CHIA TAI ENTERPRISES INTERNATIONAL LIMITED
正大企業國際有限公司
(Incorporated in Bermuda with limited liability)
(Stock Code: 3839)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

UNAUDITED CONSOLIDATED RESULTS

The board of directors (the "Board") of Chia Tai Enterprises International Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2019 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 June	
		2019	2018
	Note	***US$'000***	*US$'000*
		(Unaudited)	(Unaudited)
REVENUE	4	**50,420**	42,560
Cost of sales		**(35,402)**	(29,955)
Gross profit		**15,018**	12,605
Other income, net	5	**538**	840
Selling and distribution costs		**(3,955)**	(3,523)
General and administrative expenses		**(7,932)**	(8,239)
Finance costs	6	**–**	–
Share of profits and losses of:			
Joint venture		**9,071**	12,701
Associate		**954**	1,328
PROFIT BEFORE TAX	7	**13,694**	15,712
Income tax	8	**(1,266)**	(758)
PROFIT FOR THE PERIOD		**12,428**	14,954

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(Continued)*

	Note	Six months ended 30 June 2019 US$'000 (Unaudited)	Six months ended 30 June 2018 US$'000 (Unaudited)
PROFIT FOR THE PERIOD		**12,428**	14,954
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences related to translation of foreign operations		**99**	(1,418)
Share of other comprehensive income of:			
Joint venture		**43**	(1,870)
Associate		**23**	(363)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		**165**	(3,651)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**12,593**	11,303
Profit attributable to:			
Shareholders of the Company		**11,300**	14,213
Non-controlling interests		**1,128**	741
		12,428	14,954
Total comprehensive income attributable to:			
Shareholders of the Company		**11,437**	10,980
Non-controlling interests		**1,156**	323
		12,593	11,303
		US cents	*US cents*
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	10		
Basic and diluted		**4.46**	5.61

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**30 June 2019 *US$'000* (Unaudited)**	31 December 2018 *US$'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**68,343**	60,648
Land lease prepayments		**6,423**	6,475
Investments in joint venture		**99,673**	90,559
Investments in associate		**19,857**	18,880
Other non-current assets		**238**	238
Total non-current assets		**194,534**	176,800
CURRENT ASSETS			
Inventories		**21,492**	13,213
Trade and bills receivables	11	**18,387**	16,609
Prepayments, deposits and other receivables		**9,858**	7,672
Cash and cash equivalents		**36,932**	53,418
Total current assets		**86,669**	90,912
CURRENT LIABILITIES			
Trade payables	12	**4,755**	3,929
Other payables and accruals		**14,488**	15,369
Bank borrowings		**3,274**	2,059
Income tax payables		**844**	271
Total current liabilities		**23,361**	21,628
NET CURRENT ASSETS		**63,308**	69,284
TOTAL ASSETS LESS CURRENT LIABILITIES		**257,842**	246,084

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

	Note	**30 June 2019** **US$'000** **(Unaudited)**	31 December 2018 *US$'000* (Audited)
NON-CURRENT LIABILITIES			
Bank borrowings		**8,377**	9,572
Other non-current liabilities		**23,161**	23,111
Deferred tax liabilities		**4,165**	3,855
Total non-current liabilities		**35,703**	36,538
NET ASSETS		**222,139**	209,546
EQUITY			
Equity attributable to shareholders of the Company			
Issued capital		**25,333**	25,333
Reserves		**171,866**	160,429
		197,199	185,762
Non-controlling interests		**24,940**	23,784
TOTAL EQUITY		**222,139**	209,546

NOTES

1. BASIS OF PREPARATION

This interim financial information is unaudited and has been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* issued by the International Accounting Standards Board (the "IASB") and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The accounting policies and the basis of preparation adopted in the preparation of this interim financial information are consistent with those adopted in the annual financial statements for the year ended 31 December 2018, which were prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all IFRSs, IASs and Interpretations) issued by the IASB, except for the accounting policy changes as set out in note 2 below. This interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2018.

2. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The IASB has issued a number of new standards, amendments to IFRSs and interpretation that are first effective for the current interim period. Of these, the following new standards, amendments and interpretation may be relevant to the Group:

IFRS 16	*Leases*
Amendments to IFRS 9	Amendments to IFRS 9 *Prepayment Features with Negative Compensation*
Amendments to IAS 28	Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IFRS 3 *Business Combinations*, IFRS 11 *Joint arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs*
IFRS Interpretations Committee – Interpretation 23	*Uncertainty over Income Tax Treatments*

The adoption of these new standards, amendments and interpretation has had no significant financial effect on this interim financial information.

Under IFRS 16 *Leases*, there are recognition exemptions for short-term leases and leases of low-value items. The Group elects not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less or assets with value of less than US$5,000. The Group continues to recognise the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Group has not applied any new standard, amendment or interpretation that is not yet effective for the current period.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

- the biochemical segment is mainly engaged in the manufacture and sale of chlortetracycline products; and

- the industrial segment is engaged in trading of machinery and the manufacture and sale of automotive parts, through the Group's joint venture and associate.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that bank interest income, finance costs and items not specifically attributed to individual segments, such as head office or corporate administration expenses are excluded from such measurements.

Segment assets exclude unallocated corporate assets. Unallocated corporate assets include cash and cash equivalents, income tax receivable and other assets that are managed on a group basis.

Segment liabilities exclude unallocated corporate liabilities. Unallocated corporate liabilities include bank borrowings, income tax payables, deferred tax liabilities and other liabilities that are managed on a group basis.

All revenue from contracts with customers is recognised at the point in time when our customer obtains control of the promised goods, i.e. when products are delivered to the customers' premises for domestic sales or in accordance with the terms and conditions of sale for export sales. The major product line of the Group is the manufacture and sale of chlortetracycline products in biochemical segment as disclosed in note 3(a).

Disaggregation of revenue from contracts with customers by geographical location of customers is disclosed in note 3(b)(i).

3. **OPERATING SEGMENT INFORMATION (CONTINUED)**

(a) **Reportable operating segments**

The following tables present revenue, profit or loss and certain assets, liabilities and expenditure information for the Group's reportable operating segments during the period.

Six months ended 30 June 2019

	Biochemical operations *US$'000* (Unaudited)	Industrial operations *US$'000* (Unaudited)	Total *US$'000* (Unaudited)
Segment revenue			
Sales to external customers	50,420	–	50,420
Segment results			
The Group	4,531	(492)	4,039
Share of profits and losses of:			
Joint venture	–	9,071	9,071
Associate	–	954	954
	4,531	9,533	14,064
Reconciliation:			
Bank interest income			372
Unallocated head office and corporate expenses			(742)
Profit before tax			13,694
Other segment information			
Depreciation and amortisation	2,332	9	2,341
Capital expenditure*	9,963	–	9,963

* Including additions to property, plant and equipment.

3. **OPERATING SEGMENT INFORMATION** *(Continued)*

(a) **Reportable operating segments** *(Continued)*

At 30 June 2019

	Biochemical operations *US$'000* (Unaudited)	Industrial operations *US$'000* (Unaudited)	Total *US$'000* (Unaudited)
Segment assets	**119,679**	**124,571**	**244,250**
Reconciliation:			
Unallocated corporate assets			**36,953**
Total assets			**281,203**
Segment liabilities	**41,991**	**19**	**42,010**
Reconciliation:			
Unallocated corporate liabilities			**17,054**
Total liabilities			**59,064**
Other segment information			
Investments in joint venture	**–**	**99,673**	**99,673**
Investments in associate	**–**	**19,857**	**19,857**

3. **OPERATING SEGMENT INFORMATION** *(Continued)*

(a) **Reportable operating segments** *(Continued)*

Six months ended 30 June 2018

	Biochemical operations *US$'000* (Unaudited)	Industrial operations *US$'000* (Unaudited)	Total *US$'000* (Unaudited)
Segment revenue			
Sales to external customers	42,560	–	42,560
Segment results			
The Group	2,741	(646)	2,095
Share of profits and losses of:			
Joint venture	–	12,701	12,701
Associate	–	1,328	1,328
	2,741	13,383	16,124
Reconciliation:			
Bank interest income			239
Unallocated head office and corporate expenses			(651)
Profit before tax			15,712
Other segment information			
Depreciation and amortisation	2,635	9	2,644
Capital expenditure*	5,385	–	5,385

* Including additions to property, plant and equipment.

3. OPERATING SEGMENT INFORMATION *(Continued)*

(a) Reportable operating segments *(Continued)*

At 31 December 2018

	Biochemical operations *US$'000* (Audited)	Industrial operations *US$'000* (Audited)	Total *US$'000* (Audited)
Segment assets	99,777	114,477	214,254
Reconciliation:			
Unallocated corporate assets			53,458
Total assets			267,712
Segment liabilities	42,198	31	42,229
Reconciliation:			
Unallocated corporate liabilities			15,937
Total liabilities			58,166
Other segment information			
Investments in joint venture	–	90,559	90,559
Investments in associate	–	18,880	18,880

(b) Geographical information

(i) Revenue from external customers

	Six months ended 30 June	
	2019	2018
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Mainland China	**16,373**	17,737
Asia Pacific (excluding mainland China)	**15,440**	12,430
North America	**7,067**	6,705
Europe	**6,778**	3,802
Elsewhere	**4,762**	1,886
	50,420	42,560

The revenue information shown above is based on the location of customers.

3. **OPERATING SEGMENT INFORMATION** *(Continued)*

(b) **Geographical information** *(Continued)*

(ii) Non-current assets

At 30 June 2019, 99% (31 December 2018: 99%) of the Group's non-current assets are located in mainland China.

4. **REVENUE**

Revenue represents the aggregate of the invoiced value of goods sold, net of value-added tax and government surcharges, and after allowances for goods returned and trade discounts. All of the Group's revenue is from the biochemical segment.

5. **OTHER INCOME, NET**

An analysis of other income, net is as follows:

	Six months ended 30 June	
	2019	2018
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Bank interest income	**372**	239
Government grants	**125**	148
Loss on disposal of property, plant and equipment, net	**(23)**	(1)
Foreign exchange differences, net	**137**	25
(Loss)/income from sale of trial production products, net	**(87)**	157
Others	**14**	272
	538	840

6. **FINANCE COSTS**

	Six months ended 30 June	
	2019	2018
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Interest expense on bank borrowings	**330**	114
Less: Interest expense capitalised*	**(330)**	(114)
	–	–

* Interest expense was capitalised at a rate of 5.7% per annum (six months ended 30 June 2018: 4.5%) for the six months ended 30 June 2019.

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Six months ended 30 June	
	2019	2018
	US$'000	US$'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	**35,402**	29,955
Depreciation of property, plant and equipment	**2,255**	2,534
Amortisation of land lease prepayments	**86**	110

8. INCOME TAX

No provision for Hong Kong profits tax has been made for the period as the Group did not generate any assessable profits in Hong Kong during the current period (six months ended 30 June 2018: nil).

The Group's subsidiaries operating in the People's Republic of China ("PRC") are subject to income tax at the rate of 25% (six months ended 30 June 2018: 25%) on their taxable income according to the PRC corporate income tax laws. In accordance with the relevant tax rules and regulations in the PRC, certain subsidiaries of the Group in the PRC enjoy income tax exemptions or reductions.

	Six months ended 30 June	
	2019	2018
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Current – the PRC		
Charge for the period	**932**	569
Under/(over)-provision in prior years	**34**	(80)
Deferred	**300**	269
Total tax expense for the period	**1,266**	758

9. INTERIM DIVIDEND

The board of directors of the Company has resolved not to declare an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: nil).

10. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of basic earnings per share is based on the profit for the period attributable to shareholders of the Company and the weighted average number of ordinary shares and convertible preference shares in issue during the period.

The calculation of basic earnings per share is based on the following data:

	Six months ended 30 June	
	2019	2018
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period attributable to shareholders of the Company, used in the basic earnings per share calculation	**11,300**	14,213

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares and convertible preference shares in issue during the period, used in the basic earnings per share calculation	**253,329,087**	253,329,087

As there were no potential dilutive ordinary shares during the six months ended 30 June 2019 and 2018, the amount of diluted earnings per share is equal to basic earnings per share.

11. TRADE AND BILLS RECEIVABLES

Depending on the requirements of the market and business, the Group may extend credit to its customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by management and interest may be charged by the Group for overdue trade receivable at rates determined by the Group with reference to market practice. In the opinion of the directors, there is no significant concentration of credit risk. An aging analysis of the Group's trade and bills receivables, based on the date of delivery of goods, is as follows:

	30 June 2019	31 December 2018
	US$'000	*US$'000*
	(Unaudited)	(Audited)
60 days or below	**13,359**	12,414
61 to 180 days	**4,846**	4,165
Over 180 days	**182**	30
	18,387	16,609

12. TRADE PAYABLES

An aging analysis of the Group's trade payables as at the end of the reporting period, based on the date of receipt of goods, is as follows:

	30 June 2019	31 December 2018
	US$'000	*US$'000*
	(Unaudited)	(Audited)
60 days or below	**4,581**	3,889
61 to 180 days	**174**	40
	4,755	3,929

MANAGEMENT DISCUSSION AND ANALYSIS

GROUP RESULTS

The Group has two lines of businesses: biochemical business and industrial business. The biochemical business, which focuses on the manufacture and sale of chlortetracycline ("CTC") products and is carried on by Group subsidiaries, accounts for all of the Group's consolidated revenue. The industrial business comprises the Group's interests in its joint venture ECI Metro Investment Co., Ltd. (together with its subsidiaries, "ECI Metro"), and its associate Zhanjiang Deni Vehicle Parts Co., Ltd. (together with its subsidiaries, "Zhanjiang Deni"). The results of the Group's industrial business are incorporated in the consolidated statement of comprehensive income as share of profits from joint venture and associate.

For the six months ended 30 June 2019 ("1H19"), the Group's revenue was US$50.42 million, an increase of 18.5% compared to the first half of 2018 ("1H18"). Gross profit margin was 29.8% (1H18: 29.6%).

Profit attributable to shareholders of the Group decreased 20.5% to US$11.30 million in 1H19 (1H18: US$14.21 million), mainly due to a decrease in share of profit from ECI Metro.

Basic and diluted earnings per share were both US 4.46 cents (1H18: US 5.61 cents). The Board has resolved not to declare an interim dividend for the six months ended 30 June 2019 (1H18: Nil).

BUSINESS REVIEW

Biochemical

We generate a sizable portion of our revenue from the manufacture and sale of CTC products – CTC Premix and CTC HCL. CTC products are used as feed additives to promote healthy growth of livestock, prevent or cure animal diseases and improve overall feed efficiency. The Group's overseas customers include feed mills, pharmaceutical companies and trading companies, whereas customers in China are mainly feed mills.

In 1H19, the Group's biochemical revenue increased 18.5% to US$50.42 million. Of this, revenue contribution from China, Asia Pacific (excluding China), North America, Europe and elsewhere were 32.6%, 30.6%, 14.0%, 13.4% and 9.4%, respectively.

While competition remained intense, the Group also managed to raise the overall average selling price of its products, mitigating the negative effects from higher environmental compliance costs and higher raw material costs. Average selling price of CTC premix, our main product, increased by approximately 9.6% year-on-year. Overall, gross profit margin was 29.8% in 1H19 (1H18: 29.6%).

For the period under review, the overseas market, in particular Europe and Asia Pacific (excluding China), was the major revenue growth driver. However, in China, which remained the biggest of our markets, the spread of African swine fever resulted in a continuing reducing swine population, which decreased the demand for our CTC products. Therefore, domestic sales were lower compared to the same period last year.

The Company announced the relocation of its production facilities of Zhumadian Huazhong Chia Tai Co., Ltd. (the "Relocation") on 17 November 2016. The Relocation is to comply with Zhumadian's urban development plans and is expected, at this stage, to be completed in the first half of 2020. A net gain attributable to shareholders of the Company of approximately US$11.7 million would be recorded upon completion of the Relocation.

Industrial

The Group's industrial business is conducted through ECI Metro and Zhanjiang Deni.

ECI Metro is principally engaged in the sale, leasing and servicing of Caterpillar machinery equipment in western China. According to the National Bureau of Statistics of the PRC, fixed-asset investment growth across China was 5.8% in 1H19 and growth in western China was 6.1%. However, intense competition in our operating region have affected business performance of ECI Metro. Our share of profits from joint venture decreased 28.6% to US$9.07million in 1H19 (1H18: US$12.70 million).

Zhanjiang Deni is principally engaged in the manufacture and sale of automotive parts, which are mainly sold to automobile and motorcycle manufacturers. According to the China Association of Automobile Manufacturers, motorcycle sales recorded a 3.5% year-on-year decline in 1H19 and total automobile sales declined 12.4% in 1H19 as compared to 1H18. In 1H19, our share of profits from associate reduced 28.2% to US$0.95 million (1H18: US$1.33 million).

OUTLOOK

Our biochemical business is expected to face strong headwinds in the coming quarters. The African swine fever outbreak in China is drastically reducing the swine population, thereby slashing the demand for CTC and other animal health/nutrition products. Moreover, on 9 July 2019, the Ministry of Agriculture and Rural Affairs of the PRC issued the No. 194 announcement formally banning the use of antibiotics as growth promoters for animals in China as from 1 January 2020. As a sizeable portion of our revenue is derived from the sales of antibiotics for animals in China, our biochemical business is expected to be adversely affected by this ban.

At the same time, the slowdown in our industrial business is expected to continue.

We therefore expect the unsatisfactory results in the first half of 2019 will only worsen in the second half of the year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2019, the Group had total assets of US$281.2 million, an increase of 5.0% as compared to US$267.7 million as at 31 December 2018.

As at 30 June 2019, the Group had net cash, being cash less bank borrowings, of US$25.3 million (31 December 2018: US$41.8 million).

All the borrowings of the Group are denominated in Renminbi ("RMB") as at 30 June 2019 and 31 December 2018.

As at 30 June 2019 and 31 December 2018, the Group had no fixed interest rate bank borrowings.

All domestic sales in mainland China are transacted in RMB and export sales are transacted in foreign currencies. The Group monitors exchange rate movements and determines appropriate hedging activities when necessary.

CAPITAL STRUCTURE

The Group finances its working capital requirements through a combination of funds generated from operations and borrowings. The Group had cash and cash equivalents of US$36.9 million as at 30 June 2019, a decrease of US$16.5 million compared to US$53.4 million as at 31 December 2018.

CHARGES ON GROUP ASSETS

As at 30 June 2019, out of the total borrowings of US$11.7 million (31 December 2018: US$11.6 million) obtained by the Group, US$11.7 million (31 December 2018: US$11.6 million) was secured and accounted for 100.0% (31 December 2018: 100.0%) of the total borrowings. Certain of the Group's property, plant and equipment and land lease prepayments with an aggregate net book value of US$11.4 million (31 December 2018: US$11.6 million) were pledged as security.

CONTINGENT LIABILITIES

As at 30 June 2019, the Group did not have any significant contingent liabilities.

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2019, the Group employed around 800 employees in the PRC and Hong Kong. The Group remunerates its employees based on their performance, experience and prevailing market rates while performance bonuses are granted on a discretionary basis. Other employee benefits include, for example, medical insurance and training.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: nil).

CORPORATE GOVERNANCE CODE

The Company is committed to maintaining strict corporate governance standards. The principles of these standards are to uphold a high standard of ethics, transparency, accountability and integrity in all aspects of business and to ensure that affairs are conducted in accordance with applicable laws and regulations.

In the opinion of the Board, the Company has applied the principles and complied with the code provisions prescribed in the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited throughout the six months ended 30 June 2019.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Code of Conduct for Securities Transactions, which is based on the required standard set out in Appendix 10 to the Listing Rules – Model Code for Securities Transactions by Directors of Listed Issuers, as the code of conduct for dealings in the Company's securities by its directors. In response to a specific enquiry by the Company, all directors of the Company have confirmed that they complied with the required standard set out in the Code of Conduct for Securities Transactions during the six months ended 30 June 2019.

REVIEW OF INTERIM RESULTS

The interim results for the six months ended 30 June 2019 are unaudited, but have been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Hong Kong Institute of Certified Public Accountants, whose unmodified review report is included in the interim report to be sent to shareholders of the Company.

The audit committee of the Company has also reviewed the interim results for the six months ended 30 June 2019.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

By Order of the Board
Thanakorn Seriburi
Director

Hong Kong, 13 August 2019

As at the date of this announcement, the chairman and non-executive director is Mr. Soopakij Chearavanont; the executive directors are Mr. Thirayut Phityaisarakul, Mr. Thanakorn Seriburi, Mr. Nopadol Chiaravanont and Mr. Chawalit Na Muangtoun; the non-executive director is Mr. Yoichi Ikezoe; and the independent non-executive directors are Mr. Surasak Rounroengrom, Mr. Cheng Yuk Wo and Mr. Edward Ko Ming Tung.