



RNS Half-year/Interim Report

## Interim Results

### CATHAY INTERNATIONAL HOLDINGS LD

Released 12:10:33 28 August 2020

RNS Number : 4859X  
Cathay International Holdings Ld  
28 August 2020

## Cathay International Holdings Limited

("Cathay" or the "Company" or together with its subsidiaries, the "Group")

### Interim Results for the Six Months Ended 30 June 2020

**Hong Kong, 28 August 2020 - Cathay International Holdings Limited (LSE: CTI.L)**, an operator and investor in the growing healthcare sector in the People's Republic of China (the "PRC"), today announces its Interim Results for the six months ended 30 June 2020.

#### Group Operational Highlights

The ongoing COVID-19 pandemic has had a significant impact across all the China business sectors in which the Group operates. The Group has taken steps to react to these challenging market conditions and continues to focus on the development of its pharmaceutical, healthcare and cosmetic businesses.

##### Pharmaceutical

- The pharmaceutical business began to see a positive contribution and experienced modest sales growth due to implementation of management initiatives
- Lansen continued to focus its business strategy on the development and acceleration of its own product portfolio and is working to broaden market coverage in commercial segment, hospitals and OTC segment in order to improve profitability
- Lansen recorded an increase in sales of self-owned specialty drugs which mitigated the drop in other pharmaceutical product sales
- Lansen incurred lower selling and distribution expenses during H1 2020 due to there being fewer physical sales visits and conferences under the COVID-19 restrictions

##### Healthcare

- Haizi has continued to suffer from a low inositol market price and the unsatisfactory development of food grade DCP as a co-product to enhance its overall business
- 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

##### Cosmetics

- The Group continues to pursue its business strategies to promote sales of Fillderm and San Parietti branded 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

##### Hotel

- COVID-19 has had a significant adverse impact on the hotel's performance
- Actions were taken to reduce operating costs including closing most guestroom floors, food and beverage outlets and deploying minimal staff in the hotel
- The Hotel continues to be one of the best rated hotels in Shenzhen on Trip Advisor

#### Group Financial Highlights

- Revenue decreased to USD35.2 million (H1 2019: USD38.3 million)
- Gross profit decreased to USD15.1 million (H1 2019: USD16.2 million) but with average gross margin improved to 43.0% (H1 2019: 42.4%)
- 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
- 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 as detailed below, offset by an impairment of USD22.3 million on Haizi
- The change in accounting treatment is due to loss of significant influence in Starry. 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 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.

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

### Corporate Highlights

- The Group completed an open offer and subscription raise of USD82.1 million to reduce group borrowings and raise funds for its business developments but is short of the original target of USD130 million
- The Company transferred from the premium list to the standard list on the London Stock Exchange
- As the hotel performance is significantly impacted by COVID-19, the Group expects to see an adverse impact on the year end revaluation
- In addition, there is a hotel mortgage loan of USD50.6 million maturing in June 2021. 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

- ENDS -

### For further enquiries, please contact:

#### Cathay International Holdings Limited

Eric Siu (Finance Director  
and Controller)

Tel: +852 2828 9289 Patrick Sung (Director)

#### SPARK Advisory Partners Limited (financial adviser)

Andrew Emmott/James Keeshan

Tel: +44 (0) 20 3368 3555

### About Cathay

Cathay International Holdings Limited (LSE: CTIL) is a main market listed investment holding company and an operator and investor in the healthcare sector in the People's Republic of China (the "PRC"). The Company and its subsidiaries (collectively the "Group") aim to leverage on investment opportunities in the growing domestic demand for high quality healthcare products in the PRC and build portfolio companies into market sector leaders with competitive edge. Cathay has already demonstrated a track record of identifying investment opportunities in this area including: Lansen, a leading specialty pharmaceutical company focused on rheumatology and dermatology in the PRC; Haizi, a company engaged in the manufacture, marketing and sale of inositol and phosphate related products; Natural Dailyhealth, a company engaged in production and sales of plant extracts for use as key active ingredients in healthcare products; and Botai, a company engaged in collagen related products.

The Group employs approximately 1,300 people across the PRC, including over 20 specialist corporate and business development staff based at the holding company's offices in Hong Kong and Shenzhen. Cathay also has a hotel investment. For more information please

visit the Company's website: [www.cathay-intl.com.hk](http://www.cathay-intl.com.hk).

## 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.

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.

	Healthcare				Hotel	Corporate	Inter-	Total
	Lansen	Haizi	Dailyhealth	Botai	Operations	Office	segment Elimination	
<b>(Stated in USD'000)</b>								
<b>For the six months ended 30 June 2020</b>								
REVENUE								
External sales	26,774	3,066	3,400	210	1,781	-	-	35,231
Inter-segment sales	2	7	98	20	-	-	(127)	-
Segment revenue	<u>26,776</u>	<u>3,073</u>	<u>3,498</u>	<u>230</u>	<u>1,781</u>	<u>-</u>	<u>(127)</u>	<u>35,231</u>
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
<b>For the six months ended 30 June 2019</b>								
REVENUE								
External sales	26,094	2,821	2,799	-	6,601	-	-	38,315
Inter-segment sales	58	1	112	-	-	-	(171)	-
Segment revenue	<u>26,152</u>	<u>2,822</u>	<u>2,911</u>	<u>-</u>	<u>6,601</u>	<u>-</u>	<u>(171)</u>	<u>38,315</u>
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)

## 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.

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			Botai	Hotel Operations	Inter- segment Elimination	Total
	Lansen	Haizi	Natural Dailyhealth				
<b>For the six months ended 30 June 2020</b>							
<b>REVENUE</b>							
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
	<b>26,776</b>	<b>3,073</b>	<b>3,498</b>	<b>230</b>	<b>1,781</b>	<b>(127)</b>	<b>35,231</b>
<b>GROSS PROFIT/(LOSS)</b>							
Pharmaceutical	18,050	-	-	-	-	-	18,050
Healthcare	(120)	(2,644)	493	-	-	(81)	(2,352)
Cosmetics	(2)	-	-	141	-	(20)	119
Hotel	-	-	-	-	(681)	-	(681)
	<b>17,928</b>	<b>(2,644)</b>	<b>493</b>	<b>141</b>	<b>(681)</b>	<b>(101)</b>	<b>15,136</b>

**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
	<u>26,152</u>	<u>2,822</u>	<u>2,911</u>	<u>-</u>	<u>6,601</u>	<u>(171)</u>	<u>38,315</u>
GROSS PROFIT/(LOSS)							
Pharmaceutical	15,943	-	-	-	-	-	15,943
Healthcare	321	(907)	149	-	-	(11)	(448)
Cosmetics	(169)	-	-	-	-	(5)	(174)
Hotel	-	-	-	-	920	-	920
	<u>16,095</u>	<u>(907)</u>	<u>149</u>	<u>-</u>	<u>920</u>	<u>(16)</u>	<u>16,241</u>

**PRINCIPAL RISKS AND UNCERTAINTIES**

The directors do not consider that the principal risk 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.

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS**

	Notes	Six months ended 30 June 2020 USD'000 (Unaudited)	Six months ended 30 June 2019 USD'000 (Unaudited)
Revenue	4	<b>35,231</b>	38,315
Cost of sales		<b>(20,095)</b>	(22,074)
Gross profit		<b>15,136</b>	16,241
Other income		<b>646</b>	1,354
Selling and distribution expenses		<b>(6,856)</b>	(8,819)
Administrative expenses		<b>(11,194)</b>	(14,275)
Provision for expected credit losses on financial assets		<b>(38)</b>	(200)
Loss from operations		<b>(2,306)</b>	(5,699)
Non-operating income and expenses	5	<b>75,936</b>	7,856
Finance costs		<b>(4,716)</b>	(5,872)
Share of post-tax result of associates		<b>189</b>	1,285
Profit/(Loss) before income tax		<b>69,103</b>	(2,430)
Income tax expense		<b>(6,787)</b>	(402)
Profit/(Loss) for the period		<b>62,316</b>	(2,832)
Profit/(Loss) for the period attributable to:			
Owners of the parent		<b>16,824</b>	(5,134)
Non-controlling interests		<b>45,492</b>	2,302
		<b>62,316</b>	(2,832)
Profit/(Loss) per share		US cents	US cents (Restated)
Basic and diluted	6	<b>0.87 cents</b>	(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	<b>62,316</b>	(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	<b>1,937</b>	-
Other comprehensive income for the period, net of tax	<b>1,360</b>	(6)
Total comprehensive income for the period	<b>63,676</b>	(2,838)
Total comprehensive income attributable to:		
Owners of the parent	17,882	(5,061)
Non-controlling interests	<b>45,794</b>	2,223
	<b>63,676</b>	(2,838)

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	30 June 2020 USD'000 (Unaudited)	31 December 2019 USD'000 (Audited)
Notes		
<b>ASSETS</b>		
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	173,958	190,380
Intangible assets	23,214	25,182
Goodwill	7 9,419	19,077
Interests in associates	2,166	11,447
Other non-current financial assets	-	-
	<b>208,757</b>	246,086
<b>CURRENT ASSETS</b>		
Inventories	9,036	11,347
Trade and other receivables	40,206	44,375
Financial asset at fair value through profit or loss	111,641	-
Pledged bank deposits	13,684	28,626
Cash and cash equivalents	40,633	25,189
	<b>215,200</b>	109,537
<b>TOTAL ASSETS</b>	<b>423,957</b>	355,623
<b>EQUITY AND LIABILITIES</b>		
<b>CAPITAL AND RESERVES</b>		
Called up share capital	8 10,222	10,062



Called up share capital	17,220	17,002
Share premium	62,573	51,035
Treasury shares	-	(1,765)
Convertible instruments	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)
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT</b>	<b>147,325</b>	<b>46,673</b>
<b>NON-CONTROLLING INTERESTS</b>	<b>91,167</b>	<b>45,373</b>
<b>TOTAL EQUITY</b>	<b>238,492</b>	<b>92,046</b>

	30 June 2020 USD'000 (Unaudited)	31 December 2019 USD'000 (Audited)
<b>NON-CURRENT LIABILITIES</b>		
Borrowings	11,594	61,338
Lease liabilities	369	483
Deferred tax liabilities	42,031	36,262
	<b>53,994</b>	<b>98,083</b>
<b>CURRENT LIABILITIES</b>		
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
	<b>131,471</b>	<b>165,494</b>
<b>TOTAL LIABILITIES</b>	<b>185,465</b>	<b>263,577</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>423,957</b>	<b>355,623</b>

## NOTES

### 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 to 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.

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 Operations	Elimination	Total

	natural						
	Dailyhealth		Botai				
	Lansen	Haizi	Dailyhealth	Botai	USD'000	USD'000	USD'000
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Six months ended 30 June 2020</b>							
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
<b>Six months ended 30 June 2019</b>							
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*.

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)
--	--	--

	(Unaudited)	(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
	<hr/>	<hr/>
Total	<b>35,231</b>	<b>38,315</b>

## 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	(2,193)	(42)
Impairment of property, plant and equipment (note 7)	(12,623)	-
Impairment of goodwill (note 7)	(9,658)	-
Gain on disposal of an associate, net of tax (note)	-	7,898
Gain on deemed disposal of an associate (note)	45,618	-
Gain on change in value of financial asset at FVTPL (note)	54,792	-
	<hr/>	<hr/>
	<b>75,936</b>	<b>7,856</b>

### 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.

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 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.

## 6. 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 Thousands (Unaudited)	Six months ended 30 June 2019 Thousands (Unaudited) (Restated)
--	--	--

### Number of shares

#### Common Shares

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

1,022,667                      1,111,111



	1,723,007	401,011
<i>A Shares</i>		
Weighted average number of A Shares for the purpose of basic and diluted profit/(loss) per share	<b>8,951</b>	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 8.

The Company had issued 2,916,256,247 convertible instruments of new Common Shares to controlling shareholder, 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.

## 7. GOODWILL

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

	<b>30 June 2020 USD'000 (Unaudited)</b>	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
	<b>9,419</b>	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.

## 8. SHARE CAPITAL

	<b>30 June 2020 USD'000 (Unaudited)</b>	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	<b>98,750</b>	27,224
14,042,105 (31 December 2019: 14,042,105) A Shares of USD0.01 (31 December 2019: USD0.05) each	<b>140</b>	702
	<b>98,890</b>	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	<b>19,138</b>	18,614
8,948,381 (31 December 2019: 8,952,981) A Shares of USD0.01 (31 December 2019: USD0.05) each	<b>90</b>	448
	<b>19,228</b>	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 (Audited)	8,953,536	372,289,238	19,062
Conversion of A Shares	(555)	555	-
At 1 January 2020 (Audited)	<b>8,952,981</b>	<b>372,289,793</b>	<b>19,062</b>
Conversion of A Shares ( <i>note a</i> )	<b>(4,600)</b>	<b>4,600</b>	-
Settlement of share grants and share subscription ( <i>note b</i> )	-	<b>6,153,255</b>	<b>308</b>
Share capital reduction ( <i>note c</i> )	-	-	<b>(15,496)</b>
Issue of shares upon open offer and subscription ( <i>note d</i> )	-	<b>1,535,363,570</b>	<b>15,354</b>
At 30 June 2020 (Unaudited)	<b>8,948,381</b>	<b>1,913,811,218</b>	<b>19,228</b>

Notes:

- 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.
- 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.
- 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.
- 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.

## 9. 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.

This information is provided by RNS, the news service of the London Stock Exchange. RNS is approved by the Financial Conduct Authority to act as a Primary Information Provider in the United Kingdom. Terms and conditions relating to the use and distribution of this information may apply. For further information, please contact [ms@lseg.com](mailto:ms@lseg.com) or visit [www.rns.com](http://www.rns.com).

RNS may use your IP address to confirm compliance with the terms and conditions, to analyse how you engage with the information contained in this communication, and to share such analysis on an anonymised basis with others as part of our commercial services. For further information about how RNS and the London Stock Exchange use the personal data you provide us, please see our [Privacy Policy](#).

END

IR SEAFSAESSEIA

**London Stock Exchange plc is not responsible for and does not check content on this Website. Website users are responsible for checking content. Any news item (including any prospectus) which is addressed solely to the persons and countries specified therein should not be relied upon other than by such persons and/or outside the specified countries. [Terms and conditions](#), including restrictions on use and distribution apply.**

