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 2017

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 2017, together with the comparative figures for the year ended 31 December 2016, as follows:

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2017

	Note	**2017** *HK$'000*	2016 *HK$'000*
Revenue	*4*	**572,864**	555,561
Cost of goods sold		**(438,825)**	(427,386)
Gross profit		**134,039**	128,175
Other income	*5*	**4,868**	8,296
Selling and distribution costs		**(11,604)**	(11,570)
Administrative and other operating expenses		**(66,909)**	(66,584)
Finance costs	*6*	**(13,525)**	(13,320)
Listing expenses		**(15,844)**	–
Profit before tax	*6*	**31,025**	44,997
Income tax expenses	*7*	**(10,947)**	(11,140)
Profit for the year, attributable to equity holders of the Company		**20,078**	33,857
		HK cents	*HK cents*
Earnings per share attributable to equity holders of the Company			
Basic	*9*	**4.32**	7.28
Diluted	*9*	**n/a**	n/a

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Profit for the year		**20,078**	33,857
Other comprehensive income (loss):			
Items that may be reclassified subsequently to profit or loss:			
Change in fair value of available-for-sale financial assets		**269**	210
Exchange difference on consolidation		**16,679**	(29,147)
		16,948	(28,937)
Total comprehensive income for the year, attributable to equity holders of the Company		**37,026**	4,920

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment		**398,502**	372,550
Prepaid land lease payments		**46,351**	45,112
Available-for-sale financial assets		**10,506**	7,514
Deferred tax assets		**2,179**	7,453
		457,538	432,629
Current assets			
Prepaid land lease payments		**1,117**	1,063
Inventories		**55,272**	65,698
Trade and other receivables	*10*	**120,214**	114,169
Income tax recoverable		**1,057**	–
Bank balances and cash		**19,591**	18,919
		197,251	199,849
Current liabilities			
Trade and other payables	*11*	**114,541**	90,325
Bank overdrafts		**1,024**	5,826
Income tax payables		**3,250**	3,062
Payables for construction in progress		**28,176**	26,012
Interest-bearing borrowings	*12*	**172,416**	140,834
Obligations under finance leases		**11,101**	10,233
		330,508	276,292
Net current liabilities		**(133,257)**	(76,443)
Total assets less current liabilities		**324,281**	356,186
Non-current liabilities			
Payables for construction in progress		**–**	17,414
Interest-bearing borrowings	*12*	**20,097**	33,741
Obligations under finance leases		**9,567**	16,816
Loans from the Ultimate Controlling Party		**–**	28,598
Deferred tax liabilities		**10,503**	12,529
		40,167	109,098
NET ASSETS		**284,114**	247,088
Capital and reserves			
Share capital		**–**	–
Reserves		**284,114**	247,088
TOTAL EQUITY		**284,114**	247,088

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 "**Prospectus**").

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 consolidated financial statements for the year ended 31 December 2017 (and the comparative information for the year ended 31 December 2016) have been prepared using the principles of merger accounting in accordance with Accounting Guideline 5 "Merger accounting under common control combination" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

The consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for the years ended 31 December 2017 and 2016 have been prepared on the basis as if the current group structure has been in existence throughout the relevant years, or since the respective dates of incorporation or establishment, where there is a shorter period. The consolidated statement of financial position of the Group as at 31 December 2016 has been prepared to present the assets and liabilities of the companies now comprising the Group as if the group structure has been in existence at the date.

2. PRINCIPAL ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements has been prepared in accordance with the Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the HKICPA and accounting principles generally accepted in Hong Kong.

The consolidated financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure requirements under the Rules Governing the Listing of Securities on the Stock Exchange.

As at 31 December 2017, the current liabilities of the Group exceeded its current assets by approximately HK$133,257,000.

As at 31 December 2017, the Group had unutilised banking facilities of approximately HK$182,207,000 and was granted additional indicative credit facility of approximately HK$75,600,000.

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

The Group has consistently applied all HKFRSs which are effective for the Group's financial year beginning on 1 January 2016 for the consolidated financial statements, except for the adoption of the new/revised HKFRSs that are relevant to the Group and effective from the current year as set out below.

Adoption of new/revised HKFRSs

Amendments to HKAS 7: Disclosure Initiative

The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The adoption of the amendments resulted in the additional disclosures in the consolidated financial statements.

Amendments to HKAS 12: Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify, among others, how to account for deferred tax assets related to debt instruments measured at fair value.

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

Basis of measurement

The measurement basis used in the preparation of the consolidated financial statements is historical cost, except for the unlisted investments of key management insurance contracts classified as available-for-sale financial assets which are measured at fair value.

Future changes in HKFRSs

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

Annual Improvements to HKFRSs	2014 – 2016 Cycle: HKFRS 1 and HKAS 28[1]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers[1]
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
HKFRS 16	Leases[2]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKAS 28	Investments in Associates and Joint Ventures[2]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Annual Improvements to HKFRSs	2015 – 2017 Cycle: HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[2]
HKFRS 17	Insurance Contracts[3]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2021
4 The effective date to be determined

Except as described below, the management of the Company anticipates that the application of these new standards and amendments will have no material impact on the financial performance and financial position of the Group.

HKFRS 9 "Financial Instruments"

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to classification and measurement requirements by introducing a "fair value through other comprehensive income" ("**FVTOCI**") measurement category.

Key requirements under HKFRS 9 are as follows:

- All recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that solely payments of principal and interest on the principal amount of outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at fair values through profit or loss at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading or contingent consideration in a business combination) in other comprehensive income, with only dividend income recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The management of the Company anticipates that the application of HKFRS 9 in the future may have an impact on amounts reported in respect of the Group's financial assets in relation to the impairment assessment on receivables, with the potential earlier recognition of credit losses based on the expected loss model in relation to the Group's financial assets measured at amortised costs. However, it is not practicable to provide a reasonable estimate of the effect until the management of the Company has performed a detailed review. In addition, the Group's unlisted investments of key management insurance contracts may satisfy the conditions for classification as financial assets at fair value through profit or loss which the management anticipates such effect is not significant. Except for above mentioned, the management of the Company does not anticipate that the adoption of HKFRS 9 in the future will have any other significant impact on amounts reported in respect of the Group's financial assets and financial liabilities based on an analysis of the Group's financial instruments at 31 December 2017.

HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the HKFRS 15 introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

Based on the current business model, the management of the Company does not expect the adoption of HKFRS 15 would result in any significant impact on the amounts reported on the Group's financial statements in the future. However, there will be additional qualitative and quantitative disclosures upon the adoption of HKFRS 15.

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related Interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Under HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease. Furthermore, extensive disclosures are required by HKFRS 16.

At 31 December 2017, the Group has non-cancellable operating lease commitments of approximately HK$11,426,000 (2016: HK$16,791,000) as disclosed in the consolidated financial statements. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The management of the Company does not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in a significant impact on the Group's results but it is expected that the commitments due after 31 December 2019 will be recognised in the Group's consolidated statement of financial position at 31 December 2019 as right-of-use asset and lease liability.

3. SEGMENT INFORMATION

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

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

1) E-cigarettes products segment: manufacture and sales of e-cigarettes products.

2) Integrated plastic solutions segment: manufacture and sales of moulds and plastic products.

Segment revenue and results

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

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

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

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

	E-cigarettes products	Integrated plastic solutions	Total
	HK$'000	*HK$'000*	*HK$'000*
Year ended 31 December 2017			
Segment revenue	**250,985**	**321,879**	**572,864**
Gross profit	**76,448**	**57,591**	**134,039**
Selling and distribution costs	**–**	**(11,604)**	**(11,604)**
Segment results	**76,448**	**45,987**	**122,435**
Unallocated income and expenses			
Other income			**4,868**
Administrative and other operating expenses			**(66,909)**
Finance costs			**(13,525)**
Listing expenses			**(15,844)**
Profit before tax			**31,025**
Income tax expenses			**(10,947)**
Profit for the year			**20,078**

	E-cigarettes products *HK$'000*	Integrated plastic solutions *HK$'000*	Total *HK$'000*
Year ended 31 December 2016			
Segment revenue	251,456	304,105	555,561
Gross profit	76,610	51,565	128,175
Selling and distribution costs	–	(11,570)	(11,570)
Segment results	76,610	39,995	116,605
Unallocated income and expenses			
Other income			8,296
Administrative and other operating expenses			(66,584)
Finance costs			(13,320)
Listing expenses			–
Profit before tax			44,997
Income tax expenses			(11,140)
Profit for the year			33,857

4. REVENUE

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

5. OTHER INCOME

	2017 ***HK$'000***	2016 *HK$'000*
Bank interest income	**36**	76
Exchange gain, net	**–**	2,756
Mould testing fee income	**–**	292
Management service income	**180**	180
Rental and utilities recharge income	**1,879**	1,595
Sales of scrap materials	**2,097**	2,690
Sundry income	**676**	707
	4,868	8,296

6. PROFIT BEFORE TAX

This is stated after charging (crediting):

	2017	2016
	HK$'000	*HK$'000*
Finance costs		
Interest on interest-bearing borrowings	**9,816**	7,368
Interest on bank overdrafts	**92**	158
Interest on loans from the Ultimate Controlling Party	**1,199**	1,806
Interest on payables for construction in progress	**1,496**	3,241
Finance charges on obligations under finance leases	**922**	747
	13,525	13,320
Staff costs, including directors' emoluments		
Employee benefits expenses	**117,624**	105,088
Contributions to defined contribution retirement schemes	**5,841**	3,932
	123,465	109,020
Other items		
Cost of inventories	**438,825**	427,386
Amortisation of prepaid land lease payments	**1,039**	1,073
Auditor's remuneration	**1,293**	456
Depreciation (charged to "cost of goods sold" and "administrative and other operating expenses", as appropriate)	**26,603**	29,004
Exchange loss (gain), net	**1,022**	(2,756)
Loss on disposal of property, plant and equipment	**137**	435
Operating lease payments (charged to "cost of goods sold" and "administrative and other operating expenses", as appropriate)	**4,847**	6,635
Direct relocation expenses	**–**	3,213
Research and development expenses	**2,224**	2,352
Bad debts expenses	**–**	2

7. TAXATION

	2017	2016
	HK$'000	*HK$'000*
Current tax		
Hong Kong Profits Tax	**2,719**	2,812
PRC Enterprise Income Tax	**5,458**	8,322
	8,177	11,134
Deferred tax		
Changes in temporary differences	**(1,826)**	97
Utilisation (Benefit) of tax losses recognised	**4,596**	(91)
	2,770	6
Total income tax expenses for the year	**10,947**	11,140

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

Hong Kong Profits Tax has been provided at the rate of 16.5% on the Group's estimated assessable profits arising from Hong Kong for the years ended 31 December 2017 and 2016.

The Group's entities established in the PRC are subject to Enterprise Income Tax of the PRC at a statutory rate of 25% for the years ended 31 December 2017 and 2016.

8. DIVIDENDS

No dividends were declared nor paid to the then equity holders of the entities now comprising the Group during the years ended 31 December 2017 and 2016.

9. EARNINGS PER SHARE

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

	2017	2016
	HK$'000	*HK$'000*
Profit:		
Profit for the purpose of calculating basic earnings per share	**20,078**	33,857
	'000	*'000*
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**465,000**	465,000

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share was on the basis as if the Reorganisation and capitalisation issue of 464,997,000 ordinary shares of HK$0.1 each had been effective on 1 January 2016.

Diluted earnings per share are not presented as there were no potential ordinary shares outstanding during years ended 31 December 2017 and 2016.

10. TRADE AND OTHER RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Trade receivables		
From related companies	**–**	2,154
From former related companies	**355**	–
From third parties	**90,922**	71,603
	91,277	73,757
Bills receivables	**6,425**	6,636
Other receivables		
Deposits	**195**	188
Prepayment for suppliers	**1,088**	1,470
Prepayment for insurance	**2,108**	1,992
Prepayment for utilities	**3,579**	1,955
Prepayment for listing expenses	**2,616**	–
Prepaid expenses, other deposits and other debtors	**12,387**	9,516
Due from the Ultimate Controlling Party	**–**	5,205
Due from a director	**–**	11,858
Due from related companies	**–**	1,592
Due from former related companies	**539**	–
	22,512	33,776
	120,214	114,169

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

	2017	2016
	HK$'000	*HK$'000*
Within 30 days	**53,876**	39,425
31 to 60 days	**27,126**	24,219
61 to 90 days	**2,588**	4,685
91 to 180 days	**4,355**	4,541
Over 180 days	**3,332**	887
	91,277	73,757

11. TRADE AND OTHER PAYABLES

	2017	2016
	HK$'000	*HK$'000*
Trade payables		
To a related company	**–**	494
To former related companies	**907**	–
To third parties	**81,446**	62,273
	82,353	62,767
Other payables		
Receipt in advance	**792**	1,351
Salaries payable	**14,370**	9,665
Other accruals and other creditors	**17,026**	16,542
	32,188	27,558
	114,541	90,325

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

	2017	2016
	HK$'000	*HK$'000*
Within 30 days	**25,170**	30,645
31 to 60 days	**27,118**	21,325
61 to 90 days	**10,923**	3,333
Over 90 days	**19,142**	7,464
	82,353	62,767

12. INTEREST-BEARING BORROWINGS

	2017	2016
	HK$'000	*HK$'000*
Secured bank borrowings:		
Current portion	**172,416**	140,834
Non-current portion	**20,097**	33,741
	192,513	174,575

The secured bank borrowings are wholly repayable within five years since its inception. At 31 December 2017, the secured bank borrowings carried weighted average effective interest rate of approximately 4.49% (2016: 4.7%) per annum.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

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

During the year, the Group’s total revenue amounted to approximately HK$572.9 million, representing a year-on-year increase of approximately 3.1% (2016: HK$555.6 million). The Group recorded a gross profit of approximately HK$134.0 million (2016: HK$128.2 million) with a gross profit margin of approximately 23.4% (2016: 23.1%).

The Group recorded a profit for the year attributable to owners of the Company of approximately HK$20.1 million (2016: HK$33.9 million). Basic earnings per share were approximately HK4.32 cents (2016: HK7.28 cents).

During the year, the Group recorded capital expenditure of approximately HK$33.0 million mainly for the construction of phase II of the Group’s new site in Huizhou (which was completed in February 2018). It is expected that the expanded manufacturing capacity will enable the Group to meet market demand and to support the Group’s business growth.

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

Business Segment Analysis

Integrated Plastic Solutions

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

The Group is able to specifically engineer and fabricate, with cavities plastic injection moulds, to shape the plastic components in accordance with the desired and customised design, features and specifications. The Group has the technical capabilities to fabricate moulds that meet the MT1 precision level as defined by the “National Standard of the People’s Republic of China GB/T14486-2008-Dimensional Tolerances for Moulded Plastic Parts” (《中華人民共和國國家標準GB/T14486-2008-塑料模塑件尺寸公差》), which is the highest precision level in the national guidelines. By utilising the plastic injection process and applying the plastic injection moulds fabricated by the Group or, in limited cases, external subcontractors, the Group manufactures plastic components for office furniture, office electronic products, home appliances, communication products and automobiles.

Manufacturing of e-cigarette products

The Group manufactured e-cigarettes products as an original equipment manufacturer ("**OEM**") under the brand name of "blu" for LOEC, Inc., ("**LOEC**") before June 2015 and primarily for Fontem thereafter. Such e-cigarette products included disposable e-cigarettes, refillable e-cigarettes, battery rods and clearomisers.

Financial Review

Revenue

Revenue for the year ended 31 December 2017 was approximately HK$572.9 million, representing an increase of approximately HK$17.3 million, or approximately 3.1%, from approximately HK$555.6 million for the year ended 31 December 2016.

The integrated plastic solutions segment revenue for the year ended 31 December 2017 was approximately HK$321.9 million, representing an increase of approximately HK$17.8 million, or approximately 5.9%, from segment revenue of HK$304.1 million for the year ended 31 December 2016. This increase was primarily due to increase in sales to the Group's major customers during the year.

The e-cigarettes products segment revenue for the year ended 31 December 2017 was approximately HK$251.0 million, which was similar to that for the year ended 31 December 2016 (2016: HK$251.5 million).

Gross Profit

Gross profit for the year ended 31 December 2017 was approximately HK$134.0 million, representing an increase of approximately HK$5.8 million, or approximately 4.5%, from approximately HK$128.2 million for the year ended 31 December 2016. The increase was primarily due to the increase in the revenue generated from the integrated plastic solutions segment during the year.

Segment gross profit for integrated plastic solutions for 2017 was approximately HK$57.6 million which increased from approximately HK$51.6 million for 2016. The gross profit for 2017 was relatively higher as compared to 2016 primarily because the Group initiated a number of integrated plastic solution projects and fabricated more moulds in 2016 which generally generated relatively lower gross profit margin.

Segment gross profit for e-cigarettes products for the year ended 31 December 2017 was approximately HK$76.4 million, which was similar to that for the year ended 31 December 2016 (2016: HK$76.6 million).

Other Income

Other income for the year ended 31 December 2017 was approximately HK$4.9 million, representing a decrease of approximately HK$3.4 million, or approximately 41.0%, from approximately HK$8.3 million for the year ended 31 December 2016. The decrease was primarily due to a decrease of approximately HK$2.8 million in exchange gain and a decrease of approximately HK$0.6 million in sales of scrap materials.

Selling and Distribution Costs

Selling and distribution costs for the year ended 31 December 2017 were approximately HK$11.6 million, which was similar to that for the year ended 31 December 2016 (2016: HK$11.6 million).

Administrative and Other Operating Expenses

Administrative and other operating expenses for the year ended 31 December 2017 were approximately HK$66.9 million, which was similar to that for the year ended 31 December 2016 (2016: HK$66.6 million).

Listing Expenses

Listing expenses for the year ended 31 December 2017 were approximately HK$15.8 million, compared to no listing expenses recorded for the year ended 31 December 2016.

Finance Costs

Finance costs for the year ended 31 December 2017 were approximately HK$13.5 million, which was similar to that for the year ended 31 December 2016 (2016: HK$13.3 million).

Income Tax Expense

Income tax expenses for the year ended 31 December 2017 was approximately HK$10.9 million, which was similar to that for the year ended 31 December 2016 (2016: HK$11.1 million).

Profit Attributable to Equity Holders of the Company

As a result of foregoing, profit for the year ended 31 December 2017 was approximately HK$20.1 million, representing a decrease of approximately HK$13.8 million, or approximately 40.7%, from approximately HK$33.9 million for the year ended 31 December 2016. The decrease was mainly attributable to the recognition of the listing expenses of approximately HK$15.8 million for the year ended 31 December 2017 (2016: nil). If the listing expenses were disregarded, the adjusted profit for the year ended 31 December 2017 would be approximately HK$35.9 million (2016: HK$33.9 million), representing an increase of approximately 6.1% compared with that for the year ended 31 December 2016.

Future Plan and Prospects

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

The construction of phase II of the Group's new site in Huizhou was completed in February 2018. 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 support 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 plan 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 on 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 on 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 31 December 2017, the Group had cash and cash equivalents of approximately HK$18.6 million (2016: HK$13.1 million). The interest-bearing liabilities as at 31 December 2017 was HK$242.4 million (2016: HK$279.5 million) with interest rates ranging from approximately 1.5% to 7.5% per annum. The Group's gearing ratio as at 31 December 2017, calculated based on the total borrowings to the equity attributable to owners of the Company, was 85.3% (2016: 113.1%). The Group recorded net current liabilities of approximately HK$133.3 million as of 31 December 2017, primarily due to the increased interest-bearing borrowings mainly for the construction of and the relocation to the Group's new site in Huizhou and working capital purpose. However, following the completion of the construction of phase II of the new site in February 2018, the Group does not have any plan to incur material capital expenditure for further expansion of the new site. The existing bank borrowings and payables for construction-in-progress will be repaid by instalment using the Group's internal resources according to their respective payment schedule. As a result, the Directors expect the Group's net current liabilities position and net debt to equity ratio to improve after the year end of 2018. The management believes that the Group has maintained adequate financial resources to fulfill its working capital requirements.

FOREIGN EXCHANGE RISK

The monetary assets and liabilities and business transactions of the Group are mainly carried out and conducted in Hong Kong dollars, U.S. dollars and Renminbi. In view of the stability of the exchange rate between these currencies, the Directors do not consider that the Group was significantly exposed to foreign exchange risk for the year ended 31 December 2017. The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and to mitigate the impact on exchange rate fluctuations by entering into currency hedge arrangement, if necessary. During the 31 December 2017, no forward foreign exchange or hedging contracts had been entered into by the Group. The Group will continue to evaluate the Group's foreign currency exposure and take actions as appropriate.

MATERIAL ACQUISITIONS AND DISPOSALS

For the year ended 31 December 2017, the Group has made no material acquisitions or disposals of subsidiaries and associated companies.

CONTINGENT LIABILITIES

As at 31 December 2017, 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$77.6 million, after deducting the underwriting fees, commissions and other listing expenses. None of the net proceeds have been utilised at the date of this announcement and they are placed in licensed banks in Hong Kong. The net proceeds will be used 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**").

SUBSEQUENT EVENT

Subsequent to 31 December 2017, the shares of the Company were listed on the Main Board of the Stock Exchange on the Listing Date by way of a global offering, raising gross proceeds of approximately HK$110.0 million.

EMPLOYEE AND REMUNERATION POLICY

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

SIGNIFICANT INVESTMENTS HELD

During the year ended 31 December 2017, 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 has not purchased, redeemed or sold any of its listed securities during the period from the Listing Date and up to the date of this announcement (the "**Period**").

CORPORATE GOVERNANCE MEASURES

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

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

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

AUDIT COMMITTEE AND REVIEW OF ANNUAL RESULTS

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

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

The Audit Committee has reviewed with the management the Group's consolidated financial statements for the year ended 31 December 2017, the accounting principles and practices adopted and discussed auditing, internal control and financial reporting matters.

The figures in respect of the Company's consolidated statement of financial position, consolidated income statement and other comprehensive income, and related notes thereto for the year ended 31 December 2017 as set out in the preliminary announcement have been agreed by the Company's auditors, Mazars CPA Limited ("**Mazars**"), to the amounts set out in the Company's audited consolidated financial statements for the year ended 31 December 2017. The work performed by Mazars in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Mazars on the preliminary announcement.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

Upon specific enquiry, all Directors have confirmed that they have complied with the Model Code during the 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.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: nil).

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement of the Group for the year ended 31 December 2017 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 2017, containing all the information required by the Listing Rules, will be dispatched to the shareholders of the Company and published on the above websites in due course.

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

Hong Kong, 28 March 2018

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