



TIAN CHANG GROUP HOLDINGS LTD.
天 長 集 團 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability) (於開曼群島註冊成立之有限公司)

Stock Code 股份代號 : 2182

Interim Report

2018

中期報告

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Chan Tsan Lam (*Chairman*)
Mr. Cheng Chak
Ms. Chan Yin Yan

Independent Non-Executive Directors

Mr. Lo Ka Ki
Mr. Hung Chun Leung
Mr. Chan Bing Kai

COMPANY SECRETARY

Ms. Poon Po Han Lisa (*FCCA, ACIS, ACS*)

AUTHORISED REPRESENTATIVES

Mr. Chan Tsan Lam
Ms. Poon Po Han Lisa

AUDIT COMMITTEE

Mr. Lo Ka Ki (*Chairman*)
Mr. Hung Chun Leung
Mr. Chan Bing Kai

REMUNERATION COMMITTEE

Mr. Chan Bing Kai (*Chairman*)
Mr. Chan Tsan Lam
Mr. Lo Ka Ki

NOMINATION COMMITTEE

Mr. Chan Tsan Lam (*Chairman*)
Mr. Hung Chun Leung
Mr. Lo Ka Ki

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

WEBSITE OF THE COMPANY

www.hkctgroup.com

PRINCIPAL PLACE OF BUSINESS IN THE PRC

Dongjiang Hi-New Tech
Ind. Park, Huicheng District
Shuikou Town, Huizhou
Guangdong Province, PRC

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Kwun Tong
Hong Kong

COMPLIANCE ADVISER

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Chinachem Century Tower
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Wanchai
Hong Kong

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22 Hopewell Centre
183 Queen's Road East
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square
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Cayman Islands

AUDITOR

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Certified Public Accountants
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Wanchai
Hong Kong

LEGAL ADVISER AS TO HONG KONG LAWS

Loeb & Loeb LLP
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3 Connaught Road Central
Hong Kong

PRINCIPAL BANKERS

Bank of China
The Hongkong and Shanghai Banking Corporation

STOCK CODE

2182

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 (the "Listing") on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS SEGMENT ANALYSIS (Continued)

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%.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

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 Mr. Chan Tsan Lam.

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 approximately 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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, 64.2% of the Group's interest bearing liabilities as at 30 June 2018 were at floating rates and the remaining 35.8% were at fixed rates. 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.

The Group's borrowings and bank balances are generally denominated in U.S. dollars, Renminbi or Hong Kong dollars.

MANAGEMENT DISCUSSION AND ANALYSIS

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 HK\$ million	Actual utilized amount as at 30 June 2018 HK\$ million	Unutilised amount as at 30 June 2018 HK\$ million
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

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF PROCEEDS (Continued)

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

As at 30 June 2018, the Group employed a total of 1,646 employees (30 June 2017: 1,765 employees). The remuneration and staff cost for the six months ended 30 June 2018 was approximately HK\$65.4 million (30 June 2017: HK\$59.0 million).

We offer training programs to our employees, which are designed to develop the skills that we need to meet our enterprise goals and customer requirements, and to meet certain training requirements such as mandated customer or regulatory requirements and contractual obligations.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 30 June 2018 (the "**Period**").

OTHER INFORMATION

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 of Hong Kong Limited (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

The Company’s 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 the 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).

DIRECTORS' INTERESTS IN SHARES UNDERLYING SHARES AND DEBENTURES

As at 30 June 2018, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long position in issued ordinary shares of the Company

Name of Director	Capacity	Number of shares or underlying shares of the Company	Approximate percentage of shareholding
Mr. Chan Tsan Lam	Interest in controlled corporation (<i>Note</i>)	465,000,000	75%

Note: These shares are held by Oceanic Green Group Limited ("**Oceanic Green**"), New Strength Ventures Limited ("**New Strength**"), Gold Alliance Ventures Limited ("**Gold Alliance**"), New Straits Ventures Limited ("**New Straits**"), Treasure Line Holdings Limited ("**Treasure Line**") and Flaming Sapphire Limited ("**Flaming Sapphire**"), all of which are wholly owned by Mr. Chan Tsan Lam. By virtue of the SFO, Mr. Chan Tsan Lam is deemed to be interested in the shares held by Oceanic Green, New Strength, Gold Alliance, New Straits, Treasure Line and Flaming Sapphire.

Save as disclosed above, as at 30 June 2018, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2018, the following persons (other than the Directors and chief executive of the Company) had interests in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Long position in issued ordinary shares of the Company

Name of shareholder(s)	Capacity	Number of ordinary shares of the Company held	Approximate percentage of the total issued shares of the Company
Oceanic Green ⁽¹⁾	Beneficial Owner	127,100,000 shares	20.5%
New Strength ⁽¹⁾	Beneficial Owner	127,100,000 shares	20.5%
Gold Alliance ⁽¹⁾	Beneficial Owner	94,395,000 shares	15.225%
New Straits ⁽¹⁾	Beneficial Owner	79,205,000 shares	12.775%
Treasure Line ⁽¹⁾	Beneficial Owner	24,800,000 shares	4%
Flaming Sapphire ⁽¹⁾	Beneficial Owner	12,400,000 shares	2%
Ms. Fung Suk Yee May ⁽²⁾	Interest of Spouse	465,000,000 shares	75%

Note:

- (1) Each of Oceanic Green, New Strength, Gold Alliance, New Straits, Treasure Line and Flaming Sapphire, is wholly-owned by Mr. Chan, who is therefore deemed to be interested in all the shares of the Company held by each of Oceanic Green, New Strength, Gold Alliance, New Straits, Treasure Line and Flaming Sapphire.
- (2) Ms. Fung Suk Yee May is the spouse of Mr. Chan. Therefore, she is deemed to be interested in the shares of the Company in which Mr. Chan is interested for the purpose of the SFO.

Save as disclosed above, as at 30 June 2018, the Directors were not aware of any other person (other than the Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEME

The Company did not adopt a share option scheme.

DIRECTOR'S RIGHT TO ACQUIRE SHARES OR DEBENTURE

At no time during the six month period ended 30 June 2018 was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire by means of acquisition of shares, or debt securities, including debentures, of the Company or any other body corporate.

CONDENSED CONSOLIDATED INCOME STATEMENT

Six months ended 30 June 2018

	Note	2018 (unaudited) HK\$'000	2017 (unaudited) HK\$'000
Revenue	3	280,363	261,898
Cost of goods sold		(216,122)	(202,428)
Gross profit		64,241	59,470
Other income	4	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	5	(5,345)	(7,474)
Listing expenses		(6,402)	(2,764)
Profit before tax	5	7,739	10,995
Income tax expenses	6	(3,877)	(3,589)
Profit for the period, attributable to equity holders of the Company		3,862	7,406
Earnings per share attributable to equity holders of the Company		HK cents	HK cents
Basic	8	0.69	1.59
Diluted	8	n/a	n/a

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Six months ended 30 June 2018

	2018 (unaudited) HK\$'000	2017 (unaudited) HK\$'000
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	(3,361)	5,171
	(3,361)	5,190
Total comprehensive income for the period, attributable to equity holders of the Company	501	12,596

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	Note	At 30 June 2018 (unaudited) HK\$'000	At 31 December 2017 (audited) HK\$'000
Non-current assets			
Property, plant and equipment	9	419,224	398,502
Prepaid land lease payments	10	45,238	46,351
Financial assets at fair value through profit or loss	11	26,877	-
Available-for-sale financial assets	11	-	10,506
Deferred tax assets	18	1,500	2,179
		492,839	457,538
Current assets			
Prepaid land lease payments	10	1,103	1,117
Inventories		68,876	55,272
Trade and other receivables	12	137,143	120,214
Income tax recoverable		1,849	1,057
Bank balances and cash		81,398	19,591
		290,369	197,251
Current liabilities			
Trade and other payables	13	99,126	114,541
Bank overdrafts	14	712	1,024
Income tax payables		7,041	3,250
Payables for construction in progress	15	31,685	28,176
Interest-bearing borrowings	16	199,928	172,416
Obligations under finance leases	17	10,044	11,101
		348,536	330,508
Net current liabilities		(58,167)	(133,257)
Total assets less current liabilities		434,672	324,281
Non-current liabilities			
Payables for construction in progress	15	21,289	-
Interest-bearing borrowings	16	19,846	20,097
Obligations under finance leases	17	4,967	9,567
Deferred tax liabilities	18	7,752	10,503
		53,854	40,167
NET ASSETS		380,818	284,114
Capital and reserves			
Share capital	19	62,000	-
Reserves	20	318,818	284,114
TOTAL EQUITY		380,818	284,114

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2018

	Attributable to equity holders of the Company							Total HK\$'000
	Share capital HK\$'000 (Note 19)	Share premium HK\$'000 (Note 20(a))	Capital reserve HK\$'000 (Note 20(b))	Statutory reserve HK\$'000 (Note 20(c))	Translation reserve HK\$'000 (Note 20(d))	Revaluation reserve HK\$'000 (Note 20(e))	Accumulated profits HK\$'000	
At 1 January 2017 (audited)	-	-	77,810	4,837	(14,819)	532	178,728	247,088
Profit for the period	-	-	-	-	-	-	7,406	7,406
Other comprehensive income:								
<i>Items that may be reclassified subsequently to profit or loss</i>								
Changes in fair value of available-for-sale financial assets	-	-	-	-	-	19	-	19
Exchange difference on consolidation	-	-	-	-	5,171	-	-	5,171
Total comprehensive income for the period	-	-	-	-	5,171	19	7,406	12,596
At 30 June 2017 (unaudited)	-	-	77,810	4,837	(9,648)	551	186,134	259,684
At 1 January 2018 (audited)	-	-	77,810	4,837	1,860	801	198,806	284,114
Adjustment on adoption of HKFRS 9	-	-	-	-	-	(801)	801	-
As at 1 January 2018 (after adjustment)	-	-	77,810	4,837	1,860	-	199,607	284,114
Profit for the period	-	-	-	-	-	-	3,862	3,862
Other comprehensive loss:								
<i>Items that may be reclassified subsequently to profit or loss</i>								
Exchange difference on consolidation	-	-	-	-	(3,361)	-	-	(3,361)
Total comprehensive income for the period	-	-	-	-	(3,361)	-	3,862	501
Transactions with owners:								
Issue of shares pursuant to the Capitalisation Issue (Note 19(c))	46,500	(46,500)	-	-	-	-	-	-
Issue of shares pursuant to the Global Offering (Note 19(d))	15,500	94,550	-	-	-	-	-	110,050
Transaction costs attributable to issue of shares	-	(13,847)	-	-	-	-	-	(13,847)
Total transactions with owners for the period	62,000	34,203	-	-	-	-	-	96,203
At 30 June 2018 (unaudited)	62,000	34,203	77,810	4,837	(1,501)	-	203,469	380,818

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2018

	Note	Six months ended 30 June	
		2018 (unaudited) HK\$'000	2017 (unaudited) HK\$'000
OPERATING ACTIVITIES			
Cash (used in) generated from operations	21	(15,741)	25,445
Income tax paid		(3,568)	(2,651)
Net cash (used in) from operating activities		(19,309)	22,794
INVESTING ACTIVITIES			
Interest received		35	28
Purchase of property, plant and equipment		(5,713)	(14,920)
Purchase of financial assets at fair value through profit or loss/available-for-sale financial assets		(16,607)	(2,723)
Net cash used in investing activities		(22,285)	(17,615)
FINANCING ACTIVITIES			
Inception of interest-bearing borrowings		225,914	198,080
Repayment of interest-bearing borrowings		(196,685)	(156,835)
Repayment of payables for construction in progress		(10,873)	(16,991)
Repayment of obligations under finance leases		(5,657)	(4,566)
Proceeds from the Global Offering	19(d)	110,050	-
Payment for transaction costs attribute to issue of shares	19(d)	(13,847)	-
Interest paid		(5,310)	(5,662)
Net cash from financing activities		103,592	14,026
Net increase in cash and cash equivalents		61,998	19,205
Cash and cash equivalents at the beginning of the period		18,567	13,093
Effect on exchange rate changes		121	(171)
Cash and cash equivalents at the end of the period		80,686	32,127
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		81,398	36,022
Bank overdrafts		(712)	(3,895)
		80,686	32,127

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2018

1. GENERAL INFORMATION AND BASIS OF PRESENTATION (Continued)

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2018

1. GENERAL INFORMATION AND BASIS OF PRESENTATION (Continued)

HKFRS 9 “Financial Instruments”

HKFRS 9 replaces HKAS 39 Financial instruments: recognition and measurement (“HKAS 39”). It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

(i) *Classification of financial assets and financial liabilities*

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (“FVOCI”) and at fair value through profit or loss (“FVPL”). These supersede HKAS 39’s categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Non-equity investments held by the Group are classified into one of the following measurement categories:

- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method;
- FVOCI (recycling), if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or
- FVPL, if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer’s perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI (non-recycling), are recognised in profit or loss as other income.

Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2018

1. GENERAL INFORMATION AND BASIS OF PRESENTATION (Continued)

HKFRS 9 "Financial Instruments" (Continued)

(ii) Impairment of financial assets

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit losses" ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39. The Group applies the new ECL model to trade and other receivables and bank balance and cash.

The Group revised its impairment methodology under HKFRS 9 for each of these classes of assets. For trade and other receivables, the Group applies the HKFRS 9 simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade and other receivables. ECL are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the end of reporting period. As there is only minimal credit loss history, the management is of the opinion that the impact of the change in impairment methodology regarding to trade and other receivables on the Group's retained earnings and equity is immaterial.

While bank balance and cash are also subject to the impairment requirements of HKFRS 9, the identified impairment loss is immaterial.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has classified its financial instruments into the appropriate categories and recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018, as summarised below. The comparative information continues to be reported under HKAS 39.

	Note	Measurement category	
		Original (HKAS 39)	New (HKFRS 9)
Financial assets			
Unlisted investments – key management insurance contracts	(a)	Available for sale	Fair value through profit or loss
Trade and other receivables	(b)	Amortised cost	Amortised cost
Bank balances and cash	(b)	Amortised cost	Amortised cost

Notes:

- (a) The accumulated revaluation reserves of approximately HK\$801,000 at 1 January 2018 relevant to these investments have been reclassified to accumulated profits.
- (b) Impairment based on expected credit loss model on these financial assets has no significant financial impact.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2018

1. GENERAL INFORMATION AND BASIS OF PRESENTATION (Continued)

HKFRS 15 “Revenue from Contracts with Customers”

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be a single point in time or over time. HKFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

- When the customer simultaneously receives and consumes the benefits provided by the entity’s performance, as the entity performs;
- When the entity’s performance creates or enhances an asset that the customer controls as the asset is created or enhanced;
- When the entity’s performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity’s activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indications that is considered in determining when the transfer of control occurs.

The management has performed an assessment on the impact of the HKFRS 15 and concluded that no material financial impact exists, and therefore no adjustment to the Group’s accumulated profits and equity is recognised.

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2018

2. SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

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	97,235	183,128	280,363
Gross profit	29,017	35,224	64,241
Selling and distribution costs	-	(7,136)	(7,136)
Segment results	29,017	28,088	57,105
<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			(6,402)
Profit before tax			7,739
Income tax expenses			(3,877)
Profit for the period			3,862

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2018

2. SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

	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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2018

2. SEGMENT INFORMATION (Continued)

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2018

2. SEGMENT INFORMATION (Continued)

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) HK\$'000	At 31 December 2017 (audited) HK\$'000
Hong Kong	739	557
The PRC	464,826	445,413
	465,565	445,970

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

	Six months ended 30 June 2018 (unaudited) HK\$'000	2017 (unaudited) HK\$'000
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	3,684	3,008
	280,363	261,898

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2018

2. SEGMENT INFORMATION (Continued)

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
	97,145	94,020	191,165
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
	112,512	73,564	186,076

3. REVENUE

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

4. OTHER INCOME

	Six months ended 30 June	
	2018 (unaudited) HK\$'000	2017 (unaudited) HK\$'000
Bank interest income	35	28
Exchange gain, net	807	-
Management service income	90	90
Rental and utilities recharge income	916	791
Sales of scrap materials	485	1,075
Sundry income	629	278
	2,962	2,262

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2018

5. PROFIT BEFORE TAX

This is stated after charging (crediting):

	Six months ended 30 June	
	2018 (unaudited) HK\$'000	2017 (unaudited) 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
	5,345	7,474
Staff costs, including directors' emoluments		
Employee benefits expenses	60,237	56,316
Contributions to defined contribution retirement schemes	5,174	2,675
	65,411	58,991
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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2018

6. TAXATION

	Note	Six months ended 30 June	
		2018 (unaudited) HK\$'000	2017 (unaudited) HK\$'000
Current tax			
Hong Kong Profits Tax		243	693
PRC Enterprise Income Tax		6,576	1,237
		6,819	1,930
Deferred tax			
Changes in temporary differences		(234)	(2,425)
(Benefit) Utilisation of tax losses recognised		(2,708)	4,084
	18	(2,942)	1,659
Total income tax expenses for the period		3,877	3,589

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.

7. 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2018

8. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2018 (unaudited) HK\$'000	2017 (unaudited) 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 (defined in Note 19 to the Interim Financial Statements) had been effective on 1 January 2017.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2018

9. PROPERTY, PLANT AND EQUIPMENT

	At 30 June 2018 (unaudited) HK\$'000	At 31 December 2017 (audited) HK\$'000
Reconciliation of carrying amount		
At 1 January	398,502	372,550
Additions	43,105	32,984
Disposals	-	(137)
Depreciation	(15,938)	(26,603)
Exchange realignments	(6,445)	19,708
At the end of the reporting period	419,224	398,502

At 30 June 2018, the carrying amounts of the Group's motor vehicles and machinery and equipment held under finance leases amounted to approximately HK\$29,962,000 (31 December 2017: HK\$32,601,000).

10. PREPAID LAND LEASE PAYMENTS

Prepaid land lease payments represent costs paid for leasehold lands in the PRC that are classified as operating leases with initial lease terms of 50 years and the remaining lease terms ranged from 43 years to 44 years as at 30 June 2018 (31 December 2017: ranged from 44 years to 45 years). The costs are amortised over the leasehold periods.

	At 30 June 2018 (unaudited) HK\$'000	At 31 December 2017 (audited) HK\$'000
Net carrying amount		
At the beginning of the reporting period	47,468	46,175
Amortisation	(562)	(1,039)
Exchange realignments	(565)	2,332
At the end of the reporting period	46,341	47,468
Current portion	(1,103)	(1,117)
Non-current portion	45,238	46,351

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2018

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

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

11(a) On 1 January 2018, the management assessed that FVPL should be applied to the key management insurance contracts held by the Group 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.

11(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).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2018

12. TRADE AND OTHER RECEIVABLES

	Note	At 30 June 2018 (unaudited) HK\$'000	At 31 December 2017 (audited) HK\$'000
Trade receivables			
From third parties	12(a)	103,538	91,277
Bills receivables	12(b)	6,102	6,425
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		19,974	12,926
		27,503	22,512
		137,143	120,214

12(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
	103,538	91,277

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2018

12. TRADE AND OTHER RECEIVABLES (Continued)

12(b) Bills receivables

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

13. TRADE AND OTHER PAYABLES

	Note	At 30 June 2018 (unaudited) HK\$'000	At 31 December 2017 (audited) HK\$'000
Trade payables			
To third parties	13(a)	79,986	82,353
Other payables			
Receipt in advance		475	792
Salaries payable		10,586	14,370
Other accruals and other creditors		8,079	17,026
		19,140	32,188
		99,126	114,541

13(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) HK\$'000	At 31 December 2017 (audited) HK\$'000
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
	79,986	82,353

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2018

14. BANK OVERDRAFTS

The secured bank overdrafts are interest-bearing at prime rate or 1% per annum over the prime rate (31 December 2017: at prime rate or 1% per annum over the prime rate).

At 30 June 2018, the bank overdrafts are secured by the key management insurance contracts with fair value of approximately HK\$26,877,000 (31 December 2017: HK\$10,506,000), as set out in Note 11 to the Interim Financial Statements.

15. 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%).

16. INTEREST-BEARING BORROWINGS

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), as set out in Note 9 and Note 10 to the Interim Financial Statements;
- (ii) key management insurance contracts with fair value of approximately HK\$26,877,000 (31 December 2017: HK\$10,506,000), as set out in Note 11 to the Interim Financial Statements;
- (iii) trade receivables in connection with factoring arrangement of approximately HK\$8,058,000 (31 December 2017: HK\$7,857,000), as set out in Note 12(a) to the Interim Financial Statements; 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).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2018

17. 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 (31 December 2017: ranging from 36 to 48 months). At 30 June 2018, the weighted average effective interest rate of the obligations under finance leases of the Group was 3.29% (31 December 2017: 3.29%).

	Minimum lease payments		Present value of minimum lease payments	
	At 30 June 2018 (unaudited) HK\$'000	At 31 December 2017 (audited) HK\$'000	At 30 June 2018 (unaudited) HK\$'000	At 31 December 2017 (audited) HK\$'000
Amounts payable:				
Within one year	10,383	11,625	10,044	11,101
In the second to fifth years inclusive	5,047	9,769	4,967	9,567
	15,430	21,394	15,011	20,668
Future finance charges	(419)	(726)		
Present value of lease obligations	15,011	20,668		
Less: Amounts due for settlement within 12 months			(10,044)	(11,101)
Amounts due for settlement after 12 months			4,967	9,567

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2018

18. DEFERRED TAXATION

	At 30 June 2018 (unaudited) HK\$'000	At 31 December 2017 (audited) HK\$'000
Deferred tax assets	1,500	2,179
Deferred tax liabilities	(7,752)	(10,503)
Net deferred tax position	(6,252)	(8,324)

The movements in the Group's net position of deferred tax are as follows:

	Tax losses HK\$'000	Timing differences on income and expenses (including depreciation) recognised HK\$'000	Total HK\$'000
At 1 January 2017	6,625	(11,701)	(5,076)
Income tax (expenses) credit	(4,596)	1,826	(2,770)
Exchange realignments	213	(691)	(478)
At 31 December 2017 (audited)	2,242	(10,566)	(8,324)
At 1 January 2018	2,242	(10,566)	(8,324)
Income tax credit	2,708	234	2,942
Exchange realignments	(170)	(700)	(870)
At 30 June 2018 (unaudited)	4,780	(11,032)	(6,252)

The tax losses reflected in above deferred tax assets arising at the end of each reporting period which can be offset against future taxable profits of respective subsidiaries.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2018

19. 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	19(a)	-	-	3,900	390
Increase on 8 February 2018	19(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	19(a)	-	-	3	*
Issue of shares pursuant to the Capitalisation Issue	19(c)	464,997	46,500	-	-
Issue of shares pursuant to Global Offering	19(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 ("the Capitalisation Issue") 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2018

20. RESERVES

(a) Share premium

Share premium represents the excess of the net proceeds from issuance of the Company's shares over its par value. Under the laws of the Cayman Islands and the Company's Articles of Association, it is distributable to the Company's shareholders provided that the Company is able to pay its debts as they fall due in the ordinary course of business.

(b) Capital reserve

The capital reserve represents the waiver of the amount due from the Group granted by the Ultimate Controlling Party in prior years and the aggregate amount of the nominal value of the issued/registered capital of the entities now comprising the Group less consideration paid to acquire the relevant interests (if any).

(c) Statutory reserve

As stipulated by the relevant laws and regulations for enterprises incorporated/established in the PRC, the Group's subsidiaries in the PRC are required to maintain certain statutory reserves. The statutory reserve can be used to make up for losses, expand the existing operation and convert to additional capital.

(d) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of foreign operations for consolidation.

(e) Revaluation reserve

The revaluation reserve represents the cumulative net changes in the fair value of the unlisted investments in key management insurance contracts classified as available-for-sale financial assets held in prior periods.

Upon the initial application of HKFRS 9 on 1 January 2018, the accumulated revaluation reserves of approximately HK\$801,000 were reclassified to accumulated profits.

21. CASH (USED IN) GENERATED FROM OPERATIONS

	Six months ended 30 June	
	2018 (unaudited) HK\$'000	2017 (unaudited) HK\$'000
Profit before tax	7,739	10,995
Amortisation of prepaid land lease payments	562	516
Depreciation	15,938	12,585
Interest income	(35)	(28)
Fair value loss on financial assets at fair value through profit or loss	236	-
Finance costs	5,345	7,474
Loss on disposal of property, plant and equipment	-	137
Exchange differences	703	(3,577)
Changes in working capital:		
Inventories	(14,269)	40
Trade and other receivables	(18,266)	(37,727)
Trade and other payables	(13,694)	35,030
Cash (used in) generated from operations	(15,741)	25,445

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2018

22. RELATED PARTY TRANSACTIONS

In addition to the transactions/information disclosed elsewhere in the Interim Financial Statements, during the six months ended 30 June 2018 and 2017, further information of the related party transactions is set out below.

- (a) Transactions between the group entities have been eliminated on consolidation and are not disclosed. During the six months ended 30 June 2018 and 2017, the Group had the following significant transactions with related parties, while Fast Precision Mould Limited (“Fast Precision”) and Fast Precision Mould (Huizhou) Limited (“Fast Precision Huizhou”), English translation of 神速精密模具(惠州)有限公司 for identification purpose only, ceased to be related companies of the Group on 29 March 2017.

Related party relationship	Nature of transaction	Six months ended 30 June	
		2018 (unaudited) HK\$'000	2017 (unaudited) HK\$'000
Companies controlled by the Ultimate Controlling Party	Sale of goods (i)	-	249
	Sub-contracting costs (ii)	-	1,079
	Rental expenses (iii)	270	270
	Rental and utilities recharge income (iv)	-	360
	Management service income (v)	-	45

- (i) During the six months ended 30 June 2017, the Group sold plastic products to Fast Precision Huizhou. Such sales have been recognised as the Group's revenue in profit or loss.
- (ii) During the six months ended 30 June 2017, Fast Precision Huizhou provided sub-contracting services to the Group for the manufacturing of moulds. Such services have been recognised as the Group's cost of goods sold in profit or loss.
- (iii) During the six months ended 30 June 2018 and 2017, rental expenses represented operating lease payments on premises charged by CDN Holdings Limited to the Group.
- (iv) During the six months ended 30 June 2017, the Group leased out a portion of its production plants in the PRC to Fast Precision Huizhou. Such rental income has been recognised as the Group's other income in profit or loss.
- (v) During the six months ended 30 June 2017, the Group rendered management service to Fast Precision. Such service income has been recognised as the Group's other income in profit or loss.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2018

22. RELATED PARTY TRANSACTIONS (Continued)

(b) Remuneration for key management personnel (including directors) of the Group:

	Six months ended 30 June	
	2018 (unaudited) HK\$'000	2017 (unaudited) HK\$'000
Salaries and allowances	3,882	2,765
Contributions to defined contribution retirement schemes	45	53
	3,927	2,818

23. MAJOR NON-CASH TRANSACTIONS

The followings set out the major non-cash transactions during the period:

During the six months ended 30 June 2018, the Group incurred additional payables of approximately HK\$37,392,000 (six months ended 30 June 2017: HK\$4,215,000) to constructors for the addition of property, plant and equipment.

During the six months ended 30 June 2018, the Group entered into finance lease arrangements in respect of certain motor vehicles and machinery and equipment with a total capital value at the inception of the leases of approximately HK\$nil (six months ended 30 June 2017: HK\$4,029,000).

During the six months ended 30 June 2018, the Group incurred interest expenses from the loan from the Ultimate Controlling Party of approximately HK\$nil (six months ended 30 June 2017: HK\$939,000). Of the total amount, HK\$nil (six months ended 30 June 2017: HK\$939,000) was not settled.

During the six months ended 30 June 2018, the Group incurred imputed interest expenses in respect of the payables for construction in progress of approximately HK\$35,000 (six months ended 30 June 2017: HK\$873,000), which were not settled and were credited to the payables for construction in progress.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2018

24. FAIR VALUE MEASUREMENTS

The following presents the assets and liabilities measured at fair value or required to disclose their fair value in the Interim Financial Statements at 30 June 2018 across the three levels of the fair value hierarchy defined in HKFRS 13 "Fair Value Measurement" with the fair value measurement categorised in its entirety based on the lowest level input that is significant to the entire measurement. The levels of inputs are defined as follows:

- Level 1 (highest level): quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 (lowest level): unobservable inputs for the asset or liability.

(a) Assets and liabilities measured at fair value

	At 30 June 2018 (unaudited) Level 3 HK\$'000	At 31 December 2017 (audited) Level 3 HK\$'000
Assets measured at fair value		
Financial assets at fair value through profit or loss		
- Unlisted investments - key management insurance contracts (Note 11)	26,877	10,506

During the six months ended 30 June 2018 and year ended 31 December 2017, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

	Six months ended 30 June	
	2018 (unaudited) HK\$'000	2017 (unaudited) HK\$'000
Total unrealised loss included in profit or loss	(236)	-
Total unrealised gain included in other comprehensive income	-	269

The fair value of the key management insurance contracts is determined by reference to the surrender cash value, which is primarily based on the performance of the underlying investment portfolio, reported by the bank on a regular basis.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2018

24. FAIR VALUE MEASUREMENTS (Continued)

(b) Assets and liabilities with fair value disclosure, but not measured at fair value

All other financial assets and liabilities including trade and other receivables, trade and other payables, bank balances, bank overdrafts, interest-bearing borrowings, payables for construction in progress and obligations under finance leases are carried at amounts not materially different from their fair values at the end of the reporting period.

25. COMMITMENTS

Commitments under operating leases

The Group as lessee

The Group leases a number of properties under operating leases, which typically runs an initial lease of five years (31 December 2017: one to five years). None of the leases includes contingent rentals.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases, which are payable as follows:

	At 30 June 2018 (unaudited) HK\$'000	At 31 December 2017 (audited) HK\$'000
Within one year	360	6,069
In the second to fifth years inclusive	-	5,357
	360	11,426

During the six months ended 30 June 2018, the Group mutually agreed with a landlord to early terminate operating leases with outstanding commitments of approximately HK\$10,409,000 (six months ended 30 June 2017: HK\$nil) without any penalty charged.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2018

25. COMMITMENTS (Continued)

Commitments under operating leases (Continued)

The Group as lessor

The Group leases out part of its production plant under operating leases with average lease term of 2 years. The future aggregate minimum rental receivables under non-cancellable operating leases at the end of the reporting period are as follows:

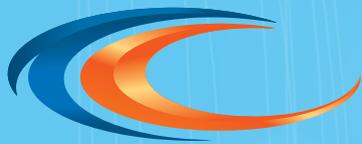
	At 30 June 2018 (unaudited) HK\$'000	At 31 December 2017 (audited) HK\$'000
Within one year	340	688

Capital expenditure commitments

	At 30 June 2018 (unaudited) HK\$'000	At 31 December 2017 (audited) HK\$'000
Contracted but not provided net of deposits paid for construction in progress	51,003	53,570

26. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The Interim Financial Statements were approved by the board of directors on 29 August 2018.



TIAN CHANG GROUP HOLDINGS LTD.
天長集團控股有限公司