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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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

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 2018 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 June	
		2018	2017
	Note	***US$'000***	*US$'000*
		(Unaudited)	(Unaudited)
REVENUE	4	**42,560**	30,540
Cost of sales		**(29,955)**	(20,365)
Gross profit		**12,605**	10,175
Other income, net	5	**840**	953
Selling and distribution costs		**(3,523)**	(2,932)
General and administrative expenses		**(8,239)**	(7,477)
Finance costs		**–**	(69)
Share of profits and losses of:			
Joint venture		**12,701**	5,360
Associate		**1,328**	1,394
PROFIT BEFORE TAX	6	**15,712**	7,404
Income tax	7	**(758)**	(529)
PROFIT FOR THE PERIOD		**14,954**	6,875

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(Continued)*

	Note	Six months ended 30 June **2018** *US$'000* **(Unaudited)**	2017 *US$'000* (Unaudited)
PROFIT FOR THE PERIOD		**14,954**	6,875
OTHER COMPREHENSIVE INCOME			
Items that are or may be reclassified subsequently to profit or loss:			
Exchange differences related to translation of foreign operations		**(1,418)**	1,560
Share of other comprehensive income of:			
Joint venture		**(1,870)**	1,613
Associate		**(363)**	399
Deregistration of a subsidiary		**–**	184
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		**(3,651)**	3,756
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**11,303**	10,631
Profit attributable to:			
Shareholders of the Company		**14,213**	6,456
Non-controlling interests		**741**	419
		14,954	6,875
Total comprehensive income attributable to:			
Shareholders of the Company		**10,980**	9,659
Non-controlling interests		**323**	972
		11,303	10,631
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	9	***US cents***	*US cents*
Basic and diluted		**5.61**	2.55

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 June 2018 US$'000 (Unaudited)	31 December 2017 US$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**51,689**	49,762
Land lease prepayments		**7,725**	7,968
Investments in joint venture		**88,783**	77,952
Investments in associate		**19,047**	18,082
Other non-current assets		**247**	252
Total non-current assets		**167,491**	154,016
CURRENT ASSETS			
Inventories		**17,718**	16,104
Trade and bills receivables	10	**14,442**	17,067
Prepayments, deposits and other receivables		**8,361**	8,845
Cash and cash equivalents		**36,960**	33,669
Total current assets		**77,481**	75,685
CURRENT LIABILITIES			
Trade payables	11	**2,241**	3,375
Other payables and accruals		**6,520**	6,403
Bank borrowings		**2,295**	6,366
Income tax payables		**231**	114
Total current liabilities		**11,287**	16,258
NET CURRENT ASSETS		**66,194**	59,427
TOTAL ASSETS LESS CURRENT LIABILITIES		**233,685**	213,443

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

	30 June 2018 *US$'000* **(Unaudited)**	31 December 2017 *US$'000* (Audited)
NON-CURRENT LIABILITIES		
Bank borrowings	**3,021**	3,074
Other non-current liabilities	**18,906**	10,170
Deferred tax liabilities	**3,429**	3,173
Total non-current liabilities	**25,356**	16,417
NET ASSETS	**208,329**	197,026
EQUITY		
Equity attributable to shareholders of the Company		
Issued capital	**25,333**	25,333
Reserves	**159,626**	148,646
	184,959	173,979
Non-controlling interests	**23,370**	23,047
TOTAL EQUITY	**208,329**	197,026

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 2017, 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 2017.

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 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
Annual Improvements to IFRSs 2014-2016 Cycle	Amendments to IFRS 1 *First time adoption of International Financial Reporting Standards* and Amendments to IAS 28 *Investments in Associates and Joint Ventures*
IFRS Interpretation Committee 22	*Foreign currency transactions and advance consideration*

Other than as further explained below, the adoption of these new standards, amendments and interpretation has had no significant financial effect on this interim financial information.

- **IFRS 9 *Financial instruments***

  IFRS 9 introduces new classification and measurement requirements for financial assets on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, and a new expected credit loss model that replaces the incurred loss impairment model used in IAS 39 *Financial Instruments: Recognition and Measurement*, with the result that a loss event will no longer need to occur before an impairment allowance is recognised.

  Impairment based on the expected credit loss model introduced by IFRS 9 on the Group's financial assets, including trade and bills receivables, have no significant financial impact on this interim financial information.

- **IFRS 15 *Revenue from contracts with customers***

  Under the requirements of IFRS 15, revenue from sale of goods and provision of services by the Group is recognised when the customer obtains control of the promised goods or services in the contract. Transfer of significant risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs. The adoption of IFRS 15 has no significant financial impact on this interim financial information.

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 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 of goods transferred. The only 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 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 30 June 2018

	Biochemical operations *US$'000* (Unaudited)	Industrial operations *US$'000* (Unaudited)	Total *US$'000* (Unaudited)
Segment assets	94,903	113,088	207,991
Reconciliation:			
Unallocated corporate assets			36,981
Total assets			244,972
Segment liabilities	27,352	18	27,370
Reconciliation:			
Unallocated corporate liabilities			9,273
Total liabilities			36,643
Other segment information			
Investments in joint venture	–	88,783	88,783
Investments in associate	–	19,047	19,047

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

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

Six months ended 30 June 2017

	Biochemical operations *US$'000* (Unaudited)	Industrial operations *US$'000* (Unaudited)	Total *US$'000* (Unaudited)
Segment revenue			
Sales to external customers	30,540	–	30,540
Segment results			
The Group	1,606	(411)	1,195
Share of profits and losses of:			
Joint venture	–	5,360	5,360
Associate	–	1,394	1,394
	1,606	6,343	7,949
Reconciliation:			
Bank interest income			171
Finance costs			(69)
Unallocated head office and corporate expenses			(647)
Profit before tax			7,404
Other segment information			
Depreciation and amortisation	2,761	1	2,762
Capital expenditure*	3,671	–	3,671
Addition of other non-current assets	436	–	436

* Including additions to property, plant and equipment.

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

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

At 31 December 2017

	Biochemical operations *US$'000* (Audited)	Industrial operations *US$'000* (Audited)	Total *US$'000* (Audited)
Segment assets	94,432	101,364	195,796
Reconciliation:			
Unallocated corporate assets			33,905
Total assets			229,701
Segment liabilities	19,713	26	19,739
Reconciliation:			
Unallocated corporate liabilities			12,936
Total liabilities			32,675
Other segment information			
Investments in joint venture	–	77,952	77,952
Investments in associate	–	18,082	18,082

(b) **Geographical information**

(i) Revenue from external customers

	Six months ended 30 June	
	2018 *US$'000* **(Unaudited)**	2017 *US$'000* (Unaudited)
Mainland China	**17,737**	10,518
Asia Pacific (excluding mainland China)	**12,430**	8,027
North America	**6,705**	5,436
Europe	**3,802**	3,691
Elsewhere	**1,886**	2,868
	42,560	30,540

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 2018, 99% (31 December 2017: 99%) of the Group's non-current assets are located in mainland China.

4. **REVENUE**

Revenue, which is also the Group's turnover, 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	
	2018	2017
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Bank interest income	**239**	171
Government grants	**148**	350
Loss on disposal of property, plant and equipment, net	**(1)**	–
Loss on deregistration of a subsidiary	**–**	(184)
Foreign exchange differences, net	**25**	–
Income from sale of trial production products, net	**157**	324
Others	**272**	292
	840	953

6. **PROFIT BEFORE TAX**

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

	Six months ended 30 June	
	2018	2017
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold	**29,955**	20,364
Write down of inventories	**–**	1
Depreciation of property, plant and equipment	**2,534**	2,660
Amortisation of land lease prepayments	**110**	102

7. 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 2017: nil).

The 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 2017: 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	
	2018	2017
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Current – the PRC		
Charge for the period	**569**	564
(Over)/under-provision in prior years	**(80)**	9
Deferred	**269**	(44)
Total tax expense for the period	**758**	529

8. INTERIM DIVIDEND

The board of directors of the Company has resolved not to declare an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: nil).

9. 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	
	2018	2017
	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	**14,213**	6,456

	Six months ended 30 June	
	2018	2017
	(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 2018 and 2017, 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 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 2018	31 December 2017
	US$'000	*US$'000*
	(Unaudited)	(Audited)
60 days or below	**10,269**	14,330
61 to 180 days	**4,047**	2,734
Over 180 days	**126**	3
	14,442	17,067

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:

	30 June 2018	31 December 2017
	US$'000	*US$'000*
	(Unaudited)	(Audited)
60 days or below	**2,192**	3,351
61 to 180 days	**49**	24
	2,241	3,375

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 CTC products and is carried on by Group subsidiaries, accounts for all of the Group's consolidated revenue. The Group's industrial business comprises the Group's interest in its joint venture ECI Metro Investment Co., Ltd. (together with its subsidiaries, "ECI Metro"), and the Group's interest in 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 2018 ("1H18"), the Group's revenue was US$42.56 million, an increase of 39.4% when compared to the first half of 2017 ("1H17"). Gross profit margin was 29.6% (1H17: 33.3%).

Profit attributable to shareholders of the Group increased to US$14.21 million in 1H18 from US$6.46 million in the corresponding period last year.

Basic and diluted earnings per share were both US 5.61 cents (1H17: US 2.55 cents). The Board has resolved not to declare an interim dividend for the six months ended 30 June 2018 (1H17: Nil).

BUSINESS REVIEW

Biochemical

We generate revenue from the manufacture and sale of CTC products. The two main products of the Group are CTC Premix and CTC HCL. CTC products are used as feed additives to promote the 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 1H18, the Group's biochemical revenue increased 39.4% to US$42.56 million. Of this, revenue contribution from China, Asia Pacific (excluding China), North America, Europe and elsewhere were 41.7%, 29.2%, 15.8%, 8.9% and 4.4%, respectively.

For the period under review, increased sales in China was mainly due to a number of customers placing orders ahead of schedule. For our overseas market, Asia Pacific (excluding China) and North America were the major growth contributors.

In 1H18, while competition remained intense, the Group managed to raise average selling price of CTC premix, our main product, by approximately 4.8% year-on-year. However, rising cost pressure from increasing raw materials prices adversely affected gross profit margin in 1H18, which decreased from 33.3% in 1H17 to 29.6% in 1H18.

Industrial

The Group's industrial business is conducted through two units, 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, China's gross domestic product growth was similar to last year at 6.8% in 1H18, with fixed-asset investment growth at 6.0% and infrastructure investments growth at 7.3%. The growth in infrastructure investments resulted in ECI Metro's increased sales of Caterpillar machinery equipment in its operating region in western China. Our share of profits from joint venture increased from US$5.36 million in 1H17 to US$12.70 million in 1H18.

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 5.6% year-on-year decline in 1H18 compared to a 4.2% increase in 1H17. Meanwhile, total automobile sales growth reported an increase from 3.8% in 1H17 to 5.6% in 1H18. In 1H18, our share of profits from associate reduced 4.7% to US$1.33 million.

OUTLOOK

Looking ahead, China authorities are reviewing the continuation of application of antibiotics as an animal feed additive in that country. This development will adversely affect our China market and clouds the outlook of our biochemical business. Meanwhile, new sewage emission standards in China which came into effective on 1 July 2018 increase production costs.

As for our industrial business, China's infrastructure investment is expected to continue to benefit ECI Metro's performance for the second half of the year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2018, the Group had total assets of US$245.0 million, an increase of 6.6% as compared to US$229.7 million as at 31 December 2017.

As at 30 June 2018, the Group had net cash, being cash and deposits less bank borrowings, of US$31.6 million (31 December 2017: US$24.2 million).

All the borrowings of the Group are denominated in Renminbi ("RMB") as at 30 June 2018 and 31 December 2017.

As at 30 June 2018, the Group's fixed interest rate bank borrowings amounted to US$0.8 million (31 December 2017: US$4.6 million).

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$37.0 million as at 30 June 2018, an increase of US$3.3 million compared to US$33.7 million as at 31 December 2017.

CHARGES ON GROUP ASSETS

As at 30 June 2018, out of the total borrowings of US$5.3 million (31 December 2017: US$9.4 million) obtained by the Group, US$4.6 million (31 December 2017: US$4.8 million) was secured and accounted for 85.8% (31 December 2017: 51.2%) 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$12.2 million (31 December 2017: US$7.8 million) were pledged as security.

CONTINGENT LIABILITIES

As at 30 June 2018, the Group did not have any significant contingent liabilities.

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2018, the Group employed around 700 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 2018 (six months ended 30 June 2017: nil).

CORPORATE GOVERNANCE CODE

The Company is committed to maintaining a high corporate governance standard, the principles of which 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 all of 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 on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the six months ended 30 June 2018.

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 of the 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 2018.

REVIEW OF INTERIM RESULTS

The interim results for the six months ended 30 June 2018 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 2018.

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

During the six months ended 30 June 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

By Order of the Board
Thanakorn Seriburi
Director

Hong Kong, 9 August 2018

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. Yao Minpu; the non-executive director is Mr. Yoichi Ikezoe; and the independent non-executive directors are Mr. Surasak Rounroengrom, Mr. Cheng Yuk Wo and Mr. Ko Ming Tung, Edward.