CATHAY INTERNATIONAL HOLDINGS LIMITED

INTERIM REPORT 2015

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BUSINESS REVIEW

China pharmaceutical sales growth slowed to 12.9% (2014 H1: 13.4%), with China's continued effort to build a sustainable and accessible healthcare system through price controls, reimbursement policies and tendering methods that all work to control costs. Despite the pricing control policy for most medicines in China being abolished on 1 June 2015, the regulatory authorities have since been monitoring drug price volatility to try and maintain an orderly drug market. As a result, the industry has continued to face downward pressure on drug prices and margins, and it is estimated that the rate of pharmaceutical sales growth in China could slow to around 10% later in 2015. Notwithstanding this, Cathay has robust operations and, due to management anticipation of the market slowdown and continued strategic product diversification, the Group will continue to navigate through these challenging conditions.

During the first half of 2015, Lansen has been preparing to submit provincial hospital tenders for its distribution agency product, leflunomide tablets branded "Hepai" (replacing its previous distribution agreement for leflunomide tablets branded "Tuoshu", following non-renewal of this agreement). Due to delays in the tender process, sales of Hepai have yet to reach the previous sales levels of Tuoshu and this has had an impact on Lansen's revenue. Lansen is, however, progressing the tender process and aims to increase sales of its specialty drugs as soon as possible. With the market moving into a period of slower growth and facing margin pressures, Lansen has, in recent years, purposefully diversified from rheumatology products to include autoimmune-related dermatology products. Amongst its dermatology products, Sicorten Plus cream (acquired from Novartis) and Comfy Collagen Dressing mask ("Kefumei", under exclusive distributorship for Giant BioGene) have both begun to contribute to profits. In the first half of 2015, Lansen added two new products to its portfolio, namely Bio-Rad's diagnostic kits for autoimmune diagnosis and Botai's collagen injectable filler branded "Fillderm". Both products come under the medical device category in China and, as such, are currently not subject to price controls, which should in turn mitigate some of the challenges facing other products in Lansen's portfolio. During the period, Botai completed the second phase of expansion and modification of its production facilities for Fillderm.

Although Haizi's inositol production met key management targets for the first half of 2015, the fierce price competition in China has pushed the market price of inositol to a historical low range of USD8.0 to USD9.6 per kg (2014 H1: average of USD17.2 per kg), which reduced Haizi's contribution to the Group compared to expectations. Market price and sales of feed grade di-calcium phosphate ("DCP"), a by-product of inositol, met Haizi's expectations and Haizi also cleared some old DCP inventories and steadily lowered its DCP inventory level. Haizi is continuing to focus on the trial production of higher margin food grade DCP and is targeting a market launch in the second half of 2015, which is expected to begin contribution to the Group.

Yangling completed the construction of its multi-function workshop in the first half of 2015, enabling it to produce a wider range of plant extracts. As a result, business volume at Yangling increased during the period. Bilberry extracts remained a key product and the renewed plant extract supply agreement with Lansen, lasting for 3 years from January 2015, will generate business volume in a variety of plant extract products.

Recently, the China Food and Drug Administration ("CFDA") of the People's Republic of China (the "PRC") conducted a nationwide inspection on ginkgo products to determine whether the sourcing, production and quality controls of manufacturers in the PRC met national standards. Lansen's subsidiary, Ningbo Liwah Pharmaceutical Company Limited ("Ningbo Liwah"), was found to be one of the manufacturers for which sourcing, production and quality controls of its ginkgo products fell short of national standards. Ningbo Liwah cooperated with CFDA and conducted a recall of its ginkgo products. Ningbo Liwah has since taken rectification measures, restructured Ningbo Liwah and its plant extract business, reorganised its management, and conducted a self-inspection on all of the other products of Ningbo Liwah to ensure that no similar incidents occur. Ningbo Liwah will continue to cooperate with the regulatory authorities and comply with any further corrective actions which they may determine.

The Hotel continued to perform well during the period. Room occupancy increased to 68.5% in the first half of 2015 (2014 H1: 65.2%) and the main focus in the second half is to increase room rates and food and beverage revenue.

Outlook in the second half of 2015

The Company expects the second half of 2015 will remain challenging, as a result of current economic conditions in China as well as external factors specific to the Group's business, such as the continued low price of inositol, rectification of the ginkgo business and management of customer relationships at Ningbo Liwah.

The Company is robustly positioned to take on the challenge and, through the introduction of new products (such as Bio-Rad's diagnostic kits and Botai's Fillderm), reduction in production costs (such as the market launch of higher margin food grade DCP for Haizi's inositol), and the continued strategy to diversify into health and dietary supplements, the Company is confident it can continue building a solid business with sustainable competitiveness.

With the improved quality of life and increased awareness of healthcare in China and an evolving regulatory framework for the industry, the health and dietary supplements market offers significant growth potential. China's health ant dietary supplements sales are estimated to reach USD50 billion in 2016 and over USD70 billion in 2018, a compound annual growth rate of 20%.

Lansen continues to diversify from rheumatology products to autoimmune related dermatology products and has added products in related fields. Bio-Rad diagnostic instruments and kits, a new Lansen product under a distribution agreement, provide a high-tech platform for speedy diagnosis of autoimmune diseases including rheumatology. The early detection of autoantibodies is key to the effective treatment of autoimmune diseases and, with the fast growing patient population in this field, there is a strong demand for reliable clinical diagnosis and the Company expects this product to become a growth driver for Lansen. On 6 July 2015, Botai was granted a medical device category production licence by the CFDA to produce Fillderm. Botai expect to commence production of Fillderm in the second half of 2015 and will supply this to Lansen under an exclusive distribution agreement. Industry estimates that the Chinese branded filler market should achieve a compound annual growth rate of 20% during the period from 2014-2022, offering an attractive business opportunity. The preparation and market launch of these two new products will, however, need resources and working capital and, as such, they are not expected to contribute immediately. With reasonable marketing and promotion, these two products are expected to contribute significant earnings over time. Lansen should then be able to operate and develop a healthier business, building upon a more diverse multi-product portfolio.

Haizi will continue to streamline and improve the efficiency of its inositol production and is working to manage the consumption of energy and ancillary raw materials in the process in order to reduce production costs. Haizi has recently seen an increase in the export of inositol and, it is expected that inositol price will climb to a reasonable level before the second quarter in 2016. When the price normalizes and upon the successful launch of food grade DCP, Haizi should begin to contribute to the Group.

Cathay's strategy in healthcare is to build on its experience in the production of plant extracts and ingredients for health and dietary supplements and develop into the higher margin, health and dietary supplements business with good growth potential. The Group has initially identified 30-40 mature supplement products, available in international markets, of either single or blended formula of ingredients, for regulatory registration in China, including Hong Kong, if appropriate.

FINANCIAL REVIEW

Stated in USD'000	Healthcare: Lansen	Healthcare: Haizi	Healthcare: Yangling	Healthcare: Botai	Hotel Operations	Corporate Office	Inter-segment Elimination	Total
For the six months ended 30 June 2015								
REVENUE								
External sales	48,199	5,634	1,354	–	6,969	–	–	62,156
Inter-segment sales	–	351	1,248	–	–	–	(1,599)	–
Segment revenue	48,199	5,985	2,602	–	6,969	–	(1,599)	62,156
Segment gross profit/(loss)	24,007	(990)	579	–	1,143	–	(279)	24,460
Segment operating profit/(loss)	7,635	(2,489)	(285)	(318)	1,072	(2,937)	(279)	2,399
Segment finance costs	(1,648)	(492)	(6)	–	(356)	(1,671)	–	(4,173)
Segment share of post-tax profit of associate	1,342	–	–	–	–	–	–	1,342
Segment profit/(loss) before income tax	7,329	(2,981)	(291)	(318)	716	(4,608)	(279)	(432)
Segment income tax expense	(896)	82	(10)	–	–	–	–	(824)
Segment profit/(loss) for the period before non-controlling interests	6,433	(2,899)	(301)	(318)	716	(4,608)	(279)	(1,256)
Segment profit/(loss) for the period attributable to owners of the parent	3,396	(2,897)	(301)	(293)	716	(4,608)	(279)	(4,266)
For the six months ended 30 June 2014								
REVENUE								
External sales	55,370	9,539	2,965	–	6,807	–	–	74,681
Inter-segment sales	–	1,157	339	–	–	–	(1,496)	–
Segment revenue	55,370	10,696	3,304	–	6,807	–	(1,496)	74,681
Segment gross profit	30,384	4,203	276	–	1,004	–	–	35,867
Segment operating profit/(loss)	10,197	1,893	(1,071)	(494)	923	(1,961)	–	9,487
Segment finance costs	(1,335)	(159)	(6)	–	(334)	(1,907)	–	(3,741)
Segment share of post-tax profit of associate	689	–	–	–	–	–	–	689
Segment profit/(loss) before income tax	9,551	1,734	(1,077)	(494)	589	(3,868)	–	6,435
Segment income tax expense	(1,965)	(709)	(40)	–	–	–	–	(2,714)
Segment profit/(loss) for the period before non-controlling interests	7,586	1,025	(1,117)	(494)	589	(3,868)	–	3,721
Segment profit/(loss) for the period attributable to owners of the parent	3,978	1,031	(1,112)	(468)	589	(3,868)	–	150

In the first half of 2015, Group revenue decreased by USD12,525,000 (16.8%) to USD62,156,000, of which Lansen sales fell by USD7,171,000, Haizi sales reduced by USD3,905,000 and Yangling sales decreased by USD1,611,000. The decrease in Lansen's revenue was due to delays in the hospital tender process which slowed down the switching of leflunomide tablets, branded "Hepai" (replacing Tuoshu), under the exclusive distributorship. Haizi and Yangling's lower sales were resulted from the continued low market price of inositol. The Hotel's revenue grew slightly during the period.

Group gross profit decreased by USD11,407,000 (31.8%) to USD24,460,000, of which Lansen's gross profit was down USD6,377,000 (21.0%) and Haizi's gross profit was down USD5,193,000. Yangling gross profit grew by USD303,000. The drop in gross profit was primarily due to drop in sales and gross margin of Hepai leflunomide tablets at Lansen decribed above; and the low market price of inositol at Haizi.

Group operating profit decreased by USD7,088,000 (74.7%) to USD2,399,000. Lansen operating profit lowered by USD2,562,000 (25.1%) to USD7,635,000; Haizi suffered an operating loss of USD2,489,000 and Yangling reduced its operating loss by USD786,000 to USD285,000. Corporate overheads increased by USD976,000 to USD2,937,000 mainly due to the reversal of USD766,000 on share options lapsed in the prior period.

Group finance costs increased by USD432,000 (up 11.5%) to USD4,173,000, resulting from the net increase in the Group's bank borrowings, which was partly offset by the reduced average interest rate at 4.3% p.a. (2014 H1: 4.4% p.a.).

Group's after tax loss before non-controlling interests for the period was USD1,256,000 (2014 H1: profit of USD3,721,000). The Group's loss attributable to owners of the parent for the period was USD4,266,000 (2014 H1: profit of USD150,000).

Gearing

The Group's net borrowings increased to USD134,601,000 compared to USD129,095,000 as at 31 December 2014, mainly due to Lansen's increased bank borrowings for working capital purposes. Net gearing increased to 72.8% (31 December 2014: 68.7%).

Lansen

Lansen recorded a 13.0% (USD7,171,000) decrease in revenue mainly due to the non-renewal of the exclusive distribution agreement of leflunomide tablets branded "Tuoshu" at end of 2014. Lansen started to market leflunomide tablets branded "Hepai" under a new exclusive distribution agreement during the period but, as the provincial level bidding process for drug procurement at hospitals was delayed, the product replacement process was slower than expected and affected Lansen's sales for the first half.

Elsewhere in Lansen's portfolio, sales of immunosuppressant mycophenolate mofetil ("MMF"), an exclusive distribution agency product, were down by 41.2% to USD1,886,000 due to temporary short supply by the manufacturer during the period, which has since resumed post period end. On the other hand, Pafulin achieved a slight growth in revenue of 1.6% to USD19,685,000; Comfy Collagen Dressing mask (Kefumei) sales increased by almost 9 times to USD2,166,000 and Sicorten Plus cream from Novartis contributed USD465,000. These two dermatology and skincare products contributed revenues of USD455,000 in the prior period.

One of Lansen's other pharmaceutical products, Bazhenkeli (for women's healthcare), which was included in the Chinese essential drug list, achieved growth in sales of 48.1% to USD2,944,000 (2014 H1: USD1,988,000).

In total, Lansen's gross profit decreased by 21.0% to USD24,007,000. There was a decrease in the division's overall gross margin to 49.8% (2014 H1: 54.9%) due to the reduced gross margin of core rheumatic drugs to 69.0% (2014 H1: 73.8%) as a result of the lower margin on Hepai tablets to promote sales and higher proportionate sales in the lower margin plant extracts and other pharmaceutical products.

Lansen's operating profit dropped by 25.1% to USD7,635,000. Operating profit margin was 15.8% (2014 H1: 18.4%). The drop in the operating margin was less than that of the gross profit as Lansen continued to decrease its selling and distribution expenses, to 26.1% of revenue (2014 H1: 28.8%).

Lansen's 21.5% owned associate, Zhejiang Starry Pharmaceutical Co. Limited ("Starry"), improved its profit contribution to USD1,342,000 (2014 H1: USD689,000). On 24 June 2015, the Chinese Securities Regulatory Commission approved Starry's A share listing application, however in early July 2015, due to the precipitous decline of over 30% in the Shanghai Stock Exchange Index, the Government announced that IPOs on the Chinese markets are on hold for the time being.

Lansen's profit before non-controlling interests decreased by only 15.2% to USD6,433,000, which was lower than the decrease in operating profit. This was due to its subsidiary, Ningbo Liwah Plant Extraction Technology Limited, receiving permission to apply a high technology income tax rate of 15% instead of the standard 25%, with retrospective effect from 1 January 2014. The lower income tax expenses reflected the reversal of the tax overpaid in 2014.

There was no provision made during the period against the potential litigation claim faced by Ningbo Liwah, which was announced after the interim results date on 6 July 2015. For the reasons given in note 6 to these interim financial statements, no subsequent provision has been made.

Haizi

During the period, Haizi recorded revenue of USD5,985,000 (2014 H1: USD10,696,000) from sales of inositol and its by-product, DCP. Haizi produced 592 tonnes (2014 H1: 681 tonnes) and 3,445 tonnes (2014 H1: 3,792 tonnes) of inositol and feed grade DCP, respectively, and sold a total of 611 tonnes (2014 H1: 661 tonnes) of inositol and 5,597 tonnes (2014 H1: 2,278 tonnes) of feed grade DCP, respectively. Haizi was able to produce a record high of 195 tonnes of inositol in March 2015 and reached an annualised production run rate of 2,340 tonnes or 94% of design capacity of 2,500 tonnes. The average selling price of inositol was approximately USD8.6 per kg (2014 H1: USD17.2 per kg) during the period, as a result of the low market price of inositol.

Haizi's gross loss was USD990,000 (2014 H1: gross profit of USD4,203,000) and its gross margin was -16.5% (2014 H1: 39.3%), primarily due to the low inositol selling price resulting from price competition amongst major suppliers in the China market. Haizi's operating loss was USD2,489,000 (2014 H1: profit of USD1,893,000) and its net loss was USD2,899,000 (2014 H1: profit of USD1,025,000).

Haizi will continue to work on improving its output efficiency and decreasing consumption of ancillary raw materials, in order to reduce the unit production cost, and will work on modifying its processes to produce higher margin food grade DCP to improve profits.

Yangling

Yangling's revenue, primarily consisting of agency sales of part of Haizi's inositol, bilberry extracts and ginseng extracts, decreased by 21.2% to USD2,602,000 (2014 H1: USD3,304,000), mainly due to lower inositol selling prices. It achieved a gross profit of USD579,000 (2014 H1: USD276,000). Yangling's gross margin was 22.3% due to the increase in average gross margin at 11.5% (2014 H1: 8.4%) for its plant extract products and a recovery of sales of certain obsolete stock previously written off. The operating loss was reduced to USD285,000 (2014 H1: USD1,071,000).

In the first half of 2015, Yangling completed the fine-tuning of its synthesis production line and construction of its multi-function production line. Yangling's production volumes increased during the period, mainly from bilberry and the business under the plant extract supply agreement with Lansen.

Botai

Botai's operating loss decreased to USD318,000 (2014 H1: USD494,000).

The expansion and modification of the collagen production facilities was completed during the period.

On 6 July 2015, Botai was granted a "Medical Device Production Licence" for its collagen injectable fillers branded "Fillderm" and will commence production in the second half of this year, supplying to Lansen under an exclusive distribution agreement.

Hotel Operations

There was no significant change in the Lowu market during the period. The Hotel's average room rate decreased to USD129 (2014 H1: USD133) because of an increase in room sales to large multinational corporate clients at preferential corporate rates. However, revenue increased by 2.4% to USD6,969,000, mainly due to increased room occupancy of 68.5% (2014 H1: 65.2%).

The Hotel's food and beverage sales increased by 4.2% to USD2,010,000 (2014 H1: USD1,929,000), mainly due to an increase in its banqueting business. With the 2% increase in revenue per available room (RevPAR) and tight cost control, gross margin increased to 16.4% (2014 H1: 14.7%). The Hotel's operating profit was USD1,072,000 (2014 H1: USD923,000).

The Hotel is currently ranked tenth amongst 2,160 hotels in Shenzhen by Tripadvisor, reflecting customer satisfaction of the Hotel's high quality service. The Hotel will continue its strategy of maintaining high quality service through extensive staff training and aims to grow in both the business and transient segments.

GRANT OF SHARE OPTIONS

On 31 March 2015, the Company granted 4,080,000 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 100% of the options currently available under the Share Option Plan.

PRINCIPAL RISKS AND UNCERTAINTIES

The directors do not consider that the principal risks and uncertainties, as set out on pages 12 to 16 of annual report for the year ended 31 December 2014, have changed 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 International Accounting Standard 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.

On behalf of the Board
Patrick Sung
Director

28 August 2015

By order of the Board
Yip Pui Ling Rebecca
Secretary

28 August 2015

Condensed Consolidated Statement of Profit or Loss

	Note	**Six months ended 30 June 2015 USD'000 (Unaudited)**	Six months ended 30 June 2014 USD'000 (Unaudited)
Revenue	3	**62,156**	74,681
Cost of sales		**(37,696)**	(38,814)
Gross profit		**24,460**	35,867
Other income		**2,266**	1,922
Selling and distribution expenses		**(13,249)**	(16,635)
Administrative expenses		**(11,078)**	(11,667)
Profit from operations		**2,399**	9,487
Finance costs		**(4,173)**	(3,741)
Share of post-tax profit of associate		**1,342**	689
(Loss)/Profit before income tax	3	**(432)**	6,435
Income tax expense	4	**(824)**	(2,714)
(Loss)/Profit for the period		**(1,256)**	3,721
(Loss)/Profit for the period attributable to:			
Owners of the parent		**(4,266)**	150
Non-controlling interests		**3,010**	3,571
		(1,256)	3,721
(Losses)/Earnings per share attributable to owners of the parent	5		
Basic and diluted		**(1.13 cents)**	0.04 cents

Condensed Consolidated Statement of Comprehensive Income

	Six months ended 30 June 2015 USD'000 (Unaudited)	Six months ended 30 June 2014 USD'000 (Unaudited)
(Loss)/Profit for the period	**(1,256)**	3,721
Other comprehensive income		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	**198**	(2,294)
Other comprehensive income, net of tax	**198**	(2,294)
Total comprehensive income for the period	**(1,058)**	1,427
Total comprehensive income attributable to:		
Owners of the parent	**(4,149)**	(1,198)
Non-controlling interests	**3,091**	2,625
	(1,058)	1,427

Condensed Consolidated Statement of Financial Position

	As at 30 June 2015 USD'000 (Unaudited)	As at 31 December 2014 USD'000 (Audited)
ASSETS		
NON-CURRENT ASSETS		
Property, plant and equipment	**218,784**	218,295
Prepaid land lease payment	**5,148**	5,208
Intangible assets	**23,962**	22,127
Goodwill	**19,501**	19,501
Interest in associate	**36,062**	35,113
Available-for-sale financial assets	**385**	385
	303,842	300,629
CURRENT ASSETS		
Inventories	**25,775**	23,158
Trade and other receivables	**68,129**	71,256
Prepaid land lease payment	**125**	125
Tax recoverable	**210**	210
Pledged bank deposits	**39,272**	35,020
Cash and cash equivalents	**29,116**	19,360
	162,627	149,129
TOTAL ASSETS	**466,469**	449,758
EQUITY AND LIABILITIES		
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	**126,533**	130,391
NON-CONTROLLING INTERESTS	**58,236**	57,457
TOTAL EQUITY	**184,769**	187,848
NON-CURRENT LIABILITIES		
Borrowings	**75,377**	64,402
Deferred tax liabilities	**31,937**	31,746
	107,314	96,148
CURRENT LIABILITIES		
Borrowings	**119,257**	104,306
Current tax liabilities	**726**	1,777
Trade and other payables	**53,260**	58,563
Other financial liabilities	**1,143**	1,116
	174,386	165,762
TOTAL LIABILITIES	**281,700**	261,910
TOTAL EQUITY AND LIABILITIES	**466,469**	449,758

Condensed 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 2014 (audited)	19,062	51,035	1,109	(1,737)	97,502	10,300	(15,738)	7,957	(34,758)	134,732	55,589	190,321
Dividends to non-controlling interests	–	–	–	–	–	–	–	–	–	–	(1,839)	(1,839)
Recognition of share-based payments	–	–	(466)	–	–	–	–	–	–	(466)	–	(466)
Transactions with owners	–	–	(466)	–	–	–	–	–	–	(466)	(1,839)	(2,305)
Profit for the period	–	–	–	–	–	–	–	–	150	150	3,571	3,721
Other comprehensive income	–	–	–	–	–	–	(1,348)	–	–	(1,348)	(946)	(2,294)
Total comprehensive income for the period	–	–	–	–	–	–	(1,348)	–	150	(1,198)	2,625	1,427
Balance at 30 June 2014 (unaudited)	19,062	51,035	643	(1,737)	97,502	10,300	(17,086)	7,957	(34,608)	133,068	56,375	189,443
Balance at 1 January 2015 (audited)	19,062	51,035	967	(1,737)	97,502	8,323	(16,663)	9,181	(37,279)	130,391	57,457	187,848
Dividends to non-controlling interests	–	–	–	–	–	–	–	–	–	–	(2,312)	(2,312)
Recognition of share-based payments	–	–	319	–	–	–	–	–	–	319	–	319
Purchase of treasury shares	–	–	–	(28)	–	–	–	–	–	(28)	–	(28)
Transactions with owners	–	–	319	(28)	–	–	–	–	–	291	(2,312)	(2,021)
(Loss)/Profit for the period	–	–	–	–	–	–	–	–	(4,266)	(4,266)	3,010	(1,256)
Other comprehensive income	–	–	–	–	–	–	117	–	–	117	81	198
Total comprehensive income for the period	–	–	–	–	–	–	117	–	(4,266)	(4,149)	3,091	(1,058)
Balance at 30 June 2015 (unaudited)	19,062	51,035	1,286	(1,765)	97,502	8,323	(16,546)	9,181	(41,545)	126,533	58,236	184,769

Condensed Consolidated Statement of Cash Flows

	Six months ended 30 June 2015 USD'000 (Unaudited)	Six months ended 30 June 2014 USD'000 (Unaudited)
Net cash generated from operating activities	**1,958**	2,055
Net cash used in investing activities	**(9,391)**	(15,781)
Net cash generated from financing activities	**17,089**	18,262
Net increase in cash and cash equivalents	**9,656**	4,536
Cash and cash equivalents at beginning of the period	**19,360**	16,804
Effects of exchange rate changes	**100**	(65)
Cash and cash equivalents at end of the period	**29,116**	21,275

1. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements (the "Interim Financial Statements") of Cathay International Holdings Limited (the "Company") and its subsidiaries (hereafter collectively known as the "Group") for the six months ended 30 June 2015 have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board (the "IASB").

The Interim Financial Statements do not include all of the information required in annual financial statements in accordance with 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), and should be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2014. The Interim Financial Statements are neither audited nor reviewed by the Group's auditor.

Save as described in note 2 "Adoption of new and revised IFRSs", which are effective for the Group's financial year beginning on 1 January 2015, 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 2014.

The Interim Financial Statements have been prepared under the historical cost basis except for the hotel properties and certain financial liabilities that are measured at fair values.

During the reporting period, the Group has incurred a loss of USD1,256,000 and at the end of reporting period, its current liabilities exceeded its current assets by USD11,759,000. 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 2015.

As in the past, the Group will start negotiation with the relevant banks on extension or renewal of the bank borrowings few months prior to their respective maturities and obtain the approvals from the relevant banks before their respective maturities. The Group does not foresee that the bank borrowings will not be renewed or extended before maturity. The Group is also exploring options to secure long term funding, including debt and/or equity, to refinance part of the bank borrowings. Accordingly, the Group should be able to meet in full its financial obligations as and when they fall due for the next twelve months from 30 June 2015 without significant curtailment of operations and the directors of the Company are 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 accordingly.

2. ADOPTION OF NEW AND REVISED IFRSS

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 relevant for the preparation of the Group's Interim Financial Statements.

– IFRSs (Amendments), *Annual Improvements* 2010-2012 Cycle

– IFRSs (Amendments), *Annual Improvements* 2011-2013 Cycle

The application of the above new or revised IFRSs in the current interim period has no material effect on the amounts reported in these Interim Financial Statements and/or disclosures set out in these Interim Financial Statements.

3. SEGMENT INFORMATION

	Healthcare				Hotel Operations	Elimination	Total
	Lansen	Haizi	Yangling	Botai			
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Six months ended 30 June 2015							
REVENUE							
External sales	**48,199**	**5,634**	**1,354**	**–**	**6,969**	**–**	**62,156**
Inter-segment sales	**–**	**351**	**1,248**	**–**	**–**	**(1,599)**	**–**
Segment revenue	**48,199**	**5,985**	**2,602**	**–**	**6,969**	**(1,599)**	**62,156**
Segment profit/(loss) before income tax	**7,329**	**(2,981)**	**(291)**	**(318)**	**716**	**(279)**	**4,176**
Six months ended 30 June 2014							
REVENUE							
External sales	55,370	9,539	2,965	–	6,807	–	74,681
Inter-segment sales	–	1,157	339	–	–	(1,496)	–
Segment revenue	55,370	10,696	3,304	–	6,807	(1,496)	74,681
Segment profit/(loss) before income tax	9,551	1,734	(1,077)	(494)	589	–	10,303

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

	Six months ended 30 June 2015 USD'000 (Unaudited)	Six months ended 30 June 2014 USD'000 (Unaudited)
Reportable segment profit	**4,176**	10,303
Unallocated corporate income	**88**	66
Unallocated corporate expenses	**(4,696)**	(3,934)
(Loss)/Profit before income tax	**(432)**	6,435

4. 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 (the "PRC") during the period.

5. (LOSSES)/EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

The calculation of the basic and diluted (losses)/earnings per share attributable to the owners of the Company are based on the following data:

	Six months ended 30 June 2015 USD'000 (Unaudited)	Six months ended 30 June 2014 USD'000 (Unaudited)
(Loss)/Earnings		
(Loss)/Profit for the period attributable to the owners of the Company for the purpose of basic and diluted (losses)/earnings per share	**(4,266)**	150

	Six months ended 30 June 2015 Thousands (Unaudited)	Six months ended 30 June 2014 Thousands (Unaudited)
Number of shares		
Common Shares		
Weighted average number of Common Shares for the purpose of basic and diluted (losses)/earnings per share	**368,715**	368,738
A Shares		
Weighted average number of A Shares for the purpose of basic and diluted (losses)/earnings per share	**9,286**	9,305

For the period ended 30 June 2015, the computation of diluted losses per share does not include the 3,184,706 Common Shares (six months ended 30 June 2014: 1,292,353 Common Shares) contingently issuable to Mr. Lee Jin-Yi, as the conditions for their issue were not met throughout the period.

For the period ended 30 June 2015, the computation of diluted losses per share did not assume the incremental shares from outstanding share options because the share options have anti-dilutive effect.

6. CONTINGENT LIABILITIES

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 Biological Engineering Company Limited (the "Claimant") against Lansen's subsidiary, Ningbo Liwah Pharmaceutical Company Limited ("Ningbo Liwah"). In the Litigation, the Claimant alleged that it had suffered several losses due to the use of ginkgo extract supplied by Ningbo Liwah in the Claimant's products. The Claimant is therefore seeking damages of approximately RMB70 million (approximately USD11.4 million as of 30 June 2015) from Ningbo Liwah, as well as relevant legal fees. Lansen has sought a preliminary opinion on the Litigation from its legal counsel in the PRC, who, based on the information available, is of the opinion that the amount claimed by the Claimant is highly disputable. On 24 August 2015, Ningbo Liwah has received the writ in relation to the Litigation. As Lansen and, therefore, the Group are not able to assess reliably the amount of provision, the Group has not made any provision against this Litigation. Lansen will, in accordance with the applicable laws, make every effort to protect its interests and its shareholders' interests, actively respond to the case and defend its position vigorously. The Company will inform shareholders of any material developments or notify the market when Lansen makes an announcement relevant to the Litigation.

7. 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 Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

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