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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)

**ANNOUNCEMENT OF ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

The board (the “**Board**”) of directors (the “**Directors**”) of Tian Chang Group Holdings Ltd. (the “**Company**”) is pleased to announce the consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2018, together with the comparative figures for the year ended 31 December 2017, as follows:

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2018

	<i>Note</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Revenue	4	959,947	572,864
Cost of goods sold		<u>(722,123)</u>	<u>(438,825)</u>
Gross profit		237,824	134,039
Other income	5	5,410	4,868
Fair value loss on financial assets at fair value through profit or loss		(272)	–
Selling and distribution costs		(12,457)	(11,604)
Administrative and other operating expenses		(107,794)	(66,909)
Finance costs	6	(12,027)	(13,525)
Listing expenses		<u>(6,402)</u>	<u>(15,844)</u>
Profit before tax	6	104,282	31,025
Income tax expenses	7	<u>(28,527)</u>	<u>(10,947)</u>
Profit for the year attributable to equity holders of the Company		<u>75,755</u>	<u>20,078</u>
Earnings per share attributable to equity holders of the Company		<i>HK cents</i>	<i>HK cents</i>
Basic	9	<u>12.80</u>	<u>4.32</u>
Diluted	9	<u>12.80</u>	<u>4.32</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Profit for the year	75,755	20,078
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	–	269
Exchange difference on consolidation	<u>(4,831)</u>	<u>16,679</u>
	<u>(4,831)</u>	<u>16,948</u>
Total comprehensive income for the year attributable to equity holders of the Company	<u>70,924</u>	<u>37,026</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	<i>Note</i>	2018 HK\$'000	2017 HK\$'000
Non-current assets			
Property, plant and equipment		484,833	398,502
Prepaid land lease payments		43,911	46,351
Financial assets at fair value through profit or loss		26,841	–
Available-for-sale financial assets		–	10,506
Deferred tax assets		2,818	2,179
		<u>558,403</u>	<u>457,538</u>
Current assets			
Prepaid land lease payments		1,085	1,117
Inventories		85,928	55,272
Trade and other receivables	10	261,561	120,214
Income tax recoverable		3,358	1,057
Bank balances and cash		61,414	19,591
		<u>413,346</u>	<u>197,251</u>
Current liabilities			
Trade and other payables	11	252,854	114,541
Bank overdrafts		–	1,024
Income tax payables		14,443	3,250
Payables for construction in progress		11,927	28,176
Interest-bearing borrowings	12	125,627	172,416
Obligations under finance leases	13	22,415	11,101
		<u>427,266</u>	<u>330,508</u>
Net current liabilities		<u>(13,920)</u>	<u>(133,257)</u>
Total assets less current liabilities		<u>544,483</u>	<u>324,281</u>
Non-current liabilities			
Payables for construction in progress		11,827	–
Interest-bearing borrowings	12	22,969	20,097
Obligations under finance leases	13	42,879	9,567
Deferred tax liabilities		15,567	10,503
		<u>93,242</u>	<u>40,167</u>
NET ASSETS		<u>451,241</u>	<u>284,114</u>
Capital and reserves			
Share capital		62,000	–*
Reserves		389,241	284,114
TOTAL EQUITY		<u>451,241</u>	<u>284,114</u>

* less than HK\$1,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

1. GENERAL INFORMATION AND BASIS OF PRESENTATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 26 April 2017 and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 8 March 2018. 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 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**”).

Pursuant to the group reorganisation to rationalise the group structure for the initial listing (the “**Initial Listing**”) of the shares of the Company (the “**Reorganisation**”), the Company acquired the entire equity interests in the companies comprising the Group from Mr. Chan Tsan Lam (the “**Ultimate Controlling Party**”). The Reorganisation was completed on 12 June 2017 and since then, the Company became the holding company of the companies comprising the Group (the “**Combined Entities**”).

The Combined Entities and the Company are under the common control of the Ultimate Controlling Party prior to and after the Reorganisation, and that control is not transitory. Accordingly, the consolidated financial statements for the year ended 31 December 2018 and the comparative information for the year ended 31 December 2017 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 consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for the years ended 31 December 2018 and 2017 have been prepared on the basis as if the current group structure has been in existence since 1 January 2017, or since the respective dates of incorporation or establishment, where there is a shorter period.

2. PRINCIPAL ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards (“**HKFRSs**”), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations issued by the HKICPA and accounting principles generally accepted in Hong Kong. The consolidated financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure requirements under the Rules Governing the Listing of Securities on the Stock Exchange.

At 31 December 2018, the current liabilities of the Group exceeded its current assets by approximately HK\$13,920,000 (2017: HK\$133,257,000).

At 31 December 2018, the Group had unutilised banking facilities of approximately HK\$172,623,000 (2017: HK\$182,207,000) and was granted additional indicative credit facility of HK\$Nil (2017: HK\$75,600,000).

The management of the Company is of the opinion that, taking into account the confirmed credit commitments from financial institutions and internal financial resources of the Group, the Group has sufficient working capital for its present requirements. Hence, the consolidated financial statements have been prepared on a going concern basis. Should the Group be unable to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, and to provide for any further liabilities which might arise. The effect of these adjustments has not been reflected in the consolidated financial statements.

A summary of the principal accounting policies adopted by the Group in preparing the consolidated financial statements is set out below.

The Group has consistently applied all HKFRSs which are effective for the Group's financial year beginning on 1 January 2017 for the consolidated financial statements, except for the adoption of the new/revised HKFRSs that are relevant to the Group and effective from the current year as set out below.

Adoption of new/revised HKFRSs

The Group has applied, for the first time, the following new/revised HKFRSs that are relevant to the Group.

HK(IFRIC)-Int 22 Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognised the non-monetary asset or non-monetary liability arising from the advance consideration.

The adoption of the Interpretation does not have any significant impact on the consolidated financial statements.

HKFRS 9: Financial Instruments

The following terms are used in the consolidated financial statements:

- FVPL: fair value through profit or loss.
- FVOCI: fair value through other comprehensive income.
- Designated FVOCI: equity instruments measured at FVOCI.
- Mandatory FVOCI: debt instruments measured at FVOCI.

HKFRS 9 replaces HKAS 39 "Financial Instruments: Recognition and Measurement" for annual periods beginning on or after 1 January 2018. It introduces new requirements for the classification and measurement of financial assets and financial liabilities, impairment for financial assets and hedge accounting.

In accordance with the transitional provisions in HKFRS 9, comparative information has not been restated and the Group has applied HKFRS 9 retrospectively to financial instruments that existed at 1 January 2018 (i.e. the date of initial application), except as described below (if applicable):

- (a) The following assessments are made on the basis of facts and circumstances that existed at the date of initial application:
 - (i) the determination of the business model within which a financial asset is held;
 - (ii) the designation of financial assets or financial liabilities at FVPL or, in case of financial assets, at Designated FVOCI; and
 - (iii) the de-designation of financial assets or financial liabilities at FVPL.

The above resulting classification shall be applied retrospectively.

- (b) If, at the date of initial application, determining whether there has been a significant increase in credit risk since initial recognition would require undue cost or effort, a loss allowance is recognised at an amount equal to lifetime expected credit losses at each reporting date until the financial instrument is derecognised unless that financial instrument has low credit risk at a reporting date.
- (c) For investments in equity instruments that were measured at cost under HKAS 39, the instruments are measured at fair value at the date of initial application.

Classification and measurement of financial assets and financial liabilities

The following table reconciles the original measurement categories and carrying amounts under HKAS 39 to the new measurement categories and carrying amounts under HKFRS 9 for each class of the Group's financial assets as at 1 January 2018.

As at 1 January 2018

Measurement category under HKAS 39	Carrying amount under HKAS 39	Measurement category and carrying amount under HKFRS 9	
	<i>HK\$</i>	Amortised cost <i>HK\$</i>	FVPL <i>HK\$</i>
<i>Available-for-sale financial assets</i>			
Unlisted investments – key management insurance contracts (<i>note i</i>)	10,506	–	10,506
<i>Loans and receivables (note ii)</i>			
Bank balances and cash	19,591	19,591	–
Trade and other receivables	113,439	113,439	–
	143,536	133,030	10,506

Notes:

- (i) The unlisted investments – key management insurance contracts that were previously classified as available-for-sale financial assets amounted to approximately HK\$10,506,000 are now classified as FVPL. They do not meet the criteria to be classified as amortised cost or Mandatory FVOCI in accordance with HKFRS 9 because their cash flows do not represent solely payments of principal and/or interest and they are not equity investments.

Related fair value gains of HK\$801,000 at 1 January 2018 were transferred from revaluation reserves to accumulated profits on 1 January 2018.

- (ii) These items continue to be measured at amortised cost.

The adoption of HKFRS 9 has no significant effect on the classification and measurement of the Group's financial liabilities.

HKFRS 15 Revenue from contracts with customers

HKFRS 15 replaces, among others, HKAS 18 and HKAS 11 which specified the revenue recognition arising from sale of goods and rendering of services and the accounting for construction contracts respectively. HKFRS 15 establishes a comprehensive framework for revenue recognition and certain costs from contracts with customers within its scope. It also introduces a cohesive set of disclosure requirements that would result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

The adoption of HKFRS 15 does not have any significant impact on the consolidated financial statements for the years ended 31 December 2018 and 2017.

Basis of measurement

The measurement basis used in the preparation of the consolidated financial statements is historical cost, except for the financial assets at FVPL and available-for-sale financial assets which are measured at fair value.

Future changes in HKFRSs

At the date of authorising the consolidated financial statements, the HKICPA has issued the following new/revised HKFRSs that are not yet effective for current year, which the Group has not early adopted.

Annual Improvements to HKFRSs	2015-2017 Cycle ¹
HKFRS 16	Leases ¹
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments ¹
Amendments to HKAS 19	Employee benefits ¹
Amendments to HKAS 28	Investments in Associates and Joint Ventures ¹
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ¹
Amendments to HKFRS 3	Definition of a Business ³
Amendments to HKASs 1 and 8	Definition of Material ²
HKFRS 17	Insurance Contracts ⁴
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁵

¹ Effective for annual periods beginning on or after 1 January 2019

² Effective for annual periods beginning on or after 1 January 2020

³ Effective for acquisitions that occur on or after the beginning of the first annual period beginning on or after 1 January 2020

⁴ Effective for annual periods beginning on or after 1 January 2021

⁵ The effective date to be determined

The management of the Company does not anticipate that the application of these new/revised HKFRSs in future periods will have any material impact on the financial performance and financial position of the Group.

3. 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

The accounting policies of the operating segments are the same as the Group’s accounting policies described in the consolidated financial statements.

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

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 FVPL, administrative and other operating expenses, finance costs, listing expenses and income tax expenses. This is the information 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 <i>HK\$'000</i>	Integrated plastic solutions <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 December 2018			
Segment revenue	<u>485,689</u>	<u>474,258</u>	<u>959,947</u>
Gross profit	<u>127,799</u>	<u>110,025</u>	<u>237,824</u>
Selling and distribution costs	<u>–</u>	<u>(12,457)</u>	<u>(12,457)</u>
Segment results	<u>127,799</u>	<u>97,568</u>	<u>225,367</u>
<i>Unallocated income and expenses</i>			
Other income			5,410
Fair value loss on financial assets at FVPL			(272)
Administrative and other operating expenses			(107,794)
Finance costs			(12,027)
Listing expenses			<u>(6,402)</u>
Profit before tax			104,282
Income tax expenses			<u>(28,527)</u>
Profit for the year			<u>75,755</u>
Year ended 31 December 2017			
Segment revenue	<u>250,985</u>	<u>321,879</u>	<u>572,864</u>
Gross profit	<u>76,448</u>	<u>57,591</u>	134,039
Selling and distribution costs	<u>–</u>	<u>(11,604)</u>	<u>(11,604)</u>
Segment results	<u>76,448</u>	<u>45,987</u>	122,435
<i>Unallocated income and expenses</i>			
Other income			4,868
Administrative and other operating expenses			(66,909)
Finance costs			(13,525)
Listing expenses			<u>(15,844)</u>
Profit before tax			31,025
Income tax expenses			<u>(10,947)</u>
Profit for the year			<u>20,078</u>

4. REVENUE

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Revenue from contracts with customers within HKFRS 15		
Sale of e-cigarettes products	485,689	250,985
Sale of moulds and plastic products	474,258	321,879
	<u>959,947</u>	<u>572,864</u>

5. OTHER INCOME

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Bank interest income	47	36
Exchange gain, net	834	–
Management service income	90	180
Rental and utilities recharge income	2,156	1,879
Sales of scrap materials	1,242	2,097
Sundry income	1,041	676
	<u>5,410</u>	<u>4,868</u>

6. PROFIT BEFORE TAX

This is stated after charging (crediting):

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Finance costs		
Interest on interest-bearing borrowings	9,779	9,816
Interest on bank overdrafts	20	92
Interest on loans from the Ultimate Controlling Party	–	1,199
Interest on payables for construction in progress	1,150	1,496
Finance charges on obligations under finance leases	1,078	922
	<u>12,027</u>	<u>13,525</u>
Staff costs, including directors' emoluments		
Employee benefits expenses	174,155	117,624
Contributions to defined contribution retirement schemes	13,946	5,841
	<u>188,101</u>	<u>123,465</u>
Other items		
Cost of inventories	722,123	438,825
Amortisation of prepaid land lease payments (charged to “administrative and other operating expenses”)	1,154	1,039
Auditor’s remuneration	1,309	1,293
Depreciation (charged to “cost of goods sold” and “administrative and other operating expenses”, as appropriate)	28,531	26,603
Exchange (gain) loss, net	(834)	1,022
Loss on disposal of property, plant and equipment	4,155	137
Operating lease payments (charged to “cost of goods sold” and “administrative and other operating expenses”, as appropriate)	1,422	4,847
Research and development expenses	5,350	2,224
Loss allowance of trade receivables	4,662	–
	<u>771,732</u>	<u>488,288</u>

7. TAXATION

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Current tax		
Hong Kong Profits Tax	163	2,719
PRC Enterprise Income Tax	<u>23,356</u>	<u>5,458</u>
	<u>23,519</u>	<u>8,177</u>
Deferred tax		
Changes in temporary differences	10,932	(1,826)
(Benefit) Utilisation of tax losses recognised	<u>(5,924)</u>	<u>4,596</u>
	<u>5,008</u>	<u>2,770</u>
Total income tax expenses for the year	<u><u>28,527</u></u>	<u><u>10,947</u></u>

The Group's entities established in the Cayman Islands and the British Virgin Islands (the "BVI") are exempted from income tax.

For the year ended 31 December 2018, the assessable profits of a Hong Kong incorporated subsidiary of the Group (as elected by the management of the Group) is subject to the two-tiered profits tax rates regime that the first HK\$2 million of assessable profits will be taxed at the graduated tax rate of 8.25%, and assessable profits above HK\$2 million will be taxed at 16.5% (the "standard tax rate"). The Hong Kong Profits Tax of other Hong Kong incorporated subsidiaries of the Group is calculated at the standard tax rate of 16.5% of their respective estimated assessable profits for the year ended 31 December 2018 (*Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the year ended 31 December 2017*).

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 years ended 31 December 2018 and 2017.

8. DIVIDENDS

The directors of the Company recommended the payment of a final dividend of HK3.0 cents (2017:HK\$Nil) per ordinary share totally approximately HK\$18,600,000 (2017:HK\$Nil). The proposed dividend will be accounted for as an appropriation of reserves in the year ending 31 December 2019 if it is approved at the forthcoming annual general meeting. The proposed final dividend has not been recognised as dividend payables in the consolidated statement of financial position.

9. EARNINGS PER SHARE

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
<i>Profit:</i>		
Profit for the purpose of calculating basic earnings per share	<u>75,755</u>	<u>20,078</u>
	<i>'000</i>	<i>'000</i>
<i>Number of shares:</i>		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<u>591,973</u>	<u>465,000</u>

For the year ended 31 December 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 of 464,997,000 ordinary shares of HK\$0.1 each had been effective on 1 January 2017.

Diluted earnings per share is the same as basic earnings per share as there were no potential ordinary shares outstanding during years ended 31 December 2018 and 2017.

10. TRADE AND OTHER RECEIVABLES

	<i>Note</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Trade receivables			
From third parties		230,007	91,277
Loss allowance	<i>10(a)</i>	<u>(4,662)</u>	<u>–</u>
		<u>225,345</u>	<u>91,277</u>
Bills receivables			
		<u>9,023</u>	<u>6,425</u>
Other receivables			
Deposits		156	195
Prepayment for suppliers		2,248	1,088
Prepayment for insurance		3,197	2,108
Prepayment for utilities		5,831	3,579
Prepayment for listing expenses		–	2,616
Prepaid expenses, other deposits and other debtors		<u>15,761</u>	<u>12,926</u>
		<u>27,193</u>	<u>22,512</u>
		<u>261,561</u>	<u>120,214</u>

10(a) Loss allowance

At 31 December 2018, the loss allowance of approximately HK\$4,662,000 (2017: HK\$Nil) was mainly and specifically resulted from a customer against whom the Group was in a legal action to recover the trade debt due to the Group.

The Group applies the simplified approach to provide expected credit loss for trade receivables prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. Trade receivables are assessed individually for impairment losses based on historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction at the end of the reporting period, including time value of money where appropriate.

Except for the loss allowance made, the Group rebutted the presumption of default under expected credit loss model for trade receivables over 90 days past due based on good repayment records for those customers and continuous business with the Group. The assessment is regularly reviewed by the management of the Group to ensure the relevant information about specific debtors is updated. There were no changes in the estimation techniques or significant assumptions during year ended 31 December 2018.

The ageing of trade receivables, net of loss allowance, by invoice date is as follows:

	2018 HK\$'000	2017 HK\$'000
Within 30 days	175,600	53,876
31 to 60 days	40,657	27,126
61 to 90 days	6,586	2,588
91 to 180 days	1,419	4,355
Over 180 days	1,083	3,332
	<u>225,345</u>	<u>91,277</u>

11. TRADE AND OTHER PAYABLES

	2018 HK\$'000	2017 HK\$'000
Trade payables		
To third parties	<u>177,268</u>	<u>82,353</u>
Other payables		
Contract liabilities (Note)	7,203	792
Salaries payable	43,016	14,370
Other accruals and other creditors	<u>25,367</u>	<u>17,026</u>
	<u>75,586</u>	<u>32,188</u>
	<u>252,854</u>	<u>114,541</u>

Note: The Group applies the practical expedient and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Within 30 days	69,902	25,170
31 to 60 days	87,333	27,118
61 to 90 days	10,706	10,923
Over 90 days	9,327	19,142
	177,268	82,353

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

12. INTEREST-BEARING BORROWINGS

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Secured bank borrowings:		
Current portion	125,627	172,416
Non-current portion	22,969	20,097
	148,596	192,513

The secured bank borrowings are wholly repayable within five years since its inception. At 31 December 2018, the secured bank borrowings carried weighted average effective interest rate of approximately 4.40% (2017: 4.49%) per annum.

13. OBLIGATIONS UNDER FINANCE LEASES

At the end of the reporting period, the Group leased certain motor vehicles and machinery and equipment under finance leases. The lease term is ranging from 36 to 48 months (2017: ranging from 36 to 48 months). At 31 December 2018, the weighted average effective interest rate of the obligations under finance leases of the Group was 3.39% (2017: 3.29%).

	Minimum lease payments		Present value of minimum lease payments	
	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Amounts payable:				
Within one year	24,472	11,625	22,415	11,101
In the second to fifth years inclusive	45,133	9,769	42,879	9,567
	69,605	21,394	65,294	20,668
Future finance charges	(4,311)	(726)		
Present value of lease obligations	65,294	20,668		
Less: Amounts due for settlement within 12 months			(22,415)	(11,101)
Amounts due for settlement after 12 months			42,879	9,567

The Group's obligations under finance leases are secured by the lessors' charge over the leased assets.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

As a well-established provider of integrated plastic solutions in 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 year, the Group’s total revenue amounted to approximately HK\$959.9 million, representing a year-on-year increase of approximately 67.6% (2017: HK\$572.9 million). The Group recorded a gross profit of approximately HK\$237.8 million (2017: HK\$134.0 million) with a gross profit margin of approximately 24.8% (2017: 23.4%).

The Group recorded a profit for the year attributable to owners of the Company of approximately HK\$75.8 million (2017: HK\$20.1 million). Basic earnings per share were approximately HK12.80 cents (2017: HK4.32 cents).

During the year, the Group recorded capital expenditure of approximately HK\$138.2 million mainly for the new machines acquired and installed in the 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 on 8 March 2018 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” (《中華人民共和國國家標準 GB/T14486-2008-塑料模塑件尺寸公差》), 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”). Such e-cigarette products included disposable e-cigarettes, refillable e-cigarettes, battery rods, clearomisers and liquidpods.

Financial Review

Revenue

Revenue for the year ended 31 December 2018 was approximately HK\$959.9 million, representing an increase of approximately HK\$387.0 million, or approximately 67.6%, from approximately HK\$572.9 million for the year ended 31 December 2017.

The integrated plastic solutions segment revenue for the year ended 31 December 2018 was approximately HK\$474.3 million, representing an increase of approximately HK\$152.4 million, or approximately 47.3%, from segment revenue of HK\$321.9 million for the year ended 31 December 2017. This increase was primarily due to increase in sales to the Group’s major customers during the year and also the orders for new model plastic products.

The e-cigarettes products segment revenue for the year ended 31 December 2018 was approximately HK\$485.7 million, representing an increase of approximately HK\$234.7 million, or approximately 93.5%, from approximately HK\$251.0 million for the year ended 31 December 2017. The increase was primarily due to the orders for new model e-cigarettes devices.

Gross Profit

Gross profit for the year ended 31 December 2018 was approximately HK\$237.8 million, representing an increase of approximately HK\$103.8 million, or approximately 77.4%, from approximately HK\$134.0 million for the year ended 31 December 2017. The increase was primarily due to the increase in the revenue generated from the new products from both e-cigarettes and integrated plastic solutions segment during the year.

Segment gross profit for integrated plastic solutions for 2018 was approximately HK\$110.0 million which increased from approximately HK\$57.6 million for 2017, representing an increase of approximately HK\$52.4 million, or approximately 91.0%. The gross profit for 2018 was increased as compared to 2017 primarily because of the completion of integrated plastic solution projects and new fabricated moulds. The new products, as developed from the integrated plastic solution projects and the new fabricated moulds thereof, improved the sales and the gross profit margin for the year ended 31 December 2018.

Segment gross profit for e-cigarettes for 2018 was approximately HK\$127.8 million which increased from approximately HK\$76.4 million for 2017. The gross profit for 2018 increased as compared by 2017 primarily because of the substantial sales of the new model e-cigarettes. Nevertheless, the new model e-cigarettes launched during the year resulted in a drop of gross profit margin from 30.5% for 2017 to 26.3% for 2018.

Other Income

Other income for the year ended 31 December 2018 was approximately HK\$5.4 million, representing an increase of approximately HK\$0.5 million, or approximately 11.1%, from approximately HK\$4.9 million for the year ended 31 December 2017. The increase was primarily due to an increase of approximately HK\$0.8 million in exchange gain.

Selling and Distribution Costs

Selling and distribution costs for the year ended 31 December 2018 were approximately HK\$12.5 million, which was similar to that for the year ended 31 December 2017 (*2017: HK\$11.6 million*).

Administrative and Other Operating Expenses

Administrative and other operating expenses for the year ended 31 December 2018 were approximately HK\$107.8 million, representing an increase of approximately HK\$40.9 million, or approximately 61.1%, from approximately HK\$66.9 million for the year ended 31 December 2017. The increase was primarily contributed by the increase in headcount to support the expanded operation of the Group, increase in pay scale to retain and recruit high profile personnel, the performance bonus to the directors and senior management and the increase in research and development expenses.

Listing Expenses

Listing expenses for the year ended 31 December 2018 were approximately HK\$6.4 million, compared to HK\$15.8 million recorded for the year ended 31 December 2017.

Finance Costs

Finance costs for the year ended 31 December 2018 were approximately HK\$12.0 million, representing a decrease of approximately HK\$1.5 million, or approximately 11.1%, from approximately HK\$13.5 million for the year ended 31 December 2017. The decrease in finance cost was primary due to the repayment of loans from the Ultimate Controlling Party.

Income Tax Expense

Income tax expenses for the year ended 31 December 2018 was approximately HK\$28.5 million, representing an increase of approximately HK\$17.6 million, or approximately 160.6%, from approximately HK\$10.9 million for the year ended 31 December 2017. The increase in income tax expense was primarily due to the increase in profit before tax.

Profit Attributable to Equity Holders of the Company

As a result of foregoing, profit for the year ended 31 December 2018 was approximately HK\$75.8 million, representing an increase of approximately HK\$55.7 million, or approximately 277.3%, from approximately HK\$20.1 million for the year ended 31 December 2017. If the listing expenses were disregarded, the adjusted profit for the year ended 31 December 2018 would be approximately HK\$82.2 million (*2017: HK\$35.9 million*), representing an increase of approximately 128.7% compared with that for the year ended 31 December 2017.

Future Plan and Prospects

In view of the expected increase in market demand for integrated plastics solutions in the PRC and e-cigarette products globally in the future, the Group plans to capture such market growth through capacity expansion and equipment upgrade. The expanded manufacturing capacity in phase II of the Group's new site in Huizhou commenced operation in the third quarter of 2018.

To prepare for the continuous growth from orders of new products from existing customers, the Group plans to further expand its production capacity by addition of highly automated machineries and construction of new factory premises in the remaining land area in Huizhou. The new factory premises will have total floor area of approximately 78,000 sqm. The Group expects that construction of the new premises will commence in the second half of 2019.

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 31 December 2018, the Group had cash and cash equivalents of approximately HK\$61.4 million (2017: HK\$18.6 million). The interest-bearing borrowings as at 31 December 2018 was HK\$148.6 million (2017: HK\$192.5 million) with interest rates weighted average effective interest rate of approximately 4.4% (2017: 4.5%) per annum. The Group's gearing ratio as at 31 December 2018, calculated based on the total borrowings to the equity attributable to owners of the Company, was 52.7% (2017: 85.3%). The Group recorded net current liabilities of approximately HK\$13.9 million as of 31 December 2018 (31 December 2017: approximately HK\$133.3 million). The Directors expect the Group's net current liabilities position and net debt to equity ratio could further improve after the year end of 2018 by the momentum of business growth. The management believes that the Group has maintained adequate financial resources to fulfill its working capital requirements.

FOREIGN EXCHANGE RISK

The monetary assets and liabilities and business transactions 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 year ended 31 December 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 31 December 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 year ended 31 December 2018, the Group has made no material acquisitions or disposals of subsidiaries and associated companies.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any significant contingent liabilities.

USE OF PROCEEDS FROM THE COMPANY'S LISTING

The Company was listed on the Stock Exchange on 8 March 2018. Net proceeds from the initial public offering totalled approximately HK\$77.6 million. The table below sets out the use of net proceeds from the initial public offering and the unutilised amounts as at 31 December 2018.

	% of total amount %	Net proceeds HK\$ million	Utilised amounts in 2018 HK\$ million	Unutilised amounts in 2018 HK\$ million
Leasehold improvement in phase II of Huizhou factory	3.9	3.0	3.0	–
Equipment upgrade and capacity expansion and related investments:				
– 49 sets of plastic injection machines and their automated ancillary equipment	73.6	57.1	57.1	–
– Advanced equipment for the automated mould fabrication equipment production line	6.0	4.7	4.7	–
– Advanced equipment for an automated PET manufacturing line	10.3	8.0	1.8	6.2
General working capital	6.2	4.8	4.8	–
	100.0	77.6	71.4	6.2

SUBSEQUENT EVENT

There were no significant events subsequent to 31 December 2018.

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 year ended 31 December 2018, the Group did not hold any significant investment in equity interest in any other company.

FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

The Group has no plan to conduct material investments and capital assets other than the construction of new factory premises and addition of highly-automated machineries as mentioned in the section “Future Plan and Prospects”. The planned capital expenditure will primarily be funded by the Group’s internal resources and bank borrowings.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The Company and any of its subsidiaries has not purchased, redeemed or sold any of its listed securities during the year ended 31 December 2018.

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 Rules Governing the Listing of Securities on the Stock Exchange (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 year ended 31 December 2018, the Company has complied with the CG Code.

AUDIT COMMITTEE AND REVIEW OF ANNUAL RESULTS

The Group has established an audit committee (the “**Audit Committee**”) on 8 February 2018 with its written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise our financial reporting process and internal control system, nominate and monitor external auditors and to provide advice and comments to the Board.

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 the management the Group’s consolidated financial statements for the year ended 31 December 2018, the accounting principles and practices adopted and discussed auditing, internal control and financial reporting matters.

The figures in respect of the Company's consolidated statement of financial position, consolidated income statement and other comprehensive income, and related notes thereto for the year ended 31 December 2018 as set out in the preliminary announcement have been agreed by the Company's auditors, Mazars CPA Limited ("**Mazars**"), to the amounts set out in the Company's audited consolidated financial statements for the year ended 31 December 2018. The work performed by Mazars in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Mazars on the preliminary announcement.

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 year ended 31 December 2018. In addition, the Company is not aware of any non-compliance of the Model Code by the senior management of the Company during the year ended 31 December 2018.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK3.0 cents per share for the year ended 31 December 2018 to the shareholders whose names appear on the register of members of the Company at the close of business on 26 June 2019. The proposed final dividend is subject to the approval of the shareholders at the forthcoming annual general meeting. The final dividend, if approved, is expected to be paid on 10 July 2019.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement of the Group for the year ended 31 December 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 annual report for the year ended 31 December 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, 28 March 2019

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.