the timing of the settlement. Based on this assessment, management has concluded an impairment provision of USD682,000 was necessary against the Outstanding Balance.

The assessment of the impairment of the Outstanding Balance is a subjective area and requires application of considerable judgement, the knowledge and background information of the major customer and the use of estimates. Management have looked at the settlement pattern of the major customer, its creditworthiness and financial condition and the state of the market for the new product when making its assessment.

We have identified management's impairment assessment of the recoverability of the Outstanding Balance due by the major customer as a key audit matter because the assessment requires considerable amount of judgement and estimation.

Our response:

Our procedures in relation to management's impairment assessment of trade receivables included:

- Obtained direct confirmation from the major customer of the Outstanding Balance;
- Reviewed the original copy of the extension of payment agreement and ensured it was properly authorised by an appropriate representative from the major customer;
- Carried out on-site inspection of the major customer's cold storage premises subsequent to year end to ensure the remaining unsold products were all accounted for and kept in good and saleable condition;

- Carried out several discussions with the Group and the Group's senior management team to understand and challenge their assessment of recoverability of the Outstanding Balance as well as their knowledge and understanding of the major customer and its financial position;

- Obtained reasonable comfort of the financial resources and strength of the major customer to settle the Outstanding Balance from independent third party sources;

- Reviewed correspondence with the Group's legal advisors on the likely outcome of any legal proceedings against the major customer (should this be necessary) in the event the Outstanding Balance is not settled by 31 December 2018; and

- Performed our own sensitivity analysis on the range of reasonably possible outcomes related to the expected future cash flows arising from the extension of payment arrangement agreed between the Group and the major customer and its effect on the impairment provision required.

Other Information in the Annual Report

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' Responsibilities for the Consolidated Financial Statements

The directors are responsible for the preparation of these consolidated financial statements and for being satisfied that they 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER REGULATORY REQUIREMENTS

Under 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 containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2). We have nothing to report in respect of these matters.

BDO Limited
Certified Public Accountants

Jonathan Russell Leong
Practising Certificate Number: P03246

Hong Kong, 9 April 2018

Consolidated Statement of Profit or Loss

	Notes	2017 USD'000	2016 USD'000 (Represented)
Revenue	6	**115,338**	118,403
Cost of sales		**(62,324)**	(61,121)
Gross profit		**53,014**	57,282
Other income	7	**1,483**	2,530
Selling and distribution expenses		**(32,215)**	(30,814)
Administrative expenses		**(21,802)**	(25,944)
Profit from operations		**480**	3,054
Non-operating income/(expenses)	8	**10,037**	(3,359)
Finance costs	9	**(10,167)**	(8,585)
Share of post-tax profit of associate		**1,731**	1,720
Profit/(Loss) before income tax	10	**2,081**	(7,170)
Income tax expense	12	**(1,425)**	(3,063)
Profit/(Loss) for the year		**656**	(10,233)
Profit/(Loss) for the year attributable to:			
Owners of the parent		**(6,921)**	(11,816)
Non-controlling interests		**7,577**	1,583
		656	(10,233)
Loss per share			
Basic and diluted	13	**(1.83 cents)**	(3.13 cents)

Consolidated Statement of Comprehensive Income

	Notes	2017 USD'000	2016 USD'000
Profit/(Loss) for the year		**656**	(10,233)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**6,449**	(9,589)
Exchange differences reclassified to profit or loss upon partial disposal of an associate		**355**	–
		6,804	(9,589)
Items that will not be reclassified to profit or loss:			
Surplus/(Deficit) on revaluation of hotel properties	14	**2,335**	(7,263)
Deferred tax relating to revaluation of hotel properties	26	**(1,837)**	1,665
		498	(5,598)
Other comprehensive income, net of tax		**7,302**	(15,187)
Total comprehensive income for the year		**7,958**	(25,420)
Total comprehensive income attributable to:			
Owners of the parent		**(3,631)**	(22,280)
Non-controlling interests		**11,589**	(3,140)
		7,958	(25,420)

Consolidated Statement of Financial Position

	Notes	2017 USD'000	2016 USD'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment, comprise:	14	**230,388**	223,078
Hotel properties, at valuation (of which, equity investment cost was USD77,070,000 (2016: USD76,460,000))		**153,977**	150,972
Other property, plant and equipment		**76,411**	72,106
Prepaid land lease payment	15	**4,509**	4,360
Intangible assets	16	**24,974**	25,166
Goodwill	17	**19,501**	19,501
Interest in associate	18	**28,164**	32,147
Available-for-sale financial assets	19	**–**	385
		307,536	304,637
CURRENT ASSETS			
Inventories	20	**19,471**	21,025
Trade and other receivables	21	**61,959**	66,211
Prepaid land lease payment	15	**117**	110
Pledged bank deposits	22	**34,272**	31,762
Cash and cash equivalents	22	**13,237**	14,338
		129,056	133,446
TOTAL ASSETS		**436,592**	438,083
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Called up share capital	23	**19,062**	19,062
Share premium		**51,035**	51,035
Share option reserve		**433**	1,626
Treasury shares		**(1,765)**	(1,765)
Capital and special reserve		**96,850**	96,850
Revaluation reserve		**18,155**	17,657
Foreign exchange reserve		**(23,661)**	(26,453)
Statutory reserve		**10,540**	10,234
Profit and loss account		**(69,191)**	(62,425)
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		**101,458**	105,821
NON-CONTROLLING INTERESTS		**48,934**	43,336
TOTAL EQUITY		**150,392**	149,157
NON-CURRENT LIABILITIES			
Borrowings	25	**57,704**	59,936
Deferred tax liabilities	26	**40,669**	38,711
		98,373	98,647
CURRENT LIABILITIES			
Borrowings	25	**134,512**	137,746
Current tax liabilities		**1,097**	1,403
Trade and other payables	27	**50,942**	49,904
Other financial liabilities	28	**1,276**	1,226
		187,827	190,279
TOTAL LIABILITIES		**286,200**	288,926
TOTAL EQUITY AND LIABILITIES		**436,592**	438,083

Approved and authorised for issue by the Board on 9 April 2018

Wu Zhen Tao

Directors

Lee Jin-Yi

Consolidated Statement of Changes in Equity

	Attributable to owners of the parent										Non-controlling interests	Total Equity
	Share Capital	Share Premium	Share Option Reserve	Treasury Shares	Capital and Special Reserve	Revaluation Reserve	Foreign Exchange Reserve	Statutory Reserve	Profit and Loss Account	Total		
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Balance at 1 January 2016	19,062	51,035	1,596	(1,765)	96,850	23,255	(21,587)	9,651	(51,347)	126,750	50,446	177,196
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(2,649)	(2,649)
Disposal of partial interest in subsidiary	-	-	-	-	-	-	-	-	1,321	1,321	(1,321)	-
Recognition of share-based payments	-	-	30	-	-	-	-	-	-	30	-	30
Transactions with owners	-	-	30	-	-	-	-	-	1,321	1,351	(3,970)	(2,619)
(Loss)/Profit for the year	-	-	-	-	-	-	-	-	(11,816)	(11,816)	1,583	(10,233)
Other comprehensive income for the year:												
Exchange differences on translating foreign operations	-	-	-	-	-	-	(4,866)	-	-	(4,866)	(4,723)	(9,589)
Deficit on revaluation of hotel properties	-	-	-	-	-	(7,263)	-	-	-	(7,263)	-	(7,263)
Income tax relating to components of other comprehensive income	-	-	-	-	-	1,665	-	-	-	1,665	-	1,665
Total comprehensive income for the year	-	-	-	-	-	(5,598)	(4,866)	-	(11,816)	(22,280)	(3,140)	(25,420)
Appropriations to statutory reserve	-	-	-	-	-	-	-	583	(583)	-	-	-
Balance at 31 December 2016	19,062	51,035	1,626	(1,765)	96,850	17,657	(26,453)	10,234	(62,425)	105,821	43,336	149,157
Balance at 1 January 2017	**19,062**	**51,035**	**1,626**	**(1,765)**	**96,850**	**17,657**	**(26,453)**	**10,234**	**(62,425)**	**105,821**	**43,336**	**149,157**
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	-	**(5,991)**	**(5,991)**
Recognition of share-based payments	-	-	**(732)**	-	-	-	-	-	-	**(732)**	-	**(732)**
Share options lapsed during the year	-	-	**(461)**	-	-	-	-	-	**461**	-	-	-
Transactions with owners	-	-	**(1,193)**	-	-	-	-	-	**461**	**(732)**	**(5,991)**	**(6,723)**
(Loss)/Profit for the year	-	-	-	-	-	-	-	-	**(6,921)**	**(6,921)**	**7,577**	**656**
Other comprehensive income for the year:												
Deregistration of a subsidiary	-	-	-	-	-	-	-	**(185)**	**185**	-	-	-
Exchange differences on translating foreign operations	-	-	-	-	-	-	**2,437**	-	-	**2,437**	**4,012**	**6,449**
Exchange differences reclassified to profit or loss upon partial disposal of an associate	-	-	-	-	-	-	**355**	-	-	**355**	-	**355**
Surplus on revaluation of hotel properties	-	-	-	-	-	**2,335**	-	-	-	**2,335**	-	**2,335**
Income tax relating to components of other comprehensive income	-	-	-	-	-	**(1,837)**	-	-	-	**(1,837)**	-	**(1,837)**
Total comprehensive income for the year	-	-	-	-	-	**498**	**2,792**	**(185)**	**(6,736)**	**(3,631)**	**11,589**	**7,958**
Appropriations to statutory reserve	-	-	-	-	-	-	-	**491**	**(491)**	-	-	-
Balance at 31 December 2017	**19,062**	**51,035**	**433**	**(1,765)**	**96,850**	**18,155**	**(23,661)**	**10,540**	**(69,191)**	**101,458**	**48,934**	**150,392**

Consolidated Statement of Cash Flows

	2017 USD'000	2016 USD'000
Cash flows from operating activities		
Profit/(Loss) before income tax	**2,081**	(7,170)
Adjustments for:		
Finance costs recognised	**10,167**	8,585
Interest income	**(660)**	(602)
Provision for impairment of trade receivables	**1,265**	237
Provision for impairment of other receivables	**277**	22
Impairment of property, plant and equipment	**448**	–
Depreciation of property, plant and equipment	**7,600**	7,724
Amortisation of prepaid land lease payment	**120**	122
Amortisation of intangible assets	**30**	30
Write off of intangible assets	**655**	1,684
Write off of inventories	**512**	–
Losses on disposals of property, plant and equipment	**51**	136
Provision for impairment of obsolete inventories	**843**	403
Impairment of available-for-sale financial assets	**385**	–
Impairment of intangible assets	**2,273**	–
Share-based payment expenses	**(732)**	30
Gain on partial disposal of an associate, net of tax	**(15,422)**	–
Loss on deemed disposal of an associate	**–**	300
Share of post-tax profit of associate	**(1,731)**	(1,720)
Operating cash flows before movements in working capital	**8,162**	9,781
Decrease/(Increase) in inventories	**1,416**	(13)
Decrease/(Increase) in trade and other receivables	**7,146**	(16,277)
(Decrease)/Increase in trade and other payables	**(1,504)**	3,617
Cash generated from/(used in) operations	**15,220**	(2,892)
Interest paid	**(10,108)**	(8,529)
Income tax paid	**(1,731)**	(2,525)
Net cash generated from/(used in) operating activities	**3,381**	(13,946)
Cash flows from investing activities		
Purchase of property, plant and equipment	**(9,417)**	(7,374)
Additions of intangible assets	**(2,032)**	(3,947)
Proceeds from disposals of property, plant and equipment	**457**	52
Dividend received from associate	**225**	796
Interest received	**660**	602
Increase in pledged bank deposits	**(591)**	(7,036)
Transaction costs and withholding tax in connection with partial disposal of an associate	**(3,195)**	–
Proceeds from partial disposal of an associate	**26,087**	–
Net cash generated from/(used in) investing activities	**12,194**	(16,907)
Cash flows from financing activities		
Proceeds from borrowings	**187,871**	155,403
Repayment of borrowings	**(198,156)**	(128,926)
Dividends paid to non-controlling interests	**(5,991)**	(2,649)
Increase/(Decrease) in amount due to an intermediate parent undertaking	**598**	(244)
Net cash (used in)/generated from financing activities	**(15,678)**	23,584
Net decrease in cash and cash equivalents	**(103)**	(7,269)
Cash and cash equivalents at beginning of year	**14,338**	22,285
Effects of exchange rate changes	**(998)**	(678)
Cash and cash equivalents at end of year	**13,237**	14,338

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 Company's subsidiaries (together with the Company referred to as the "Group") are principally engaged in the pharmaceutical, healthcare and hotel business in the People's Republic of China (the "PRC"). Further details of the major products and services offered by the Group and the significant operating subsidiaries of the Group are set out in notes 6 and 33 respectively. There were no significant changes in the Group's operations during the year.

The consolidated financial statements for the year ended 31 December 2017 were approved and authorised for issue by the board of directors on 9 April 2018.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND GOING CONCERN ASSUMPTION

The consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards, International Accounting Standards ("IASs") 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 IFRSs 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 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. All values are rounded to the nearest thousand except when otherwise indicated.

At the end of reporting period, the Group's current liabilities exceeded its current assets by USD58,771,000 (2016: USD56,833,000). The consolidated financial statements have been prepared based on the assumption that the Group can operate as a going concern and will have sufficient working capital to finance its operations in the next twelve months from 31 December 2017.

As in the past, the Group will start negotiation with the relevant banks on extension or renewal of the bank borrowings a few months prior to their respective maturities and obtain the approvals from the relevant banks before their respective maturities. Notwithstanding the positive operating cash flow from certain of its subsidiaries, as at the end of reporting period, the Group has commenced discussions with few banks and received indicative term sheets for the purpose of working capital. 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 and further partial disposals of equity interest in an associate. 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 2017 without significant curtailment of operations. The directors of the Company are accordingly 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 to reduce the values of the assets to their net realisable amounts and to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities to current assets and current liabilities respectively. No such adjustments were reflected in the consolidated financial statements.

It should be noted that accounting estimates and assumptions are used in preparation of the consolidated financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 5.

3. ADOPTION OF NEW OR REVISED IFRSs

3.1 Adoption of new or revised IFRSs that has been issued by IASB – effective 1 January 2017 and has been endorsed for use in the European Union

Amendments to IFRSs	Annual Improvements 2014-2016 Cycle
Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses

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

Amendments to IAS 7, Disclosure Initiative
The amendments require entities to provide disclosures that enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments do not prescribe a specific method to fulfil the new disclosure requirements. However, the amendments indicate that one way is to provide reconciliation between the opening and closing balances for liabilities arising from financing activities.

3.2 New or revised IFRSs that have been issued by IASB but are not yet effective or yet to be endorsed for use in the European Union

The following new or revised IFRSs have been issued, but are not yet effective and have not been early adopted by the Group. Certain new or revised IFRSs have yet been endorsed by the European Union.

Amendments to IFRSs	Annual Improvements 2014-2016 Cycle[1]
Amendments to IFRSs	Annual Improvements 2015-2017 Cycle[2*]
IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers[1]
IFRS 16	Leases[2]
IFRS 17	Insurance Contracts[3*]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1*]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1]
Amendments to IFRS 15	Revenue from Contracts with Customers (Clarifications to IFRS 15)[1]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[2*]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[#*]
Amendments to IAS 19	Plan Amendments, Curtailment or Settlement[2*]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[2*]
Amendments to IAS 40	Transfers of Investment Property[1*]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1*]
IFRIC 23	Uncertainty over Income Tax Treatments[2*]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2021
* Not yet endorsed by the European Union
# The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments continue to be permitted.

IFRS 9, Financial Instruments

IFRS 9 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 fair value through other comprehensive income. All other debt and equity instruments are measured at fair value through profit or loss ("FVTPL"). The Group has assessed that its financial assets currently measured at amortised cost and will continue with their respective classification and measurements upon the adoption of IFRS 9.

With respect to the Group's financial assets currently classified as "available-for-sale", these are investments in equity investments which the Group may classify as either FVTPL or irrevocably elect to designate as FVTOCI (without recycling) on transition to IFRS 9.

At 31 December 2017, the Group held available-for-sale equity investments at cost amounting to USD385,000. The Group plans to recognise any fair value changes in respect of all the available-for-sale equity investments in other comprehensive income (i.e. FVTOCI) as they arise. This will give rise to a change in accounting policies as before adopting IFRS 9, the Group only recognised the identified impairment on available-for-sale equity investments measured at cost in profit or loss. Accordingly, for such available-for-sale equity investments, this change in policy will have an impact on the Group's net assets and total comprehensive income. Upon initial recognition of IFRS 9, the directors of the Company consider that no significant fair value gain on unlisted equity investment would be adjusted to other comprehensive income as at 1 January 2018 and in the periods thereafter.

The new impairment model in IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances. The Group expects that the application of the expected credit loss model will result in earlier recognition of credit losses.

In addition, IFRS 9 introduces new general hedge accounting requirements to allow entities to better reflect their risk management activities in consolidated financial statements. However, the Group currently does not carry out any hedging transactions to mitigate its currency, interest and other market risks. Accordingly, the new hedge accounting requirements are not expected to have any material impact on the Group's consolidated financial statements.

IFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from IAS 39, except for financial liabilities designated at fair value through profit or loss ("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 retains the requirements in IAS 39 for derecognition of financial assets and financial liabilities. There will be little or no impact to the Group as the Group presently does not have any financial liabilities which will be designated at FVTPL when IFRS 9 become effective.

IFRS 15, Revenue from Contracts with Customers

The new standard establishes a single revenue recognition framework. The core principle of the framework 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 and services. IFRS 15 supersedes existing revenue recognition guidance including *IAS 18 Revenue*, *IAS 11 Construction Contracts* and related interpretations.

IFRS 15 requires the application of a 5-step approach to revenue recognition:
Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to each performance obligation
Step 5: Recognise revenue when each performance obligation is satisfied

IFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under IFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

The Group is currently assessing the impacts of adopting IFRS 15 on its consolidated financial statements and expects that the standard will not have significant impact, when applied, on the consolidated financial statements of the Group.

Amendments to IFRS 15, Revenue from Contracts with Customers (Clarifications to IFRS 15)

The amendments to IFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

IFRS 16, Leases

IFRS 16, which upon the effective date will supersede IAS 17 Leases and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under IFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, IAS 17.

In respect of the lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 will primarily affect the Group's accounting as a lessee of leases for offices which are currently classified as operating leases. The application of the new accounting model is expected to lead an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As at 31 December 2017, the Group's total future minimum lease payments under non-cancellable operating leases were USD1,392,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding lease liability in respect of all the leases unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirement may result in changes in measurement, presentation and disclosure as indicated above.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these consolidated 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 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 or 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 consolidated 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.

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 joint arrangement.

GOODWILL

Goodwill arising on 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, if any.

For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit ("CGU") is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. A CGU to which goodwill has been allocated is tested for impairment annually, by comparing its carrying amount with its recoverable amount, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. However, the loss allocated to each asset will not reduce the individual asset's carrying amount to below its fair value less costs of disposal (if measurable) or its value in use (if determinable), whichever is the higher. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

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 below in the section heading "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 the equity method of accounting. Under the equity method, an interest 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.

Where there is objective evidence that the investment in an associate has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

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 the 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 consolidated statement of profit or loss.

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 costs, such as repairs and maintenance are recognised as an expense in profit or loss during the 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 useful 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 estimated useful lives of major categories of other property, plant and equipment are 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, if any. 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. These payments are stated at cost less accumulated amortisation and any impairment losses. Amortisation is calculated on straight-line method over the terms of the lease (typically 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.

An intangible asset is derecognised upon 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.

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)

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 of disposal and value in use. Value in use is based on the estimated future cash flows expected to be derived from the asset (or cash-generating unit), 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 or cash-generating unit.

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 CGU) 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 reserve.

Where an impairment loss of other non-financial assets (other than goodwill) subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, 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. All reversals are recognised in the profit or loss immediately, unless the relevant asset is carried at a revalued amount, in which case any reversal of impairment should be treated as a revaluation and therefore credited to other comprehensive income. However, to the extent that an impairment on the revalued asset was previously recognised as an expense in the profit or loss, a reversal of that impairment loss is recognised as income in the profit or loss.

INVENTORIES

Inventories are initially recognised at cost, and subsequently 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). 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.

Impairment of financial assets

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

For financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the debtor will enter bankruptcy or other financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties; or
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

For loans and receivables
For financial assets 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 or other 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 loss 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 the future 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) and are recognised when the Group becomes party to the contractual obligations of the instrument. They are initially recorded at fair value, net of issue costs. They are subsequently measured at amortised cost, using effective interest method.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

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 investments 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

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 Group entities in currencies other than the currency of the primary economic environment in which they operate (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 gain 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.

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

RETIREMENT BENEFIT COSTS

Retirement benefits to employees are provided through defined contribution plans.

The Group operates a defined contribution retirement benefit plan under the Mandatory Provident Fund Schemes Ordinance ("MPF Scheme"), for all of its Hong Kong 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. Such fair value is recognised in profit or loss over the vesting period with a corresponding increase in the share option reserve within equity. Non-marketing vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted.

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 share option reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained 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 as part of 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 consolidated 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 liabilities as deferred government grants in the consolidated statement of financial position and recognised in profit or loss on straight-line method over the expected useful 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.

PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which it is probable will result in an outflow of economic benefits that can be reliably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

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 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) both entities are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (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); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Company's parent.

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 resources allocation 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 under IFRS 8 are the same as those used in its consolidated financial statements prepared 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 17. 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 of assets and liabilities within the next financial year.

5.1 IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

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 notes 16 and 17.

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 an independent firm of qualified professional valuers and the fair value of hotel properties as at each of the reporting dates are set out in note 14. 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 relating to the estimation of future cash inflows/outflows include the proposed reconfiguration plans, renewal of hotel management contract, 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 categorised 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 properties, please refer to note 14.

5.3 FAIR VALUE OF CONTINGENT CONSIDERATION

The Group determines the fair value of contingent consideration of purchase of intangible assets as disclosed in notes 28 and 35 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 financial performance.

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. Details of receivables whose recovery was considered doubtful and/or uncertain are set out in note 21.

5.5 USEFUL LIVES OF INTANGIBLE ASSETS

Management estimates the development costs, which represented the intellectual property rights generated internally in pharmaceutical industry and technical know-how with perpetual royalty-free licence 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 renewed at minimal cost and the products are continuing in the market.

The estimated useful lives for the exclusive distribution rights were made by 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 useful 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 for the year is as follows:

	2017 **USD'000**	2016 USD'000
Revenue from sale of goods	**101,734**	105,647
Revenue from rendering of services	**13,604**	12,756
	115,338	118,403

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 pharmaceuticals, cosmeceutical products and plant extracts and healthcare products 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 Natural Dailyhealth segment is engaged in the production and sales of plant extracts for use as key active ingredients in health products;

4) the Botai segment is engaged in the production and sales of collagen injectable fillers and development of collagen related 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	Natural Dailyhealth	Botai			
	2017	2017	2017	2017	2017	2017	2017
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
REVENUE							
External sales	86,379	6,845	8,306	204	13,604	-	115,338
Inter-segment sales	3,105	69	720	1,221	-	(5,115)	-
Segment revenue	89,484	6,914	9,026	1,425	13,604	(5,115)	115,338
Segment gross profit/(loss)	51,889	(3,027)	1,610	619	2,763	(840)	53,014
Segment operating profit/(loss)	9,984	(5,364)	(1,463)	(903)	2,661	(162)	4,753
Segment non-operating income/(expenses)	10,874	(38)	(142)	(272)	-	-	10,422
Segment fair value loss on derivative financial instrument	(564)	-	-	-	-	564	-
Segment finance costs	(4,016)	(973)	-	(147)	(1,099)	134	(6,101)
Segment share of post-tax profit of associate	1,295	-	-	-	-	436	1,731
Segment profit/(loss) before income tax	17,573	(6,375)	(1,605)	(1,322)	1,562	972	10,805
Depreciation and amortisation of non-financial assets	(3,144)	(3,235)	(775)	(414)	(156)	-	(7,724)
Provision for impairment of trade and other receivables	(1,495)	-	(39)	(8)	-	-	(1,542)
(Provision for)/Reversal of impairment of obsolete inventories	(610)	440	(74)	(490)	-	(109)	(843)
Impairment of property, plant and equipment	-	-	(448)	-	-	-	(448)
Losses on disposals of property, plant and equipment	(37)	-	(9)	(5)	-	-	(51)
Segment assets	210,199	48,044	18,815	6,985	159,852	(9,183)	434,712
Segment liabilities	(123,726)	(24,620)	(1,504)	(3,133)	(19,080)	-	(172,063)
Additions to non-current segment assets	4,068	5,826	444	352	758	-	11,448

	Healthcare				Hotel Operations	Elimination	Total
	Lansen	Haizi	Natural Dailyhealth	Botai			
	2016	2016	2016	2016	2016	2016	2016
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
	(Represented)	(Represented)	(Represented)	(Represented)	(Represented)	(Represented)	(Represented)
REVENUE							
External sales	92,833	8,140	4,674	–	12,756	–	118,403
Inter-segment sales	1,991	163	1,530	2,433	–	(6,117)	–
Segment revenue	94,824	8,303	6,204	2,433	12,756	(6,117)	118,403
Segment gross profit/(loss)	53,776	(1,784)	1,298	1,864	2,280	(152)	57,282
Segment operating profit/(loss)	11,564	(5,180)	(1,037)	266	2,152	9	7,774
Segment non-operating income/(expenses)	(3,221)	–	–	(738)	–	600	(3,359)
Segment fair value gain on derivative financial instrument	1,129	–	–	–	–	(1,129)	–
Segment finance costs	(3,367)	(654)	–	(3)	(788)	–	(4,812)
Segment share of post-tax profit of associate	1,454	–	–	–	–	266	1,720
Segment profit/(loss) before income tax	7,559	(5,834)	(1,037)	(475)	1,364	(254)	1,323
Depreciation and amortisation of non-financial assets	(2,951)	(3,377)	(957)	(400)	(165)	–	(7,850)
Provision for impairment of trade and other receivables	(255)	–	(4)	–	–	–	(259)
(Provision for)/Reversal of impairment of obsolete inventories	(84)	(436)	117	–	–	–	(403)
Losses on disposals of property, plant and equipment	(108)	–	(26)	(2)	–	–	(136)
Segment assets	214,419	48,612	19,710	7,371	155,834	(9,723)	436,223
Segment liabilities	(130,510)	(21,153)	(2,734)	(1,034)	(18,269)	–	(173,700)
Additions to non-current segment assets	4,663	2,758	3,217	463	220	–	11,321

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

	2017 **USD'000**	2016 USD'000
Reportable segment finance costs	**(6,101)**	(4,812)
Unallocated corporate finance costs	**(4,066)**	(3,773)
Finance costs	**(10,167)**	(8,585)
Reportable segment profit	**10,805**	1,323
Unallocated corporate income	**89**	91
Unallocated corporate expenses	**(8,813)**	(8,584)
Profit/(Loss) before income tax	**2,081**	(7,170)
Reportable segment assets	**434,712**	436,223
Other corporate assets	**1,880**	1,860
Group assets	**436,592**	438,083
Reportable segment liabilities	**172,063**	173,700
Deferred tax liabilities	**40,669**	38,711
Unallocated corporate borrowings	**56,007**	59,785
Other corporate liabilities	**17,461**	16,730
Group liabilities	**286,200**	288,926
Reportable depreciation and amortisation of non-financial assets	**7,724**	7,850
Unallocated corporate depreciation	**26**	26
Group depreciation and amortisation of non-financial assets	**7,750**	7,876
Reportable additions to non-current segment assets	**11,448**	11,321
Unallocated corporate additions	**1**	–
Group additions to non-current assets	**11,449**	11,321

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

	Revenue		Non-current assets	
	2017	2016	**2017**	2016
	USD'000	USD'000	**USD'000**	USD'000
The PRC (domicile)	**103,588**	106,427	**307,536**	304,252
Overseas	**11,750**	11,976	**–**	–
Total	**115,338**	118,403	**307,536**	304,252

The geographical location of customers is based on the location at which the services were rendered 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 the years ended 31 December 2017 and 2016.

7. OTHER INCOME

	2017	2016
	USD'000	USD'000
Bank interest income	**660**	602
Government grants	**297**	1,346
Others	**526**	582
	1,483	2,530

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

8. NON-OPERATING INCOME/(EXPENSES)

	2017 USD'000	2016 USD'000 (Represented)
Administrative penalty and other related expenses of ginkgo products (note a)	**(4,637)**	(1,375)
Loss on deemed disposal of an associate (note b)	**–**	(300)
Gain on partial disposal of an associate, net of tax (note c)	**15,422**	–
Insurance claims for flood (note d)	**2,565**	–
Impairment of available-for-sale financial assets (note 19)	**(385)**	–
Impairment of intangible assets (note 16(c))	**(2,273)**	–
Write off of intangible assets (note 16(a))	**(655)**	(1,684)
	10,037	(3,359)

Notes:

a) On 6 July 2015, the Company announced that its subsidiary, Lansen Pharmaceutical Holdings Limited ("Lansen"), made a regulatory announcement regarding the legal proceedings (the "Litigation") initiated by Shenzhen Neptunus Pharmaceutical Company Limited (the "Claimant") against Lansen's subsidiary, Ningbo Liwah. In the Litigation, the Claimant alleged that it had suffered certain losses due to the use of ginkgo extract supplied by Ningbo Liwah in Claimant's products.

On 1 September 2017, Ningbo Liwah received a judgement delivered by Shenzhen Intermediate People's Court of the PRC which ruled in favour of the Claimant.

On 27 December 2017, Ningbo Liwah entered into a settlement agreement with the Claimant, of which Ningbo Liwah agreed to pay compensation to the Claimant. The compensation of RMB30.2 million (equivalent to approximately USD4.6 million), was recognised in the consolidated statement of profit or loss and other comprehensive income during the current year and was required to be settled by instalments after offsetting trade receivables of RMB4.3 million (equivalent to USD0.6 million) due from the Claimant. The compensation should be paid by two instalments of which the first instalment of RMB15.5 million (equivalent to USD2.4 million) to be paid on or before 31 January 2018; and the second instalment of RMB10.4 million (equivalent to USD1.6 million) to be paid on or before 24 June 2018. The compensation payables were included in "other payables and accruals".

b) Zhejiang Starry Pharmaceutical Co., Limited ("Starry") successfully launched an initial public offering on the Shanghai Stock Exchange on 9 March 2016. Accordingly, the equity interests held by the Group in Starry was diluted from 21.5% to 16.1%, which constitutes a loss on deemed disposal of an associate.

c) On 15 March 2017, the Group had disposed of a total of 4,175,000 shares in Starry via on-market block trade sales on the Shanghai Stock Exchange, at the price of RMB43.11 per share and resulting in a gain on partial disposal, net of tax of USD15,422,000. As a result of the partial disposal, the Group's equity interest in Starry has been further reduced from 16.1% to 12.6%.

d) The insurance claims were in relation to the damaged inventories of the Company's subsidiaries due to the flooding caused by a rainstorm in Ningbo, the PRC, in September 2015. Pursuant to the judgements of Ningbo Intermediate People's Court of Zhejiang Province in May 2017, the insurance company was ordered to pay RMB16.5 million (equivalent to approximately USD2.4 million) together with interests to the subsidiaries. On 16 June 2017, the subsidiaries received the settlement sums from the insurance company amounting to RMB17.6 million (equivalent to approximately USD2.6 million).

9. FINANCE COSTS

	2017 USD'000	2016 USD'000
Interest on borrowings wholly repayable within 5 years	**9,093**	7,954
Interest paid to an intermediate parent undertaking	**540**	450
Interest paid to a director	**133**	125
Unwinding of discount on contingent consideration (note 28)	**59**	56
Other finance costs	**608**	–
Total interest expenses	**10,433**	8,585
Less: Interest capitalised included in construction in progress (note 14)	**(266)**	–
	10,167	8,585

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 4.5% to expenditure on qualifying assets.

10. PROFIT/(LOSS) BEFORE INCOME TAX

The Group's profit/(loss) before income tax has been arrived at after charging/(crediting):

	2017 USD'000	2016 USD'000
Auditor's remuneration		
– audit services	**471**	455
– non-audit services	**186**	52
Depreciation of property, plant and equipment	**7,600**	7,724
Amortisation of prepaid land lease payment	**120**	122
Amortisation of intangible assets (included in administrative expenses)	**30**	30
Provision for impairment of trade receivables (note 21)	**1,265**	237
Provision for impairment of other receivables (note 21)	**277**	22
Impairment of property, plant and equipment (note 14)	**448**	–
Impairment of intangible assets (note 16)	**2,273**	–
Impairment of available-for-sale financial assets (note 19)	**385**	–
Exchange (gain)/loss	**(1,056)**	56
Research and development costs	**524**	818
Cost of inventories recognised as expense	**30,193**	49,525
Provision for impairment of obsolete inventories	**843**	403
Rental income from subletting	**(144)**	(143)
Operating expenses in respect of sub-lease premises (note 30)	**144**	150
Operating expenses in respect of rented premises (note 30)	**911**	886
Write off of intangible assets (note 16)	**655**	1,684
Write off of inventories	**512**	–
Losses on disposals of property, plant and equipment	**51**	136
Loss on deemed disposal of an associate	**–**	300
Share-based payment expenses (note 29)	**(732)**	30

11. PARTICULARS OF EMPLOYEES

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

	2017 Number	2016 Number
Hotel operations	**327**	350
Healthcare	**1,653**	1,515
Corporate office	**21**	21
	2,001	1,886

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

	2017 USD'000	2016 USD'000
Wages and salaries	**26,036**	23,956
Share-based payment expenses (note 29)	**(732)**	30
Payroll taxes	**8**	10
Pension contributions	**3,937**	3,619
	29,249	27,615

12. INCOME TAX EXPENSE

	2017 USD'000	2016 USD'000
PRC Enterprise Income Tax ("EIT")		
Current year	**1,604**	2,806
Over provision in respect of prior years	**(202)**	(75)
	1,402	2,731
Deferred tax (note 26)	**23**	332
	1,425	3,063

Tax on assessable profits 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% (2016: 25%).

Three (2016: Four) subsidiaries of the Group are entitled to a preferential Enterprise Income Tax rate of 15%.

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

	2017 **USD'000**	2016 USD'000
Profit/(Loss) before income tax	**2,081**	(7,170)
Less: Profit/(Loss) arising in non-taxable environment	**2,223**	(7,300)
	(142)	(130)
Tax on (loss)/profit at the rates applicable to the jurisdictions concerned	**(968)**	229
Tax effect on non-deductible expenses	**3,140**	2,188
Tax effect on non-taxable income	**(2,938)**	(606)
Tax effect of share of post-tax profit of an associate	**(286)**	(284)
Over provision in respect of prior years	**(202)**	(75)
Unrecognised tax losses	**3,361**	1,784
Utilisation of tax losses previously not recognised	**(465)**	(341)
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	**(4)**	(99)
Others	**(213)**	267
Income tax expense for the year	**1,425**	3,063

Deferred tax asset in respect of tax losses has not been recognised in these consolidated financial statements due to the unpredictability of future profit streams against which the tax losses can be utilised. The Group has tax losses available of approximately USD3,135,000 (2016: USD2,859,000) which can be carried forward and utilised against future taxable profits made in the United Kingdom (the "UK"). The tax losses of the subsidiaries operating in the PRC amounting to USD24,266,000 (2016: USD24,559,000) can be carried forward for five years.

13. LOSS PER SHARE

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

	2017	2016
	USD'000	USD'000
Loss		
Loss for the year attributable to owners of the Company for the purpose of basic and diluted loss per share	**(6,921)**	(11,816)

	2017	2016
	Thousands	Thousands
Number of shares		
Common Shares		
Weighted average number of Common Shares for the purpose of basic and diluted loss per share	**368,979**	368,869
A Shares		
Weighted average number of A Shares for the purpose of basic and diluted loss per share	**8,979**	9,089

For the year ended 31 December 2017, the computation of diluted loss per share does not include the 5,664,035 Common Shares (2016: 4,523,842 Common Shares) contingently issuable to Mr. Lee Jin-Yi as the conditions for their issue were not met throughout the year.

For the years ended 31 December 2017 and 2016, the computation of diluted loss per share did not assume the incremental shares from outstanding share options would be exercised, as these share options have an anti-dilutive effect.

14. PROPERTY, PLANT AND EQUIPMENT

	Hotel properties USD'000	Leasehold properties and improvements USD'000	Plant and other equipment USD'000	Construction in progress USD'000	Total USD'000
COST OR VALUATION					
At 1 January 2016	158,952	5,191	104,094	2,497	270,734
Exchange adjustment	12	(332)	(6,435)	(184)	(6,939)
Additions	220	–	4,308	2,846	7,374
Disposals	–	–	(582)	–	(582)
Transfer from construction in progress	–	–	2,256	(2,256)	–
Deficit on revaluation debited to revaluation reserve	(7,263)	–	–	–	(7,263)
At 1 January 2017	151,921	4,859	103,641	2,903	263,324
Exchange adjustment	(7)	300	5,997	342	6,632
Additions	748	–	2,988	5,681*	9,417
Disposals	–	–	(1,698)	–	(1,698)
Transfer from construction in progress	–	–	549	(549)	–
Surplus on revaluation credited to revaluation reserve	2,335	–	–	–	2,335
At 31 December 2017	154,997	5,159	111,477	8,377	280,010
ACCUMULATED DEPRECIATION AND IMPAIRMENT					
At 1 January 2016	(1,002)	(2,234)	(32,094)	–	(35,330)
Exchange adjustment	65	150	2,199	–	2,414
Charge for the year	(12)	(175)	(7,537)	–	(7,724)
Eliminated on disposals	–	–	394	–	394
At 1 January 2017	(949)	(2,259)	(37,038)	–	(40,246)
Exchange adjustment	(59)	(144)	(2,315)	–	(2,518)
Impairment losses recognised in profit or loss	–	–	(448)	–	(448)
Charge for the year	(12)	(158)	(7,430)	–	(7,600)
Eliminated on disposals	–	–	1,190	–	1,190
At 31 December 2017	(1,020)	(2,561)	(46,041)	–	(49,622)
NET BOOK VALUE					
At 31 December 2017	**153,977**	**2,598**	**65,436**	**8,377**	**230,388**
At 31 December 2016	150,972	2,600	66,603	2,903	223,078

* included interest capitalised amounting to USD266,000.

The net book value of the hotel properties:

	2017	2016
	USD'000	USD'000
At valuation:		
Hotel properties in the PRC with lease term expiring in 2033	**153,977**	150,972

The hotel situated in Shenzhen, the PRC, was valued at 31 December 2017 by Colliers International (Hong Kong) Ltd., an independent firm of qualified professional valuers, using a discounted cash flow method at approximately USD154,000,000 (2016: USD151,000,000). The equity investment cost of the hotel properties situated in Shenzhen, the PRC to the Group was USD77,070,000 (2016: USD76,460,000).

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

	2017
	USD'000
Opening balance (level 3 recurring fair value)	**150,972**
Additions	**748**
Profit: included in other comprehensive income	
– Surplus on revaluation of hotel properties	**2,335**
Exchange adjustment	**(66)**
Depreciation	**(12)**
Closing balance (level 3 recurring fair value)	**153,977**

The fair value of hotel properties was estimated using the income approach. Fair value is determined based on a proposed reconfiguration plan, 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.

For the year ended 31 December 2017

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 47% to 82% (2016: 46% to 80%)	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 3% to 16% (2016: 3% to 16%)	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 capitalisation rate and growth rate, which is 7.15% (2016: 7.25%)	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 Renminbi ("RMB") 770 per night to RMB1,125 per night in the next 5 years and will grow in 2023 onwards (2016: the range of RMB750 per night to RMB1,096 per night in the next 5 years and will grow in 2022 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% (2016: 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 fair value measurement is based on the above properties' highest and best use, which does not differ from their actual use.

The Group has the option to continue to lease the land in which its hotel is situated under normal circumstances under the current PRC legislation. The Group intends to exercise this 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 USD448,000 (2016: nil) (note 8) was recognised in respect of plant and other equipment to write down the carrying amount of equipment to its recoverable amount, which are used in Natural Dailyhealth reportable segment.

As at 31 December 2017, the hotel properties, certain leasehold properties and plants with the carrying amounts of USD153,977,000 (2016: USD150,972,000), USD2,545,000 (2016: USD2,503,000) and USD2,334,000 (2016: USD2,329,000) respectively were pledged to secure banking facilities and bank borrowings (note 25).

15. PREPAID LAND LEASE PAYMENT

	2017 **USD'000**	2016 USD'000
COST		
At 1 January	**5,441**	5,812
Exchange adjustment	**339**	(371)
At 31 December	**5,780**	5,441
ACCUMULATED AMORTISATION		
At 1 January	**(971)**	(911)
Exchange adjustment	**(63)**	62
Charge for the year	**(120)**	(122)
At 31 December	**(1,154)**	(971)
Represented by:		
Non-current portion	**4,509**	4,360
Current portion	**117**	110
Total	**4,626**	4,470

As at 31 December 2017, certain prepaid land lease payment with the carrying amounts of USD240,000 (2016: USD232,000) were pledged to secure banking facilities and bank borrowings (note 25).

16. INTANGIBLE ASSETS

	Exclusive distribution rights USD'000 (note b)	Development costs USD'000 (note c)	Indefinite-lived technical know-how USD'000 (note d)	Total USD'000
COST				
At 1 January 2016	462	14,443	9,078	23,983
Exchange adjustment	(24)	(854)	–	(878)
Additions	–	1,565	–	1,565
Internal developments	–	2,382	–	2,382
Write off	(150)	(1,534)	–	(1,684)
At 1 January 2017	288	16,002	9,078	25,368
Exchange adjustment	18	744	–	762
Additions	–	74	–	74
Internal developments	–	1,958	–	1,958
Write off (note a)	–	(655)	–	(655)
At 31 December 2017	306	18,123	9,078	27,507
ACCUMULATED AMORTISATION AND IMPAIRMENT				
At 1 January 2016	(62)	(124)	–	(186)
Exchange adjustment	6	8	–	14
Charge for the year	(30)	–	–	(30)
At 1 January 2017	(86)	(116)	–	(202)
Exchange adjustment	(6)	(22)	–	(28)
Charge for the year	(30)	–	–	(30)
Impairment losses recognised in profit or loss	–	(2,273)	–	(2,273)
At 31 December 2017	(122)	(2,411)	–	(2,533)
CARRYING AMOUNT				
At 31 December 2017	**184**	**15,712**	**9,078**	**24,974**
At 31 December 2016	202	15,886	9,078	25,166

Notes:

(a) Write off

For the year ended 31 December 2017, the Group decided to terminate several research and development projects which were under development, mainly due to the surging bulk pharmaceutical costs. Write off of USD655,000 (2016: USD1,684,000) was recognised as part of non-operating expenses (note 8) included in the consolidated statement of profit or loss to write down the carrying amount of the intangible assets to their recoverable amount.

(b) Exclusive distribution rights

In December 2013, a subsidiary of the Group entered into an exclusive agreement with a supplier to secure the distribution rights for 10 years for one pharmaceutical product in the PRC for USD306,000. This exclusive right is amortised on a straight-line basis over 10 years, being the period of the distribution rights, starting from 1 January 2014.

(c) Development costs

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 IPRs can be renewed in a period of time at minimal cost and the products are continuing in the market.

If the IPRs become impaired, the carrying amount of the asset should be written down or written off immediately to expense. IPRs 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 IPRs with indefinite useful lives might be impaired. As at 31 December 2017, IPRs with indefinite useful lives were tested for impairment using the method and assumptions set out for goodwill in note 17.

For the year ended 31 December 2017, the Group does not intend to continue the operation of several IPRs due to fierce competition in the market. The Group is therefore of the view that the future economic benefit, if any, will be outweighed by the associated costs and expenditure to be incurred. The Group is of the opinion that these IPRs will not bring any positive cash flow to the Group to support their carrying values and therefore impairment losses on the carrying amount of these IPRs of USD2,273,000 (2016: nil) were recognised as part of non-operating expenses (note 8) included in the consolidated statement of profit or loss. No individual impairment loss was material.

(d) Indefinite-lived technical know-how

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 licences to sell this pharmaceutical product in China (defined as the PRC but excluding Hong Kong, Macau and Taiwan), for a total cash consideration comprising an upfront payment of USD8,000,000, plus additional milestone payments up to USD1,500,000, linked to sales achieved by the subsidiary (the "contingent consideration"). The carrying value of the contingent consideration at the reporting date was USD1,276,000 (2016: USD1,226,000) and was included under other financial liabilities in the consolidated statement of financial position. Further details of contingent consideration are set out in note 28.

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

17. GOODWILL

	2017	2016
	USD'000	USD'000
COST AND CARRYING AMOUNT		
At 1 January and 31 December	**19,501**	19,501

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:

	2017		2016	
	Intangible assets with indefinite useful lives	**Goodwill**	Intangible assets with indefinite useful lives	Goodwill
	USD'000	**USD'000**	USD'000	USD'000
Healthcare – Lansen	**21,325**	**7,356**	21,424	7,356
Healthcare – Haizi	**14**	**9,657**	51	9,657
Healthcare – Natural Dailyhealth	**2,137**	**2,010**	2,080	2,010
Healthcare – Botai	**1,314**	**478**	1,409	478
	24,790	**19,501**	24,964	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 17% (2016: 18%) which reflects specific risks relating to the CGU. The growth rate used to extrapolate the cash flows beyond the five-year period is 0% (2016: 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 18% (2016: 21%). The growth rate used to extrapolate the cash flows beyond the five-year period is 2.54% (2016: 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 including rebound of sales price of inositol. 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 – Natural Dailyhealth unit is determined based on a fair value less cost of disposal calculation which uses cash flow projections based on financial budgets approved by management covering a ten-year period. The post-tax discount rate applied to cash flow projections is 17% (2016: 19%). The growth rate used to extrapolate the cash flows beyond the ten-year period is 2.54% (2016: 2.56%) which does not exceed the long-term growth rate. 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. An independent valuation was performed by the valuer, Ascent Partners Valuation Service Limited to determine the fair value of Natural Dailyhealth unit as at 31 December 2017. The fair value measurement of Natural Dailyhealth unit is classified as a Level 3 fair value measurement.

The recoverable amount of the healthcare – Botai 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 20% (2016: 23%). The growth rate used to extrapolate the cash flows beyond the five-year period is 2.54% (2016: 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 including new sales strategy with aesthetic clinics through cooperation with partners and distributors. 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.

18. 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**	
			2017	2016
Starry	Production of bulk pharmaceuticals and intermediates	The PRC	**12.6%**	16.1%

On 9 March 2016, Starry was listed on the Shanghai Stock Exchange, and as a result the Group's equity interest in Starry was diluted from 21.5% to 16.1%.

On 15 March 2017, the Group disposed of 4,175,000 shares in Starry, reducing the Group's equity interest in Starry from 16.1% to 12.6%. The fair value of the Group's interest in Starry was approximately USD67,233,000 as at 31 December 2017 (2016: USD133,162,000).

Although the Group's ownership interest in Starry is less than 20%, one of the Group's senior management is also a non-executive director of Starry. The directors of the Company therefore consider they continue to have the power to exercise significant influence and have treated the interest in Starry as an associate. The associate was accounted for using the equity method in the consolidated financial statements.

As at 31 December 2017, 10,000,000 shares (2016: 14,500,000 shares) in Starry held by the Group with market value of USD44,306,000 (2016: USD100,123,000) have been pledged to banks to secure bank borrowings and banking facilities of the Group of USD24,027,000 (2016: USD35,894,000) (note 25). As at 31 December 2017, USD20,201,000 (2016: USD23,353,000) of these bank borrowings and bank facilities had been drawn down.

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

	2017 USD'000	2016 USD'000
As at 31 December		
Current assets	**120,073**	101,415
Non-current assets	**188,055**	171,323
Current liabilities	**(96,740)**	(93,504)
Non-current liabilities	**(77,869)**	(60,222)
Net assets	**133,519**	119,012
Year ended 31 December		
Revenue	**105,445**	101,181
Profit for the year	**12,328**	11,231
Other comprehensive income for the year	**–**	–
Total comprehensive income for the year	**12,328**	11,231
Dividend received from the associate	**225**	796

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

	2017 USD'000	2016 USD'000
Net assets	**133,519**	119,012
Less: Non-controlling interests	**2,335**	2,443
Equity attributable to owners of Starry	**131,184**	116,569
Proportion of the Group's ownership interest in Starry	**12.6%**	16.1%
	16,529	18,768
Goodwill	**11,593**	13,427
Other adjustments	**42**	(48)
Carrying amount of the Group's interest in Starry	**28,164**	32,147

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017 **USD'000**	2016 USD'000
Unlisted equity investment, at cost:		
Intelligent Sensor Systems Limited ("ISS")	**385**	385
IMPAIRMENT LOSS		
1 January	**–**	–
Impairment loss recognised in profit or loss (note 8)	**(385)**	–
31 December	**(385)**	–
Carrying amount, net	**–**	385

ISS is headquartered in the UK and has development centre at Kent University, the 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 2017, the Group has no intention to sell this investment in short term.

During the year ended 31 December 2017, the Group recognised an impairment loss of USD385,000 on unlisted equity investment as there was a prolonged decline in the value of the investment below its cost.

20. INVENTORIES

	2017 **USD'000**	2016 USD'000
Raw materials	**2,569**	3,584
Work-in-progress	**3,624**	4,687
Finished goods	**13,170**	12,660
Hotel inventories	**108**	94
	19,471	21,025

All inventories are stated at cost net of provisions of USD2,978,000 (2016: USD2,119,000) resulting from write down of inventories.

21. TRADE AND OTHER RECEIVABLES

	2017 USD'000	2016 USD'000
Trade receivables	**47,248**	41,860
Less: provision for impairment of trade receivables	**(2,476)**	(1,106)
Trade receivables (net of provision for impairment) (note a)	**44,772**	40,754
Bills receivables (note b)	**7,449**	15,439
Prepayments and other receivables (note c)	**9,738**	10,018
	61,959	66,211

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

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

The Group has a policy of allowing an average credit period of 90 days to its customers (2016: 90 days).

Notes:

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

	2017 USD'000	2016 USD'000
90 days or below	**29,329**	33,378
91-180 days	**4,128**	4,748
181-365 days	**3,949**	1,553
Over 365 days	**7,366**	1,075
	44,772	40,754

During the year ended 31 December 2017, the Group has entered into a repayment extension agreement with a new major customer of Lansen to agree its trade receivable of approximately USD6,217,000 (2016: USD6,666,000) to be settled not later than 31 December 2018. The original credit period granted to this customer was 90 days. The receivables related to sales of a new cosmetic-related product introduced to the PRC market since October 2016. The trade receivable due from the major customer as at 31 December 2016 were neither past due nor impaired whereas the trade receivable due from the major customer as at 31 December 2017 was not yet past due based on the agreed repayment extension agreement. Based on the range of possible outcomes of this arrangement and the time of the settlement, impairment provision amounting to USD682,000 (2016: nil) was made for the debts due from this customer as at 31 December 2017.

As at 31 December 2017, trade receivables of USD9,225,000 (2016: USD7,376,000) 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 of the Company 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:

	2017	2016
	USD'000	USD'000
Past due 1-90 days	**4,128**	4,748
Past due 91-275 days	**3,949**	1,553
Past due over 275 days	**1,148**	1,075
	9,225	7,376

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

	2017	2016
	USD'000	USD'000
At 1 January	**1,106**	939
Exchange adjustment	**108**	(70)
Provision for impairment of trade receivables (note 10)	**1,265**	237
Amounts written off as uncollectible	**(3)**	–
At 31 December	**2,476**	1,106

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.

Not counting the debt due from the major customer of USD6,217,000 (2016: USD6,666,000), as at 31 December 2017, the Group had trade receivables of USD29,330,000 (2016: USD26,712,000) which were neither past due nor impaired. These balances relate to a large number of diversified customers for whom there was no recent history of default.

As at 31 December 2017, certain trade receivables with carrying amounts of USD324,000 (2016: USD253,000) were pledged to secure bank borrowings (note 25).

b) During the years ended 31 December 2017 and 2016, 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 was obliged to pay the financial institutions the amount in default. Interest was charged at a range from 4.1% to 4.2% (2016: ranging from 3.3% to 3.4%) per annum on the proceeds received from the financial instructions until the date the bills receivables were settled. The Group was therefore exposed to the risks of credit losses and late payment in respect of the discounted bills.

The discounting transactions did 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 2017, bills receivables of USD2,755,000 (2016: USD9,370,000) continued to be recognised in the Group's consolidated 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 25) until the bills receivables were collected or the Group settles any losses suffered by the financial institutions. At 31 December 2017, the asset-backed financing liability related to the discounted bills amounted to USD2,755,000 (2016: USD9,370,000).

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 2017, certain bills receivables with carrying amounts of USD3,497,000 (2016: USD4,022,000) were pledged to secure bank borrowings (note 25). The carrying amount of the associated liability was USD7,000,000 (2016: USD6,000,000).

c) Other receivables are shown net of impairment provisions. As at 31 December 2017, total provision for impairment against other receivables of USD1,120,000 (2016: USD821,000) was recognised for certain long outstanding other receivables as these receivables were not expected to be fully recovered. The Group does not hold any collateral over these balances.

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

	2017 **USD'000**	2016 USD'000
At 1 January	**821**	854
Exchange adjustment	**57**	(55)
Provision for impairment of other receivables	**277**	22
Amounts written off as uncollectible	**(35)**	–
At 31 December	**1,120**	821

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.

22. CASH AND CASH EQUIVALENTS

	2017 USD'000	2016 USD'000
Cash and bank balances	**47,509**	46,100
Less: Pledged bank deposits	**(34,272)**	(31,762)
Cash and cash equivalents	**13,237**	14,338

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. Cash at banks earn interest at floating rates based on daily bank deposits rates. Short-term time deposits are placed with banks and earn interest at market interest rates.

Pledged bank deposits represent the Group's bank deposits pledged to secure certain banking facilities, bank borrowings (note 25) and bills payables (note 27) as of 31 December 2017 and 2016.

As at 31 December 2017, included in cash and bank balances of the Group was USD44,708,000 (2016: USD41,334,000) of bank balances denominated in RMB placed with banks in the PRC. RMB is not a freely convertible currency.

23. SHARE CAPITAL

	2017 USD'000	2016 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		
372,286,235 (2016: 372,158,355) Common Shares of USD0.05 each	**18,614**	18,608
8,956,539 (2016: 9,084,419) A Shares of USD0.05 each	**448**	454
	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, 127,880 A Shares were converted into 127,880 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 in 2010. 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 percent. The amount of unissued Common Shares of USD701,000 is recognised as other payables (note 27).

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 2016	9,095,331	372,147,443	19,062
Conversion of A Shares	(10,912)	10,912	–
At 1 January 2017	9,084,419	372,158,355	19,062
Conversion of A Shares	(127,880)	127,880	–
At 31 December 2017	8,956,539	372,286,235	19,062

24. 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 consolidated 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 lapsed.

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

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.

25. BORROWINGS

	2017 USD'000	2016 USD'000
Non-current		
Bank borrowings-secured	**57,704**	59,936
Current		
Asset-backed financing (note 21)	**2,755**	9,370
Bank borrowings-secured	**91,199**	95,131
Bank borrowings-unsecured	**40,558**	33,245
	134,512	137,746
Total borrowings	**192,216**	197,682
Fixed-rate bank borrowings	**75,028**	78,452
Variable-rate bank borrowings	**114,433**	109,860
Asset-backed financing	**2,755**	9,370
	192,216	197,682
Analysed as:		
Asset-backed financing due within one year	**2,755**	9,370
Bank borrowings are repayable as follows:		
Within one year or on demand	**131,757**	128,376
In the second year	**6,193**	12,488
In the third year to fifth year, inclusive	**51,511**	47,448
	192,216	197,682
Represented by:		
Borrowings in RMB	**84,057**	83,055
Borrowings in Hong Kong Dollars ("HKD")	**50,017**	49,448
Borrowings in USD	**58,142**	65,179
	192,216	197,682

The secured bank borrowings are secured by charge over assets of the Group. The details of assets pledged as collateral to secure the banking facilities and bank borrowings are set out in notes 14, 15, 18, 21 and 22. 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 2017 and 2016, certain banking facilities are subject to the fulfilment 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 2017 and 2016, none of the covenants relating to drawn down facilities had been breached.

The current liabilities include bank loans of USD11,956,000 (2016: USD17,587,000) that are not scheduled to repay within one year. They are classified as current liabilities as the related loan agreements contain a clause that provides the lenders with an unconditional right to demand repayment at any time at its own discretion. None of the portion of these bank loans due for repayment after one year which contain a repayment on demand clause and that is classified as a current liability is expected to be settled within one year.

The asset-backed financing liability 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 21). These borrowings mature within one year and are repayable in RMB.

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

	2017	2016
Effective interest rate per annum:	**4.47%**	4.24%

26. 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 2016	38,320	284	1,348	196	40,148
Credited to other comprehensive income	(1,665)	–	–	–	(1,665)
Charged/(Credited) to profit or loss (note 12)	–	(99)	429	2	332
Exchange adjustment	–	–	(103)	(1)	(104)
At 1 January 2017	36,655	185	1,674	197	38,711
Charged to other comprehensive income	1,837	–	–	–	1,837
Charged/(Credited) to profit or loss (note 12)	–	(4)	(146)	173	23
Exchange adjustment	–	–	97	1	98
At 31 December 2017	38,492	181	1,625	371	40,669

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 at the rate of 10%. 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 USD61,729,000 (2016: USD62,588,000) as the Group is able to control the timing of the reversal of the temporary differences, it is probable that the temporary differences will not reverse in the foreseeable future.

27. TRADE AND OTHER PAYABLES

	2017 USD'000	2016 USD'000
Amount due to an intermediate parent undertaking	**11,020**	10,422
Amount due to a director	**3,773**	3,797
Trade and bills payables	**12,250**	17,527
Accruals and other payables	**23,899**	18,158
	50,942	49,904

As at 31 December 2017, bills payables of USD483,000 (2016: USD1,222,000) were secured by the pledged bank deposits (note 22).

The amount due to the intermediate parent company is unsecured, repayable on demand and interest-bearing at 3.5% (2016: 3.5%) plus London Interbank Offered Rate per annum.

The amount due to a director comprises (i) certain unissued shares in the Company for which the director paid USD701,000 in February 2010, the details of which are set out in note 23 and (ii) a unsecured loan of USD3,072,000 (2016: USD3,096,000), which bears interest at 3.5% (2016: 3.5%) plus Hong Kong Interbank Offered Rate per annum and repayable on demand.

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

28. OTHER FINANCIAL LIABILITIES

	2017 USD'000	2016 USD'000
At 1 January	**1,226**	1,170
Unwinding of discount on contingent consideration charged to profit or loss (note 9)	**59**	56
Exchange gain	**(9)**	–
At 31 December	**1,276**	1,226

As discussed in note 16(d), the Group reached an agreement with Novartis to acquire a pharmaceutical product on 28 March 2014. 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.

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:

	2017		2016	
	Number of options	**Weighted average exercise price pence**	Number of options	Weighted average exercise price pence
At 1 January	**15,070,353**	**30.79**	18,390,353	31.10
Lapsed during the year	**(3,810,000)**	**29.88**	–	–
Forfeited during the year	**(7,230,353)**	**37.28**	(3,320,000)	32.55
At 31 December	**4,030,000**	**20.00**	15,070,353	30.79

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

2017

Number of options	**Exercise price pence per share**	**Exercise period**
4,030,000	**20.00**	**31 March 2018 to 30 March 2020**

2016

Number of options	Exercise price pence per share	Exercise period
3,810,000	29.88	3 April 2015 to 2 April 2017
7,230,353	37.275	1 April 2017 to 31 March 2019
4,030,000	20.00	31 March 2018 to 30 March 2020
15,070,353		

Fair value of share options granted

During the year ended 31 December 2017, 7,230,353 (2016: 3,320,000) share options were forfeited as the vesting period had expired but the performance condition were not met. This resulted in a reversal of share option expense of USD944,000 (2016: USD450,000) in the profit or loss. In addition, an amortisation of share options over the vesting period of USD212,000 (2016: USD480,000) was recognised in the profit or loss. The net credit to the profit and loss in respect of share option expense was therefore USD732,000 (2016: expense of USD30,000).

As at 31 December 2017, 3,810,000 (2016: nil) share options were lapsed as they were not exercised at the expiry date. The amount of USD461,000 (2016: nil) previously recognised in share option reserve were transferred to retained profits.

The share options outstanding at the end of the year had a weighted average remaining contractual life of 2.2 years (2016: 2.0 years).

30. FINANCIAL COMMITMENTS

Operating lease commitment – as lessee

	2017 USD'000	2016 USD'000
Payments recognised as an expense:		
Minimum lease payments	**1,055**	1,036
Sub-lease payments received	**(144)**	(143)
	911	893
Future minimum rentals payable under non-cancellable operating leases are as follows:		
Within one year	**717**	677
In the second to fifth year	**675**	1,132
	1,392	1,809

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.

Operating lease commitment – as lessor

	2017 USD'000	2016 USD'000
Future minimum rentals receivable under non-cancellable operating leases are as follows:		
Within one year	**–**	145
In the second to fifth year	**–**	304
	–	449

Capital commitment

	2017 **USD'000**	2016 USD'000
Capital commitments authorised and contracted for:		
Constructions and equipment	**968**	1,618
Intangible assets	**1,935**	701
	2,903	2,319

31. RELATED PARTY TRANSACTIONS

Related party relationship	**Type of transaction**	**Notes**	**Transaction amount**		**Balance owed**	
			2017 **USD'000**	2016 USD'000	**2017** **USD'000**	2016 USD'000
An intermediate parent undertaking of the Company	Interest charged	(a)	**540**	450	**11,020**	10,422
Director	Interest charged	(b)	**133**	125	**3,773**	3,797

(a) The outstanding balance is unsecured, repayable on demand and interest-bearing at 3.5% (2016: 3.5%) over London Interbank Offered Rate per annum.

(b) The outstanding balance comprise of a loan of USD3,072,000 (2016: USD3,096,000), which is unsecured, repayable on demand and interest-bearing at 3.5% (2016: 3.5%) plus Hong Kong Interbank Offered Rate per annum; and a payable of unissued Common Shares of USD701,000 (2016: USD701,000), as described in notes 23 and 27 respectively.

(c) Key management personnel of the Group represents the Company's executive directors, their remunerations are disclosed as follows:

	Fees & salary USD'000	**Share-based payments USD'000**	**Bonuses USD'000**	**Total 2017 USD'000**	Total 2016 USD'000
Executive Directors					
Wu Zhen Tao	**640**	**–**	**–**	**640**	633
Lee Jin-Yi	**551**	**(421)**	**–**	**130**	558
Siu Ka Chi Eric	**258**	**(78)**	**16**	**196**	279
Patrick Sung	**224**	**(61)**	**13**	**176**	242
Total	**1,673**	**(560)**	**29**	**1,142**	1,712

32. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Borrowings USD'000 (note 25)	Non-controlling interests USD'000	Amount due to an intermediate parent undertaking USD'000 (note 27)	Total USD'000
As at 1 January 2017	197,682	43,336	10,422	251,440
Changes from financing cash flows:				
Proceeds from borrowings	187,871	–	–	187,871
Repayment of borrowings	(198,156)	–	–	(198,156)
Dividends paid (note 34)	–	(5,991)	–	(5,991)
Increase in amount due to an intermediate parent undertaking	–	–	598	598
Total changes from financing cash flows	(10,285)	(5,991)	598	(15,678)
Exchange adjustments	4,819	4,012	–	8,831
Other changes:				
Profit for the year	–	7,577	–	7,577
As at 31 December 2017	**192,216**	**48,934**	**11,020**	**252,170**

Comparative figures are not required as this is the first year of disclosure.

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 % 2017	2016	Principal activities
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	The PRC	**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
Ningbo Dailyhealth Biotechnology Limited	The PRC	The PRC	**85.168**	85.168 (Note)	Pharmaceutical business
Natural Dailyhealth Holdings Limited	The BVI	The PRC	**85.168**	85.168 (Note)	Investment holding
Xian Haotian Bio-Engineering Technology Co. Limited	The PRC	The PRC	**85.168**	85.168 (Note)	Pharmaceutical business
Yangling Dailyhealth Bio-Engineering Technology Co. Limited	The PRC	The PRC	**85.168**	85.168 (Note)	Pharmaceutical business
Jilin Haizi 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

Composition of the Group

Principal activities	Place of incorporation/ establishment	Number of wholly-owned subsidiaries	
		2017	2016
Pharmaceutical business	The PRC	**8**	8
Pharmaceutical business	The BVI	**0**	0
Hotel ownership	The PRC	**1**	1
Investment holding	Hong Kong	**9**	9
Investment holding	The BVI	**16**	16
Investment holding	England and Wales	**1**	1
Administration	Hong Kong	**3**	3
Administration	The BVI	**1**	1
Administration	England and Wales	**1**	1
		40	40

Principal activities	Place of incorporation/ establishment	Number of non-wholly-owned subsidiaries	
		2017	2016
Pharmaceutical business	The PRC	**16**	15
Pharmaceutical business	Hong Kong	**1**	1
Pharmaceutical business	The BVI	**1**	1
Pharmaceutical business	Switzerland	**1**	–
Investment holding	Hong Kong	**11**	11
Investment holding	The BVI	**10**	10
Investment holding	The Cayman Islands	**1**	1
Administration	Hong Kong	**1**	1
		42	40

Note:

Change in the Group's ownership interest in subsidiaries

For the year ended 31 December 2016, Lansen Pharmaceutical Holdings Limited (incorporated in the BVI, the "Subscriber"), wholly owned by Lansen Pharmaceutical Holdings Limited (incorporated in the Cayman Islands), the Company's 50.56% owned subsidiary, pursuant to the terms of a subscription agreement and shareholder's agreement, has agreed to subscribe new shares in Natural Dailyhealth Holdings Limited (previously known as Haotian Holdings Limited) ("Natural Dailyhealth"), an indirect wholly owned subsidiary of the Company, representing 30% of the enlarged issued share capital of Natural Dailyhealth, at a consideration of RMB54,920,000 (approximately USD8,352,000) in cash and the transfer of the entire issued share capital of Natural Dailyhealth Tech Limited, valued at RMB5,000,000 (approximately USD771,000), indirectly owned by the Subscriber, to Natural Dailyhealth.

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 business of Lansen Group is in the PRC.

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

	2017 USD'000	2016 USD'000
Year ended 31 December		
Revenue	**89,484**	94,824
Profit for the year	**15,629**	3,836
Profit attributable to owners of the Company	**7,902**	1,939
Profit attributable to NCI	**7,727**	1,897
Profit for the year	**15,629**	3,836
Other comprehensive income attributable to owners of the Company	**4,111**	(4,828)
Other comprehensive income attributable to NCI	**4,021**	(4,722)
Other comprehensive income for the year	**8,132**	(9,550)
Total comprehensive income attributable to owners of the Company	**12,013**	(2,889)
Total comprehensive income attributable to NCI	**11,748**	(2,825)
Total comprehensive income for the year	**23,761**	(5,714)
Dividends paid to NCI	**5,991**	2,649
Net cash inflows/(outflows) from operating activities	**10,515**	(3,701)
Net cash inflows/(outflows) from investing activities	**8,994**	(16,937)
Net cash (outflows)/inflows from financing activities	**(21,173)**	12,436
Net cash outflows	**(1,664)**	(8,202)
As at 31 December		
Non-current assets	**99,753**	105,740
Current assets	**127,992**	117,022
Non-current liabilities	**(2,000)**	(1,876)
Current liabilities	**(123,726)**	(130,510)
Accumulated NCI	**50,438**	44,682

35. 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 values.

Credit risk

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the consolidated 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 liquid funds is limited because the counterparties are reputable international banks with high quality external credit ratings.

As of 31 December 2017, 14% (2016: 16%) 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 USD58,771,000 as at 31 December 2017. 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.

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.

	2017					
	One to six months or on demand USD'000	**Between six months to one year 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	**97,539**	**41,690**	**8,632**	**54,790**	**–**	**202,651**
Trade and bills payables	**12,250**	**–**	**–**	**–**	**–**	**12,250**
Accruals and other payables	**22,220**	**–**	**–**	**–**	**–**	**22,220**
Amount due to a director	**3,773**	**–**	**–**	**–**	**–**	**3,773**
Amount due to an intermediate parent undertaking	**11,020**	**–**	**–**	**–**	**–**	**11,020**
Other financial liabilities	**–**	**–**	**–**	**500**	**1,000**	**1,500**
	146,802	**41,690**	**8,632**	**55,290**	**1,000**	**253,414**

	2016					
	One to six months or on demand USD'000	Between six months to one year 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	97,434	45,581	14,955	48,670	–	206,640
Trade and bills payables	17,527	–	–	–	–	17,527
Accruals and other payables	16,260	–	–	–	–	16,260
Amount due to a director	3,797	–	–	–	–	3,797
Amount due to an intermediate parent undertaking	10,422	–	–	–	–	10,422
Other financial liabilities	–	–	–	500	1,000	1,500
	145,440	45,581	14,955	49,170	1,000	256,146

The table that follows summarises the maturity analysis of borrowings with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. As a result, these amounts were greater than the amounts disclosed in the "on demand" time band in the maturity analysis contained in page 118. Taking into account the Group's financial position, the directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The directors believe that such borrowings will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	One to six months or on demand USD'000	Between six months to one year USD'000	Between one and two years USD'000	Between two and five years USD'000	Total contractual undiscounted cash flows USD'000
31 December 2017	**82,229**	**45,852**	**20,938**	**54,790**	**203,809**
31 December 2016	72,408	53,273	19,478	64,017	209,176

Foreign currency risk

As a result of significant investment operations in the PRC, the Group's consolidated 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 notes 25 and 27 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 end of the reporting date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's:

- Profit for the year ended 31 December 2017 would decrease/increase by USD568,000 (2016: loss for the year would increase/decrease by USD542,000). 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 2017 would decrease/increase by USD568,000 (2016: USD542,000).

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 consolidated statement of financial position relate to the following categories of financial assets and financial liabilities.

	2017 **USD'000**	2016 USD'000
Financial assets		
Loans and receivables:		
Trade and other receivables	**56,146**	62,846
Pledged bank deposits	**34,272**	31,762
Cash and cash equivalents	**13,237**	14,338
Available-for-sale financial assets	**–**	385
	103,655	109,331
Financial liabilities		
Financial liabilities at amortised cost:		
Borrowings	**192,216**	197,682
Trade and other payables	**49,263**	48,007
	241,479	245,689
Financial liabilities at fair value through profit or loss:		
Other financial liabilities	**1,276**	1,226

(a) Financial instruments not measured at fair value

Financial instruments not measured at fair value include trade and other receivables, pledged bank deposits, cash and cash equivalents, borrowings and trade and other payables.

Due to their short term nature, their carrying values approximate their fair values.

(b) Financial instruments measured at fair value

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2017 and 2016 by level of inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

31 December 2017	**Level 1 USD'000**	**Level 2 USD'000**	**Level 3 USD'000**	**Total USD'000**
Liabilities				
Financial liabilities at fair value through profit or loss				
– Other financial liabilities	**–**	**–**	**1,276**	**1,276**
	–	**–**	**1,276**	**1,276**

31 December 2016	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000	Total USD'000
Liabilities				
Financial liabilities at fair value through profit or loss				
– Other financial liabilities	–	–	1,226	1,226
	–	–	1,226	1,226

There was no transfer between levels during the year.

The financial liabilities classified in level 3 use valuation techniques based on significant inputs that are not based on observable market data. The financial instruments within this level are reconciled from opening to closing balances as follows:

	2017 **USD'000**	2016 USD'000
Liabilities		
Financial liabilities at fair value through profit or loss:		
At 1 January	**1,226**	1,170
Unwinding of discount on contingent consideration charged to profit or loss (note 9)	**59**	56
Exchange gain	**(9)**	–
At 31 December	**1,276**	1,226

Fair value measurement of other financial liabilities

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

The fair value of the contingent consideration was 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 until it reaches 100%
Period of sales achievement, which are year 2020 and year 2023	The earlier the period of sales achievement, the higher the fair value.

Increased discount rate by 1% would decrease the fair value on other financial liabilities by approximately USD51,000 whilst decreased discount rate by 1% would increase the fair value on other financial liabilities by approximately USD54,000.

There were no changes in valuation techniques during the year.

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 25, 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 USD58,771,000 as at 31 December 2017. 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 end of the reporting date was as follows:

	2017 **USD'000**	2016 USD'000
Borrowings	**192,216**	197,682
Amount due to an intermediate parent undertaking	**11,020**	10,422
Amount due to a director	**3,072**	3,096
Cash and bank balances (note 22)	**(47,509)**	(46,100)
Net debt	**158,799**	165,100
Equity	**150,392**	149,157
Net debt to equity ratio	**105.6%**	110.7%

36. 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.

37. COMPARATIVE FIGURES

Certain comparative figures in the consolidated statement of profit or loss have been represented to conform to the current year's presentation.

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