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TIAN CHANG GROUP HOLDINGS LTD.
天長集團控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2182)

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2018

The board (the “**Board**”) of directors (the “**Directors**”) of Tian Chang Group Holdings Ltd. (the “**Company**”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2018, together with the comparative figures for the corresponding period in 2017, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

Six months ended 30 June 2018

		Six months ended 30 June	
		2018	2017
	<i>Note</i>	(unaudited)	(unaudited)
		HK\$'000	HK\$'000
Revenue	3	280,363	261,898
Cost of goods sold		<u>(216,122)</u>	<u>(202,428)</u>
Gross profit		64,241	59,470
Other income		2,962	2,262
Fair value loss on financial assets at fair value through profit or loss		(236)	–
Selling and distribution costs		(7,136)	(6,982)
Administrative and other operating expenses		(40,345)	(33,517)
Finance costs	4	(5,345)	(7,474)
Listing expenses		<u>(6,402)</u>	<u>(2,764)</u>
Profit before tax	4	7,739	10,995
Income tax expenses	5	<u>(3,877)</u>	<u>(3,589)</u>
Profit for the period attributable to equity holders of the Company		<u>3,862</u>	<u>7,406</u>
Earnings per share attributable to equity holders of the Company		HK cents	HK cents
Basic	7	<u>0.69</u>	<u>1.59</u>
Diluted	7	<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Six months ended 30 June 2018

	Six months ended 30 June	
	2018 (unaudited) <i>HK\$'000</i>	2017 (unaudited) <i>HK\$'000</i>
Profit for the period	3,862	7,406
Other comprehensive (loss) income:		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Changes in fair value of available-for-sale financial assets	–	19
Exchange difference on consolidation	<u>(3,361)</u>	<u>5,171</u>
	<u>(3,361)</u>	<u>5,190</u>
Total comprehensive income for the period attributable to equity holders of the Company	<u>501</u>	<u>12,596</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

		At 30 June 2018 (unaudited) HK\$'000	At 31 December 2017 (audited) HK\$'000
Non-current assets			
Property, plant and equipment		419,224	398,502
Prepaid land lease payments		45,238	46,351
Financial assets at fair value through profit or loss	8	26,877	–
Available-for-sale financial assets	8	–	10,506
Deferred tax assets		1,500	2,179
		<u>492,839</u>	<u>457,538</u>
Current assets			
Prepaid land lease payments		1,103	1,117
Inventories		68,876	55,272
Trade and other receivables	9	137,143	120,214
Income tax recoverable		1,849	1,057
Bank balances and cash		81,398	19,591
		<u>290,369</u>	<u>197,251</u>
Current liabilities			
Trade and other payables	10	99,126	114,541
Bank overdrafts		712	1,024
Income tax payables		7,041	3,250
Payables for construction in progress	11	31,685	28,176
Interest-bearing borrowings	12	199,928	172,416
Obligations under finance leases		10,044	11,101
		<u>348,536</u>	<u>330,508</u>
Net current liabilities		<u>(58,167)</u>	<u>(133,257)</u>
Total assets less current liabilities		<u>434,672</u>	<u>324,281</u>
Non-current liabilities			
Payables for construction in progress	11	21,289	–
Interest-bearing borrowings	12	19,846	20,097
Obligations under finance leases		4,967	9,567
Deferred tax liabilities		7,752	10,503
		<u>53,854</u>	<u>40,167</u>
NET ASSETS		<u><u>380,818</u></u>	<u><u>284,114</u></u>
Capital and reserves			
Share capital	13	62,000	–
Reserves		318,818	284,114
TOTAL EQUITY		<u><u>380,818</u></u>	<u><u>284,114</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2018

1. GENERAL INFORMATION AND BASIS OF PRESENTATION

Tian Chang Group Holdings Ltd. (the “**Company**”) was incorporated as an exempted company with limited liability in the Cayman Islands on 26 April 2017. The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company’s principal place of business is situated at Unit 6, 13/F, Block B, Hoi Luen Industrial Centre, 55 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong.

The principal activity of the Company is investment holding. The Company together with its subsidiaries (hereinafter collectively referred to as the “**Group**”) is principally engaged in manufacturing and sales of electronic cigarettes products (“**e-cigarettes products**”) and providing integrated plastic solutions in Hong Kong and in the People’s Republic of China (the “**PRC**”).

In preparing for the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (the “**Initial Listing**”), the Group underwent a group reorganisation (the “**Reorganisation**”) to rationalise the group structure. As a result of the Reorganisation, the Company became the holding company of the Group on 12 June 2017. Details of the Reorganisation are more fully explained in the section headed “History, Reorganisation and Corporate Structure” of the prospectus of the Company dated 14 February 2018.

The shares of the Company were listed on the Main Board of the Stock Exchange on 8 March 2018.

The Group resulting from the Reorganisation is regarded as a continuing entity under the common control of Mr. Chan Tsan Lam (the “**Ultimate Controlling Party**”) prior to and after the Reorganisation, and that control is not transitory. Accordingly, the unaudited condensed consolidated financial statements for the six months ended 30 June 2018 (the “**Interim Financial Statements**”) and the comparative information for the six months ended 30 June 2017, as applicable, have been prepared using the principles of merger accounting in accordance with Accounting Guideline 5 “Merger Accounting under Common Control Combination” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

The unaudited condensed consolidated income statement, unaudited condensed consolidated statement of comprehensive income, unaudited condensed consolidated statement of changes in equity and unaudited condensed consolidated statement of cash flows of the Group for the six months ended 30 June 2018 and 2017 have been prepared on the basis as if the current group structure has been in existence throughout the relevant periods, or since the respective dates of incorporation or establishment, where there is a shorter period.

The Interim Financial Statements have been prepared in accordance with the Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“**HKAS 34**”) issued by the HKICPA and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

The preparation of the Interim Financial Statements in conformity with HKAS 34 requires the management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The Interim Financial Statements 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 31 December 2017, and therefore, do not include all of the information required for full set of financial statements prepared in accordance with the Hong Kong Financial Reporting Standards (“**HKFRSs**”) which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standard (“**HKAS**”) and Interpretations issued by the HKICPA. They shall be read in conjunction with the Group’s audited financial statements for the year ended 31 December 2017 (the “**2017 Audited Financial Statements**”).

The Interim Financial Statements have been prepared on the historical costs basis except for financial assets at fair value through profit or loss and available-for-sale financial assets which are measured at fair value, and presented in Hong Kong dollars (“HK\$”), which is the same as the functional currency of the Company, and rounded to the nearest thousands unless otherwise indicated.

The accounting policies and methods of computation applied in the preparation of the Interim Financial Statements are consistent with those applied in preparing the 2017 Audited Financial Statements, except for the adoption of the new/revised HKFRSs that are relevant to the Group and effective from the current period as set out below.

Amendments to HKAS 28	As part of the annual improvements to HKFRS 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration

The adoption of these new/revised to HKFRSs did not result in substantial changes to the Group’s accounting policies and/or amounts reported for the current period and prior periods except for HKFRS 9 and HKFRS 15.

2. SEGMENT INFORMATION

Information reported to the executive directors of the Company, being identified as the chief operating decision makers (“CODM”), for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group’s reportable and operating segments are as follows:

- 1) E-cigarettes products segment: manufacture and sales of e-cigarettes products.
- 2) Integrated plastic solutions segment: manufacture and sales of moulds and plastic products.

Segment revenue and results

Segment revenue represents revenue derived from manufacturing and sales of e-cigarettes products and integrated plastic solutions.

Segment results represent the gross profit less selling and distribution costs incurred by each segment without allocation of other income, fair value loss on financial assets at fair value through profit or loss, administrative and other operating expenses, finance costs, listing expenses and income tax expenses. This is the measure reported to the CODM of the Group for the purposes of resource allocation and performance assessment.

The followings are analysis of the Group's revenue and results by reportable and operating segments:

	E-cigarettes products (unaudited) HK\$'000	Integrated plastic solutions (unaudited) HK\$'000	Total (unaudited) HK\$'000
Six months ended 30 June 2018 (unaudited)			
Segment revenue	<u>97,235</u>	<u>183,128</u>	<u>280,363</u>
Gross profit	<u>29,017</u>	<u>35,224</u>	<u>64,241</u>
Selling and distribution costs	<u>–</u>	<u>(7,136)</u>	<u>(7,136)</u>
Segment results	<u>29,017</u>	<u>28,088</u>	<u>57,105</u>
<i>Unallocated income and expenses</i>			
Other income			2,962
Fair value loss on financial assets at fair value through profit or loss			(236)
Administrative and other operating expenses			(40,345)
Finance costs			(5,345)
Listing expenses			<u>(6,402)</u>
Profit before tax			7,739
Income tax expenses			<u>(3,877)</u>
Profit for the period			<u>3,862</u>

	E-cigarettes products (unaudited) HK\$'000	Integrated plastic solutions (unaudited) HK\$'000	Total (unaudited) HK\$'000
Six months ended 30 June 2017 (unaudited)			
Segment revenue	112,515	149,383	261,898
Gross profit	34,025	25,445	59,470
Selling and distribution costs	–	(6,982)	(6,982)
Segment results	34,025	18,463	52,488
<i>Unallocated income and expenses</i>			
Other income			2,262
Administrative and other operating expenses			(33,517)
Finance costs			(7,474)
Listing expenses			(2,764)
Profit before tax			10,995
Income tax expenses			(3,589)
Profit for the period			7,406

Segment assets and liabilities

	E-cigarettes products HK\$'000	Integrated plastic solutions HK\$'000	Unallocated HK\$'000	Total HK\$'000
At 30 June 2018 (unaudited)				
Assets				
Reportable segment assets	62,783	271,031	449,394	783,208
Liabilities				
Reportable segment liabilities	25,639	54,347	322,404	402,390
Other information				
Capital expenditure	329	3,452	39,324	43,105
At 31 December 2017 (audited)				
Assets				
Reportable segment assets	44,927	280,540	329,322	654,789
Liabilities				
Reportable segment liabilities	25,011	57,342	288,322	370,675
Other information				
Capital expenditure	1,575	20,244	11,165	32,984

For the purposes of monitoring segment performance and allocating resources between segments:

- segment assets include certain property, plant and equipment, inventories and trade and bills receivables. Other assets are not allocated to operating segments as these assets are managed on a group basis; and
- segment liabilities include trade payables. Other liabilities are not allocated to operating segments as these liabilities are managed on a group basis.

Geographical information

The following table sets out information about the geographical location of the Group's prepaid land lease payments and property, plant and equipment ("**specified non-current assets**"). The geographical location of the specified non-current assets is based on the physical location of the assets.

Specified non-current assets

	At 30 June 2018 (unaudited) <i>HK\$'000</i>	At 31 December 2017 (audited) <i>HK\$'000</i>
Hong Kong	739	557
The PRC	<u>464,826</u>	<u>445,413</u>
	<u>465,565</u>	<u>445,970</u>

Information about the Group's revenue from external customers is presented based on the location of customers.

	Six months ended 30 June	
	2018 (unaudited) <i>HK\$'000</i>	2017 (unaudited) <i>HK\$'000</i>
Revenue from external customers		
The United States of America	91,000	87,313
The PRC	99,723	82,977
The United Kingdom	46,315	50,996
Hong Kong	39,641	37,604
Others	<u>3,684</u>	<u>3,008</u>
	<u>280,363</u>	<u>261,898</u>

Information about major customers

Details of the entities individually accounting for 10% or more of aggregate revenue of the Group during the six months ended 30 June 2018 and 2017 are as follows:

	E-cigarettes products (unaudited) HK\$'000	Integrated plastic solutions (unaudited) HK\$'000	Total (unaudited) HK\$'000
Six months ended 30 June 2018			
Customer A and its affiliated companies	97,145	461	97,606
Customer B and its affiliated companies	–	39,809	39,809
Customer C and its affiliated companies	–	53,750	53,750
	<u>97,145</u>	<u>94,020</u>	<u>191,165</u>
Six months ended 30 June 2017			
Customer A and its affiliated companies	112,512	69	112,581
Customer B and its affiliated companies	–	39,062	39,062
Customer C and its affiliated companies	–	34,433	34,433
	<u>112,512</u>	<u>73,564</u>	<u>186,076</u>

3. REVENUE

Revenue recognised represents sales of goods at invoiced value to customers net of returns and discounts.

4. PROFIT BEFORE TAX

This is stated after charging (crediting):

	Six months ended 30 June	
	2018	2017
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Finance costs		
Interest on interest-bearing borrowings	4,983	5,151
Interest on bank overdrafts	20	53
Interest on loans from the Ultimate Controlling Party	–	939
Interest on payables for construction in progress	35	873
Finance charges on obligations under finance leases	307	458
	<u>5,345</u>	<u>7,474</u>
Staff costs, including directors' emoluments		
Employee benefits expenses	60,237	56,316
Contributions to defined contribution retirement schemes	5,174	2,675
	<u>65,411</u>	<u>58,991</u>
Other items		
Cost of inventories	216,122	202,428
Amortisation of prepaid land lease payments	562	516
Depreciation (charged to "cost of goods sold" and "administrative and other operating expenses", as appropriate)	15,938	12,585
Exchange (gain) loss, net	(807)	100
Loss on disposal of property, plant and equipment	–	137
Operating lease payments (charged to "cost of goods sold" and "administrative and other operating expenses", as appropriate)	1,194	2,580
Research and development expenses	1,003	1,303
	<u>1,003</u>	<u>1,303</u>

5. TAXATION

	Six months ended 30 June	
	2018	2017
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Current tax		
Hong Kong Profits Tax	243	693
PRC Enterprise Income Tax	6,576	1,237
	<u>6,819</u>	<u>1,930</u>
Deferred tax		
Changes in temporary differences	(234)	(2,425)
(Benefit) Utilisation of tax losses recognised	(2,708)	4,084
	<u>(2,942)</u>	<u>1,659</u>
Total income tax expenses for the period	<u>3,877</u>	<u>3,589</u>

The Group's entities established in the Cayman Islands and the British Virgin Islands are exempted from income tax, respectively.

In March 2018, the two-tiered profits tax rates regime was signed into law of Hong Kong, under which, the first HK\$2 million of profits of qualifying corporations will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The management is in the process of determining which qualifying company to enjoy the two-tiered profits tax rates regime for the six months ended 30 June 2018. Hong Kong profits tax continues to be calculated at a flat rate of 16.5%.

The Group's entities established in the PRC are subject to Enterprise Income Tax of the PRC at a statutory rate of 25% for the six months ended 30 June 2018 and 2017.

6. DIVIDENDS

No dividends were declared nor paid to the equity holders of the entities now comprising the Group during the six months ended 30 June 2018 and 2017.

7. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2018	2017
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
<i>Profit:</i>		
Profit for the purpose of calculating basic earnings per share	3,862	7,406
	'000	'000
<i>Number of shares:</i>		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	563,000	465,000

For the six months ended 30 June 2017, the weighted average number of ordinary shares for the purpose of calculating basic earnings per share was on the basis as if the Reorganisation and Capitalisation Issue had been effective on 1 January 2017.

Diluted earnings per share is not presented as there were no potential ordinary shares outstanding during both periods.

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/AVAILABLE-FOR-SALE FINANCIAL ASSETS

	At	At
	30 June	31 December
	2018	2017
	(unaudited)	(audited)
	HK\$'000	HK\$'000
At fair value		
Unlisted investments – key management insurance contracts	26,877	10,506

The fair value of the key management insurance contracts is determined by reference to the respective surrender cash value of each insurance contract at the end of the reporting period, which is primarily based on the performance of the underlying investment portfolio together with the guaranteed minimum returns, ranging from 2% to 4.8% per annum (31 December 2017: ranging from 2% to 4.8% per annum).

The movement of the key management insurance contracts is analysed as follows:

		At 30 June 2018 (unaudited) HK\$'000	At 31 December 2017 (audited) HK\$'000
	<i>Note</i>		
At the beginning of the reporting period		10,506	7,514
Additions		16,607	2,723
Fair value changes recognised in profit or loss	8(a)	(236)	–
Fair value changes recognised in other comprehensive income		–	269
		<u>26,877</u>	<u>10,506</u>

8(a) On 1 January 2018, the management assessed that the key management insurance contracts held by the Group should be classified as financial assets at fair value through profit or loss upon the initial application of HKFRS 9 and consequently the decrease in fair value of approximately HK\$236,000 was recognised in profit or loss for the six months ended 30 June 2018.

8(b) The key management insurance contracts are pledged as collateral for the Group's bank overdraft and interest-bearing borrowings amounting to approximately, in aggregate, HK\$30,183,000 (31 December 2017: HK\$17,389,000).

9. TRADE AND OTHER RECEIVABLES

		At 30 June 2018 (unaudited) HK\$'000	At 31 December 2017 (audited) HK\$'000
	<i>Note</i>		
Trade receivables			
From third parties	9(a)	<u>103,538</u>	<u>91,277</u>
Bills receivables	9(b)	<u>6,102</u>	<u>6,425</u>
Other receivables			
Deposits		177	195
Prepayment for suppliers		599	1,088
Prepayment for insurance		3,266	2,108
Prepayment for utilities		3,487	3,579
Prepayment for listing expenses		–	2,616
Prepaid expenses, other deposits and other debtors		<u>19,974</u>	<u>12,926</u>
		<u>27,503</u>	<u>22,512</u>
		<u>137,143</u>	<u>120,214</u>

9(a) Trade receivables from third parties

The Group grants credit period up to 180 days to its customers upon the issuance of invoices.

The ageing of trade receivables based on invoice date at the end of the reporting period is as follows:

	At 30 June 2018 (unaudited) HK\$'000	At 31 December 2017 (audited) HK\$'000
Within 30 days	61,332	53,876
31 to 60 days	26,417	27,126
61 to 90 days	8,850	2,588
91 to 180 days	2,142	4,355
Over 180 days	4,797	3,332
	<u>103,538</u>	<u>91,277</u>

At 30 June 2018, amount of approximately HK\$8,058,000 (31 December 2017: HK\$7,857,000) included in the trade receivables were in connection with factoring arrangements.

9(b) Bills receivables

The bills receivables are interest-free, guaranteed by banks in the PRC and have maturities of less than six months.

10. TRADE AND OTHER PAYABLES

	At 30 June 2018 (unaudited) HK\$'000	At 31 December 2017 (audited) HK\$'000
Trade payables		
To third parties	<i>10(a)</i> <u>79,986</u>	<u>82,353</u>
Other payables		
Receipt in advance	475	792
Salaries payable	10,586	14,370
Accruals and other creditors	<u>8,079</u>	<u>17,026</u>
	<u>19,140</u>	<u>32,188</u>
	<u>99,126</u>	<u>114,541</u>

10(a) Trade payables

At the end of the reporting period, the ageing analysis of the trade payables based on invoice date is as follows:

	At 30 June 2018 (unaudited) <i>HK\$'000</i>	At 31 December 2017 (audited) <i>HK\$'000</i>
Within 30 days	53,831	25,170
31 to 60 days	29	27,118
61 to 90 days	13,481	10,923
Over 90 days	12,645	19,142
	<u>79,986</u>	<u>82,353</u>

The credit period on trade payables is up to 90 days.

11. PAYABLES FOR CONSTRUCTION IN PROGRESS

Payables for construction in progress represent the amounts payable to the constructors in respect of the construction of the production plants located in the PRC which the payment terms are unsecured, interest-free and repayable within three years since its inception. The amounts represent the present value of the invoiced amounts at effective interest rate of 4.75% at the end of the reporting period (31 December 2017: 6.15%).

12. INTEREST-BEARING BORROWINGS

	At 30 June 2018 (unaudited) <i>HK\$'000</i>	At 31 December 2017 (audited) <i>HK\$'000</i>
Secured bank borrowings:		
Current portion	199,928	172,416
Non-current portion	19,846	20,097
	<u>219,774</u>	<u>192,513</u>

The secured bank borrowings are wholly repayable within five years since its inception. At 30 June 2018, the secured bank borrowings carried weighted average effective interest rate of approximately 4.37% (31 December 2017: 4.49%) per annum.

At 30 June 2018, the bank borrowings are secured by:

- (i) buildings and the prepaid land lease payments with aggregate net carrying amount of approximately HK\$287,991,000 (31 December 2017: HK\$247,502,000);
- (ii) key management insurance contracts with fair value of approximately HK\$26,877,000 (31 December 2017: HK\$10,506,000);
- (iii) trade receivables in connection with factoring arrangement of approximately HK\$8,058,000 (31 December 2017: HK\$7,857,000); and/or
- (iv) certain machinery and equipment with aggregate net carrying amount of approximately HK\$1,926,000 (31 December 2017: HK\$2,101,000).

13. SHARE CAPITAL

	Note	At 30 June 2018 (unaudited)		At 31 December 2017 (audited)	
		No. of shares '000	HK\$'000	No. of shares '000	HK\$'000
Authorised:					
<i>Ordinary shares of HK\$0.1 each</i>					
At the beginning of the reporting period		3,900	390	N/A	N/A
At date of incorporation – 26 April 2017	13(a)	–	–	3,900	390
Increase on 8 February 2018	13(b)	1,996,100	199,610	–	–
At the end of the reporting period		2,000,000	200,000	3,900	390
Issued and fully paid:					
<i>Ordinary shares of HK\$0.1 each</i>					
At the beginning of the reporting period		3	*	–	–
At date of incorporation – 26 April 2017	13(a)	–	–	3	*
Issue of shares pursuant to the Capitalisation Issue	13(c)	464,997	46,500	–	–
Issue of shares pursuant to Global Offering	13(d)	155,000	15,500	–	–
At the end of the reporting period		620,000	62,000	3	*

* less than HK\$1,000

- (a) The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 26 April 2017. Upon its incorporation, the authorised share capital of HK\$390,000 was divided into 3,900,000 ordinary shares at HK\$0.1 each and 3,000 ordinary shares of HK\$0.1 each were issued to and paid up by the Ultimate Controlling Party.
- (b) Pursuant to the resolution of the Company's shareholders passed on 8 February 2018, inter-alia, the authorised share capital of the Company was increased from HK\$390,000 to HK\$200,000,000 by the creation of an additional 1,996,100,000 shares of HK\$0.1 each and the Capitalisation Issue (as defined below) was conditionally approved.
- (c) On 8 March 2018, the Company issued a total of 464,997,000 shares of HK\$0.1 each to the shareholders appeared on the shareholders' register on 13 February 2018, credited as fully paid at par by way of capitalisation of the sum of HK\$46,499,700 standing to be credit of the share premium account of the Company and the shares issued carry the same rights as all shares in issue.
- (d) On 8 March 2018, the Company issued a total of 155,000,000 new ordinary shares of HK\$0.1 each at HK\$0.71 per share by way of global offering (the "**Global Offering**") and the shares issued carry the same rights as all shares in issue. The expenses attributable to issue of shares pursuant to the Global Offering of approximately HK\$13,847,000 were recognised in the share premium account of the Company. On the same date, the Company's shares were listed on the Main Board of the Stock Exchange.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

As a well-established provider of integrated plastic solutions in the People's Republic of China (the "PRC"), the Group operates business through two segments. The integrated plastic solutions segment is engaged in mould design and fabrication services as well as plastic component design and manufacturing services. The e-cigarettes products segment is engaged in the manufacturing and sales of e-cigarettes products under the brand name of "blu". The Group distributes its products within the domestic market and to overseas markets, including Europe, Asia and the United States.

During the six months ended 30 June 2018, the Group's total revenue amounted to approximately HK\$280.4 million, representing an increase of approximately 7.1% compared to the same period last year (30 June 2017: HK\$261.9 million). The Group recorded a gross profit of approximately HK\$64.2 million (30 June 2017: HK\$59.5 million) with a gross profit margin of approximately 22.9% (30 June 2017: 22.7%).

The Group recorded a profit for the six months ended 30 June 2018 attributable to owners of the Company of approximately HK\$3.9 million (30 June 2017: HK\$7.4 million). Basic earnings per share were approximately 0.69 HK cents (30 June 2017: 1.59 HK cents).

During the six months ended 30 June 2018, the Group completed the construction of phase II of the Group's new site in Huizhou. It is expected that the expanded manufacturing capacity will enable the Group to meet market demand and to support the Group's business growth.

The shares of the Company were listed on the Main Board of the Stock Exchange (the "Listing") on 8 March 2018 (the "Listing Date") by way of a global offering, raising gross proceeds of approximately HK\$110.0 million.

Business Segment Analysis

Integrated Plastic Solutions

The income of the integrated plastic solutions business division was mainly derived from (i) the design and fabrication of plastic injection moulds; and (ii) design and manufacturing of plastic components employing the plastic injection moulds fabricated internally or by our subcontractors.

The Group is able to specifically engineer and fabricate, with cavities plastic injection moulds, to shape the plastic components in accordance with the desired and customised design, features and specifications. The Group has the technical capabilities to fabricate moulds that meet the MT1 precision level as defined by the "National Standard of the People's Republic of China GB/T14486-2008-Dimensional Tolerances for Moulded Plastic Parts" which is the highest precision level in the national guidelines. By utilising the plastic injection process and applying the plastic injection moulds fabricated by the Group or, in limited cases, external subcontractors, the Group manufactures plastic components for office furniture, office electronic products, home appliances, communication products and automobiles.

Manufacturing of e-cigarette products

The Group manufactured e-cigarettes products as an original equipment manufacturer (“OEM”) under the brand name of “blu” for Fontem Ventures B.V.. Such e-cigarette products included disposable e-cigarettes, refillable e-cigarettes, battery rods and clearomisers.

Financial Review

Revenue

Revenue for the six months ended 30 June 2018 was approximately HK\$280.4 million, representing an increase of approximately HK\$18.5 million, or approximately 7.1%, from approximately HK\$261.9 million for the same period in 2017.

The integrated plastic solutions segment revenue for the six months ended 30 June 2018 was approximately HK\$183.1 million, representing an increase of approximately HK\$33.7 million, or approximately 22.6%, from segment revenue of approximately HK\$149.4 million for the same period in 2017. This increase was primarily due to increase in sales to the Group’s major customers during the period.

The e-cigarettes products segment revenue for the six months ended 30 June 2018 was approximately HK\$97.2 million, representing a decrease of approximately HK\$15.3 million, or approximately 13.6%, from segment revenue of approximately HK\$112.5 million for the same period in 2017. This decrease was primarily due to the delayed delivery of a batch of finished goods at 30 June 2018 which was delivered shortly subsequent to the end of the reporting period.

Gross Profit

Gross profit for the six months ended 30 June 2018 was approximately HK\$64.2 million (30 June 2017: HK\$59.5 million), representing a gross profit margin of 22.9% which was similar to that of 22.7% for the same period in 2017.

Gross profit for integrated plastic solutions for the six months ended 30 June 2018 was approximately HK\$35.2 million (30 June 2017: HK\$25.4 million), representing a gross profit margin of 19.2% (30 June 2017: 17.0%). The increase in gross profit margin was primarily contributed by new products ordered by a new customer and several old customers.

Gross profit for e-cigarettes products for the six months ended 30 June 2018 was approximately HK\$29.0 million (30 June 2017: HK\$34.0 million), representing a gross profit margin of 29.8% which was in line with that for the same period in 2017 of 30.2%.

Other Income

Other income for the six months ended 30 June 2018 was approximately HK\$3.0 million, representing an increase of approximately HK\$0.7 million, or approximately 30.9%, from approximately HK\$2.3 million for the same period in 2017. The increase was primarily due to, amongst others, an increase in sundry income and an increase in rental and utilities recharge income during the period.

Selling and Distribution Costs

Selling and distribution costs for the six months ended 30 June 2018 were approximately HK\$7.1 million, which was similar to that for the same period in 2017 of HK\$7.0 million.

Administrative and Other Operating Expenses

Administrative and other operating expenses for the six months ended 30 June 2018 were approximately HK\$40.3 million, representing an increase of approximately HK\$6.8 million or approximately 20.4% from that for the same period in 2017 (30 June 2017: HK\$33.5 million). The increase was due to increase in headcount and pay raise for administrative staff, increase in professional fee subsequent to the Company's listing, and a one-off charitable donation to the Community Chest of Hong Kong.

Listing Expenses

Listing expenses for the six months ended 30 June 2018 were approximately HK\$6.4 million, compared to approximately HK\$2.8 million for the same period in 2017.

Finance Costs

Finance costs for the six months ended 30 June 2018 were approximately HK\$5.3 million, which was a decrease of approximately HK\$2.2 million or approximately 28.5% from that for the same period in 2017 (30 June 2017: HK\$7.5 million). The decrease was primarily due to a decrease of interest payment resulting from the full repayment of the loan owed to the Ultimate Controlling Party.

Income Tax Expense

Income tax expenses for the six months ended 30 June 2018 were approximately HK\$3.9 million, which was similar to that for the same period in 2017 of HK\$3.6 million.

Profit Attributable to Equity Holders of the Company

As a result of foregoing, profit for the six months ended 30 June 2018 was approximately HK\$3.9 million, representing a decrease of approximately HK\$3.5 million, or approximately 47.9%, from approximately HK\$7.4 million for the same period in 2017.

Future Plan and Prospects

In view of the expected increase in market demand for integrated plastics solutions in the PRC and e-cigarettes products globally in the future, the Group plans to capture such market growth through capacity expansion and equipment upgrade.

During the six months ended 30 June 2018, the Group completed the construction of phase II of the Group's new site in Huizhou. It is expected that the expanded manufacturing capacity will be able to support the Group's business growth.

The Group plans to continue to invest in high-grade and advanced equipment to complement the growth of its operations. As labour costs increase in the PRC, the Group intends to increase its capital investments and efforts in further automating its production processes by purchasing equipment to replace certain manual processes. The Group believes that automation will enhance the quality of its products and the efficiency of its processes. The Group also plans to purchase advanced mould fabrication and plastic injection equipment to enhance its overall technical capabilities and improve its production efficiency.

Moving ahead, the Group plans to further improve its research and development capabilities by continuing to focus on research and development efforts to develop process-related know-how to improve product quality and its production efficiency, and save production cost. In addition, the Group intends to further research methods to enhance automation of its production processes to reduce labour cost and increase precision level of its products. The Group also intends to further research and develop plastic injection mould fabrication as well as plastic injection moulding methodology to accommodate innovative product designs in its various downstream industries. The Group intends to expand its research and development efforts and capabilities by hiring more research and development personnel and purchasing equipment and materials necessary for its research and development efforts.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flow and banking facilities provided by its principal bankers. As at 30 June 2018, the Group had cash and cash equivalents of approximately HK\$80.7 million (31 December 2017: HK\$18.6 million). The interest-bearing liabilities as at 30 June 2018 was HK\$288.5 million (31 December 2017: HK\$242.4 million) with interest rates ranging from approximately 1.50% to 4.75% per annum. The Group's gearing ratio as at 30 June 2018, calculated based on the total borrowings to the equity attributable to owners of the Company, was 75.8% (31 December 2017: 85.3%). The Group recorded net current liabilities of approximately HK\$58.2 million as at 30 June 2018, which decreased by approximately HK\$75.1 million as compared with that of approximately HK\$133.3 million as at 30 June 2017 mainly attributable to the net proceeds received from the Listing.

FOREIGN EXCHANGE RISK

The monetary assets and liabilities and business transaction of the Group are mainly carried out and conducted in Hong Kong dollars, U.S. dollars and Renminbi. In view of the stability of the exchange rate between these currencies, the Directors do not consider that the Group was significantly exposed to foreign exchange risk for the six months ended 30 June 2018. The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and to mitigate the impact on exchange rate fluctuations by entering into currency hedge arrangement, if necessary. During the six months ended 30 June 2018, no forward foreign exchange or hedging contracts had been entered into by the Group. The Group will continue to evaluate the Group's foreign currency exposure and take actions as appropriate.

MATERIAL ACQUISITIONS AND DISPOSALS

For the six months ended 30 June 2018, the Group has made no material acquisitions or disposals of subsidiaries and associated companies.

CONTINGENT LIABILITIES

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

USE OF PROCEEDS

The net proceeds of the Group raised from the initial public offering were approximately HK\$74.0 million, after deducting the underwriting fees, commissions and other listing expenses. As at 30 June 2018, approximately HK\$10.0 million of the net proceeds had been utilised. As at 30 June 2018, the unutilised net proceeds of approximately HK\$64 million were placed in licensed banks in Hong Kong and will be used on a pro-rata basis in the manner as set out in the section of “Future Plans and Use of Proceeds” in the prospectus of the Company dated 14 February 2018 (the “Prospectus”). Set out below is a summary of the utilisation of net proceeds:

	Planned use of proceeds <i>HK\$ million</i>	Actual utilised amount as at 30 June 2018 <i>HK\$ million</i>	Unutilised amount as at 30 June 2018 <i>HK\$ million</i>
For the renovation of phase II of the Group’s new site in Huizhou (<i>Note 2</i>)	2.9	–	2.9
For equipment upgrade and capacity expansion and related investments	65.9	4.8	61.1
For working capital	5.2	5.2	–
Total (<i>Note 1</i>)	74.0	10.0	64.0

Notes:

- (1) The actual net proceeds of HK\$74.0 million were slightly lower than the estimated net proceeds of approximately HK\$77.6 million and such shortfall is due to an increase in the listing expenses as finalised. The listing expenses as stated in the Prospectus were estimated based on the unfinalised bills and invoices with projected amounts of fees and disbursements provided to the Group at the time of preparing the Prospectus.
- (2) The actual amount of the proceeds as at 30 June 2018 utilised for the renovation of phase II of the Group’s new site in Huizhou was lower than the planned HK\$2.9 million because of the delay in receiving fire safety approval for the site. The Directors expect to complete the construction and leasehold improvement in the second half of 2018.

SUBSEQUENT EVENT

No subsequent events occurred after 30 June 2018 which may have a significant effect on the assets and liabilities or future operations of the Group.

EMPLOYEE AND REMUNERATION POLICY

The Group's remuneration policy is to compensate its employees based on their performance, qualifications and the Group's operational results. The total remuneration of employees includes basic salaries and performance bonus. Directors and senior management of the Group receive compensation in the form of fees, salaries, allowances, discretionary bonus, defined contribution plans and other benefits in kind with reference to those paid by comparable companies, time commitment and the performance of the Group. The Group also reimburses its Directors and senior management for expenses which are necessarily and reasonably incurred for the provision of services to the Group or executing their functions in relation to the operations of the Group. The Group regularly reviews and determines the remuneration and compensation packages (including incentive plans) of its Directors and senior management, by reference to, among other things, market level of remuneration and compensation paid by comparable companies, the respective responsibilities of its Directors and senior management and the performance of the Group.

SIGNIFICANT INVESTMENTS HELD

During the six months ended 30 June 2018, the Group did not hold any significant investment in equity interest in any other company.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in the Prospectus, the Group did not have other future plans for material investments and capital assets.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The shares of the Company were first listed on the Main Board of the Stock Exchange on the Listing Date. The Company and any of its subsidiaries have not purchased, redeemed or sold any of its listed securities during the period from the Listing Date and up to the date of this announcement (the "**Period**").

CORPORATE GOVERNANCE MEASURES

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Board has adopted the principles and the code provisions of the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules to ensure that the Company's business activities and decision making processes are regulated in a proper and prudent manner.

Mr. Chan Tsan Lam (“**Mr. Chan**”) is the chairman of the Board and chief executive officer of the Company. Although this deviates from the practice under code provision A.2.1 of the CG Code, where it provides that the two positions should be held by two different individuals, as Mr. Chan has considerable experience in the enterprise operation and management of the Company, the Board believes that it is in the best interests of the Company and its shareholders as a whole to continue to have Mr. Chan as chairman of the Board so that it can benefit from his experience and capability in leading the Board in the long-term development of the Company. From a corporate governance point of view, the decisions of the Board are made collectively by way of voting and therefore the chairman should not be able to monopolize the decision-making of the Board. The Board considers that the balance of power between the Board and management can still be maintained under the current structure. The Board shall review the structure from time to time to ensure appropriate action be taken should the need arise.

Save as disclosed above, during the Period, the Company has complied with the CG Code.

AUDIT COMMITTEE

Our audit committee consists of three members, being Mr. Lo Ka Ki, Mr. Hung Chun Leung and Mr. Chan Bing Kai. Mr. Lo Ka Ki currently serves as the chairman of our audit committee.

The Audit Committee has reviewed with management the Group’s unaudited consolidated financial statements for the six months ended 30 June 2018, the accounting principles and practices adopted and discussed auditing, internal control and financial reporting matters.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “**Model Code**”) as its code of conduct regarding dealings in the securities of the Company by the Directors and the Company’s senior management who, because of his/her office or employment, is likely to possess inside information in relation to the Company’s securities.

Upon specific enquiry, all Directors have confirmed that they have complied with the Model Code during the Period. In addition, the Company is not aware of any non-compliance of the Model Code by the senior management of the Company during the Period.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2018 (30 June 2017: nil).

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement of the Group for the six months ended 30 June 2018 is available for viewing on the website of the Stock Exchange at www.hkexnews.hk and on the website of the Company at www.hkctgroup.com.

An interim report for the six months ended 30 June 2018, containing all the information required by the Listing Rules, will be dispatched to the shareholders of the Company and published on the above websites in due course.

By Order of the Board
TIAN CHANG GROUP HOLDINGS LTD.
Chan Tsan Lam
Chairman

Hong Kong, 29 August 2018

As at the date of this announcement, the executive directors of the Company are Mr. Chan Tsan Lam, Mr. Cheng Chak and Ms. Chan Yin Yan, and the independent non-executive directors of the Company are Mr. Lo Ka Ki, Mr. Hung Chun Leung and Mr. Chan Bing Kai.