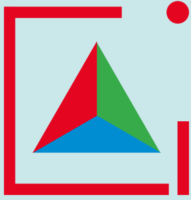

CATHAY INTERNATIONAL HOLDINGS LIMITED

2019 INTERIM REPORT

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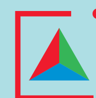

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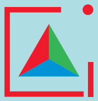


BUSINESS REVIEW

Over the period, the Group has been working on efficiently executing its business plan by further integrating its operations, enhancing its internal controls, including restructuring and centralising its sales force for healthcare products, and consolidating the Group's internal audit and company secretarial functions, whilst continuing to develop its three core businesses: pharmaceutical, cosmeceutical and healthcare.

Reacting to further medical reforms in China, the Group has refined its business strategy for its pharmaceutical business to focus more on its own products, tapping into business opportunities arising from China's medical reforms in order to widen drug penetration to smaller hospitals and second tier cities. Such efforts include development of OTC and agency distribution teams to market its own products.

In healthcare, Haizi has reduced its inositol production costs and the new phytin facility, of its associated company, has commenced production. Natural Dailyhealth is actively expanding its product portfolio and developing new customers.

In the cosmeceutical business unit, the Group focused on promotion of its Fillderm and San Parietti branded products whilst ensuring it continues to review its strategy on an ongoing basis to optimise performance.

The Hotel experienced a decrease in both rooms and food and beverage businesses resulting from the slow economic growth in China, partly due to the trade war.

Further details of each business segment are set out below.

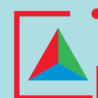
Pharmaceutical segment

The Group has been focused on adjusting its business strategy for pharmaceuticals by developing its own products to replace agency products, managing cost of sales and shortening its working capital cycle to improve cash flow.

During the period, Lansen has been affected by further medical reform in China, including tightened control over medical insurance expenses by the introduction of graded diagnosis and treatments and accelerated resources to secondary hospitals. In this macro environment, Lansen has continued to implement the strategies formulated by the Group last year, with a priority to focus on the distribution and acceleration of research and development of its own products.

Lansen is also focusing on expanding market coverage of its products to increase overall sales by hiring additional key account managers in large cities to improve hospitals penetration, especially grass root hospitals which have not been directly targeted by Lansen; strengthening its commercial team to enhance management of distributors and promote products in new territories; establishing an OTC sales team to promote sales in drug store chains and building a strong sales force to increase sales in its home base, the Zhejiang province.

Whilst these adjustments and policies are still starting to take effect, we are beginning to see positive results and momentum, as seen by a gradual increase in Lansen's pharmaceutical segments profits during the period compared to the same period last year, and an increase in revenue from Lansen's own specialty pharmaceutical products (including Pafulin and Sicorten Plus) compared to the same period of last year.



Healthcare segment

Haizi

During the first half, the corn starch industry in China was affected by adverse market conditions. As a result, corn starch factories supplying corn fluid to Haizi's facilities brought forward their maintenance schedule, resulting in a reduction in corn fluid supply and therefore a reduction in phytin production. The decreased phytin supply for inositol production, however, was partly mitigated by the commencement of operation of new phytin plant at Haizi's associate. Together with its phytin inventory, Haizi managed to increase its inositol production during the period. The new phytin plant commenced operation in March 2019.

Haizi is continuing to streamline its production processes of both phytin and inositol and has managed to reduce the overall production cost of its inositol by 18% in Renminbi ("RMB") terms over the same period last year. Of this, phytin production costs decreased by 12%, mainly due to the reduction of labor costs arising from job optimisation; lowering the cost of corn fluid and ancillary raw materials and implementation of a new incentive program to motivate staff.

The intense price competition has led to a further price drop of inositol and, reacting to this, Haizi has lowered the price of its inositol further to protect its market share. However, despite Haizi's cost reduction process, this has not been sufficient to neutralise the impact from the further drop in inositol price.

Going forward, Haizi will continue to lower its production costs by further modifying its production process. Haizi is also continuing test marketing of its food grade di-calcium phosphate ("DCP").

Natural Dailyhealth

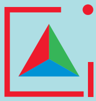
During the first half, Natural Dailyhealth has been actively working to expand its product portfolio and develop new customers. Natural Dailyhealth continues to modify its sourcing and production process and implement its "key products and key customers" marketing strategy for its healthcare products. During the period, it has followed up with the China Food and Drug Administration regarding applications for the registration of several of its healthcare products in order to build its future product portfolio.

In Q2 2019, Natural Dailyhealth launched its first health food product, Langzunzun, which contains ingredients that could help relieve symptoms associated with drinking alcohol. Natural Dailyhealth is actively promoting this product through food and beverage industry associations as well as via experienced distribution agents. Natural Dailyhealth will continue to build its health food and drink product portfolio, aiming to improving the gross margin over that achieved in its existing plant extract product portfolio.

Cosmeceutical segment

The Group's strategy is to develop and build its own cosmeceutical product portfolio, thereby reducing its reliance on agency products, and the Group is currently focused on promotion of its skin care products, Fillderm and San Parietti.

During the period, Lansen completed its minority investment in Tianjin Robustnique Biotechnology Co., Limited ("Robustnique"). With Robustnique's R&D capability and Botai's collagen, Lansen developed the San Parietti branded skin care products, including an anti-aging series of collagen essence products. Lansen is in the process of launching of the San Parietti skin care product range, which are expected to gradually bring in revenue for the Group in H2 2019.



For Fillderm, the Group continues to build alliances with doctors and cosmetic institutions through which Fillderm, and San Parietti branded products, will be marketed to customers.

Whilst the domestic cosmeceutical market offers great business potential, it is not without risk and uncertainties for the Group. In order to remain competitive, the Group will continue to review its cosmeceutical business strategy.

Hotel

Due to the slow growth of the Chinese economy, hotels in Shenzhen reduced pricing in an attempt to gain more market share. In addition, room sales from large multi-national and local companies, mostly affected by the impact of the macro trade environment, declined over the period. As such, the hotel recorded a slightly lower room occupancy rate than last year and a decrease in its food and beverage businesses.

We anticipate that the hotel business will remain soft in the second half of 2019. The Shenzhen tourism bureau, and the hotel association, has recently launched a promotion to help restaurants and hotels in the city. We have also re-structured our catering and event teams so that we can implement new strategies and actions in response to market changes, as they happen.

Financial Review

During the period, the Group's performance was mainly driven by the pharmaceutical business at Lansen.

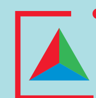
On 30 June 2019, the Group's revenue decreased to USD38.3 million (H1 2018: USD49.2 million). The implementation of the management and operational changes have had a follow on effect in Lansen's operations. Sales in Haizi and Natural Dailyhealth dropped slightly. The Hotel has also been adversely affected by lower room rates and occupancy level.

The Group's gross profit decreased to USD16.2 million (H1 2018: USD20.6 million). Average gross margin improved to 42.4% (H1 2018: 41.8%) mainly due to an increase in gross profit margin of pharmaceutical product sales, but partly offset by a decrease in gross profit margin of plant extract products. The Group's pharmaceutical business is on track and performance is improving. The gross margin of Lansen's own specialty pharmaceutical products improved during the period and Lansen's strategy to focus on its own products has resulted in an increase in proportionate sales of these products. As a result, the overall gross margin of the pharmaceutical business has improved.

The Group's operating profit decreased by USD6.8 million to an operating loss of USD5.7 million (H1 2018: profit of USD1.1 million) mainly due to an increase in administration expenses but partly offset by a decrease in selling expenses. The increase in administration expenses was primarily due to an increase in stock provision and a write off of USD2.4 million, an increase in professional fees mainly relating to the disposal of Starry shares, the FCA fine and related expenses of USD0.6 million and a reversal of USD0.5 million on executive share options lapsed in the prior period but not in the current period.

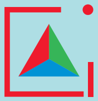
The Group recorded a post-tax non-operating income of USD7.9 million (H1 2018: USD6.1 million) mainly due to the sale of more Starry shares resulting in a gain of USD7.9 million (H1 2018: USD5.2 million).

The Group incurred higher finance costs of USD5.9 million (H1 2018: USD5.2 million) due to increased effective interest rate to 5.8% (H1 2018: 4.9%) on the rise of LIBOR and the PRC lending rates.



The Group's after tax loss before non-controlling interests for the period was USD2.8 million (H1 2018: profit of USD3.3 million). The Group's loss attributable to owners of the parent for the period was USD5.1 million (H1 2018: USD1.9 million).

	Healthcare				Hotel Operations	Corporate Office	Inter-segment Elimination	Total
Stated in USD'000	**Lansen**	**Haizi**	**Natural Dailyhealth**	**Botai**				
For the six months ended 30 June 2019								
REVENUE								
External sales	26,094	2,821	2,799	—	6,601	—	—	38,315
Inter-segment sales	58	1	112	—	—	—	(171)	—
Segment revenue	26,152	2,822	2,911	—	6,601	—	(171)	38,315
Segment gross profit/(loss)	16,095	(907)	149	—	920	—	(16)	16,241
Segment operating profit/(loss)	933	(2,887)	(1,011)	(681)	958	(3,247)	236	(5,699)
Segment non-operating income and expenses	7,755	—	—	—	—	—	101	7,856
Segment write off of derivative financial instrument	(1,910)	—	—	—	—	—	1,910	—
Segment finance costs	(2,358)	(613)	—	(96)	(513)	(2,389)	97	(5,872)
Segment share of post-tax result of associates	1,019	(13)	—	—	—	—	279	1,285
Segment profit/(loss) before income tax	5,439	(3,513)	(1,011)	(777)	445	(5,636)	2,623	(2,430)
Segment income tax expense	(396)	(6)	—	—	—	—	—	(402)
Segment profit/(loss) for the period before non-controlling interests	5,043	(3,519)	(1,011)	(777)	445	(5,636)	2,623	(2,832)
Segment profit/(loss) for the period attributable to owners of the parent	2,704	(3,519)	(732)	(740)	445	(5,636)	2,344	(5,134)
For the six months ended 30 June 2018								
REVENUE								
External sales	35,258	3,292	2,932	144	7,564	—	—	49,190
Inter-segment sales	661	23	240	—	—	—	(924)	—
Segment revenue	35,919	3,315	3,172	144	7,564	—	(924)	49,190
Segment gross profit/(loss)	19,122	(593)	497	122	1,578	—	(172)	20,554
Segment operating profit/(loss)	5,345	(1,996)	(629)	(730)	1,537	(2,116)	(285)	1,126
Segment non-operating income and expenses	6,106	—	—	—	—	—	—	6,106
Segment fair value gain on derivative financial instrument	554	—	—	—	—	—	(554)	—
Segment fair value gain on other financial liabilities	101	—	—	—	—	—	—	101
Segment finance costs	(2,237)	(632)	—	(99)	(509)	(1,827)	101	(5,203)
Segment share of post-tax result of associates	1,046	—	—	—	—	—	189	1,235
Segment profit/(loss) before income tax	10,915	(2,628)	(629)	(829)	1,028	(3,943)	(549)	3,365
Segment income tax expense	(32)	14	—	—	—	—	—	(18)
Segment profit/(loss) for the period before non-controlling interests	10,883	(2,614)	(629)	(829)	1,028	(3,943)	(549)	3,347
Segment profit/(loss) for the period attributable to owners of the parent	5,640	(2,612)	(440)	(801)	1,028	(3,943)	(738)	(1,866)



Lansen

Lansen recorded a 27.2% decrease in revenue to USD26.2 million (H1 2018: USD35.9 million). The decrease in sales was mainly due to a reduction in sales of agency products such as Yuze products, mycophenolate mofetil dispersible tablets, bazhen granules and Hepai leflunomide tablets. Excluding the impact of devaluation of RMB, revenue of Lansen's own specialty pharmaceutical products increased by 4.4% in RMB terms compared to last year.

Gross profit margin was USD16.1 million (H1 2018: USD19.1 million) and the gross profit margin was 61.5% (H1 2018: 53.2%), mainly due to increased sales in higher margin products.

Lansen's operating profit decreased to USD0.9 million (H1 2018: USD5.3 million) mainly due to (i) increase in administration expenses to USD7.9 million (H1 2018: USD4.0 million), resulting from stock provision and write off, but (ii) partly mitigated by decrease in selling and distribution expenses by 18.3% to USD8.1 million (H1 2018: USD10.0 million).

Lansen's shareholding in Starry dropped to 7.6% as a result of further sales of 3% interest in Starry during the period (detailed below). Although the percentage of shareholding in Starry decreased, Starry recorded increase in net income, the profit contribution to Lansen increased to USD1.3 million (H1 2018: USD1.2 million).

Lansen's profit before non-controlling interests was USD5.0 million (H1 2018: USD10.9 million).

Starry

During the period, Lansen disposed of 3,600,000 shares in Starry, an associated company whose shares are listed on the Shanghai Stock Exchange and made a gain of USD7.9 million. As at 30 June 2019, Lansen has 7.6% equity interests in Starry. The investment was recorded under equity accounting at USD17.9 million (31 December 2018: USD24.0 million) on the Group's balance sheet. Based on Starry's closing price of RMB23.1 per share as at 30 June 2019, the market value of Lansen's 7.6% interest in Starry was approximately USD30.8 million. The difference of USD12.9 million between the book value and the market value of Starry has not been reflected in the financial statements.

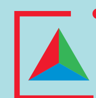
Haizi

During the period, Haizi recorded USD2.8 million (H1 2018: USD3.3 million) from sales of inositol and DCP. Haizi produced 762 tonnes (2018: 695 tonnes) and 4,365 tonnes (H1 2018: 3,977 tonnes) of inositol and feed grade DCP respectively and sold 449 tonnes (H1 2018: 434 tonnes) and 4,391 tonnes (H1 2018: 3,188 tonnes) of feed grade DCP. The average selling price of inositol was lower at approximately USD4.46 per kg (H1 2018: USD6.4 per kg) due to a further drop in the market price of Inositol.

Haizi's gross loss was USD0.9 million (H1 2018: USD0.6 million) and its gross loss margin was -32.1% (H1 2018: -17.9%) primarily due to a lower selling price of inositol, countering the effort made in reducing production costs. Haizi's operating loss was USD2.9 million (H1 2018: USD2.0 million) and its net loss was USD3.5 million (H1 2018: USD2.6 million).

Natural Dailyhealth

Natural Dailyhealth's revenue decreased to USD2.9 million (H1 2018: USD3.2 million) partly due to RMB devaluation during the period and its gross profit was USD0.1 million (H1 2018: USD0.5 million). The operating loss increased to USD1.0 million (H1 2018: USD0.6 million).



Botai

Botai did not record sales in the first half of 2019 (H1 2018: USD0.1 million) due to the review of the marketing strategy for Fillderm. The operating loss was USD0.7 million (H1 2018: USD0.7 million).

In the meantime, Botai is developing a collagen related product — facial mask and aims to launch to the market in H2 of 2019.

Hotel Operations

Hotel revenue decreased by 12.7% in the first half to USD6.6 million (H1 2018: USD7.6 million), due to a reduction in average room rate, occupancy level and banqueting sales. The hotel average room rate dropped to USD111 (H1 2018: USD117) and room occupancy went down to 73.9% (H1 2018: 77.1%).

The Hotel's food and beverage sales dropped by 10.2% to USD2.0 million (H1 2018: USD2.2 million), due to weaker market demand and price competition from other hotels in wedding and banqueting services.

The Hotel's operating profit was USD1.0 million (H1 2018: USD1.5 million) due to lower room and food and beverage profit margins.

The Hotel continues to strive for high service quality and is frequently rated by TripAdvisor as one of the top five hotels in Shenzhen.

Corporate office

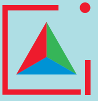
Corporate overheads increased by USD1.1 million to USD3.3 million (H1 2018: USD2.2 million) due to the reversal of USD0.5 million on share option lapsed in the prior period and an increase in professional fees, and the FCA fine and related expenses in the current period.

Borrowings

As at 30 June 2019, the Group's net borrowings increased to USD164.8 million (31 December 2018: USD164.1 million) due to increase in the Hotel and Haizi's borrowings but offset by a decrease in Corporate and Lansen's borrowings. Net gearing increased to 144.4% (31 December 2018: 138.0%).

PRINCIPAL RISKS AND UNCERTAINTIES

The directors do not consider that the principal risks and uncertainties, as set out on pages 13 to 19 of the annual report for the year ended 31 December 2018, have changed materially since its publication.



Statement of Directors' Responsibilities

The directors confirm that, to the best of his knowledge:

i the condensed set of financial statements, which has been prepared in accordance with the International Financial Reporting Standards and IAS 34 Interim Financial Reporting, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer, or the undertakings included in the consolidation as a whole;

ii the interim management report includes a fair review of the information required by the Disclosure Requirements and Transparency Rules 4.2.7R; and

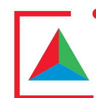
iii the interim management report includes a fair review of the information required by the Disclosure Requirements and Transparency Rules 4.2.8R.

On behalf of the Board
Patrick Sung
Director

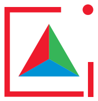
30 August 2019

By order of the Board
Yiu Chi Hung
Secretary

30 August 2019



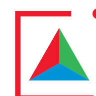
	Notes	**Six months ended 30 June 2019 USD'000 (Unaudited)**	Six months ended 30 June 2018 USD'000 (Unaudited)
Revenue	4	**38,315**	49,190
Cost of sales		**(22,074)**	(28,636)
Gross profit		**16,241**	20,554
Other income		**1,354**	604
Selling and distribution expenses		**(8,819)**	(10,721)
Administrative expenses		**(14,275)**	(8,762)
Expected credit loss on financial assets		**(200)**	(549)
(Loss)/Profit from operations		**(5,699)**	1,126
Non-operating income and expenses	5	**7,856**	6,106
Fair value gain on other financial liabilities		**–**	101
Finance costs		**(5,872)**	(5,203)
Share of post-tax result of associates		**1,285**	1,235
(Loss)/Profit before income tax		**(2,430)**	3,365
Income tax expense	6	**(402)**	(18)
(Loss)/Profit for the period		**(2,832)**	3,347
(Loss)/Profit for the period attributable to:			
Owners of the parent		**(5,134)**	(1,866)
Non-controlling interests		**2,302**	5,213
		(2,832)	3,347
Loss per share			
Basic and diluted	7	**(1.36 cents)**	(0.49 cents)



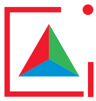
Condensed Consolidated Statement of Comprehensive Income

	Six months ended 30 June 2019 USD'000 (Unaudited)	Six months ended 30 June 2018 USD'000 (Unaudited)
(Loss)/Profit for the period	**(2,832)**	3,347
Other comprehensive income		
Item that may be reclassified subsequently to profit or loss:		
— Exchange differences on translating foreign operations	**(315)**	(1,132)
Exchange differences reclassified to profit or loss upon partial disposal of an associate	**309**	(107)
Other comprehensive income for the period, net of tax	**(6)**	(1,239)
Total comprehensive income for the period	**(2,838)**	2,108
Total comprehensive income attributable to:		
Owners of the parent	**(5,061)**	(2,293)
Non-controlling interests	**2,223**	4,401
	(2,838)	2,108

Condensed Consolidated Statement of Financial Position



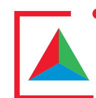
	Note	As at 30 June 2019 USD'000 (Unaudited)	As at 31 December 2018 USD'000 (audited)
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment		**213,385**	216,106
Right-of-use assets		**5,668**	–
Prepaid land lease payment		**–**	4,175
Intangible assets		**28,240**	27,560
Goodwill		**19,502**	19,502
Interests in associates		**20,046**	24,096
Other non-current financial assets		**–**	–
Prepayment for acquisition of partial equity interest in a company		**–**	612
		286,841	292,051
CURRENT ASSETS			
Inventories		**15,694**	17,319
Trade and other receivables	8	**53,232**	48,978
Prepaid land lease payment		**–**	112
Tax recoverable		**–**	25
Pledged bank deposits		**31,635**	23,206
Cash and cash equivalents		**19,474**	17,010
		120,035	106,650
TOTAL ASSETS		**406,876**	398,701
EQUITY AND LIABILITIES			
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		**70,316**	74,658
NON-CONTROLLING INTERESTS		**40,778**	42,441
TOTAL EQUITY		**111,094**	117,099
NON-CURRENT LIABILITIES			
Borrowings		**56,573**	51,067
Lease liabilities		**749**	–
Deferred tax liabilities		**40,554**	40,364
		97,876	91,431
CURRENT LIABILITIES			
Borrowings		**139,853**	136,207
Lease liabilities		**739**	–
Current tax liabilities		**550**	512
Trade and other payables		**54,896**	51,246
Contract liabilities		**600**	972
Other financial liabilities		**1,268**	1,234
		197,906	190,171
TOTAL LIABILITIES		**295,782**	281,602
TOTAL EQUITY AND LIABILITIES		**406,876**	398,701



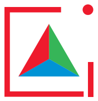
Condensed Consolidated Statement of Changes in Equity

	Attributable to owners of the parent												Non-controlling Interests	Total
	Share capital	Share premium	Share option reserve	Treasury shares	Subsidiary's treasury shares	Capital and special reserve	Revaluation reserve	Foreign exchange reserve	Fair value through other comprehensive income 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	USD'000	USD'000
Balance at 31 December 2017 as originally presented	19,062	51,035	433	(1,765)	–	96,850	18,155	(23,661)	–	10,540	(69,191)	101,458	48,934	150,392
Changes in accounting policies – initial application of IFRS 9	–	–	–	–	–	–	–	–	–	–	(2,435)	(2,435)	(2,739)	(5,174)
Restated balance at 1 January 2018	19,062	51,035	433	(1,765)	–	96,850	18,155	(23,661)	–	10,540	(71,626)	99,023	46,195	145,218
Dividends to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	(944)	(944)
Recognition of share-based payments	–	–	(433)	–	–	–	–	–	–	–	–	(433)	–	(433)
Transactions with owners	–	–	(433)	–	–	–	–	–	–	–	–	(433)	(944)	(1,377)
(Loss)/Profit for the period	–	–	–	–	–	–	–	–	–	–	(1,866)	(1,866)	5,213	3,347
Other comprehensive income for the period	–	–	–	–	–	–	–	(427)	–	–	–	(427)	(812)	(1,239)
Total comprehensive income for the period	–	–	–	–	–	–	–	(427)	–	–	(1,866)	(2,293)	4,401	2,108
Balance at 30 June 2018 (unaudited)	19,062	51,035	–	(1,765)	–	96,850	18,155	(24,088)	–	10,540	(73,492)	96,297	49,652	145,949
Balance at 31 December 2018 as originally presented	19,062	51,035	–	(1,765)	(3)	96,850	13,293	(24,132)	(385)	10,871	(90,168)	74,658	42,441	117,099
Change in accounting policies (Note 2(b))	–	–	–	–	–	–	–	–	–	–	(24)	(24)	(8)	(32)
Restated balance at 1 January 2019	19,062	51,035	–	(1,765)	(3)	96,850	13,293	(24,132)	(385)	10,871	(90,192)	74,634	42,433	117,067
Dividends to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	(870)	(870)
Subsidiary acquired its own shares	–	–	–	–	(2,265)	–	–	–	–	–	–	(2,265)	–	(2,265)
Deemed acquisition of partial interest in subsidiary	–	–	–	–	–	–	–	–	–	–	1,922	1,922	(1,922)	–
Cancellation of subsidiary's shares repurchased	–	–	–	–	1,086	–	–	–	–	–	–	1,086	(1,086)	–
Transactions with owners	–	–	–	–	(1,179)	–	–	–	–	–	1,922	743	(3,878)	(3,135)
(Loss)/Profit for the period	–	–	–	–	–	–	–	–	–	–	(5,134)	(5,134)	2,302	(2,832)
Other comprehensive income for the period	–	–	–	–	–	–	–	73	–	–	–	73	(79)	(6)
Total comprehensive income for the period	–	–	–	–	–	–	–	73	–	–	(5,134)	(5,061)	2,223	(2,838)
Balance at 30 June 2019 (unaudited)	19,062	51,035	–	(1,765)	(1,182)	96,850	13,293	(24,059)	(385)	10,871	(93,404)	70,316	40,778	111,094

Condensed Consolidated Statement of Cash Flows



	Six months ended 30 June 2019 USD'000 (Unaudited)	Six months ended 30 June 2018 USD'000 (Unaudited)
Net cash used in operating activities	**(8,321)**	(5,781)
Cash flows from investing activities		
Purchase of property, plant and equipment and right-of-use assets	**(1,413)**	(789)
Additions of intangible assets	**(785)**	(1,374)
Proceeds from disposals of property, plant and equipment	**7**	4
Dividend received from associate	**473**	116
Payment for acquisition of an associate	**(1,455)**	–
Interest received	**298**	237
(Increase)/Decrease in pledged bank deposits	**(8,372)**	6,166
Transaction costs and withholding tax in connection with partial disposal of an associate	**(599)**	(367)
Proceeds from partial disposal of an associate	**15,763**	10,185
Net cash generated from investing activities	**3,917**	14,178
Cash flows from financing activities		
Proceeds from borrowings	**83,277**	84,238
Repayment of borrowings	**(73,971)**	(81,584)
Subsidiary acquired its own shares	**(2,265)**	–
Increase in amount due to an intermediate parent undertaking	**522**	301
Repayment of principal portion of lease liabilities	**(407)**	–
Net cash generated from financing activities	**7,156**	2,955
Net increase in cash and cash equivalents	**2,752**	11,352
Cash and cash equivalents at beginning of the period	**17,010**	13,237
Effects of exchange rate changes	**(288)**	(782)
Cash and cash equivalents at end of the period	**19,474**	23,807



1. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements of Cathay International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively known as the "Group") for the six months ended 30 June 2019 (the "Interim Financial Statements") have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board (the "IASB").

The preparation of the Interim Financial Statements in compliance with IAS 34 requires the use of certain judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. The areas where significant judgments and estimates have been made in preparing the Interim Financial Statements and their effect are disclosed in Note 3.

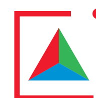
These Interim Financial Statements are presented in United States Dollars ("USD"), unless otherwise stated. The Interim Financial Statements contain condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the group since the 2018 annual financial statements. The Interim Financial Statements do not include all of the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs") (which collective term includes all individual International Financial Reporting Standards and Interpretations as approved by the IASB, and all individual International Accounting Standards and Interpretations as originated by the Board of the International Accounting Standards Committee and adopted by the IASB), and should be read in 2018 consolidated financial statements. The Interim Financial Statements are neither audited nor reviewed by the Group's auditor.

The Interim Financial Statements have been prepared with the same accounting policies adopted in the 2018 annual financial statements, except for those that relate to new standards or interpretations effective for the first time for periods beginning on or after 1 January 2019. Save as disclosed in the changes in accounting policies for the adoption of IFRS 16 in Note 2(b), the application of other new or revised IFRSs in the current period has no material effect on the amount reported and/or disclosures set out in the Interim Financial statements.

At the end of reporting period, its current liabilities exceeded its current assets by USD77,871,000. The Interim Financial Statements have been prepared based on the assumption that the Group can be operated as a going concern and will have sufficient working capital to finance its operation in the next twelve months from 30 June 2019.

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. The Group does not foresee that the bank borrowings will not be renewed or extended before maturity as the fair value of pledged assets outweighs the amount of bank borrowings. 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 30 June 2019 without significant curtailment of operations. The directors of the Company are accordingly satisfied that it is appropriate to prepare the Interim Financial Statements on a going concern basis.

Should the Group be unable to continue in business as going concern, adjustments would have to be made to the Interim Financial Statements to reduce the values of the assets of 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 Interim Financial Statements.



2. CHANGES IN ACCOUNTING POLICIES

(a) Overview

In the current interim period, the Group has applied, for the first time, the following new interpretations and amendments to IFRSs issued by the IASB that are potentially relevant to and effective for the annual period beginning on or after 1 January 2019 for the preparation of the Interim Financial Statements.

IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 28	Long term Interests in Associates and Joint Ventures
Annual Improvements to IFRSs 2015–2017 Cycle	Amendments to IAS 12, Income Tax; IAS 23, Borrowing Costs; IFRS 3, Business Combinations; IFRS 11, Joint Arrangement
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement

The adoption of the above has no material impact on the Group's result and financial position for the current or prior periods except for IFRS 16. Details of changes in accounting policies for IFRS 16 are described in Note 2(b).

The Group has not applied any new standards or interpretation that is not effective for the current accounting period.

(b) IFRS 16 Leases

Effective 1 January 2019, IFRS 16 has replaced *IAS 17, Leases* and the related interpretations and *IFRIC 4, Determining whether an Arrangement Contains a Lease*.

IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, together with options to exclude leases where the lease term is 12 months or less, or where the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17, with the distinction between operating leases and finance leases being retained. The Group does not have significant leasing activities acting as a lessor.

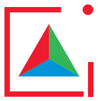
(i) Transition Method and Practical Expedients Utilised

The Group adopted IFRS 16 using the modified retrospective approach, with recognition of transitional adjustments on the date of initial application (1 January 2019), without restatement of comparative figures. The Group elected to apply the practical expedient to not reassess whether a contract is, or contains a lease at the date of initial application. Contracts entered into before the transition date that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. The definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

IFRS 16 provides for certain optional practical expedients, including those related to the initial adoption of the standard. The Group could apply the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Apply a discount rate to a portfolio of leases with reasonably similar characteristics;

- Exclude initial direct costs from the measurement of right-of-use assets at the date of initial application for leases where the right-of-use asset was determined as if IFRS 16 had been applied since the commencement date;



- Reliance on previous assessments on whether leases are onerous as opposed to preparing an impairment review under IAS 36 as at the date of initial application; and

- Apply the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term remaining as of the date of initial application.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases. However, the Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low value assets based on the value of the underlying asset when new or for short-term leases with a lease term of 12 months or less.

On adoption of IFRS 16, the Group recognised right-of-use assets and lease liabilities in relation to leases of office space and office equipment which had previously been classified as operating leases. In addition, the Group's prepaid land lease payment was reclassified as right-of-use assets.

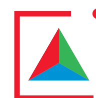
The lease liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as at 1 January 2019. The Group's incremental borrowing rate is the rate at which a similar borrowing could be obtained from an independent creditor under comparable terms and conditions. The weighted-average rate applied was at a range from 4.71% to 5.25%.

The right-of-use assets were measured as the carrying value that would have resulted from IFRS 16 being applied from the commencement date of the leases, subject to the practical expedients noted above.

The following table presents the impact of adopting IFRS 16 on the consolidated statement of financial position as at 1 January 2019:

	Increase/(decrease) **USD'000** **(Unaudited)**
Assets	
Increase in right-of-use assets	**5,769**
Decrease in prepaid land lease payment	**(4,287)**
Increase in total assets	**1,482**
Liabilities	
Increase in lease liabilities	**1,514**
Increase in total liabilities	**1,514**
Decrease in profit and loss account	**(24)**
Decrease in non-controlling interests	**(8)**

Included in profit or loss for the period are amortisation of right-of-use assets of USD436,000 and finance expense on lease liabilities of USD40,000. Short-term and low-value leases included in profit or loss for the period were USD12,000 and USD5,000 respectively.



The following table reconciles the minimum lease commitments disclosed in the Group's 31 December 2018 annual financial statements to the amount of lease liabilities recognised on 1 January 2019:

	USD'000 (Unaudited)
Minimum operating lease commitment at 31 December 2018	1,795
Less: short-term leases not recognised under IFRS 16	(17)
Less: low value leases not recognised under IFRS 16	(18)
Less: effect of discounting using the incremental borrowing rate as at the date of initial application	(246)
Lease liabilities recognised at 1 January 2019	1,514

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Right-of-use Assets USD'000 (Unaudited)
Right-of-use assets related to operating leases recognised upon application of IFRS 16	1,482
Reclassification from prepaid land lease payment (note)	4,287
	5,769

Note:

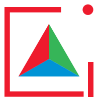
Upfront payments for leasehold lands in the PRC were classified as prepaid land lease payment as at 31 December 2018. Upon application of IFRS 16, the current and non-current portion of prepaid land lease payment amounting to USD112,000 and USD4,175,000 respectively were reclassified to right-of-use assets.

(ii) Significant Accounting Policies subsequent to Transition

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a term of 12 months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the group's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.



On initial recognition, the carrying value of the lease liability also includes:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the group if it is reasonable certain to assess that option;
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right-of-use assets are initially measured at the amount of the lease liability, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the group is contractually required to dismantle, remove or restore the leased asset.

Subsequent to initial measurement, lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term. Lease liabilities are remeasured when there is a change in future lease payments arising from a change in an index or rate or when there is a change in the assessment of the term of any lease.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of Interim Financial Statements requires management to make judgements, estimates and assumptions that affects the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing the Interim Financial Statements, significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year 31 December 2018.

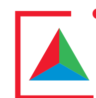
4. SEGMENT INFORMATION

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 People's Republic of China (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;

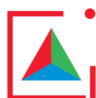
4) the Botai segment is engaged in the production and sales of collagen injectable fillers and development of collagen related products; and

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 USD'000 (Unaudited)	Haizi USD'000 (Unaudited)	Natural Dailyhealth USD'000 (Unaudited)	Botai USD'000 (Unaudited)	USD'000 (Unaudited)	USD'000 (Unaudited)	USD'000 (Unaudited)
Six months ended 30 June 2019							
REVENUE							
External sales							
— Recognised at a point in time	**26,094**	**2,821**	**2,799**	**–**	**1,997**	**–**	**33,711**
— Recognised over time	**–**	**–**	**–**	**–**	**4,604**	**–**	**4,604**
	26,094	**2,821**	**2,799**	**–**	**6,601**	**–**	**38,315**
Inter-segment sales	**58**	**1**	**112**	**–**	**–**	**(171)**	**–**
Segment revenue	**26,152**	**2,822**	**2,911**	**–**	**6,601**	**(171)**	**38,315**
Segment profit/(loss) before income tax	**5,439**	**(3,513)**	**(1,011)**	**(777)**	**445**	**2,623**	**3,206**
Six months ended 30 June 2018							
REVENUE							
External sales							
— Recognised at a point in time	35,258	3,292	2,932	144	2,223	–	43,849
— Recognised over time	–	–	–	–	5,341	–	5,341
	35,258	3,292	2,932	144	7,564	–	49,190
Inter-segment sales	661	23	240	–	–	(924)	–
Segment revenue	35,919	3,315	3,172	144	7,564	(924)	49,190
Segment profit/(loss) before income tax	10,915	(2,628)	(629)	(829)	1,028	(549)	7,308



The Group's reportable segments profit reconciled to the Group's (loss)/profit before income tax as presented in the Interim Financial Statements as follows:

	Six months ended 30 June 2019 USD'000 (Unaudited)	Six months ended 30 June 2018 USD'000 (Unaudited)
Reportable segment profit	**3,206**	7,308
Unallocated corporate income	**9**	50
Unallocated corporate expenses	**(5,645)**	(3,993)
(Loss)/Profit before income tax	**(2,430)**	3,365

No segment assets or segment liabilities is presented as they are not regularly provided to the CODM.

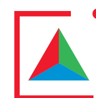
The Group's revenue is divided into the following geographical areas:

	Six months ended 30 June 2019 USD'000 (Unaudited)	Six months ended 30 June 2018 USD'000 (Unaudited)
The PRC (domicile)	**35,130**	46,065
Overseas	**3,185**	3,125
Total	**38,315**	49,190

Revenue from contracts with customers is disaggregated by the followings:

	Six months ended 30 June 2019 USD'000 (Unaudited)	Six months ended 30 June 2018 USD'000 (Unaudited)
Sales of pharmaceuticals	**24,335**	29,429
Sales of healthcare products	**7,266**	7,990
Sales of medical cosmetic products	**113**	4,207
Hotel operation	**6,601**	7,564
Total	**38,315**	49,190

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*.



5. NON-OPERATING INCOME AND EXPENSES

	Six months ended 30 June 2019 USD'000 (Unaudited)	Six months ended 30 June 2018 USD'000 (Unaudited)
Impairment of intangible assets	**(42)**	(486)
Write off of intangible assets	**–**	(773)
Gain on disposal of an associate, net of tax (note a)	**7,898**	5,236
Tax refund in relation to a partial disposal of an associate (note b)	**–**	2,129
	7,856	6,106

Notes:

(a) On 6 June 2018, the Group had disposed of a total of 2,400,000 shares in Zhejiang Starry Pharmaceutical Co., Ltd. ("Starry") via on-market block trade sales on the Shanghai Stock Exchange, at the price of Renminbi ("RMB") RMB27.22 per share and resulting in a gain on partial disposal, net of tax of USD5,236,000. After the partial disposal, the Group's equity interest in Starry has been further reduced from 12.6% as at 31 December 2017 to 10.6% as at 30 June 2018.

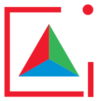
During the period, the Group had disposed of a total of 3,600,000 shares in Starry via on-market sales on the Shanghai Stock Exchange, at the average price of RMB29.65 per share and resulted in a gain on partial disposal, net of tax of USD7,898,000. After the partial disposal, the Group's equity interest in Starry has been reduced from 10.6% as at 31 December 2018 to 7.6% as at 30 June 2019.

Although the Group's ownership interest in Starry is less than 20%, the directors of the Company consider that they still have the power to exercise significant influence on Starry as one of the directors of Starry is the director of the Group's subsidiaries, and therefore have classified the interest in Starry as an associate.

(b) In 2017, the Group had applied for refund of the tax paid in relation to the first partial disposal of shares in Starry as explained above. During the six months ended 30 June 2018, the Group had fulfilled the relevant requirements of refund and subsequently received tax refund amounting to RMB13,597,000 (equivalent to approximately USD2,129,000). The tax refund was therefore recognised under "non-operating income and expenses".

6. INCOME TAX EXPENSE

The provision for current tax has been made in respect of the assessable profits arising in the PRC during the period.



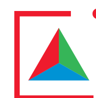
7. LOSS PER SHARE

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

	Six months ended 30 June 2019 USD'000 (Unaudited)	Six months ended 30 June 2018 USD'000 (Unaudited)
Loss		
Loss for the period attributable to the owners of the Company for the purpose of basic and diluted loss per share	**(5,134)**	(1,866)

	Six months ended 30 June 2019 Thousands (Unaudited)	Six months ended 30 June 2018 Thousands (Unaudited)
Number of shares		
Common Shares		
Weighted average number of Common Shares outstanding (after adjusting the treasury shares held by the Company) for the purpose of basic and diluted loss per share	**369,004**	369,003
A Shares		
Weighted average number of A Shares for the purpose of basic and diluted loss per share	**8,954**	8,955

For the period ended 30 June 2019 and 2018, the computation of diluted loss per share does not include the 9,437,899 Common Shares (six months ended 30 June 2018: 7,490,801 Common Shares) contingently issuable to Mr. Lee Jin-Yi as the conditions for their issue were not met throughout the period. The Group has no other potential dilutive shares during the period.



8. TRADE AND OTHER RECEIVABLES

	30 June 2019 USD'000 (Unaudited)	31 December 2018 USD'000 (Audited)
Trade receivables	**26,469**	28,001
Less: loss allowance of trade receivables	**(2,212)**	(2,018)
Trade receivables (net of loss allowance) (note a)	**24,257**	25,983
Bills receivables (note b)	**20,323**	13,674
Prepayments and other receivables	**8,652**	9,321
	53,232	48,978

The Group has a policy of allowing an average credit period of 90 days (31 December 2018: 90 days) to its customers.

Notes:

(a) Based on the invoice date, ageing analysis of the trade receivables (net of loss allowance) of the Group as of the end of the reporting period is as follows:

	30 June 2019 USD'000 (Unaudited)	31 December 2018 USD'000 (Audited)
90 days or below	**12,639**	17,368
91–180 days	**7,952**	3,707
181–365 days	**2,377**	4,236
Over 365 days	**1,289**	672
	24,257	25,983

As at 30 June 2019, certain trade receivables with carrying amount of USD252,000 (31 December 2018: USD299,000) were pledged to secure bank borrowings.

(b) As at 30 June 2019 and 31 December 2018, 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. During the six months ended 30 June 2019, interest was charged at a range from 3.0% to 5.3% (31 December 2018: a range from 3.5% to 5.0%) 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 IFRS 9 for derecognition of financial assets as the Group retains substantially all of the risks and rewards of ownership of the discounted bills receivables. As at 30 June 2019, bills receivables of USD9,829,000 (31 December 2018: USD10,932,000) continued to be recognised in the Group's Interim 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 until the bills receivables were collected or the Group settled any losses suffered by the financial institutions. As at 30 June 2019, the asset-backed financing liability related to discounted bills amounted to USD9,829,000 (31 December 2018: USD10,932,000).

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.

9. RELATED PARTY TRANSACTIONS

Related party relationship	Type of transaction	Notes	Transaction amount		Balance owed	
			Six months ended 30 June 2019 USD'000 (Unaudited)	Six months ended 30 June 2018 USD'000 (Unaudited)	**30 June 2019 USD'000 (Unaudited)**	31 December 2018 USD'000 (Audited)
An intermediate parent undertaking of the Company	Interest charged	(a)	**368**	301	**12,038**	11,516
Director	Interest charged	(b)	**81**	72	**3,772**	3,765

Notes:

(a) The outstanding balance is unsecured, repayable on demand and interest-bearing at 3.5% (31 December 2018: 3.5%) over London Interbank Offered Rate per annum.

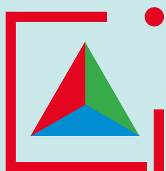
(b) The outstanding balance comprise of a loan of USD3,071,000 (31 December 2018: USD3,064,000), which is unsecured, repayable on demand and interest-bearing at 3.5% (31 December 2018: 3.5%) plus Hong Kong Interbank Offered Rate per annum; and a payable of unissued Common Shares of USD701,000 (31 December 2018: USD701,000).

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

	Six months ended 30 June 2019 USD'000 (Unaudited)	Six months ended 30 June 2018 USD'000 (Unaudited)
Fees & salary	**841**	832
Share-based payments	**–**	(320)
	841	512

10. PUBLICATION OF NON-STATUTORY ACCOUNTS

Copies of this report have been sent to shareholders and are available to the public from the Company's registrars and transfer office at Link Asset Services, The Registry, 34 Beckenham Road, Beckenham, BR3 4TU, United Kingdom.



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