CATHAY INTERNATIONAL HOLDINGS LIMITED

BUILDING MOMENTUM

Interim Report 2012

Contents

Chairman's Statement

During the first half of 2012, China's economy experienced slower growth, with gross domestic product (GDP) growth at 7.6%, compared to 9.5% in the same period last year. China's pharmaceutical sector also grew at a slower rate in the first five months of 2012, up 19.2% year-on-year, compared with around 30% growth in the past five years.

Despite the slower economic growth in China, the Group achieved a top-line growth of 25.6% year-on-year in the first half of this year, significantly outperforming the market. Lansen registered another period of strong growth of 33.5% in revenue mainly from the sales of its three core rheumatic specialty drugs and captured an increased share of the market. The Hotel repositioning started to show positive results and revenue from the Hotel grew by 5.3%, on the back of a 12.1% increase in room rate, exceeding its peers in Shenzhen, which showed an average 4.4% drop in revenue.

In addition to driving growth, the Group also managed its cost base closely. Lansen was able to maintain the gross profit margin of its core specialty drugs at a similar level to the previous year despite of higher white peony prices and labor costs. Lansen also reduced its selling and distribution expenses to 31.1% of its revenue, down from 33.7% in the last period. The Hotel maintained its gross profit margin at 14.8% (15.0% in the last period), despite a 6% rise in staff costs that was in line with the market.

Haotian reported a loss of USD1,883,000 which resulted in the Group recording a loss attributable to owners of the parent company of USD835,000 for the period, compared to a loss of USD127,000 a year ago. Haotian received a one-off government investment incentive of USD965,000 in the last period. Excluding this incentive, the Group had marginally improved its results.

Haotian completed construction of its sixth phytin plant in Yushu, Jilin Province. During the period, Haotian continued with its inositol trial production runs. Haotian is now entering into the pre-operating phase of inositol production and the final phase of workers training, preparing for the full-scale operation of the inositol project. Within Botai, we are working on the expansion of production facilities for its collagen injectable filler product and preparing for its launch in the market in China. The Group merged Longbai into Botai to create future synergies in management and production.

The business environment in second half of 2012 will continue to be challenging with the global economic uncertainty and slow growth in China and Chinese medical reforms proposing to lower drug prices would force the industry to further consolidate. Even with the softened economy, the China healthcare and pharmaceutical markets are projected to grow at 15-20% per annum in the foreseeable future. The outcome for the year as a whole is going to depend upon the Group continuing to benefit from the growth shown by Lansen as well as Haotian delivering an improved performance, which will be dependent upon the final phases of the inositol project being completed to plan.

The Group continues to explore investment opportunities that would strategically fit into its existing businesses and compliment the overall product portfolio. Within Lansen, the investment focus will be on broadening its product portfolio in the rheumatology space via its current development product pipeline; and through potential business collaborations and product acquisitions; and expanding its sales and distribution network to second and third tier China cities. Botai will continue to work on the commercial launch of its product and on building a competitive market share.

Sum Soon Lim
Chairman
29 August 2012

FINANCIAL PERFORMANCE

Stated in USD'000	Lansen Group	Health Care Haotian Group	Botai	Hotel Operations	Corporate Office	Total
For the six months ended 30 June 2012						
Segment revenue	41,394	928	–	6,072	–	48,394
Segment gross profit	23,449	100	–	897	–	24,446
Segment operating profit/(loss)	7,385	(1,815)	(300)	899	(2,387)	3,782
Segment finance costs	(395)	(68)	–	(320)	(347)	(1,130)
Segment share of post-tax profit of associate	684	–	–	–	52	736
Segment profit/(loss) before income tax	7,674	(1,883)	(300)	579	(2,682)	3,388
Segment income tax expense	(1,194)	–	–	–	–	(1,194)
Segment profit/(loss) for the period before non-controlling interests	6,480	(1,883)	(300)	579	(2,682)	2,194
Segment profit/(loss) for the period attributable to owners of the parent	3,416	(1,871)	(277)	579	(2,682)	(835)
For the six months ended 30 June 2011						
Segment revenue	31,005	1,745	–	5,767	–	38,517
Segment gross profit	19,076	198	–	867	–	20,141
Segment operating profit/(loss)	6,316	(394)	(455)	698	(2,447)	3,718
Segment finance costs	(149)	(120)	–	(361)	(281)	(911)
Segment share of post-tax profit of associate	1,126	–	–	–	84	1,210
Segment profit/(loss) before income tax	7,293	(514)	(455)	337	(2,644)	4,017
Segment income tax expense	(1,157)	(1)	–	–	–	(1,158)
Segment profit/(loss) for the period before non-controlling interests	6,136	(515)	(455)	337	(2,644)	2,859
Segment profit/(loss) for the period attributable to owners of the parent	3,084	(507)	(397)	337	(2,644)	(127)

Operation Review

Group revenue for the first half of 2012 increased by 25.6% to USD48,394,000 (2011: USD38,517,000). The increase was mainly due to a 33.5% growth in Lansen's revenue to USD41,394,000 (2011: USD31,005,000). The Hotel's revenue grew by 5.3% to USD6,072,000 (2011: USD5,767,000).

Group gross profit for the period rose by 21.4% to USD24,446,000 (2011: USD20,141,000). This was mainly due to the 22.9% increase in gross profit from Lansen to USD23,449,000 (2011: USD19,076,000). The Hotel slightly improved its gross profit, while gross profit of Haotian reduced to USD100,000 (2011: USD198,000) due to decrease in bilberry sales.

Group operating profit for the period was USD3,782,000 (2011: USD3,718,000). Lansen's operating profits increased by 16.9% to USD7,385,000 (2011: USD6,316,000). The operating loss of Haotian of USD1,815,000 (2011: USD394,000) was after government grants of USD168,000 (2011: USD1,122,000). Excluding the government grants, Haotian's operating loss was USD1,983,000 (2011: USD1,516,000). The Hotel recorded a 28.8% increase in operating profits to USD899,000 (2011: USD698,000) mainly because it was able to manage down its administrative costs. The corporate office operating expenses was reduced slightly to USD2,387,000 (2011: USD2,447,000).

Group financing costs increased 24.0% to USD1,130,000 (2011: USD911,000), mainly due to increased average bank borrowings and the higher interest rates, at an average of 2.9%, that prevailed in the first half of 2012 (2011: 2.2%). The interest expenses capitalised during the period were USD622,000 (2011: USD232,000).

Zhejiang Starry Pharmaceutical Co. Limited ("Starry") completed the expansion of its iohexol production facilities, doubling the annual capacity to 500 tonnes. Due to the delay in receiving the GMP certification on these expanded facilities and increased costs, contribution from Starry decreased during the period. This situation will be reversed and Starry is expected to increase contribution in the second half of 2012.

Group's after tax profit before non-controlling interests for the first half of 2012 was USD2,194,000 (2011: USD2,859,000). The increase in tax expense was due to the increase in taxable profit of the Group's subsidiaries operating as different entities, not being offset by losses in loss-making entities.

The Group's loss attributable to owners of the parent for the first half of 2012 was USD835,000 (2011: loss of USD127,000). The increase in loss was primarily due to certain one-off government grants received by Haotian in the last period but not in the current period, as mentioned above.

Group's Gearing

The Group's net bank borrowings decreased to USD86,605,000, compared to USD88,858,000 as at 31 December 2011, mainly due to repayment of bank borrowings. The Group extended or renewed all borrowings matured on or before the date of this report. Net gearing reduced to 43.6% (31 December 2011: 44.4%).

Lansen Group

Revenue for the first half of 2012 increased by 33.5% to USD41,394,000 (2011: USD31,005,000). Revenue from prescription western pharmaceuticals for rheumatic indications rose by 21.0% to USD25,320,000 (2011: USD20,929,000).

Growth in core product revenue was mainly due to the steady growth of its rheumatic specialty drugs - Pafulin (18.5%), Tuoshu (17.1%) and the immunosuppressant mycophenolate mofetil ("MMF") introduced in 2010 (234.8%). The sales in other pharmaceuticals increased by 59.5%, mainly due to a general increase in demand for modern Chinese medicine extracts in the current period and slower sales in the same period last year.

Lansen's gross profit increased by 22.9% to USD23,449,000 (2011: USD19,076,000). Lansen's gross profit margin, however, decreased 4.9% to 56.6% (2011: 61.5%), mainly due to increased sales of lower margin non-core products – modern Chinese medicine extracts and other generic drugs. The gross profit margin of its core rheumatic specialty drugs maintained at 75.2% (2011: 77.0%).

Lansen's operating profit rose by 16.9% to USD7,385,000 (2011: USD6,316,000). The operating profit margin was reduced to 17.8% (2011: 20.4%), a drop of 2.6%. Selling and distribution expenses increased by 23.4% to USD12,888,000 (2011: USD10,442,000) due to Lansen's commitment to continue to raise the visibility of Pafulin, Tuoshu and MMF in its specialty markets; however, such selling and distribution expenses was managed down to 31.1% of Lansen's revenue (2011: 33.7%).

Lansen's profit before non-controlling interests increased by 5.6% to USD6,480,000 (2011: USD6,136,000).

Lansen completed the main building construction of its Pafulin extract production plant and the equipment installation should complete in the second half of 2012. The plant will optimize Lansen's production and management efficiency and meet the anticipated increase in demand for these products.

Lansen's strategy is to broaden its product portfolio in the rheumatology space. Lansen has a pipeline of ten products under development, which are DMARDs and NSAIDs for treatment of autoimmune disorders. Lansen will continue to explore acquisition and collaboration opportunities to obtain new products and will also invest in expanding its sales and distribution network to second and third tier cities in China.

Haotian Group

Haotian's non-inositol business revenue decreased by 46.8% to USD928,000 (2011: USD1,745,000). The non-inositol business revenue comprised mainly of bilberry sales. The global supply of bilberries in the last harvest season was substantially reduced due to bad weather conditions in Europe, leading to a surge of raw material price. Haotian therefore temporarily reduced the procurement of bilberries raw material, resulted in the drop in bilberry sales.

Operation Review

Gross profit of Haotian's non-inositol business reduced to USD100,000 (2011: USD198,000), as a result of the decrease in business volume. The gross profit margin decreased to 10.8% (2011: 11.3%) due to surge in raw material price.

The operating loss of Haotian was USD1,815,000 (2011: loss of USD394,000), after government grants of USD168,000 (2011: USD1,122,000). In the first half of 2011, Haotian received a one-off investment incentive of USD965,000 in the Jilin development district. Excluding government grants, Haotian's operating loss was USD1,983,000 (2011: USD1,516,000).

Haotian completed construction of its sixth phytin plant in Yushu, Jilin Province. During the period, Haotian continued with its trial production runs of inositol. Haotian is entering into the pre-operating phase, with inositol production to reach approximately two-thirds of its capacity, and the final phase of training for workers. This will prepare for the full-scale operation of the inositol project.

Due to the sharp decline in curcumin market prices, which will squeeze profit margins of curcumin products, Haotian is reviewing its curcumin feasibility study and refining its business model.

Botai

Botai received the first ever domestic production license for medical collagen injectable filler (brand name "Fillderm") from the State Food and Drug Administration of the PRC. During the period, Botai has conducted market surveys and interviews with industry professionals and has formulated the marketing and sales strategy for Fillderm. Botai has commenced the building of a sales team and the expansion of the production facilities and remains on target to launch Fillderm towards the end of this year.

During the period, Longbai was merged with Botai and Botai took over the misoprostol project. Botai is preparing the application for regulatory approval of misoprostol. The licensing process could take two to three years.

Hotel Operations

First half of 2012 was a challenging period for the hotel industry in China due to the uncertainty of the global economy and the slow down in the PRC economic growth. The Hotel continues to maintain high service quality through extensive staff training and continues to grow in the domestic market for both business and transient segments through proactive marketing.

Following a repositioning exercise, in the first half of 2012, revenue in the Hotel increased by 5.3% to USD6,072,000 (2011: USD5,767,000). The average room rate increased by 12.1% to USD148 (2011: USD132) while the room occupancy decreased 3.6% to 51.1% (2011: 54.7%). Our Hotel outperformed the peers' average in Shenzhen, which only recorded an average room rate increase of 4.9% with an average 8.9% drop in room occupancy in the same period.

The Hotel's food and beverage revenue grew to USD1,813,000 (2011: USD1,713,000), mainly due to improvements made to its catering and banqueting business.

The Hotel managed its operating costs effectively and maintained the gross profit margin at 14.8% during the period (2011: 15.0%), despite a 6% rise in staff costs that was in line with the Shenzhen market.

The Hotel's operating profit for the first half of 2012 increased substantially by 28.8% to USD899,000 (2011: USD698,000). The increase was mainly due to lower administrative costs and an increase in interest income.

Cathay International Capital ("CIC")

CIC will continue to explore investment opportunities primarily in the pharmaceutical and healthcare sector. Priority will be given to investments that would strategically fit into our existing businesses and compliment our product portfolio.

GRANT OF SHARE OPTIONS

On 3 April 2012, the Company granted 4,310,000 options under a Share Option Plan approved by shareholders of the Company on 3 June 2010. The number of options granted to date to the Group's management and employees represents approximately 63% of the options currently available under the Share Option Plan.

Consolidated Income Statement

	Note	**Six months ended 30 June 2012 (Unaudited) USD'000**	Six months ended 30 June 2011 (Unaudited) USD'000
Revenue	2	**48,394**	38,517
Cost of sales		**(23,948)**	(18,376)
Gross profit		**24,446**	20,141
Other income		**1,742**	2,541
Selling and distribution expenses		**(13,241)**	(10,706)
Administrative expenses		**(9,165)**	(8,258)
Profit from operations		**3,782**	3,718
Finance costs		**(1,130)**	(911)
Share of post-tax profit of associate		**736**	1,210
Profit before income tax	2	**3,388**	4,017
Income tax expense	3	**(1,194)**	(1,158)
Profit for the period		**2,194**	2,859
(Loss)/profit for the period attributable to:			
Owners of the parent		**(835)**	(127)
Non-controlling interests		**3,029**	2,986
		2,194	2,859
Loss per share attributable to owners of the parent	4		
Basic and diluted		**(0.22 cents)**	(0.03 cents)

Consolidated Statement of Comprehensive Income

	Six months ended 30 June 2012 (Unaudited) USD'000	Six months ended 30 June 2011 (Unaudited) USD'000
Profit for the period	**2,194**	2,859
Other comprehensive income		
Exchange differences arising on translating foreign operations	**(1,735)**	3,219
Other comprehensive income, net of tax	**(1,735)**	3,219
Total comprehensive income for the period	**459**	6,078
Total comprehensive income attributable to:		
Owners of the parent	**276**	3,082
Non-controlling interests	**183**	2,996
	459	6,078

Condensed Consolidated Statement of Financial Position

	As at 30 June 2012 (Unaudited) USD'000	As at 31 December 2011 (Audited) USD'000
ASSETS		
NON-CURRENT ASSETS		
Property, plant and equipment	**197,229**	190,863
Prepaid land lease payment	**5,333**	4,103
Intangible assets	**7,712**	6,994
Goodwill	**25,622**	25,622
Interest in associate	**30,221**	29,760
Available-for-sale financial assets	**385**	385
Loans to non-controlling interests	**686**	686
	267,188	258,413
CURRENT ASSETS		
Inventories	**20,361**	18,102
Trade and other receivables	**54,813**	66,187
Prepaid land lease payment	**120**	94
Pledged bank deposits	**13,826**	17,529
Cash and cash equivalents	**9,615**	20,166
	98,735	122,078
TOTAL ASSETS	**365,923**	380,491
EQUITY AND LIABILITIES		
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	**143,727**	143,216
NON-CONTROLLING INTERESTS	**54,957**	56,961
TOTAL EQUITY	**198,684**	200,177
NON-CURRENT LIABILITIES		
Borrowings	**2,047**	9,157
Deferred tax liabilities	**25,157**	25,155
	27,204	34,312
CURRENT LIABILITIES		
Borrowings	**105,187**	114,511
Current tax liabilities	**1,355**	1,656
Trade and other payables	**33,493**	29,835
	140,035	146,002
TOTAL LIABILITIES	**167,239**	180,314
TOTAL EQUITY AND LIABILITIES	**365,923**	380,491

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 2012	19,062	51,035	408	(1,737)	97,502	8,827	(18,037)	5,293	(19,137)	143,216	56,961	200,177
Dividend to non-controlling interests	–	–	–	–	–	–	–	–	–	–	(2,187)	(2,187)
Recognition of share-based payments	–	–	235	–	–	–	–	–	–	235	–	235
Transaction with owners	–	–	235	–	–	–	–	–	–	235	(2,187)	(1,952)
Profit/(loss) for the period	–	–	–	–	–	–	–	–	(835)	(835)	3,029	2,194
Other comprehensive income	–	–	–	–	–	–	1,111	–	–	1,111	(2,846)	(1,735)
Total comprehensive income for the period	–	–	–	–	–	–	1,111	–	(835)	276	183	459
Balance at 30 June 2012	19,062	51,035	643	(1,737)	97,502	8,827	(16,926)	5,293	(19,972)	143,727	54,957	198,684
Balance at 1 January 2011	19,062	51,035	60	(1,737)	97,502	6,892	(22,874)	2,618	(17,059)	135,499	53,901	189,400
Dividend to non-controlling interests	–	–	–	–	–	–	–	–	–	–	(2,898)	(2,898)
Recognition of share-based payments	–	–	151	–	–	–	–	–	–	151	–	151
Transaction with owners	–	–	151	–	–	–	–	–	–	151	(2,898)	(2,747)
Profit/(loss) for the period	–	–	–	–	–	–	–	–	(127)	(127)	2,986	2,859
Other comprehensive income	–	–	–	–	–	–	3,209	–	–	3,209	10	3,219
Total comprehensive income for the period	–	–	–	–	–	–	3,209	–	(127)	3,082	2,996	6,078
Balance at 30 June 2011	19,062	51,035	211	(1,737)	97,502	6,892	(19,665)	2,618	(17,186)	138,732	53,999	192,731

Condensed Consolidated Statement of Cash Flows

	Six months ended 30 June 2012 (Unaudited) USD'000	Six months ended 30 June 2011 (Unaudited) USD'000
Net cash generated from/(used in) operating activities	**11,859**	(257)
Net cash used in investing activities	**(6,744)**	(14,362)
Net cash (used in)/generated from financing activities	**(15,275)**	7,545
Net decrease in cash and cash equivalents	**(10,160)**	(7,074)
Cash and cash equivalents at beginning of the period	**20,166**	25,860
Effects of exchange rate changes	**(391)**	146
Cash and cash equivalents at end of the period	**9,615**	18,932

Notes to the Condensed Consolidated Financial Statements

1. BASIS OF PREPARATION

The condensed consolidated interim financial statements (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") and under the historical cost convention, modified where appropriate to incorporate a professional valuation of certain fixed assets.

The accounting policies adopted in the Interim Financial Statements are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2011, except for the adoption of the new and revised International Financial Reporting Standards ("IFRSs") (which collective term includes all applicable individual International Financial Reporting Standards and Interpretations as approved by the IASB, and all applicable individual International Accounting Standards and Interpretations as originated by the Board of the International Accounting Standards Committee and adopted by the IASB). The application of these new and revised IFRSs in the current interim period has no material effect on the amounts reported in the Interim Financial Statements and/or disclosures set out in the Interim Financial Statements.

The Group has not early applied new or revised standards that have been issued but not yet effective.

2. SEGMENT INFORMATION

	Six months ended 30 June 2012 (Unaudited) USD'000	Six months ended 30 June 2011 (Unaudited) USD'000
Revenue		
Health Care:		
Lansen Group	**41,394**	31,005
Haotian Group	**928**	1,745
Botai	**–**	–
Hotel Operations	**6,072**	5,767
	48,394	38,517
Profit/(loss) before income tax		
Health Care:		
Lansen Group	**7,674**	7,293
Haotian Group	**(1,883)**	(514)
Botai	**(300)**	(455)
Hotel Operations	**579**	337
	6,070	6,661

The Group's operating segments reconciled to the entity's profit before income tax are presented in its condensed consolidated interim financial statements as follows:

	Six months ended 30 June 2012 (Unaudited) USD'000	Six months ended 30 June 2011 (Unaudited) USD'000
Reportable segment profit	**6,070**	6,661
Unallocated corporate income	**170**	125
Unallocated corporate expenses	**(2,852)**	(2,769)
Profit before income tax	**3,388**	4,017

3. INCOME TAX EXPENSE

The provision for current tax has been made in respect of the assessable profits arising in the People's Republic of China during the period.

4. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

Basic and diluted loss per share is based upon the loss after tax attributable to owners of the parent of USD835,000 (2011: USD127,000) and the following weighted average number of shares of A Shares and Common Shares in issue during the period:

	Six months ended 30 June 2012 (Unaudited)		Six months ended 30 June 2011 (Unaudited)	
	Common Shares	**A Shares**	Common Shares	A Shares
Amounts in thousand:				
Weighted average number of shares used in basic and diluted loss per share	**367,790**	**10,252**	367,473	10,569

For the period ended 30 June 2012 and 2011, the computation of diluted loss per share does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price for shares nor does it include the 1,292,353 Common Shares contingently issuable to Mr. Lee Jin-Yi, as the conditions for their issue were not met throughout the period.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Each of the directors confirms 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 and Transparency Rules 4.2.7R; and

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

PUBLICATION OF NON-STATUTORY ACCOUNTS

The unaudited interim results do not constitute full accounts prepared in accordance with the listing rules of the UK Financial Services Authority. The figures for the year ended 31 December 2011 have been based on the full accounts of the Group which were prepared under IFRS and which included an unqualified audit report. The interim financial information in this report has been neither audited nor reviewed by the Group's auditor.

Copies of this report have been sent to shareholders and are available to the public from the Company's UK Transfer Agents, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

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