



CATHAY INTERNATIONAL HOLDINGS LIMITED

Interim Report **2020**



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Management Discussion and Analysis

BUSINESS REVIEW

The ongoing COVID-19 pandemic has had a significant impact across all the business sectors in China in which the Group operates. Outpatient treatments and drug prescription at hospitals and clinics dropped significantly, promotional activities for cosmetic products were slow or deferred and the hospitality industry was significantly impacted. Nonetheless, the Group has taken steps to react to these challenging market conditions.

Despite the difficult market conditions in the China's pharmaceutical sector, the Group experienced a small sales growth in its pharmaceutical business. The Group began to see a positive contribution from its strategy of driving commercial sales; expanding coverage at large hospitals and developing its self-owned drug portfolio; promoting over-the-counter sales; and increasing market penetration in the Zhejiang province (Lansen's home province). As a result, there was an increase in sales of self-owned specialty drugs which mitigated the drop in other pharmaceutical product sales. Lansen also incurred lower selling and distribution expenses during H1 2020 due to there being fewer physical sales visits and conferences under the COVID-19 restrictions.

In the healthcare business, Haizi has continued to suffer from a low inositol market price and the unsatisfactory development of food grade di-calcium phosphate ("DCP") as a co-product to enhance its overall business. As such, the Group has prudently made a provision of USD22.3 million against its investment in Haizi. Natural Dailyhealth recorded a small sales growth by continuing to build its product portfolio in plant extracts and health foods and by continuing to develop new customers.

In the cosmetic business, the Group continues to pursue its business strategies to promote sales of Fillderm and San Parietti branded products and to establish flagship beauty salons in Beijing, Shanghai and Chengdu in order to attract franchisee's to join and market its products. Due to the COVID-19 pandemic, however, the Group has had to delay the implementation of these strategies and the Group remains uncertain of how long the pandemic might continue to affect its business strategies.

At the Hotel, the COVID-19 pandemic has had a significant adverse impact on the hotel's performance. Whilst hotel management took prompt actions to reduce operating costs such as closing most guestroom floors, food and beverage outlets and deploying minimal staff in the hotel, the Hotel returned an operating loss and we expect to see an adverse impact on the year end hotel revaluation. Under the accounting policies adopted by the Group, any changes in the hotel revaluation will be accounted for as movements in the revaluation reserve. If the revaluation reserve is not sufficient to cover such adverse changes, the excess will be charged to the consolidated statement of profit or loss.

The Group's investment in Starry was previously that of an associate company and was being equity accounted for in the financial statement. With gradual disposals of Starry shares since 2017, and loss of board representation in Starry in April 2020, Lansen no longer has significant influence in Starry and so the investment has been reclassified to that of a financial asset. The change in accounting treatment resulted in an unrealised net gain of USD100.4 million. The carrying value of Starry shares in the condensed consolidated statement of financial position is measured in according to the applicable accounting standard and discussed with the Group's auditor, based on the quoted price on the Shanghai Stock Exchange of RMB84.06 per Starry share times the 9,402,360 shares held on 30 June 2020. At this price, Starry's historical price-earnings ratio is 83 times. The stock price of Starry shares has been volatile over a period. Its lowest and highest share prices in the past 12 months were RMB20.77 and RMB87.97 per Starry share respectively. The Group is restricted from disposing of the Starry shares under the Shanghai Stock Exchange rules: the total amount of share reduction through block trade sales



and the centralised competitive bidding system in any consecutive ninety day period shall not exceed 2% and 1% respectively of the total number of issued shares in Starry. The weighted average selling price of the Group's disposals of Starry in the past 18 months of RMB30.83, this is 63.32% lower than the above mention RMB84.06 per Starry shares on 30 June 2020.

Lansen will actively seek opportunities to further dispose of its Starry shares subject to prevailing market price of Starry shares and general stock market conditions, as well as selling restrictions described above. Accordingly, the actual sales proceeds from disposals may be subject to market volatility and may be lower than the carrying value recorded as at 30 June 2020. In the event that the actual disposal proceeds of Starry shares at the prevailing market price or the carrying value remeasured based on reference price as at 31 December 2020 is below the carrying value as at 30 June 2020, there would be a partial or complete reversal at year end of the unrealised gain so recorded.

In May 2020, the Group completed an open offer and subscription to reduce group borrowings and raise funds for its business developments. The Company also transferred from the premium list to the standard list on the London Stock Exchange. Although we targeted to raise USD130.0 million in the open offer, we only raised USD82.1 million and, as such, it will not be sufficient to fully implement our business plans. In addition, there is a sizable hotel mortgage loan maturing in 2021. Due to the COVID-19 pandemic the hotel's performance in 2020, and future outlook, has been adversely impacted and will affect the hotel valuation. The bank's view on future profitability in the hotel industry has also been adversely affected by the pandemic and, as a result, it may be challenging to refinance the mortgage loan on the hotel and the Group may need to look for alternative financing in the medium to long term.

The COVID-19 pandemic also impacted physical promotion activities and sales channels were significantly affected or delayed during the period. The Group plans to strengthen its online marketing efforts and develop an integrated e-commerce ecosystem for the Group's pharmaceutical, healthcare and cosmetic sectors.

FINANCIAL REVIEW

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

As at 30 June 2020, the Group's revenue decreased to USD35.2 million (H1 2019: USD38.3 million), mainly due to a drop in the Hotel's revenue but partly offset by an increase in sales from Lansen, Haizi and Natural Dailyhealth.

The Group's gross profit decreased to USD15.1 million (H1 2019: USD16.2 million). The increase in Lansen's gross profit is not enough to cover the gross losses incurred by Haizi and the Hotel. Average gross margin improved to 43.0% (H1 2019: 42.4%) mainly due to an increase in Lansen's gross margin.

The Group's operating loss decreased by USD3.4 million to USD2.3 million (H1 2019: USD5.7 million) mainly due to a decrease in selling and distribution expenses and in administration expenses (which lesser stock provision was made in H1 2020 than in last period).

The Group recorded a non-operating profit of USD75.9 million (H1 2019: USD7.9 million) mainly due to an unrealised net gain of USD100.4 million arising from a change in accounting treatment on Starry shares, offset by an impairment of USD22.3 million on Haizi.



Management Discussion and Analysis

The Group incurred lower finance costs of USD4.7 million (H1 2019: USD5.9 million) due to a decreased effective interest rate to 5.6% (H1 2019: 5.8%) on the lowering of LIBOR and the PRC lending rates and reduction in borrowings.

The Group's income tax expense increased to USD6.8 million (H1 2019: USD0.4 million) mainly due to deferred income tax of USD5.9 million recognised on the unrealised net gain on Starry shares.

The Group's after tax profit before non-controlling interests for the period was USD62.3 million (H1 2019: loss of USD2.8 million). The Group's profit attributable to owners of the parent for the period was USD16.8 million (H1 2019: loss of USD5.1 million).

As at 30 June 2020, the Group's net bank borrowings decreased to USD103.8 million (31 December 2019: USD131.1 million) due to a decrease in borrowings at Lansen (USD14.1 million) and corporate level (USD12.7 million). Net gearing decreased to 26.8% (31 December 2019: 151.2%) due to the completion of the open offer and subscription and recording of Starry shares at closing price on 30 June 2020.

Management Discussion and Analysis



(Stated in USD'000)	Healthcare				Hotel Operations	Corporate Office	Inter-segment Elimination	Total
	Lansan	Haizi	Natural					
			Dailyhealth	Botai				
For the six months ended 30 June 2020								
REVENUE								
External sales	26,774	3,066	3,400	210	1,781	–	–	35,231
Inter-segment sales	2	7	98	20	–	–	(127)	–
Segment revenue	26,776	3,073	3,498	230	1,781	–	(127)	35,231
Segment gross profit/(loss)	17,928	(2,644)	493	141	(681)	–	(101)	15,136
Segment operating profit/(loss)	6,185	(4,325)	(626)	(286)	(642)	(2,449)	(163)	(2,306)
Segment non-operating income and expenses	98,229	(22,293)	–	–	–	–	–	75,936
Segment finance costs	(1,176)	(622)	(17)	(99)	(530)	(2,365)	93	(4,716)
Segment share of post-tax result of associates	4	(8)	–	–	–	–	193	189
Segment profit/(loss) before income tax	103,242	(27,248)	(643)	(385)	(1,172)	(4,814)	123	69,103
Segment income tax expense	(6,800)	13	–	–	–	–	–	(6,787)
Segment profit/(loss) for the period before non-controlling interests	96,442	(27,235)	(643)	(385)	(1,172)	(4,814)	123	62,316
Segment profit/(loss) for the period attributable to owners of the parent	50,950	(27,235)	(450)	(385)	(1,172)	(4,814)	(70)	16,824
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)



Management Discussion and Analysis

Lansen

In the first half of 2020, Lansen continued to implement the strategies formulated last year, with a priority to focus on the development and acceleration of research and development of its own products and widening hospital coverage and self-owned product coverage to achieve scale effects on sales and market share and improve profitability.

Lansen's portfolio of self-owned products currently include Pafulin, Sicorten Plus and several featured pharmaceutical products such as Bazhen granules, Qixuekang, Licorice Oral Solution and Yahao Dengpeng toothpaste.

Lansen recorded a 2.4% increase in revenue to USD26.8 million (H1 2019: USD26.2 million). The increase in sales was mainly due to an increase in sales of Pafulin and Sicorten Plus to USD23.6 million (H1 2019: USD19.6 million) but partly offset by the reduction in sales of generic drugs.

Gross profit margin was USD17.9 million (H1 2019: USD16.1 million) and the profit margin was 67.0% (H1 2019: 61.5%) mainly due to an increased gross margin of Pafulin which resulted from lower raw material costs and production scale effect and increased component sales of Pafulin and Sicorten.

Lansen's operating profit increased to USD6.2 million (H1 2019: USD0.9 million) mainly due to (i) a decrease in administration expenses to USD6.3 million (H1 2019: USD7.9 million), mainly from a lower stock provision being recorded; and (ii) a decrease in selling and distribution expenses by 25.3% to USD6.1 million (H1 2019: USD8.1 million), resulting from fewer sales visit and attendance at conferences. Lansen expects to increase marketing activities in H2 but will continue to manage its spending.

Lansen's shareholding in Starry was approximately 4.0% throughout H1 2020. During Q1 2020, when Starry was equity accounted for, the contribution to Lansen was USD0.3 million (H1 2019: USD1.3 million). Upon change in accounting treatment on Starry shares, an unrealised net gain of USD100.4 million was recorded.

Lansen's profit before non-controlling interests was USD96.4 million (H1 2019: USD5.0 million).

In July 2020, Lansen disposed of a total of 4,683,505 shares in Starry and owns a remaining 4,718,855 shares in Starry.

Haizi

Haizi recorded USD3.1 million (H1 2019: USD2.8 million) from sales of inositol and DCP. Haizi produced 604 tonnes (H1 2019: 762 tonnes) and 4,186 tonnes (H1 2019: 4,365 tonnes) of inositol and feed grade DCP respectively and sold 937 tonnes (H1 2019: 449 tonnes) and 3,813 tonnes (H1 2019: 4,391 tonnes) of feed grade DCP. The average selling price of inositol was lower at approximately USD2.37 per kg (H1 2019: USD4.46 per kg).

Haizi's gross loss was USD2.6 million (H1 2019: USD0.9 million) and its gross margin was -86.0% (H1 2019: -32.1%). Haizi's operating loss was USD4.3 million (H1 2019: USD2.9 million) and its net loss was USD27.2 million (H1 2019: USD3.5 million).



Going forward, Haizi will continue to lower its production costs by modifying its production plant and by developing higher value-added co products to strengthen its competitive position. As Haizi has been continuously making losses, and Haizi is still yet to complete the development of higher value-added co-products, the Group has prudently made a provision of USD22.3 million against its investment in Haizi.

Natural Dailyhealth

Natural Dailyhealth continues to modify its sourcing and production process and implement its “key products and key customers” marketing strategy for its healthcare products.

Natural Dailyhealth’s revenue increased to USD3.5 million (H1 2019: USD2.9 million) and its gross profit was USD0.5 million (H1 2019: USD0.1 million). The operating loss decreased to USD0.6 million (H1 2019: USD1.0 million).

Despite the unsuccessful launch of LangZunZun and the continued challenges and uncertainty faced in launching new health food products, Natural Dailyhealth is continuing to build its health food and drink product portfolio, aiming to improving the gross margin above that achieved in its existing plant extract product portfolio.

Botai

Botai’s revenue was USD0.2 million (H1 2019: Nil) mainly due to the COVID-19 pandemic which has caused a delay in its marketing strategy for Fillderm. The operating loss for the period was USD0.3 million (H1 2019: USD0.7 million).

Hotel Operations

Due to the impact of COVID-19, the market demand for rooms and food and banqueting services declined rapidly from the end of January onwards. Whilst the hotel closed some of its food and banqueting outlets and other facilities in February and March to save costs, we could not have foreseen the negative impact the pandemic would have on the hospitality industry in H1.

The Hotel’s revenue decreased by 73.0% in the first half to USD1.8 million (H1 2019: USD6.6 million). It had to decrease its room rates to capture the already very low customer demand. Average room rate dropped to USD92 (H1 2019: USD111) and room occupancy went down to 23.8% (H1 2019: 73.9%).

The Hotel’s food and beverage sales dropped by 72.5% to USD0.5 million (H1 2019: USD2.0 million), mainly due to a temporary closure of the restaurants and some of the food and beverage outlets during H1.



Management Discussion and Analysis

To further reduce costs, the Hotel also closed down unoccupied guestroom floors, encouraged staff to take unpaid leave, and reduced head count through natural staff turnover. As at 30 June 2020, the Hotel managed to reduce electricity charges by USD0.2 million and staff costs by USD0.6 million. The Hotel head count reduced by 22.0% to 245. The Hotel intends to gradually increase head count when the business recovers.

As a result of the COVID-19 pandemic, the Hotel's operating loss was USD0.6 million (H1 2019: profit of USD1.0 million).

The Hotel will closely monitor the market situation and will endeavor to re-capture customer demand as the market improves. The Hotel continues to strive for high service quality and is frequently rated by Tripadvisor one of the top 10 hotels in Shenzhen.

Corporate office

Corporate overheads decreased by USD0.7 million to USD2.5 million (H1 2019: USD3.2 million) due to professional fees incurred in relation to a class 1 transaction in H1 2019.



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

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

(Stated in USD'000)	Healthcare				Hotel Operations	Inter-segment Elimination	Total
	Lansen	Haizi	Natural				
			Dailyhealth	Botai			
For the six months ended 30 June 2020							
REVENUE							
Pharmaceutical	25,556	-	-	-	-	-	25,556
Healthcare	1,218	3,073	3,498	-	-	(107)	7,682
Cosmetics	2	-	-	230	-	(20)	212
Hotel	-	-	-	-	1,781	-	1,781
	26,776	3,073	3,498	230	1,781	(127)	35,231
GROSS PROFIT/(LOSS)							
Pharmaceutical	18,050	-	-	-	-	-	18,050
Healthcare	(120)	(2,644)	493	-	-	(81)	(2,352)
Cosmetics	(2)	-	-	141	-	(20)	119
Hotel	-	-	-	-	(681)	-	(681)
	17,928	(2,644)	493	141	(681)	(101)	15,136
For the six months ended 30 June 2019							
REVENUE							
Pharmaceutical	24,335	-	-	-	-	-	24,335
Healthcare	1,704	2,822	2,911	-	-	(171)	7,266
Cosmetics	113	-	-	-	-	-	113
Hotel	-	-	-	-	6,601	-	6,601
	26,152	2,822	2,911	-	6,601	(171)	38,315
GROSS PROFIT/(LOSS)							
Pharmaceutical	15,943	-	-	-	-	-	15,943
Healthcare	321	(907)	149	-	-	(11)	(448)
Cosmetics	(169)	-	-	-	-	(5)	(174)
Hotel	-	-	-	-	920	-	920
	16,095	(907)	149	-	920	(16)	16,241

PRINCIPAL RISKS AND UNCERTAINTIES

The directors do not consider that the principal risks and uncertainties, as set out on pages 14 to 21 of the annual report for the year ended 31 December 2019, 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 as required by the Disclosure Requirements and Transparency Rules 4.2.4R;
- 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

28 August 2020

By order of the Board

Yiu Chi Hung

Secretary

28 August 2020

Condensed Consolidated Statement of Profit or Loss



		Six months ended 30 June 2020 USD'000 (Unaudited)	Six months ended 30 June 2019 USD'000 (Unaudited)
	Notes		
Revenue	4	35,231	38,315
Cost of sales		(20,095)	(22,074)
Gross profit		15,136	16,241
Other income		646	1,354
Selling and distribution expenses		(6,856)	(8,819)
Administrative expenses		(11,194)	(14,275)
Provision for expected credit losses on financial assets		(38)	(200)
Loss from operations		(2,306)	(5,699)
Non-operating income and expenses	5	75,936	7,856
Finance costs		(4,716)	(5,872)
Share of post-tax result of associates		189	1,285
Profit/(Loss) before income tax		69,103	(2,430)
Income tax expense	6	(6,787)	(402)
Profit/(Loss) for the period		62,316	(2,832)
Profit/(Loss) for the period attributable to:			
Owners of the parent		16,824	(5,134)
Non-controlling interests		45,492	2,302
		62,316	(2,832)
		US cents	US cents
Profit/(Loss) per share			(Restated)
Basic and diluted	7	0.87 cents	(1.09 cents)



Condensed Consolidated Statement of Comprehensive Income

	Six months ended 30 June 2020 USD'000 (Unaudited)	Six months ended 30 June 2019 USD'000 (Unaudited)
Profit/(Loss) for the period	62,316	(2,832)
Other comprehensive income		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translating foreign operations	(577)	(315)
Exchange differences reclassified to profit or loss upon partial disposal of an associate	-	309
Exchange differences reclassified to profit or loss upon deemed disposal of an associate	1,937	-
Other comprehensive income for the period, net of tax	1,360	(6)
Total comprehensive income for the period	63,676	(2,838)
Total comprehensive income attributable to:		
Owners of the parent	17,882	(5,061)
Non-controlling interests	45,794	2,223
	63,676	(2,838)

Condensed Consolidated Statement of Financial Position



		30 June 2020 USD'000 (Unaudited)	31 December 2019 USD'000 (Audited)
	Notes		
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	8	173,958	190,380
Intangible assets	8	23,214	25,182
Goodwill	9	9,419	19,077
Interests in associates		2,166	11,447
Other non-current financial assets		–	–
		208,757	246,086
CURRENT ASSETS			
Inventories		9,036	11,347
Trade and other receivables		40,206	44,375
Financial asset at fair value through profit or loss	10	111,641	–
Pledged bank deposits		13,684	28,626
Cash and cash equivalents		40,633	25,189
		215,200	109,537
TOTAL ASSETS		423,957	355,623
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Called up share capital	11	19,228	19,062
Share premium		62,573	51,035
Treasury shares		–	(1,765)
Convertible instruments	12	53,805	–
Contributed surplus		15,496	–
Capital and special reserve		96,850	96,850
Revaluation reserve		2,865	2,865
Foreign exchange reserve		(22,581)	(23,639)
Fair value through other comprehensive income reserve		(385)	(385)
Statutory reserve		11,208	11,208
Profit and loss account		(91,734)	(108,558)
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		147,325	46,673
NON-CONTROLLING INTERESTS		91,167	45,373
TOTAL EQUITY		238,492	92,046
NON-CURRENT LIABILITIES			
Borrowings		11,594	61,338
Lease liabilities		369	483
Deferred tax liabilities		42,031	36,262
		53,994	98,083
CURRENT LIABILITIES			
Borrowings		105,939	98,360
Lease liabilities		432	653
Current tax liabilities		986	1,407
Trade and other payables		22,493	63,321
Contract liabilities		421	582
Other financial liabilities		1,200	1,171
		131,471	165,494
TOTAL LIABILITIES		185,465	263,577
TOTAL EQUITY AND LIABILITIES		423,957	355,623



Condensed Consolidated Statement of Changes in Equity

	Attributable to owners of the parent												Non-controlling interests	Total equity	
	Share capital	Share premium	Treasury shares	Convertible instruments	Contributed surplus	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
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 – adoption of IFRS 16	-	-	-	-	-	-	-	-	-	-	-	(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
Balance at 1 January 2020	19,062	51,035	(1,765)	-	-	-	96,850	2,865	(23,639)	(385)	11,208	(108,558)	46,673	45,373	92,046
Issue of share capital upon open offer and subscription, net of expenses	15,354	10,993	-	-	-	-	-	-	-	-	-	-	26,347	-	26,347
Issue of convertible instruments	-	-	-	53,805	-	-	-	-	-	-	-	-	53,805	-	53,805
Settlement of share grants and share subscription	308	545	1,765	-	-	-	-	-	-	-	-	-	2,618	-	2,618
Share capital reduction	(15,496)	-	-	-	15,496	-	-	-	-	-	-	-	-	-	-
Transactions with owners	166	11,538	1,765	53,805	15,496	-	-	-	-	-	-	-	82,770	-	82,770
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	16,824	16,824	45,492	62,316
Other comprehensive income for the period	-	-	-	-	-	-	-	-	1,058	-	-	-	1,058	302	1,360
Total comprehensive income for the period	-	-	-	-	-	-	-	-	1,058	-	-	16,824	17,882	45,794	63,676
Balance at 30 June 2020 (Unaudited)	19,228	62,573	-	53,805	15,496	-	96,850	2,865	(22,581)	(385)	11,208	(91,734)	147,325	91,167	238,492

Condensed Consolidated Statement of Cash Flows



	Six months ended 30 June 2020 USD'000 (Unaudited)	Six months ended 30 June 2019 USD'000 (Unaudited)
Net cash used in operating activities	(5,236)	(8,321)
Cash flows from investing activities		
Purchase of property, plant and equipment	(693)	(1,413)
Additions of intangible assets	(462)	(785)
Proceeds from disposals of property, plant and equipment	1	7
Dividend received from financial asset at fair value through profit or loss	125	–
Dividend received from an associate	–	473
Payment for acquisition of an associate	–	(1,455)
Interest received	166	298
Decrease/(Increase) in pledged bank deposits	14,669	(8,372)
Transaction costs and withholding tax in connection with partial disposal of an associate	–	(599)
Proceeds from partial disposal of an associate	–	15,763
Net cash generated from investing activities	13,806	3,917
Cash flows from financing activities		
Proceeds from borrowings	22,950	83,277
Repayment of borrowings	(64,132)	(73,971)
Subsidiary acquired its own shares	–	(2,265)
(Decrease)/Increase in amount due to an intermediate parent undertaking	(29,112)	522
Decrease in amount due to a former director	(3,081)	–
Repayment of principal portion of lease liabilities	(414)	(407)
Proceeds from issue of shares upon open offer and subscription, net of expenses	26,347	–
Proceeds from issue of convertible instruments	53,805	–
Net cash generated from financing activities	6,363	7,156
Net increase in cash and cash equivalents	14,933	2,752
Cash and cash equivalents at beginning of the period	25,189	17,010
Effects of exchange rate changes	511	(288)
Cash and cash equivalents at end of the period	40,633	19,474



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 2020 (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 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 2019 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 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 2019 annual financial statements of the Group. 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 2019 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 2020.

2. CHANGES IN ACCOUNTING POLICIES

In the current interim period, the Group has applied, for the first time, the following amended IFRSs issued by the IASB that are effective for the annual period beginning on or after 1 January 2020 for the preparation of the Interim Financial Statements.

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

The adoption of the above amended IFRSs has no material impact on the Group’s result and financial position for the current or prior periods.

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



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 2019 except for as explained below.

Classification of equity investment in Starry

In April 2020, since the Group's senior management was ceased to be a director of Zhejiang Starry Pharmaceutical Co., Ltd. ("Starry"), the Group did not have the right to exercise significant influence on Starry and accordingly derecognised its interests in Starry as an associate of the Group. They are classified as financial asset at fair value through profit or loss ("FVTPL") according to the guidance in *IFRS 9, Financial Instruments*. This classification requires significant judgment. In making this judgment, the Group evaluated the intention of holding the shares of Starry at inception.

Change in value of financial asset at FVTPL is recognised in profit or loss as part of non-operating income and expenses.

4. SEGMENT INFORMATION

Information reported to the executive directors, being the chief operating decision makers ("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 Lansan segment is focused on the manufacture, marketing and sale of pharmaceuticals, cosmetic 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 phosphate related products;
- 3) the Natural Dailyhealth segment is engaged in the production and sales of plant extracts for use as key active ingredients in health products and sale of health food 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 and provides room rentals, food and beverage sales and meeting room rentals.



Notes to the Condensed Consolidated Interim Financial Statements

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. Certain 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	Elimination	Total
	Lansen	Haizi	Natural		Botai		
			Dailyhealth	Botai			
USD'000 (Unaudited)	USD'000 (Unaudited)	USD'000 (Unaudited)	USD'000 (Unaudited)	USD'000 (Unaudited)	USD'000 (Unaudited)	USD'000 (Unaudited)	
Six months ended 30 June 2020							
REVENUE							
External sales							
– Recognised at a point in time	26,774	3,066	3,400	210	549	–	33,999
– Recognised over time	–	–	–	–	1,232	–	1,232
	26,774	3,066	3,400	210	1,781	–	35,231
Inter-segment sales	2	7	98	20	–	(127)	–
Segment revenue	26,776	3,073	3,498	230	1,781	(127)	35,231
Segment profit/(loss) before income tax	103,242	(27,248)	(643)	(385)	(1,172)	123	73,917
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



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

	Six months ended 30 June 2020 USD'000 (Unaudited)	Six months ended 30 June 2019 USD'000 (Unaudited)
Reportable segment profit	73,917	3,206
Unallocated corporate income	10	9
Unallocated corporate expenses	(4,824)	(5,645)
Profit/(Loss) before income tax	69,103	(2,430)

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 2020 USD'000 (Unaudited)	Six months ended 30 June 2019 USD'000 (Unaudited)
The PRC (domicile)	32,997	35,130
Overseas	2,234	3,185
Total	35,231	38,315

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*.



Notes to the Condensed Consolidated Interim Financial Statements

Revenue from contracts with customers is disaggregated by the followings:

	Six months ended 30 June 2020 USD'000 (Unaudited)	Six months ended 30 June 2019 USD'000 (Unaudited)
Sales of pharmaceutical products	25,556	24,335
Sales of healthcare products	7,682	7,266
Sales of cosmetic products	212	113
Hotel operations	1,781	6,601
Total	35,231	38,315

5. NON-OPERATING INCOME AND EXPENSES

	Six months ended 30 June 2020 USD'000 (Unaudited)	Six months ended 30 June 2019 USD'000 (Unaudited)
Impairment of intangible assets (note 8)	(2,193)	(42)
Impairment of property, plant and equipment (note 9)	(12,623)	–
Impairment of goodwill (note 9)	(9,658)	–
Gain on disposal of an associate, net of tax (note)	–	7,898
Gain on deemed disposal of an associate (note 10)	45,618	–
Gain on change in value of financial asset at FVTPL (note 10)	54,792	–
	75,936	7,856

Note:

During the six months ended 30 June 2019, 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 Renminbi (“RMB”) 29.65 per share and resulting 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.



6. INCOME TAX EXPENSE

	Six months ended 30 June 2020 USD'000 (Unaudited)	Six months ended 30 June 2019 USD'000 (Unaudited)
Current income tax		
Tax for the period	968	335
Under/(Over) provision in respect of prior periods	44	(127)
	1,012	208
Deferred tax	5,775	194
Income tax expense	6,787	402

Tax on assessable profits has been calculated at the applicable rates of tax prevailing in the tax jurisdiction in which the Group operates.

7. PROFIT/(LOSS) PER SHARE

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

	Six months ended 30 June 2020 USD'000 (Unaudited)	Six months ended 30 June 2019 USD'000 (Unaudited)
Profit/(Loss)		
Profit/(Loss) for the period attributable to the owners of the Company for the purpose of basic and diluted profit/(loss) per share	16,824	(5,134)



Notes to the Condensed Consolidated Interim Financial Statements

	Six months ended 30 June 2020 Thousands (Unaudited)	Six months ended 30 June 2019 Thousands (Unaudited) (Restated)
Number of shares		
<i>Common Shares</i>		
Weighted average number of Common Shares outstanding (after adjusting the treasury shares held by the Company and convertible instruments) for the purpose of basic and diluted profit/(loss) per share	1,923,667	461,611
<i>A Shares</i>		
Weighted average number of A Shares for the purpose of basic and diluted profit/(loss) per share	8,951	8,954

The basic and diluted profit/(loss) per share for current and prior reporting periods have been adjusted as a result of open offer and subscription completed in May 2020 as set out in note 11 to the condensed consolidated interim financial statements.

The Company had issued 2,916,256,247 convertible instruments of new Common Shares to controlling shareholder as set out in note 12, which are mandatorily convertible instrument and required to include in calculation of basic earnings per share from the date the contract is entered into.

The Group has no potential dilutive shares during the period.

For six months ended 30 June 2019, the computation of diluted loss per share did not include the 9,437,899 Common Shares contingently issuable to Mr. Lee (a former director) as the conditions for their issue were not met throughout the period.



8. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Property, plant and equipment USD'000	Intangible assets USD'000
Six months ended 30 June 2020		
Opening net carrying amount at 1 January 2020 (Audited)	190,380	25,182
Exchange adjustment	(732)	(237)
Additions	693	1
Internal developments	-	461
Disposals	(36)	-
Depreciation and amortisation	(3,710)	-
Impairment losses recognised in profit or loss	(12,637)	(2,193)
Closing net carrying amount at 30 June 2020 (Unaudited)	173,958	23,214
Year ended 31 December 2019		
Opening net carrying amount at 31 December 2018 as originally presented	216,106	27,560
Change in accounting policies – adoption of IFRS 16	5,769	-
Restated opening net carrying amount at 1 January 2019 (Audited)	221,875	27,560
Exchange adjustment	(1,109)	(215)
Additions	2,809	305
Internal developments	-	2,230
Disposals	(127)	-
Depreciation and amortisation	(7,882)	(29)
Impairment losses recognised in profit or loss	(11,447)	(4,669)
Deficit on revaluation debited to revaluation reserve	(13,739)	-
Closing net carrying amount at 31 December 2019 (Audited)	190,380	25,182

During the six months ended 30 June 2020, management conducted an impairment test on healthcare – Haizi cash generating unit (“CGU”) and determined that impairment loss of USD12,623,000 in respect of property, plant and equipment was recognised arising from healthcare – Haizi CGU. This impairment loss was recognised under “non-operating income and expenses”. Particulars of the impairment loss recognised are disclosed in note 9.



Notes to the Condensed Consolidated Interim Financial Statements

9. GOODWILL

	30 June 2020 USD'000 (Unaudited)	31 December 2019 USD'000 (Audited)
Net carrying amount at 1 January	19,077	19,502
Impairment losses recognised in profit or loss	(9,658)	(425)
Net carrying amount	9,419	19,077

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

For the purpose of impairment testing, goodwill has been allocated to four individual CGUs as follows:

	30 June 2020 USD'000 (Unaudited)	31 December 2019 USD'000 (Audited)
Healthcare – Lansen	7,356	7,357
Healthcare – Haizi	–	9,657
Healthcare – Natural Dailyhealth	2,010	2,010
Healthcare – Botai	53	53
	9,419	19,077

During the six months ended 30 June 2020, management conducted an impairment test on healthcare – Haizi unit. The recoverable amount of the healthcare – Haizi unit is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 15% (31 December 2019: 16%). The growth rate used to extrapolate the cash flows beyond the five-year period is 2.82% (31 December 2019: 2.82%) which does not exceed the long-term growth rate. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development including rebound of sales price of inositol. Based on the impairment test performed, impairment loss of USD9,657,000, USD12,623,000 and USD13,000 were recognised in respect of goodwill, property plant and equipment and intangible assets respectively, to the extent that the carrying amount exceeded its recoverable amount based on the best estimate by the management. The impairment losses were recognised under "non-operating income and expenses" (note 5) included in the condensed consolidated statement of profit or loss.



10. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2020 USD'000 (Unaudited)	31 December 2019 USD'000 (Audited)
Listed equity securities	111,641	—

As mentioned in note 3, the shares of Starry held by the Group were classified as financial asset at FVTPL after Starry ceased to be an associate of the Group in April 2020.

As at 30 June 2020, the Group held a total of 9,402,360 shares in Starry, representing approximately 4.0% interest of the issued share capital of Starry.

The fair value of the shares of Starry classified in level 1 is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial asset held by the Group is the current bid price.

The carrying value of Starry shares in the condensed consolidated statement of financial position is measured in according to the applicable accounting standard and discussed with the Group's auditor, based on the quoted price on the Shanghai Stock Exchange of RMB84.06 per Starry share times the 9,402,360 shares held on 30 June 2020. At this price, Starry's historical price earnings ratio is 83 times. The stock price of Starry share has been volatile over a period. Its lowest and highest share prices in the past 12 months were RMB20.77 and RMB87.97 per Starry share respectively. The Group is restricted from disposing of the Starry shares under the Shanghai Stock Exchange rules: the total amount of share reduction through block trade sales and the centralised competitive bidding system in any consecutive ninety day period shall not exceed 2% and 1% respectively of the total number of issued shares in Starry. The weighted average selling price of the Group's disposals of Starry in the past 18 months of RMB30.83, this is 63.32% lower than the above mention RMB84.06 per Starry shares on 30 June 2020.

The Group will actively seek for opportunity to further dispose of Starry shares, and subject to prevailing market price of Starry shares and general stock market conditions, as well as selling restrictions described above. Accordingly, the actual sales proceeds from disposals may be subject to the market volatility and maybe lower from the carrying value recorded as at 30 June 2020. In the event that the actual disposal proceeds of Starry shares at the prevailing market price or the carrying value remeasured based on reference price as at 31 December 2020 is below the carrying value as at 30 June 2020, there would be a partial or complete reversal at year end of the unrealised gain so recorded.



Notes to the Condensed Consolidated Interim Financial Statements

11. SHARE CAPITAL

	30 June 2020 USD'000 (Unaudited)	31 December 2019 USD'000 (Audited)
Authorised		
9,874,961,433 (31 December 2019: 544,474,103) Common Shares of USD0.01 (31 December 2019: USD0.05) each	98,750	27,224
14,042,105 (31 December 2019: 14,042,105) A Shares of USD0.01 (31 December 2019: USD0.05) each	140	702
	98,890	27,926
Allotted, called up and fully paid		
1,913,811,218 (31 December 2019: 372,289,793) Common Shares of USD0.01 (31 December 2019: USD0.05) each	19,138	18,614
8,948,381 (31 December 2019: 8,952,981) A Shares of USD0.01 (31 December 2019: USD0.05) each	90	448
	19,228	19,062

The movement in the issued share capital during the period is as follows:

	Number of A Shares in issue	Number of Common Shares in issue	Share capital USD'000
At 1 January 2019	8,953,536	372,289,238	19,062
Conversion of A Shares	(555)	555	–
At 1 January 2020 (Audited)	8,952,981	372,289,793	19,062
Conversion of A Shares (note a)	(4,600)	4,600	–
Settlement of share grants and share subscription (note b)	–	6,153,255	308
Share capital reduction (note c)	–	–	(15,496)
Issue of shares upon open offer and subscription (note d)	–	1,535,363,570	15,354
At 30 June 2020 (Unaudited)	8,948,381	1,913,811,218	19,228

Notes:

- a) The A Shares and the Common Shares rank equally in all respects save that each A Share carries 20 votes and each Common Share carries one vote. A Shares are convertible into Common Shares on a one for one basis by application in accordance with the Bye-Laws of the Company. During the period, 4,600 A Shares were converted into 4,600 Common Shares by the application of holders of A Shares.



- b) During the period, 3,284,644 Common Shares held as treasury shares were transferred to Mr. Lee (a former director) and the Company also issued and allotted 6,153,255 new Common Shares to Mr. Lee, in accordance with the share grants and share subscription.
- c) On 15 May 2020, the par value is reduced from USD0.05 to USD0.01 per Common Share and from USD0.05 to USD0.01 per A Share. The credit arising from the share capital reduction amounted to USD15,496,000 and was transferred to the contributed surplus of the Company.
- d) Pursuant to the Open Offer and Subscription approved by Shareholders on 15 May 2020, a total of 1,535,363,570 new Common Shares were issued for a consideration of USD26,347,000, net of expenses USD1,981,000.

12. CONVERTIBLE INSTRUMENTS

Pursuant to the Open Offer and Subscription approved by Shareholders on 15 May 2020, the Company had issued 2,916,256,247 convertible instruments of new Common Shares to controlling shareholder for a consideration of USD53,805,000. The convertible instruments issued on basis of one convertible instrument in lieu of one new Common Share and have a par value equal to USD0.01845. The convertible instruments are not redeemable and will each carry a coupon right equal to the amount of any dividend paid per Common Share. The convertible instruments shall be converted on sale or transfer, or at the request of the holder in such manner as the Company, in its absolute discretion, considered to be necessary or desirable to comply with the shares in public hands requirement of the listing rules of London Stock Exchange.

13. RELATED PARTY TRANSACTIONS

Related party relationship	Type of transaction	Notes	Transaction amount		Balance owed	
			Six months ended 30 June 2020 USD'000 (Unaudited)	Six months ended 30 June 2019 USD'000 (Unaudited)	30 June 2020 USD'000 (Unaudited)	31 December 2019 USD'000 (Audited)
An intermediate parent undertaking of the Company	Interest charged	(a)	1,050	368	-	29,112
Associate of the Company	Purchase of materials	(b)	495	63	500	445
A former director	Interest charged	(c)	13	81	-	3,782
Associate of the Company	Research and development fee	(d)	732	-	-	-



Notes:

- a) As at 31 December 2019, the outstanding balance was unsecured, repayable on demand and interest-bearing at 3.5% over London Interbank Offered Rate per annum and was fully settled before 30 June 2020.
- b) The outstanding balances are unsecured, interest-free and repayable on demand.
- c) As at 31 December 2019, the outstanding balance comprised of a loan of USD3,081,000, which was unsecured, repayable on demand and interest-bearing at 3.5% plus Hong Kong Interbank Offered Rate per annum which was fully settled in January 2020; and a payable of unissued Common Shares of USD701,000 which was issued in H1 of 2020.
- d) Research and development fee is paid for the development of skin care products.
- e) During the period, the remuneration paid to the Group's key management personnel, represented by the Company's directors, amounted to USD247,000 (six months ended 30 June 2019: USD841,000).

14. EVENT AFTER THE REPORTING DATE

During the period from 14 to 23 July 2020, the Group had disposed of a total of 4,683,505 shares in Starry via on-market sales on the Shanghai Stock Exchange, at the average price of RMB76.76 per share. After the partial disposal, the Group's equity interest in Starry was reduced from 4.0% as at 30 June 2020 to 2.0% as at 23 July 2020. On 7 August 2020, Starry completed the transaction of non-public offering of shares and the Group's equity interest in Starry was diluted to 1.9% accordingly.

15. 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.

