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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 UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

UNAUDITED CONSOLIDATED RESULTS

For the reasons explained below under “Review of Unaudited Annual Results”, the auditing process for the annual results of Chia Tai Enterprises International Limited (the “Company”) and its subsidiaries (collectively the “Group”) has not been completed. In the meantime, the board of directors (the “Board”) of the Company is pleased to announce the unaudited consolidated results of the Group for the year ended 31 December 2019 as follows:

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<i>Note</i>	Year ended 31 December	
		2019	2018
		US\$'000	US\$'000
		(Unaudited)	(Audited)
REVENUE	4	105,042	93,362
Cost of sales		(76,094)	(66,108)
Gross profit		28,948	27,254
Other income, net	5	2,643	1,988
Selling and distribution costs		(9,123)	(7,061)
General and administrative expenses		(16,138)	(17,208)
Finance costs		–	–
Share of profits and losses of:			
Joint venture		11,616	17,966
Associate		1,917	1,875
PROFIT BEFORE TAX	6	19,863	24,814
Income tax	7	(1,841)	(1,610)
PROFIT FOR THE YEAR		18,022	23,204

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Continued)

	Year ended 31 December	
	2019	2018
<i>Note</i>	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Audited)
PROFIT FOR THE YEAR	18,022	23,204
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences related to translation of foreign operations	(1,071)	(4,248)
Share of other comprehensive income of:		
Joint venture	(1,383)	(5,359)
Associate	(258)	(1,077)
	<u> </u>	<u> </u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR	(2,712)	(10,684)
	<u> </u>	<u> </u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	15,310	12,520
	<u> </u>	<u> </u>
Profit attributable to:		
Shareholders of the Company	15,800	21,164
Non-controlling interests	2,222	2,040
	<u> </u>	<u> </u>
	18,022	23,204
	<u> </u>	<u> </u>
Total comprehensive income attributable to:		
Shareholders of the Company	13,427	11,783
Non-controlling interests	1,883	737
	<u> </u>	<u> </u>
	15,310	12,520
	<u> </u>	<u> </u>
	<i>US cents</i>	<i>US cents</i>
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY		
Basic and diluted	9 6.24	8.35
	<u> </u>	<u> </u>

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 31 December	
		2019	2018
<i>Note</i>		<i>US\$'000</i>	<i>US\$'000</i>
		(Unaudited)	(Audited)
NON-CURRENT ASSETS			
		74,705	60,648
		6,418	6,475
		100,792	90,559
		19,227	18,880
		235	238
		<u>201,377</u>	<u>176,800</u>
Current non-current assets			
CURRENT ASSETS			
		23,868	13,213
	10	20,502	16,609
		9,136	7,672
		37,774	53,418
		<u>91,280</u>	<u>90,912</u>
Total current assets			
CURRENT LIABILITIES			
	11	4,651	3,929
		16,321	15,369
		9,012	2,059
		1,023	271
		<u>31,007</u>	<u>21,628</u>
Total current liabilities			
NET CURRENT ASSETS		<u>60,273</u>	<u>69,284</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>261,650</u>	<u>246,084</u>

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Continued)

		At 31 December	
	<i>Note</i>	2019	2018
		US\$'000	US\$'000
		(Unaudited)	(Audited)
NON-CURRENT LIABILITIES			
Bank borrowings		6,939	9,572
Other non-current liabilities		28,569	23,111
Deferred tax liabilities		3,729	3,855
		<hr/>	<hr/>
Total non-current liabilities		39,237	36,538
		<hr/>	<hr/>
NET ASSETS		222,413	209,546
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to shareholders of the Company			
Issued capital	12	25,333	25,333
Reserves		173,856	160,429
		<hr/>	<hr/>
		199,189	185,762
Non-controlling interests		23,224	23,784
		<hr/>	<hr/>
TOTAL EQUITY		222,413	209,546
		<hr/> <hr/>	<hr/> <hr/>

NOTES

1. BASIS OF PREPARATION

This financial information has been prepared in accordance with International Financial Reporting Standards (“IFRSs”) (which include all International Financial Reporting Standards, International Accounting Standards (“IASs”) and interpretations) issued by the International Accounting Standards Board (the “IASB”). This financial information is presented in United States dollars (“US\$”) and all values are rounded to the nearest thousand (“US\$’000”) except when otherwise indicated.

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 year. Of these, the following new standards, amendments and interpretation may be relevant to the Group:

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

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

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:

- 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 and 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 unaudited revenue, profit or loss and certain assets, liabilities and expenditure information for the Group's reportable operating segments for the years ended 31 December 2019 and 2018.

Year ended 31 December 2019

	Biochemical operations <i>US\$'000</i> (Unaudited)	Industrial operations <i>US\$'000</i> (Unaudited)	Total <i>US\$'000</i> (Unaudited)
Segment revenue			
Sales to external customers	105,042	–	105,042
Segment results			
The Group	8,380	(1,215)	7,165
Share of profits and losses of:			
Joint venture	–	11,616	11,616
Associate	–	1,917	1,917
	8,380	12,318	20,698
Reconciliation:			
Bank interest income			603
Unallocated head office and corporate expenses			(1,438)
Profit before tax			19,863
Other segment information			
Depreciation and amortisation	4,645	17	4,662
Capital expenditure*	19,851	–	19,851

* Including additions to property, plant and equipment.

3. OPERATING SEGMENT INFORMATION *(Continued)*

(a) Reportable operating segments *(Continued)*

At 31 December 2019

	Biochemical operations US\$'000 (Unaudited)	Industrial operations US\$'000 (Unaudited)	Total US\$'000 (Unaudited)
Segment assets	130,480	124,356	254,836
Reconciliation:			
Unallocated corporate assets			<u>37,821</u>
Total assets			<u><u>292,657</u></u>
Segment liabilities	49,267	38	49,305
Reconciliation:			
Unallocated corporate liabilities			<u>20,939</u>
Total liabilities			<u><u>70,244</u></u>
Other segment information			
Investments in joint venture	–	100,792	100,792
Investments in associate	–	19,227	19,227

3. OPERATING SEGMENT INFORMATION *(Continued)*

(a) Reportable operating segments *(Continued)*

Year ended 31 December 2018

	Biochemical operations <i>US\$'000</i> (Audited)	Industrial operations <i>US\$'000</i> (Audited)	Total <i>US\$'000</i> (Audited)
Segment revenue			
Sales to external customers	93,362	–	93,362
Segment results			
The Group	7,302	(1,487)	5,815
Share of profits and losses of:			
Joint venture	–	17,966	17,966
Associate	–	1,875	1,875
	7,302	18,354	25,656
Reconciliation:			
Bank interest income			533
Unallocated head office and corporate expenses			(1,375)
Profit before tax			24,814
Other segment information			
Depreciation and amortisation	5,010	18	5,028
Capital expenditure*	19,199	–	19,199

* Including additions to property, plant and equipment.

3. OPERATING SEGMENT INFORMATION *(Continued)*

(a) Reportable operating segments *(Continued)*

At 31 December 2018

	Biochemical operations <i>US\$'000</i> (Audited)	Industrial operations <i>US\$'000</i> (Audited)	Total <i>US\$'000</i> (Audited)
Segment assets	<u>99,777</u>	<u>114,477</u>	214,254
Reconciliation:			
Unallocated corporate assets			<u>53,458</u>
Total assets			<u>267,712</u>
Segment liabilities	<u>42,198</u>	<u>31</u>	42,229
Reconciliation:			
Unallocated corporate liabilities			<u>15,937</u>
Total liabilities			<u>58,166</u>
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

	Year ended 31 December	
	2019	2018
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Audited)
Mainland China	42,340	40,982
Asia Pacific (excluding mainland China)	28,485	24,251
North America	12,507	11,196
Europe	11,485	8,779
Elsewhere	10,225	8,154
	<u>105,042</u>	<u>93,362</u>

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 31 December 2019, 99% (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:

	Year ended 31 December	
	2019	2018
	US\$'000	US\$'000
	(Unaudited)	(Audited)
Bank interest income	603	533
Government grants	1,354	925
Loss on disposal of property, plant and equipment, net	(24)	(203)
Gain on disposal of land lease prepayments, net	–	95
Foreign exchange differences, net	500	(9)
Income from sale of trial production products, net	81	522
Others	129	125
	<u>2,643</u>	<u>1,988</u>

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Year ended 31 December	
	2019	2018
	US\$'000	US\$'000
	(Unaudited)	(Audited)
Cost of inventories sold	76,094	66,108
Depreciation of property, plant and equipment	4,492	4,828
Amortisation of land lease prepayments	170	200
Loss on disposal of property, plant and equipment, net	24	203
Gain on disposal of land lease prepayments, net	–	(95)
Foreign exchange differences, net	(500)	9
	<u>81,280</u>	<u>76,333</u>

7. INCOME TAX

No provision for Hong Kong profits tax has been made for the year as the Group did not generate any assessable profits in Hong Kong during the year (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% (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.

	Year ended 31 December	
	2019	2018
	US\$'000	US\$'000
	(Unaudited)	(Audited)
Current – the PRC		
Charge for the year	1,938	1,010
Under/(over)-provision in prior years	47	(88)
Deferred	(144)	688
	<u>1,841</u>	<u>1,610</u>
Total tax expense for the year	<u>1,841</u>	<u>1,610</u>

8. DIVIDEND

The board of directors of the Company has resolved not to declare a dividend for the year ended 31 December 2019 (2018: nil), on the assumption that the audited annual results of the Company for the year ended 31 December 2019 to be published upon completion of the auditing process will be consistent in all material respects with the unaudited results set out herein.

9. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

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

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

	Year ended 31 December	
	2019	2018
	US\$'000	US\$'000
	(Unaudited)	(Audited)
Earnings		
Profit for the year attributable to shareholders of the Company, used in the basic earnings per share calculation	<u>15,800</u>	<u>21,164</u>

9. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

(Continued)

	Year ended 31 December	
	2019	2018
	(Unaudited)	(Audited)
Shares		
Weighted average number of ordinary shares and convertible preference shares in issue during the year, used in the basic earnings per share calculation	253,329,087	253,329,087

As there were no potential dilutive ordinary shares during the years ended 31 December 2019 and 2018, the amount of diluted earnings per share is equal to basic earnings per share.

10. 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 balances 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:

	At 31 December	
	2019	2018
	US\$'000	US\$'000
	(Unaudited)	(Audited)
60 days or below	15,054	12,414
61 to 180 days	4,276	4,165
Over 180 days	1,172	30
	20,502	16,609

11. 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:

	At 31 December	
	2019 US\$'000 (Unaudited)	2018 US\$'000 (Audited)
60 days or below	4,517	3,889
61 to 180 days	134	40
	<u>4,651</u>	<u>3,929</u>

12. SHARE CAPITAL

	At 31 December	
	2019 US\$'000 (Unaudited)	2018 US\$'000 (Audited)
Authorised		
<i>Ordinary shares:</i>		
787,389,223 shares (2018: 787,389,223 shares) of US\$0.1 each	78,739	78,739
<i>Convertible preference shares:</i>		
12,610,777 shares (2018: 12,610,777 shares) of US\$0.1 each	<u>1,261</u>	<u>1,261</u>
	<u>80,000</u>	<u>80,000</u>
Issued and fully paid		
<i>Ordinary shares:</i>		
240,718,310 shares (2018: 240,718,310 shares) of US\$0.1 each	24,072	24,072
<i>Convertible preference shares:</i>		
12,610,777 shares (2018: 12,610,777 shares) of US\$0.1 each	<u>1,261</u>	<u>1,261</u>
	<u>25,333</u>	<u>25,333</u>

There were no movements in the Company's issued ordinary shares and convertible preference shares during the years ended 31 December 2019 and 2018.

12. SHARE CAPITAL *(Continued)*

Notes:

The convertible preference shares are convertible into ordinary shares of the Company and are entitled to the same dividends that are declared for the ordinary shares. Convertible preference shares do not carry the right to vote in shareholders' meetings. Upon winding up, the Company's residual assets and funds are distributed to the members of the Company in the following priority:

- (i) in paying to the holders of the convertible preference shares, *pari passu* as between themselves by reference to the aggregate nominal amounts of the convertible preference shares held by them respectively, an amount equal to the aggregate of the distribution value (as defined in the bye-laws of the Company) of all the convertible preference shares held by them respectively;
- (ii) the balance of such assets shall be distributed on a *pari passu* basis among the holders of any class of shares in the capital of the Company other than the convertible preference shares and other than any shares which are not entitled to participate in such assets, by reference to the aggregate nominal amounts paid up on the shares held by them respectively; and
- (iii) the remaining balance of such assets shall belong to and be distributed on a *pari passu* basis among the holders of any class of shares including the convertible preference shares, other than any shares not entitled to participate in such assets, by reference to the aggregate nominal amounts of shares held by them respectively.

The convertible preference shares shall be non-redeemable by the Company or the holders thereof.

MANAGEMENT DISCUSSION AND ANALYSIS

UNAUDITED 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 statement of comprehensive income as share of profits from joint venture and associate.

For the year ended 31 December 2019, based on unaudited financial information, the Group’s revenue grew 12.5% to US\$105.04 million (unaudited) (2018: US\$93.36 million (audited)). Overall, gross profit margin was 27.6% (unaudited) (2018: 29.2% (audited)).

Profit attributable to shareholders of the Company was US\$15.80 million (unaudited) versus US\$21.16 million (audited) in 2018. The main reason was a decrease in share of profit from ECI Metro.

Basic and diluted earnings per share were both US 6.24 cents (2018: US 8.35 cents). As stated under “Dividend” below, the board has resolved not to declare a final dividend for the year ended 31 December 2019 (2018: Nil).

BUSINESS REVIEW

Biochemical

We generate the bulk 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.

The Group’s biochemical revenue increased 12.5% to US\$105.04 million (unaudited) (2018: US\$93.36 million (audited)). Revenue contribution from China, Asia Pacific (excluding China), North America, Europe and elsewhere were 40.3%, 27.1%, 11.9%, 11.0% and 9.7%, respectively.

For the year under review, China – which remained the biggest of our markets – was experiencing an outbreak of African swine fever. As a result, there was a sizable reduction in swine population, decreasing the demand for CTC products. Therefore, domestic sales were lower compared to the previous year. We increased our sales effort in the overseas market to lessen the pressure from reduced demand in China. Asia Pacific (excluding China) and Europe were the major revenue growth driver in the overseas market segment.

While competition remained intense, the Group managed to raise average selling price of our products, mitigating substantially the negative effects from higher environmental compliance costs. Average selling price of CTC premix, our main revenue contributor, increased by approximately 5.6% in 2019 when compared to 2018, and the average selling price of CTC HCL also grew 1.3%.

Gross profit margin decreased from 29.2% (audited) in 2018 to 27.6% (unaudited) in 2019. Profitability of our CTC products remained solid. But the trading of animal health products, which recorded an increase in revenue contribution in 2019, had a lower margin.

The Company announced the relocation of the 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\$11.5 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 was 5.4% in China in 2019, the slowest annual growth since the data become available in 1998. In particular, infrastructure investment growth was only 3.8%. In ECI Metro’s operating region of western China, intense competition also dampened its business performance. For the year ended 31 December 2019, our share of profits of joint venture declined to US\$11.62 million (unaudited) from US\$17.97 million (audited) in 2018.

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 year-on-year increase of 10.0% in 2019 and automobile sales was 8.2% lower than 2018. For the year ended 31 December 2019, our share of profits of associate was US\$1.92 million (unaudited) (2018: US\$1.88 million (audited)).

OUTLOOK

Our biochemical business is expected to face strong headwinds in 2020. As mentioned above, the African swine fever outbreak in China has drastically reduced the swine population, slashing the demand for CTC and other animal health as well as animal 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 production of antibiotics being used as growth promoters for animals in China starting 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 affect by this ban.

Fixed-asset investment growth in China slowed down in 2019 and is expected to continue in the coming quarters. Consequently, our industrial business – notably ECI Metro – is likely to weaken further in 2020.

Furthermore, the COVID-19 outbreak has brought about additional uncertainties in the Group’s operating environment in China. As far as the Group’s businesses are concerned, the outbreak has so far caused operational delays. The Group has put in place contingency measures to lower the impact from this outbreak. However, the situation remains fluid at this stage.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2019, based on unaudited financial information, the Group had total assets of US\$292.7 million (unaudited), an increase of 9.3% as compared to US\$267.7 million (audited) as at 31 December 2018.

As at 31 December 2019, the Group had net cash, being cash less bank borrowings, of US\$21.8 million (unaudited) (31 December 2018: US\$41.8 million (audited)).

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

As at 31 December 2019, the Group’s fixed interest rate bank borrowings amounted to US\$2.9 million (unaudited) (31 December 2018: nil (audited)).

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\$37.8 million (unaudited) as at 31 December 2019, a decrease of US\$15.6 million compared to US\$53.4 million (audited) as at 31 December 2018.

CHARGES ON GROUP ASSETS

Based on unaudited financial information, as at 31 December 2019, out of the total borrowings of US\$16.0 million (unaudited) (31 December 2018: US\$11.6 million (audited)) obtained by the Group, US\$13.1 million (unaudited) (31 December 2018: US\$11.6 million (audited)) was secured and accounted for 82.0% (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\$11.0 million (unaudited) (31 December 2018: US\$11.6 million (audited)) were pledged as security.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any significant contingent liabilities.

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 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 conditions while performance bonuses are granted on a discretionary basis. Other employee benefits include, for example, medical insurance and training.

DIVIDEND

The board of directors of the Company has resolved not to declare a dividend for the year ended 31 December 2019 (2018: nil), on the assumption that the audited annual results of the company for the year ended 31 December 2019 to be published upon completion of the auditing process will be consistent in all material respects with the unaudited results set out herein.

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 year 2019.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Code of Conduct for Securities Transactions, which is based on the required standards 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 2019.

REVIEW OF UNAUDITED ANNUAL RESULTS

The auditing process for the annual results for the year ended 31 December 2019 has not been completed due to restrictions in force in parts of China to combat the COVID-19 coronavirus outbreak. The unaudited results contained herein have not been agreed by the Company's auditors. An announcement relating to the audited results will be made when the auditing process has been completed in accordance with Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants.

The unaudited annual results contained herein have been reviewed by the audit committee of the Company.

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

During 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

FURTHER ANNOUNCEMENT(S)

This announcement of the unaudited results of the Company for the year ended 31 December 2019 is being published in advance of the announcement to be published by Charoen Pokphand Foods Public Company Limited ("CPF"), the holding company of the Company, of its annual results for the same year. CPF is a company listed on the Stock Exchange of Thailand. This is consistent with past practice of the Company and CPF in relation to the publication of their respective results announcements.

Following the completion of the auditing process, the Company will issue further announcement(s) in relation to (i) the audited results for the year ended 31 December 2019 as agreed by the Company's auditors and the material differences (if any) as compared with the unaudited annual results contained herein, (ii) the proposed date on which the forthcoming annual general meeting will be held, and (iii) the period during which the register of members holding ordinary shares will be closed in order to ascertain shareholders' eligibility to attend and vote at the said meeting (and the proposed arrangements relating to dividend payment, if any). In addition, the Company will issue further announcement as and when necessary if there are other material developments in the completion of the auditing process.

The financial information contained herein in respect of the annual results of the Group have not been audited and have not been agreed with the auditors. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

By Order of the Board
Thanakorn Seriburi
Director

Hong Kong, 19 February 2020

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.