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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 2022**

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 2022, together with the comparative figures for the year ended 31 December 2021, as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2022

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Revenue	4	1,143,941	1,117,688
Cost of goods sold		(883,868)	(863,830)
Gross profit		260,073	253,858
Other income	5	7,923	7,105
Other (losses) and gains, net	6	(7,669)	1,062
Impairment losses on property, plant and equipment		—	(7,889)
Reversal of (Provision for) loss allowance on trade receivables		216	(349)
Selling and distribution costs		(5,795)	(7,424)
Administrative and other operating expenses		(130,714)	(126,290)
Finance costs	7	(7,208)	(7,667)
Profit before tax	7	116,826	112,406
Income tax expenses	8	(10,881)	(16,142)
Profit for the year attributable to equity holders of the Company		105,945	96,264
Earnings per share attributable to equity holders of the Company (expressed in Hong Kong cents)			
Basic	10	17.09	15.53
Diluted	10	16.99	15.39

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

	2022	2021
	HK\$'000	HK\$'000
Profit for the year	105,945	96,264
Other comprehensive (loss) income:		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translation of foreign operations	<u>(66,607)</u>	<u>29,093</u>
Total comprehensive income for the year attributable to equity holders of the Company	<u>39,338</u>	<u>125,357</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	Notes	2022 HK\$'000	2021 HK\$'000
Non-current assets			
Property, plant and equipment		664,999	764,841
Financial assets at fair value through profit or loss (“FVPL”)		31,633	30,454
Finance lease receivables	11	—	1,617
Rental deposits		393	77
Deferred tax assets		3,999	918
		<u>701,024</u>	<u>797,907</u>
Current assets			
Inventories		128,542	171,883
Finance lease receivables	11	1,617	2,425
Trade and other receivables	12	237,368	252,346
Income tax recoverable		542	27
Restricted bank balances	13	7,152	7,780
Cash and cash equivalents		128,368	114,667
		<u>503,589</u>	<u>549,128</u>
Current liabilities			
Trade and other payables	14	252,383	288,133
Payables for construction in progress		9,020	20,168
Interest-bearing borrowings	15	121,491	216,003
Deferred income		1,455	1,561
Lease liabilities	16	2,027	10,638
Income tax payables		4,855	9,937
		<u>391,231</u>	<u>546,440</u>
Net current assets		<u>112,358</u>	<u>2,688</u>
Total assets less current liabilities		<u>813,382</u>	<u>800,595</u>
Non-current liabilities			
Payables for construction in progress		6,238	7,309
Interest-bearing borrowings	15	7,322	19,278
Deferred income		10,021	12,276
Lease liabilities	16	1,686	342
Deferred tax liabilities		6,389	6,602
		<u>31,656</u>	<u>45,807</u>
NET ASSETS		<u>781,726</u>	<u>754,788</u>
Capital and reserves			
Share capital		62,000	62,000
Reserves		719,726	692,788
TOTAL EQUITY		<u>781,726</u>	<u>754,788</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2022

1. GENERAL INFORMATION

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 ultimate controlling party of the Group is Mr. Chan Tsan Lam, who is also the chairman and executive director of the Company. 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 are principally engaged in manufacturing and sales of electronic cigarettes products (“**e-cigarettes products**”) and medical consumable products, and providing integrated plastic solutions in Hong Kong and in the People’s Republic of China (the “**PRC**”).

2. PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

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

The consolidated financial statements are presented in Hong Kong dollars (“**HK\$**”), which is the same as the functional currency of the Company. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

The consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2021 consolidated financial statements except for the adoption of the following 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:

Amendments to HKFRS 16	Covid-19-Related Rent Concessions Beyond 30 June 2021
Amendments to HKAS 16	Proceeds before Intended Use
Amendments to HKAS 37	Cost of Fulfilling a Contract
Amendments to HKFRS 3	Reference to the Conceptual Framework
Annual Improvements to HKFRSs	2018–2020 Cycle

Amendments to HKFRS 16: Covid-19-Related Rent Concessions Beyond 30 June 2021

The amendments exempt lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the covid-19 pandemic are lease modifications and allow lessees to account for such rent concessions as if they were not lease modifications. It applies to covid-19-related rent concessions that reduce lease payments due on or before 30 June 2022. The amendments do not affect lessors.

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

Amendments to HKAS 16: Proceeds before Intended Use

The amendments clarify the accounting requirements for proceeds received by an entity from selling items produced while testing an item of property, plant or equipment before it is used for its intended purpose. An entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss and measures the cost of those items applying the measurement requirements of HKAS 2.

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

Amendments to HKAS 37: Cost of Fulfilling a Contract

The amendments clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (for example, direct labour and materials) and an allocation of other costs that relate directly to fulfilling contracts (for example, an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

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

Amendments to HKFRS 3: Reference to the Conceptual Framework

The amendments update a reference in HKFRS 3 to the Conceptual Framework for Financial Reporting issued in 2018. The amendments also add to HKFRS 3 an exception to its requirement for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying HKFRS 3 should instead refer to HKAS 37. The exception has been added to avoid an unintended consequence of updating the reference.

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

Annual Improvements Project - 2018-2020 Cycle

HKFRS 1: Subsidiary as a First-time Adopter

This amendment simplifies the application of HKFRS 1 for a subsidiary that becomes a first-time adopter of HKFRSs later than its parent – i.e. if a subsidiary adopts HKFRSs later than its parent and applies HKFRS 1.D16(a), then a subsidiary may elect to measure cumulative translation differences for all foreign operations at amounts included in the consolidated financial statements of the parent, based on the parent's date of transition to HKFRSs.

HKFRS 9: Fees in the “10 per cent” Test for Derecognition of Financial Liabilities

This amendment clarifies that – for the purpose of performing the “10 per cent test” for derecognition of financial liabilities – in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf.

HKFRS 16: Lease Incentives

The amendment removes the illustration of payments from the lessor relating to leasehold improvements. As currently drafted, Example 13 is not clear as to why such payments are not a lease incentive.

HKAS 41: Taxation in Fair Value Measurements

This amendment removes the requirement to exclude cash flows for taxation when measuring fair value, thereby aligning the fair value measurement requirements in HKAS 41 with those in HKFRS 13.

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

Basis of measurement

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

Future changes in HKFRSs

At the date of authorising these 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.

Amendments to HKAS 1	Disclosure of Accounting Policies ^[1]
Amendments to HKAS 8	Definition of Accounting Estimates ^[1]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ^[1]
HKFRS 17	Insurance Contracts ^[1]
Amendment to HKFRS 17	Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information ^[1]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current ^[2]
Amendments to HKAS 1	Non-current Liabilities with Covenants ^[2]
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback ^[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ^[3]

^[1] Effective for annual periods beginning on or after 1 January 2023

^[2] Effective for annual periods beginning on or after 1 January 2024

^[3] The effective date to be determined

The directors of the Company does not anticipate that the application of these new/revised HKFRSs in future periods will have any material impact on the Group’s consolidated financial statements.

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: manufacturing and sales of e-cigarettes products.
- 2) Integrated plastic solutions segment: manufacturing and sales of moulds and plastic products.
- 3) Medical consumable products segment: manufacturing and sales of medical consumable products.

Segment revenue and results

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

Segment results represent the gross profit less selling and distribution costs, reversal of/provision for loss allowance on trade receivables, write-off of property, plant and equipment, loss on disposal of property, plant and equipment and impairment losses on property, plant and equipment incurred by each segment without allocation of other income, other losses and gains, net, administrative and other operating expenses, finance costs 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>	Medical consumable products <i>HK\$'000</i>	Total <i>HK\$'000</i>
<u>Year ended 31 December 2022</u>				
Segment revenue	<u>553,226</u>	<u>587,126</u>	<u>3,589</u>	<u>1,143,941</u>
Gross profit	<u>113,001</u>	<u>146,875</u>	<u>197</u>	<u>260,073</u>
Reversal of loss allowance on trade receivables	—	216	—	216
Write-off of property, plant and equipment	—	(574)	—	(574)
Loss on disposal of property, plant and equipment	(413)	(6)	—	(419)
Selling and distribution costs	—	(5,774)	(21)	(5,795)
Segment results	<u>112,588</u>	<u>140,737</u>	<u>176</u>	<u>253,501</u>
<i>Unallocated income and expenses</i>				
Other income				7,923
Other losses, net				(6,676)
Administrative and other operating expenses				(130,714)
Finance costs				(7,208)
Profit before tax				<u>116,826</u>
Income tax expenses				(10,881)
Profit for the year				<u><u>105,945</u></u>

	E-cigarettes products <i>HK\$'000</i>	Integrated plastic solutions <i>HK\$'000</i>	Medical consumable products <i>HK\$'000</i>	Total <i>HK\$'000</i>
<u>Year ended 31 December 2021</u>				
Segment revenue	634,271	481,366	2,051	1,117,688
Gross profit (loss)	137,416	120,245	(3,803)	253,858
Provision for loss allowance on trade receivables	—	(349)	—	(349)
Write-off of property, plant and equipment	(20)	(422)	—	(442)
Loss on disposal of property, plant and equipment	—	(236)	—	(236)
Impairment losses on property, plant and equipment	—	—	(7,889)	(7,889)
Selling and distribution costs	—	(7,424)	—	(7,424)
Segment results	137,396	111,814	(11,692)	237,518
<i>Unallocated income and expenses</i>				
Other income				7,105
Other gains, net				1,740
Administrative and other operating expenses				(126,290)
Finance costs				(7,667)
Profit before tax				112,406
Income tax expenses				(16,142)
Profit for the year				96,264

4. REVENUE

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
<u>Revenue from contracts with customers within the scope of HKFRS 15</u>		
Sales of e-cigarettes products	553,226	634,271
Sales of moulds and plastic products	587,126	481,366
Sales of medical consumable products	3,589	2,051
	<u>1,143,941</u>	<u>1,117,688</u>

The revenue from contracts with customers within the scope of HKFRS 15 is recognised at a point in time.

5. OTHER INCOME

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Bank interest income	623	489
Finance lease interest income	305	305
Government grants (<i>Note</i>)	2,509	1,788
Management service income	145	150
Rental and utilities recharge income	663	729
Sales of scrap materials	1,908	2,481
Sundry income	1,770	1,163
	<u>7,923</u>	<u>7,105</u>

Note: Included in the amount is the amortisation of deferred government grant of approximately HK\$1,498,000 (2021: HK\$1,388,000) in relation to the acquisition of certain property, plant and equipment. In the opinion of the management of the Group, the remaining government grants have no unfulfilled condition or contingency relating to the government grants.

6. OTHER (LOSSES) AND GAINS, NET

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Exchange (loss) gain, net	(7,581)	872
Changes in fair value of financial assets at FVPL	905	868
Write-off of property, plant and equipment	(574)	(442)
Loss on disposal of property, plant and equipment	(419)	(236)
	<u>(7,669)</u>	<u>1,062</u>

7. PROFIT BEFORE TAX

This is stated after charging:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Finance costs		
Interest on interest-bearing borrowings	6,515	6,864
Interest on payables for construction in progress	557	414
Interest on lease liabilities	136	389
	<u>7,208</u>	<u>7,667</u>
Staff costs, including directors' emoluments		
Salaries, allowances and other benefits in kinds	163,721	159,142
Discretionary bonus	28,824	30,761
Contributions to defined contribution plans	13,434	14,055
Share-based payment expenses	—	436
	<u>205,979</u>	<u>204,394</u>
Other items		
Cost of inventories	883,868	863,830
Auditors' remuneration	1,531	1,086
Depreciation (charged to "cost of goods sold" and "administrative and other operating expenses", as appropriate)	49,634	51,015
Write-down of inventories (charged to "cost of goods sold")	5,081	7,328
Short-term lease payments	526	114
Share-based payment expenses to eligible participants other than employees	—	67
Research and development expenses	32,957	30,866
	<u>883,868</u>	<u>863,830</u>

8. TAXATION

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Current tax		
Hong Kong Profits Tax		
Current year	4,530	6,351
Over provision in prior year	(55)	(1,214)
	<u>4,475</u>	<u>5,137</u>
PRC Enterprise Income Tax		
Current year	10,044	15,052
(Over) Under-provision in prior year	(1,500)	1
	<u>8,544</u>	<u>15,053</u>
Deferred tax		
Origination and reversal of temporary differences	2,185	(5,145)
(Benefit) Utilisation of tax losses recognised	(4,323)	1,097
	<u>(2,138)</u>	<u>(4,048)</u>
Total income tax expenses for the year	<u><u>10,881</u></u>	<u><u>16,142</u></u>

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax under these jurisdictions.

For the years ended 31 December 2022 and 2021, 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 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 Group’s entities which established in Hong Kong and Cayman Islands is calculated at the standard tax rate of 16.5% of their respective estimated assessable profits for the years ended 31 December 2022 and 2021.

The Group’s entities established in the PRC are subject to PRC Enterprise Income Tax (“EIT”) at a statutory rate of 25%, except for Huizhou Tian Chang Industrial Company Limited* (惠州市天長實業有限公司), which was approved to be a “New and High Technology Enterprise” since December 2022 with a valid period of 3 years. The “New and High Technology Enterprise” is subject to a preferential rate of 15% during the valid period. The State Taxation Administration of the PRC announced in March 2021 that enterprises engaging in research and development activities would be entitled to claim at maximum 200% of their research and development expenses as “Super Deduction”. The directors of the Company consider the eligibility of the PRC subsidiaries and recognise the additional tax deduction for the years ended 31 December 2022 and 2021.

* For identification purpose only

9. DIVIDENDS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Final dividend in respect of 2021 of HK2.0 cents per ordinary share (2020: HK1.5 cents)	<u>12,400</u>	<u>9,300</u>
Not recognised final dividend - Final dividend declared after the balance sheet date of HK2.0 cents per ordinary share (2021: HK2.0 cents) (Note)	<u>12,400</u>	<u>12,400</u>

Note: At a meeting held on 29 March 2023, the directors of the Company recommended the payment of a final dividend of HK2.0 cents (2021: HK2.0 cents) per ordinary share totalling HK\$12,400,000 (2021: HK\$12,400,000) for the year ended 31 December 2022. The proposed dividend for the year ended 31 December 2022 will be accounted for as an appropriation of reserves in the year ending 31 December 2023 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 at 31 December 2022.

10. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on profit attributable to the equity holders of the Company and the weighted average number of ordinary shares in issue during the years ended 31 December 2022 and 2021:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
<i>Earnings for the purpose of calculating basic and diluted earnings per share:</i>		
Profit for the year attributable to equity holders of the Company	<u>105,945</u>	<u>96,264</u>
	<u>'000</u>	<u>'000</u>
<i>Number of shares:</i>		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<u>620,000</u>	<u>620,000</u>
Effect of dilutive potential ordinary shares: – Share options of the Company	<u>3,459</u>	<u>5,405</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>623,459</u>	<u>625,405</u>
Basic earnings per share (HK cents)	<u>17.09</u>	<u>15.53</u>
Diluted earnings per share (HK cents)	<u>16.99</u>	<u>15.39</u>

Note: For the years ended 31 December 2022 and 2021, the computation of diluted earnings per share assumed the exercise of the first and second tranche of share options granted by the Company because the exercise price of these share options was lower than the average market price of the Company's shares.

11. FINANCE LEASE RECEIVABLES

Below is a maturity analysis of lease payment receivables and the reconciliation of undiscounted lease payment receivables to the net investments:

	Lease payments		Present value of lease payments	
	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000
Finance lease receivables comprise:				
Within one year	1,820	2,730	1,617	2,425
In the second year	—	1,820	—	1,617
Gross investment in the lease	1,820	4,550	1,617	4,042
Less: unearned finance income	(203)	(508)	N/A	N/A
Present value of minimum lease payment receivables	<u>1,617</u>	<u>4,042</u>	<u>1,617</u>	<u>4,042</u>
Analysed as:				
Current	1,617	2,425	1,617	2,425
Non-current	—	1,617	—	1,617
	<u>1,617</u>	<u>4,042</u>	<u>1,617</u>	<u>4,042</u>

Interest rates implicit in the above finance lease is 4.03% per annum (2021: 4.03%). Finance lease receivables are denominated in United States dollars.

During the year ended 31 December 2020, the Group entered into a lease agreement with a third party whereas the Group leased out its machineries with carrying amounts of approximately HK\$7,344,000 for an initial term of three years. The sum of lease payments is fixed and approximates to the carrying values of the leased assets. During the years ended 31 December 2022 and 2021, the Group did not enter into any new finance lease agreement.

Finance lease receivables are secured over the machineries leased. The Group is not permitted to sell or repledge the collateral in the absence of default by the lessee. At the end of the lease term of these finance leases, the lessee has the option to buy the machineries at nominal consideration. Termination options are included in these machineries leases. These terms are used to maximise operational flexibility in terms of managing contracts. The termination options held are exercisable by the Group and the lessee.

12. TRADE AND OTHER RECEIVABLES

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade receivables			
From third parties	<i>12(a)</i>	216,137	218,452
Loss allowance for expected credit losses		(5,626)	(6,266)
	<i>12(b)</i>	210,511	212,186
Other receivables			
Deposits		274	212
Prepayment for suppliers		3,017	3,350
Prepayment for insurance		2,948	2,993
Prepayment for utilities		3,522	4,546
Other receivables		2,188	1,630
Value-added tax recoverable		11,252	26,081
Prepaid expenses		3,656	1,348
		26,857	40,160
		237,368	252,346

12(a) Trade receivables from third parties

The Group grants credit period up to 90 days to its customers upon the issuance of invoices.

12(b) The ageing analysis of trade receivables, net of loss allowance, by invoice date at the end of the reporting period is as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Within 30 days	119,001	147,904
31 to 60 days	53,494	40,253
61 to 90 days	28,377	16,368
Over 90 days	9,639	7,661
	210,511	212,186

13. RESTRICTED BANK BALANCES

At 31 December 2022, bank balances placed in savings account amounted to approximately RMB6,365,000 (equivalent to approximately HK\$7,152,000) (2021: RMB6,365,000 (equivalent to approximately HK\$7,780,000)) were restricted, which is equivalent to the amount owed to the contractor as there was a legal dispute between a contractor and its sub-contractor for the construction of factories completed in previous years. As a result of this legal dispute, the People's Government of Huizhou City issued an injunction order to the Group to withhold the amount owed to the contractor until the dispute has been resolved. The legal dispute has been settled subsequent to 31 December 2022. The amount was released by the order of the People's Government of Huizhou City and paid to the sub-contractor subsequent to 31 December 2022. The restricted bank balances carry market interest rate at 0.3% (2021: 0.3%) per annum at 31 December 2022.

14. TRADE AND OTHER PAYABLES

	<i>Note</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade payables			
To third parties	14(a)	<u>159,696</u>	<u>200,684</u>
Other payables			
Contract liabilities		18,101	9,776
Salaries and bonus payables		45,998	50,847
Accruals and other creditors		<u>28,588</u>	<u>26,826</u>
		<u>92,687</u>	<u>87,449</u>
		<u>252,383</u>	<u>288,133</u>

14(a) Trade payables

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Within 30 days	76,394	67,492
31 to 60 days	49,374	92,925
61 to 90 days	21,617	20,183
Over 90 days	<u>12,311</u>	<u>20,084</u>
	<u>159,696</u>	<u>200,684</u>

The normal credit term on trade payables is up to 90 days.

15. INTEREST-BEARING BORROWINGS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Interest-bearing borrowings, secured	<u>128,813</u>	<u>235,281</u>
The carrying amounts of the interest-bearing borrowings that do not contain a repayable on demand clause are repayable:		
	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Within one year	12,011	17,406
In the second year	4,364	12,096
In the third to fifth year	<u>2,958</u>	<u>7,182</u>
	<u>19,333</u>	<u>36,684</u>
The carrying amounts of the interest-bearing borrowings that contain a repayable on demand clause (shown under current liabilities) but repayable:		
Within one year	96,166	173,794
In the second year	7,622	9,690
In the third to fifth year	<u>5,692</u>	<u>15,113</u>
	<u>109,480</u>	<u>198,597</u>
	128,813	235,281
Less: Amounts due within one year shown under current liabilities	<u>(121,491)</u>	<u>(216,003)</u>
Amounts shown under non-current liabilities	<u>7,322</u>	<u>19,278</u>

The interest-bearing borrowings from banks and a financial institution are wholly repayable within seven years since its inception. At 31 December 2022, the interest-bearing borrowings carried weighted average effective interest rate of approximately 4.19% (2021: 2.73%) per annum.

16. LEASE LIABILITIES

	Lease payments	
	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Amounts payable:		
Within one year	2,027	10,638
More than one year but within two years	1,587	342
More than two years but within five years	99	—
	<hr/>	<hr/>
Total lease liabilities	3,713	10,980
Less: Amount due for settlement within 12 months shown under current liabilities	(2,027)	(10,638)
	<hr/>	<hr/>
Amount shown under non-current liabilities	<u>1,686</u>	<u>342</u>

The Group uses the lessee's incremental borrowing rates to discount future lease payments since interest rates implicit in the leases are not readily determinable. In determining the discount rates for its leases, the Group refers to a rate that is readily observable as the starting point and then applies judgement and adjusts such observable rate to determine the incremental borrowing rate.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group operates its business through three segments, namely integrated plastic solutions segment, electronic cigarette (the “**e-cigarettes**”) products segment and medical consumable products segment. The integrated plastic solutions segment engages in mould design and fabrication services as well as plastic component design and manufacturing services. The e-cigarettes products segment engages in the manufacturing and sales of e-cigarettes products. The Group’s medical consumable products segment engages in the manufacturing and sales of disposable face masks products under our own brand name of “**CAREWE**”. The Group distributes our products within the domestic market and to overseas markets, including Europe, Asia and the United States (the “**U.S.**”).

During 2022, the global economy was dampened as affected by the Russia-Ukraine war and the rise of interest rate for combating high inflation. In addition, the rebound of novel coronavirus (“**COVID-19**”) pandemic affected the business environment. Apart from these, as disclosed on the announcement dated 14 March 2022, the exclusivity term between the major customer of e-cigarette products was removed during the year (“**Exclusivity**”), which meant the orders for certain e-cigarettes products were placed to other suppliers, thus, the sales orders for e-cigarette products were affected. Despite the challenging business environment, the Group continued to work more closely with its existing business partners and grasped the opportunity to broaden the customer base. Therefore, the Group recorded a growth in both revenue and profit after tax during the year. The growth was primarily contributed by the increase in sales of integrated plastic solutions.

During the year, the Group’s total revenue amounted to approximately HK\$1,143.9 million, representing an increase of approximately 2.3% (2021: *HK\$1,117.7 million*). The Group recorded a gross profit of approximately HK\$260.1 million (2021: *HK\$253.9 million*) with a gross profit margin of approximately 22.7% (2021: 22.7%).

The Group recorded a profit for the year attributable to equity holders of the Company of approximately HK\$105.9 million (2021: *HK\$96.3 million*). Basic earnings per share attributable to equity holders of the Company were approximately 17.09 HK cents (2021: *15.53 HK cents*).

BUSINESS SEGMENT ANALYSIS

Integrated Plastic Solutions

Revenue from 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, plastic injection moulds with cavities, 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 under 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, automobiles and solar system.

Manufacturing of e-cigarette products

The Group manufactures e-cigarettes products as an original equipment manufacturer (“**OEM**”). Such e-cigarette products include disposable e-cigarettes, refillable e-cigarettes, battery rods, clearomisers, liquidpods and heated tobacco device. As disclosed on the announcement dated 14 March 2022, the restrictive clause for accepting the order from other customers in manufacturing the products which is similar or competing to the products manufacturing for the well-known tobacco group customer had been cancelled. The Group has obtained the Tobacco Monopoly Production Enterprise License issued by the State Tobacco Monopoly Administration of the People’s Republic of China in respect of OEM with validity period from 28 June 2022 to 30 June 2023.

Manufacturing of medical consumable products

The Group manufactures disposable face masks by utilising the cleanroom facilities in the Group’s production plant in Huizhou and acquiring disposable face mask production machines since 2020, as disclosed in the announcement of the Company dated 7 July 2020.

The cleanroom facility in Huizhou has been certified in compliance with the cleanroom standard of ISO14644-1:2015 Class 8, as recognised by the U.S. National Environmental Balancing Bureau. The manufacturing quality system, complemented by medical device sterilisation controls, has fulfilled the international standard of EN ISO13485:2016 Medical Devices Quality Management Systems as certified by the Société Générale de Surveillance S.A. (“**SGS**”). In addition, the Group has been granted Medical Device Manufacturing Enterprise License (醫療器械生產許可證) on medical device production issued by the National Medical Products Administration in the PRC.

The procedure face masks have been tested and proved to be meeting up to the standard of ASTM F2100 Level 3 in the U.S. and the standard of EN14683 Type IIR in Europe. Apart from the procedure face masks, the Group also developed face masks with higher level of protection, such as particulate face masks – KN95 and FFP2. The particulate face masks – KN95, has passed the requirements of GB2626-2016 standard in the PRC and NIOSH N95 – Pre-Certification Test issued by the ICS Laboratories and Nelson Laboratories in the U.S. In addition, the particulate face masks – FFP2, has also passed the requirements of EN 149:2001+A1:2009 standard, credited as FFP2 NR protective respirator, and certified with CE Mark (through SGS Fimko Oy, Notified Body #0598) granted by the SGS. Furthermore, the Group has obtained the Section 510(k) premarket notification (“**PMN**”) clearance from the United States Food and Drug Administration (“**FDA**”) in August 2022 on our surgical particulate face masks – N95 and FFP2, indicating that our particulate face mask products are safe and effective to be used in medical and surgical situation. And they can be legally sold and marketed in the U.S..

FINANCIAL REVIEW

Revenue

Revenue for the year ended 31 December 2022 was approximately HK\$1,143.9 million, representing an increase of approximately HK\$26.2 million, or approximately 2.3%, from approximately HK\$1,117.7 million for the year ended 31 December 2021.

The integrated plastic solutions segment revenue for the year ended 31 December 2022 was approximately HK\$587.1 million, accounting for approximately 51.3% of our total revenue and representing an increase of approximately HK\$105.7 million, or approximately 22.0%, from segment revenue of approximately HK\$481.4 million for the year ended 31 December 2021. This was primarily because of the increase in orders from the Group's major customers and sales for new model plastic products during the year.

The e-cigarettes products segment revenue for the year ended 31 December 2022 was approximately HK\$553.2 million, accounting for approximately 48.4% of our total revenue and representing a decrease of approximately HK\$81.1 million, or approximately 12.8%, from segment revenue of approximately HK\$634.3 million for the year ended 31 December 2021. The decrease was resulted from the effect of removal of the Exclusivity with the major customer, which led to the orders for e-cigarettes products decreased during the year.

The medical consumable products segment revenue for the year ended 31 December 2022 was approximately HK\$3.6 million, accounting for approximately 0.3% of our total revenue and representing an increase of approximately HK\$1.6 million, or approximately 80%, from segment revenue of approximately HK\$2.0 million for the year ended 31 December 2021.

Gross Profit

Gross profit for the year ended 31 December 2022 was approximately HK\$260.1 million (*2021: HK\$253.9 million*), representing a gross profit margin of 22.7% (*2021: 22.7%*).

Segment gross profit for integrated plastic solutions for 2022 was approximately HK\$146.9 million (*2021: HK\$120.3 million*), representing a gross profit margin of 25.0% (*2021: 25.0%*).

Segment gross profit for e-cigarettes products for 2022 was approximately HK\$113.0 million (*2021: HK\$137.4 million*), representing a gross profit margin of 20.4% (*2021: 21.7%*). The unit price sold and sales volume decreased during the year. The production fixed overhead per unit sold is thus higher and lowered the gross profit margin.

Segment gross profit for medical consumable products for 2022 was approximately HK\$0.2 million (*2021: gross loss HK\$3.8 million*), representing a gross profit margin of 5.6% (*2021: gross loss margin 190.0%*). The Group provided an allowance for inventories on slow-moving medical consumable products for the year ended 31 December 2021, and it resulted in a gross loss for medical consumable products. However, there was no such provision made for the year ended 31 December 2022.

Other Income

Other income for the year ended 31 December 2022 was approximately HK\$7.9 million, representing an increase of approximately HK\$0.8 million, or approximately 11.3%, from approximately HK\$7.1 million for the same period in 2021. The increase was primary due to an increase of government grant received during the year.

Selling and Distribution Costs

Selling and distribution costs for the year ended 31 December 2022 were approximately HK\$5.8 million, representing a decrease of approximately HK\$1.6 million, or approximately 21.6%, from approximately HK\$7.4 million for the year ended 31 December 2021. The unit cost for transportation was lowered primary because of the ease of lockdown restrictions during the year.

Administrative and Other Operating Expenses

Administrative and other operating expenses for the year ended 31 December 2022 were approximately HK\$130.7 million, representing an increase of approximately HK\$4.4 million, or approximately 3.5%, from approximately HK\$126.3 million for the year ended 31 December 2021. The increase was primary due to an increase in pay scale to the Directors and senior management during the year.

Finance Costs

Finance costs for the year ended 31 December 2022 were approximately HK\$7.2 million, representing a decrease of approximately HK\$0.5 million, or approximately 6.5%, from approximately HK\$7.7 million for the year ended 31 December 2021. The decrease was primary due to the repayment of interest-bearing borrowings during the year.

Income Tax Expenses

Income tax expenses for the year ended 31 December 2022 were approximately HK\$10.9 million, representing a decrease of approximately HK\$5.2 million, or approximately 32.3%, from approximately HK\$16.1 million for the year ended 31 December 2021. Such decrease was attributable to the approval of the “High and New Technology Enterprise” status for the PRC subsidiary, which enjoys a preferential tax rate of 15%.

Profit Attributable to Equity Holders of the Company

As a result of the foregoing, profit for the year ended 31 December 2022 was approximately HK\$105.9 million, representing an increase of approximately HK\$9.6 million, or approximately 10.0%, from approximately HK\$96.3 million for the year ended 31 December 2021.

THE IMPACT OF THE COVID-19

In light of the relaxation of COVID-19 restrictions over the globe, the impact of the COVID-19 pandemic may be lowered. However, the Group will keep paying close attention to the development of the COVID-19 pandemic and evaluate its impact on the Group’s financial position and operating results in order to make timely response and adjustments on our business strategies as appropriate going forward.

FUTURE PLAN AND PROSPECTS

The Group expects 2023 to be a year of challenges. The macroeconomy and consumer confidence will be adversely affected by rise in interest rate, complicated geopolitical crises and the recent financial downturn from the fall of certain banks in the U.S. and Europe. In addition, the removal of Exclusivity and tightening regulations on e-cigarette products will place great pressure on the Group's performance in the e-cigarettes products segment. In this difficult time, we will continue our effort in prospecting new customers who are sourcing for high quality e-cigarettes products. Apart from this, the Group will not stop expanding our products range for all segments and will not compromise our products quality for lower costs. We believe this is the only sustainable way for competitiveness and success.

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 2022, the Group had cash and cash equivalents of approximately HK\$128.4 million (2021: HK\$114.7 million). Interest-bearing borrowings as at 31 December 2022 was approximately HK\$128.8 million (2021: HK\$235.3 million) with weighted average effective interest rate of approximately 4.19% per annum (2021: 2.73% per annum). The Group's gearing ratio as at 31 December 2022, calculated based on the total borrowings to the equity attributable to owners of the Company, was approximately 18.9% (2021: 36.3%).

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. 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 foreign currency forward contracts, if necessary. As at 31 December 2022, the Group did not have any outstanding foreign currency forward contracts. 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 2022, the Group has made no material acquisitions or disposals of subsidiaries and associated companies.

CONTINGENT LIABILITIES

As at 31 December 2022, the Group did not have any significant contingent liabilities (2021: Nil).

CHARGE ON GROUP ASSETS

As at 31 December 2022, certain buildings, machineries and equipment, and right-of-use assets in respect of the prepaid land lease payments with aggregate net carrying amount of approximately HK\$431.1 million (2021: HK\$340.9 million) and key management insurance contracts with fair value of approximately HK\$31.6 million (2021: HK\$30.5 million) were pledged as security for bank facilities.

SUBSEQUENT EVENT

No material events occurred subsequent to 31 December 2022 which may have a significant effect on the assets and liabilities or future operations of the Group.

EMPLOYEE AND REMUNERATION POLICY

The Group's remuneration policy is to compensate its employees based on their performance, qualifications and the Group's operational results. The total remuneration of employees includes basic salaries, performance bonus and share options. Directors and senior management of the Group receive compensation in the form of fees, salaries, allowances, discretionary bonus, share options, 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.

SHARE OPTION SCHEME

On 28 May 2019, the Company adopted a share option scheme (the “**Option Scheme**”) for the purpose of providing reward to selected participants for their contribution to the Group. Eligible participants of the Option Scheme include, without limitation, employees, executive directors, non-executive directors, shareholders, advisers and consultants.

For the year ended 31 December 2022, the Company has the following share options granted to the eligible participants under the Option Scheme:

Grantees	Date of grant	Exercise price (HK\$)	Outstanding as at 1 January 2022	Options forfeited during the year	Options outstanding as at 31 December 2022	Exercisable as at 31 December 2022
Directors, chief executives and substantial shareholders						
Chan Tsan Lam	13 May 2020	0.355	620,000	—	620,000	620,000
Chan Yin Yan	13 May 2020	0.355	6,200,000	—	6,200,000	6,200,000
Poon Po Han Lisa	13 May 2020	0.355	6,200,000	—	6,200,000	6,200,000
Hung Chun Leung	13 May 2020	0.355	500,000	—	500,000	500,000
Chan Bing Kai	13 May 2020	0.355	500,000	—	500,000	500,000
Employees	13 May 2020	0.355	19,100,000	(1,250,000)	17,850,000	17,850,000
Others	13 May 2020	0.355	3,920,000	—	3,920,000	3,920,000
			<u>37,040,000</u>	<u>(1,250,000)</u>	<u>35,790,000</u>	<u>35,790,000</u>

SIGNIFICANT INVESTMENTS HELD

During the year ended 31 December 2022, the Group did not hold any significant investment in equity interest in any other company.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

The Group does not have any firm intention or specific plans for material investments or capital assets.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The Company and any of its subsidiaries have not purchased, redeemed or sold any of its listed securities during the year ended 31 December 2022.

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 C.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 and as chief executive officer 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 monopolise 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 its management 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 2022, the Company has complied with the CG Code.

AUDIT COMMITTEE

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 D.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. Ng Chi Wai, Mr. Hung Chun Leung and Mr. Chan Bing Kai. Mr. Ng Chi Wai currently serves as the chairman of our Audit Committee, who holds the appropriate professional qualification as required under rules 3.10(2) and 3.21 of the Listing Rules.

The Audit Committee has reviewed with the management the Group’s consolidated financial statements for the year ended 31 December 2022, the accounting principles and practices adopted and discussed auditing, internal control and financial reporting matters.

SCOPE OF WORK OF MAZARS CPA LIMITED

The figures in respect of the Group’s consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, and related notes thereto for the year ended 31 December 2022 as set out in this announcement have been agreed by the Group’s auditors, Mazars CPA Limited (“**Mazars**”), to the amounts set out in the Group’s audited consolidated financial statements for the year ended 31 December 2022. 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 in this 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 2022. 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 2022.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK2.0 cents per share for the year ended 31 December 2022 (*2021: HK2.0 cents per share*) to the shareholders whose names appear on the register of members of the Company at the close of business on 16 June 2023. The proposed final dividend is subject to the approval of the shareholders at the forthcoming annual general meeting to be held on 30 May 2023. The final dividend, if approved, is expected to be paid on 27 June 2023.

For determining the entitlement to the proposed final dividend of HK2.0 cents per share of the Company for the year ended 31 December 2022, the transfer books and register of members of the Company will be closed from Wednesday, 14 June 2023 to Friday, 16 June 2023, both days inclusive. During the above period, no transfer of shares of the Company will be registered. In order to qualify for the entitlement to the proposed final dividend, subject to passing of an ordinary resolution at the forthcoming annual general meeting, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong before 4:30 p.m. on Tuesday, 13 June 2023.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement of the Group for the year ended 31 December 2022 is available for viewing on the website of the Stock Exchange at www.hkexnews.hk and on the website of the Company at www.hktcgroup.com.

An annual report for the year ended 31 December 2022, containing all the information required by the Listing Rules, will be dispatched to the shareholders of the Company and published on the above websites in due course.

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

Hong Kong, 29 March 2023

As at the date of this announcement, the executive directors of the Company are Mr. Chan Tsan Lam, Ms. Poon Po Han Lisa and Ms. Chan Yin Yan, and the independent non-executive directors of the Company are Mr. Ng Chi Wai, Mr. Hung Chun Leung and Mr. Chan Bing Kai.