TA YANG GROUP HOLDINGS LIMITED
大洋集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1991)

INTERIM FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 31 JANUARY 2017

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE SIX MONTHS ENDED 31 JANUARY 2017

		Six months ended 31 January	
		2017	2016
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	*4*	**195,354**	222,123
Cost of sales		**(140,215)**	(179,199)
Gross profit		**55,139**	42,924
Other operating income		**15,170**	11,767
Selling and distribution expenses		**(18,487)**	(14,334)
Administrative expenses		**(69,910)**	(38,033)
Other expenses		**(11,740)**	(39,607)
Share of results of associates		**(579)**	–
Finance costs	*6*	**(2,504)**	(322)
Loss before tax		**(32,911)**	(37,605)
Income tax credit	*7*	**108**	846
Loss for the period	*8*	**(32,803)**	(36,759)
Loss for the period attributable to:			
Owners of the Company		**(32,122)**	(36,759)
Non-controlling interests		**(681)**	–
		(32,803)	(36,759)
Loss per share	*9*		
Basic		**(HK 3.74 cents)**	(HK 4.71 cents)
Diluted		**(HK 3.74 cents)**	(HK 4.71 cents)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 JANUARY 2017

	Six months ended 31 January	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss for the period	**(32,803)**	(36,759)
Other comprehensive income (expenses)		
Items that will not be reclassified subsequently to profit or loss:		
Gain on revaluation of properties	**–**	9,325
Gain on revaluation of prepaid lease payments	**–**	8,290
	–	17,615
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translating foreign operations	**(9,276)**	(13,378)
Release of exchange reserves upon deregistration/ disposal of subsidiaries	**–**	(2,791)
	(9,276)	(16,169)
Available-for-sale financial assets		
Net gain (loss) arising on revaluation of available-for-sale financial assets for the period	**9,780**	(189)
Reclassification adjustments for impairment loss included in the condensed consolidated statement of profit or loss	**432**	870
	10,212	681
Share of other comprehensive expenses of associates		
Share of exchange difference of associates	**(66)**	–
	(66)	–
Other comprehensive income for the period, net of tax	**870**	2,127
Total comprehensive expenses for the period, net of tax	**(31,933)**	(34,632)
Total comprehensive expenses for the period, net of tax, attributable to:		
Owners of the Company	**(31,243)**	(34,632)
Non-controlling interests	**(690)**	–
	(31,933)	(34,632)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 JANUARY 2017

	Notes	**31/1/2017** *HK$'000* **(Unaudited)**	31/7/2016 *HK$'000* (Audited)
Non-current assets			
Property, plant and equipment	*11*	**248,431**	68,927
Construction in progress	*12*	**1,154**	–
Prepaid lease payments	*12*	**226,487**	7,107
Investment properties		**87,609**	89,935
Available-for-sale financial assets		**34,778**	24,539
Interests in associates		**2,271**	2,916
Deposits for acquisition of land use rights	*13*	**13,037**	12,066
		613,767	205,490
Current assets			
Deposits for acquisition of properties		**–**	41,469
Inventories		**31,401**	29,809
Trade and other receivables	*14*	**158,954**	111,014
Prepaid lease payments	*12*	**4,717**	232
Amount due from an associate		**65**	65
Income tax recoverable		**12**	4
Held-to-maturity investments	*15*	**19,098**	–
Held-for-trading investments		**1,030**	3,668
Structured deposits with banks		**–**	17,261
Short-term bank deposits		**–**	4,640
Bank balances and cash		**129,434**	154,094
		344,711	362,256
Current liabilities			
Trade and other payables	*16*	**91,333**	77,780
Derivative financial instruments		**6,522**	11,753
Amount due to an associate		**913**	538
Income tax payable		**20,309**	20,747
Bank and other borrowings	*17*	**67,097**	33,282
		186,174	144,100
Net current assets		**158,537**	218,156
Total assets less current liabilities		**772,304**	423,646

	Notes	**31/1/2017**	31/7/2016
		HK$'000	*HK$'000*
		(Unaudited)	(Audited)
Capital and reserves			
Share capital	*18*	**87,118**	78,473
Reserves		**404,167**	332,036
Equity attributable to owners of the Company		**491,285**	410,509
Non-controlling interests		**45**	653
Total equity		**491,330**	411,162
Non-current liabilities			
Bank and other borrowings	*17*	**268,940**	–
Deferred income		**3,551**	3,668
Deferred tax liabilities		**8,483**	8,816
		280,974	12,484
		772,304	423,646

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 31 JANUARY 2017

1. GENERAL

Ta Yang Group Holdings Limited (the "Company") is incorporated in the Cayman Islands with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the interim report. The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in manufacturing and sale of silicone rubber and related products and providing healthcare service.

The condensed consolidated interim financial information are presented in Hong Kong dollars ("HK$"). Other than those subsidiaries established in the People's Republic of China ("PRC"), Macau and Indonesia whose functional currencies are Renminbi ("RMB"), Macau Pataca and Indonesian Ruplah respectively, the functional currency of the Company and its other subsidiaries is HK$.

As the Company is listed in Hong Kong, the directors of the Company consider that it is appropriate to present the condensed consolidated interim financial information in HK$.

At 31 January 2017, the directors of the Company consider the ultimate holding company of the Company to be Lyton Maison Limited which is incorporated in the British Virgin Islands (the "BVI").

2. BASIS OF PREPARATION

The condensed consolidated statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial information has been prepared on the historical cost basis, except for certain financial instruments and investment properties, which are measured at fair values.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 31 January 2017 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 July 2016, except as described below.

In the current interim period, the Group has applied the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which include HKFRSs, Hong Kong Accounting Standards ("HKAS(s)"), amendments and Interpretations ("Int(s)"), issued by the HKICPA.

Amendments to HKFRSs	Annual Improvements to HKFRSs 2012–2014 Cycle
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception

The application of the new and revised HKFRSs in the current interim period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

4. **REVENUE**

Revenue represents fair value of the consideration received or receivable from goods sold to customers in the normal course of business and healthcare service rendered, net of discounts and sales related tax, during the period.

	Six months ended 31 January	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Sales of goods	**193,953**	222,123
Healthcare service	**1,401**	–
	195,354	222,123

5. **SEGMENT INFORMATION**

The Group is principally engaged in manufacturing and sale of silicone rubber and related products. During the current interim period, the Group commenced to engage in healthcare service. The Group currently organises two operating and reportable segments by differentiations in products and services. The healthcare business is still on the startup stage with insignificant contribution to the Group. The Group has formulated a detailed operating and development plan for these two businesses and the chief operating decision-maker ("CODM") (the chief executive officer) monitors the two operating segments for the purpose of making decisions about resources allocation and performance assessment.

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

1. Manufacturing and trading — manufacturing and sale of silicone rubber and related products

2. Healthcare — healthcare service

(a) Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below:

	Six months ended 31 January 2017		
	Manufacturing and trading *HK$'000* **(Unaudited)**	**Healthcare** *HK$'000* **(Unaudited)**	**Consolidated** *HK$'000* **(Unaudited)**
Segment revenue	**193,953**	**1,401**	**195,354**
Segment profit (loss) before tax	**4,986**	**(16,658)**	**(11,672)**
Segment assets	**506,629**	**451,849**	**958,478**
Segment liabilities	**150,045**	**317,103**	**467,148**

(b) Reconciliations of segment profit or loss

	Six months ended 31 January 2017 *HK$'000* **(Unaudited)**
Segment loss before tax	**(11,672)**
Unallocated head office and corporate expenses	**(21,239)**
Consolidated loss before tax	**(32,911)**

For the six month ended 31 January 2016, the directors of the Company consider that there was only one operating and reportable segment for the Group and no reportable segment information was presented.

6. FINANCE COSTS

	Six months ended 31 January	
	2017 *HK$'000* **(Unaudited)**	2016 *HK$'000* (Unaudited)
Interest on secured bank borrowings wholly repayable within one year	**391**	322
Interest on secured bank borrowings wholly repayable after five years	**8,459**	–
Interest on other loans	**304**	–
Total borrowing costs	**9,154**	322
Less: Amount capitalised in the cost of qualifying assets	**(6,650)**	–
	2,504	322

7. INCOME TAX CREDIT

	Six months ended 31 January	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Under-provision in prior periods		
— Hong Kong Profits Tax	**(1)**	–
Deferred taxation		
— Current period	**109**	846
	108	846

Hong Kong Profits Tax has not been provided for in the condensed consolidated interim financial information as the Group did not derive any assessable profits for both periods.

Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI for both periods.

No provision for Indonesia Income Tax for the six months ended 31 January 2017 and 2016 has been made as the subsidiary operating in Indonesia did not generate any assessable profits in Indonesia.

Ta Yang Group (Macao Commercial Offshore) Limited is incorporated as a commercial offshore entity in Macau and is exempted from Macau Complementary Income Tax.

No provision for Taiwan Profit-Seeking Enterprise Income Tax for the six months ended 31 January 2017 and 2016 has been made as the Group did not generate any assessable profits in Taiwan.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards. Accordingly, provision for PRC Enterprise Income Tax for the PRC subsidiaries is calculated at 25% of estimated assessable profits for both periods.

8. LOSS FOR THE PERIOD

Loss for the period has been arrived at after charging (crediting):

	Six months ended 31 January	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Allowance for inventories (included in cost of sales)	**10**	768
Reversal of allowance for inventories (included in cost of sales)	**(2,808)**	(5,264)
Amortisation of prepaid lease payments	**493**	124
Cost of inventories recognised as expenses	**142,704**	183,695
Depreciation of property, plant and equipment	**11,640**	2,369
Dividend income	**(1,513)**	(851)
Exchange loss, net	**555**	1,885
Fair value (gain) loss on derivative financial instruments	**(5,231)**	4,089
Fair value (gain) loss on held-for-trading investments	**(2,155)**	2,207
Fair value loss on investment properties	**–**	1,383
Gain on deregistration of subsidiaries	**–**	(2,850)
Gain on disposal of subsidiaries	**–**	(1,534)
Government grants		
— Amortisation of deferred income	**(23)**	(24)
— Grants related to expenses recognised as other operating income	**(779)**	(90)
Gross rental income	**(4,053)**	(3,370)
Less: Outgoings incurred for investment properties that generated rental income during the period	**257**	530
Net rental income	**(3,796)**	(2,840)
Impairment loss recognised in respect of:		
— trade receivables	**403**	441
— available-for-sale financial assets	**432**	–
Reversal of impairment loss recognised in respect of other receivables	**(690)**	–
Interest income	**(1,276)**	(2,438)
Investment loss from derivative financial instruments	**8,075**	15,665
Loss on disposal of available-for-sale financial assets	**432**	–
Loss on disposal of property, plant and equipment	**837**	13,508
Loss (gain) on disposal of held-for-trading investments	**1,811**	(52)
Research and development costs	**–**	2,194

9. LOSS PER SHARE

Basic

Loss per share is calculated by dividing the loss attributable to owners of the Company by the weighted average number of ordinary shares in issue during both periods.

	Six months ended 31 January	
	2017	2016
	(Unaudited)	(Unaudited)
Loss attributable to owners of the Company *(HK$'000)*	**(32,122)**	(36,759)
Weighted average number of ordinary shares in issue *('000)*	**859,432**	780,074
Loss per share *(HK cents)*	**(3.74)**	(4.71)

Diluted

	Six months ended 31 January	
	2017	2016
	(Unaudited)	(Unaudited)
Loss attributable to owners of the Company *(HK$'000)*	**(32,122)**	(36,759)
Weighted average number of ordinary shares in issue *('000)*	**859,432**	780,074
Effect of dilutive potential ordinary shares derived from exercising of share options	**–**	188
	859,432	780,262
Loss per share *(HK cents)*	**(3.74)**	(4.71)

10. DIVIDENDS

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 31 January 2017 and 2016.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31 January 2017, the Group acquired items of property, plant and equipment with a cost of approximately HK$13,011,000 (unaudited) (six months ended 31 January 2016: approximately HK$7,894,000 (unaudited)) for the expansion of production facilities and development of new businesses. Items of property, plant and equipment with a carrying amount of approximately HK$1,856,000 (unaudited) were disposed of during the six months ended 31 January 2017 (six months ended 31 January 2016: approximately HK$15,328,000 (unaudited)), with approximately HK$837,000 (unaudited) loss on disposal (six months ended 31 January 2016: HK$13,508,000 (unaudited)).

12. CONSTRUCTION IN PROGRESS/PREPAID LEASE PAYMENTS

During the six months ended 31 January 2017, the Group acquired items of construction in progress with a cost of approximately HK$20,337,000 (unaudited) (six months ended 31 January 2016: nil (unaudited)) and transferred from deposits for acquisition of properties with a cost of approximately HK$392,962,000 (unaudited) (six months ended 31 January 2016: nil (unaudited)) for the development of new businesses. Items of construction in progress with a carrying amount of approximately HK$184,209,000 (unaudited) were transferred to property, plant and equipment during the six months ended 31 January 2017 (six months ended 31 January 2016: nil (unaudited)) and items of construction in progress with a carrying amount of approximately HK$227,918,000 (unaudited) were transferred to prepaid lease payments during the six months ended 31 January 2017 (six months ended 31 January 2016: nil (unaudited)).

13. DEPOSITS FOR ACQUISITION OF LAND USE RIGHTS

At the end of each reporting period, deposits are paid for acquisition of the following asset:

	31/1/2017 ***HK$'000*** **(Unaudited)**	31/7/2016 *HK$'000* (Audited)
Land use rights in Indonesia	**13,037**	12,066

14. TRADE AND OTHER RECEIVABLES

	31/1/2017 ***HK$'000*** **(Unaudited)**	31/7/2016 *HK$'000* (Audited)
Trade and bills receivables	**108,467**	96,486
Deposits and prepayments	**44,576**	7,555
Other receivables	**5,911**	6,973
	158,954	111,014

The Group normally grants to its customers credit periods ranging from 30 days to 135 days which are subject to periodic review by the management.

An aged analysis of trade receivables, net of impairment losses recognised, presented based on the invoice date at the reporting date is as follows:

	31/1/2017 ***HK$'000*** **(Unaudited)**	31/7/2016 *HK$'000* (Audited)
Within 3 months	**91,154**	82,240
More than 3 months but less than 1 year	**17,276**	14,246
More than 1 year but less than 2 years	**37**	–
	108,467	96,486

15. HELD-TO-MATURITY INVESTMENTS

Held-to-maturity investments comprise:

	31/1/2017	31/7/2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Unlisted debt securities		
— Fixed-rate	**19,098**	–

As at 31 January 2017, the fixed-rate unlisted debt securities carry interest at 1.21% and 3.47% per annum, payable at maturity date in March and September 2017.

16. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting periods.

	31/1/2017	31/7/2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 1 month or on demand	**12,919**	11,238
More than 1 month but less than 3 months	**17,883**	13,551
More than 3 months but less than 1 year	**1,303**	1,463
More than 1 year	**1,626**	1,482
	33,731	27,734

17. BANK AND OTHER BORROWINGS

During the six months ended 31 January 2017, a new bank loan of approximately HK$268,940,000 (unaudited) and other loans of approximately HK$33,815,000 (unaudited) were obtained (six months ended 31 January 2016: nil (unaudited)).

During the six months ended 31 January 2017, the bank loan of HK$268,940,000 (unaudited) (six months ended 31 January 2016: nil (unaudited)) carried fixed interest rate at 7.8% (unaudited) per annum and is repayable after one year. During the six months ended 31 January 2017 and 2016, another bank loan carried variable interest rate at 1.75% per annum over Hong Kong Inter-bank Offered Rate/London Inter-bank Offered Rate or the Lender's Cost of Funds, whichever is higher and is repayable on demand. The effective interest rate on the bank borrowings is 7.2% (unaudited) (six months ended 31 January 2016: 2.03% (unaudited)) per annum.

During the six months ended 31 January 2017, other loans of approximately HK$33,815,000 (unaudited) carried fixed interest rate at 7% or 8% (unaudited) per annum and is repayable within one year. The effective interest rate on the other borrowings is 7.85% (unaudited) (six months ended 31 January 2016: nil (unaudited)) per annum.

18. SHARE CAPITAL

Authorised and issued share capital

	Number of shares *'000*	Amount *HK$'000*
Ordinary shares of HK$0.1 each		
Authorised:		
At 1 August 2015 (audited), 31 July 2016 (audited) and 31 January 2017 (unaudited)	20,000,000	2,000,000
Issued and fully paid:		
At 1 August 2015 (audited)	778,923	77,892
Issue of shares under the Company's share option schemes	5,805	581
At 31 July 2016 (audited)	784,728	78,473
Issue of shares under placing *(Note i)*	86,450	8,645
At 31 January 2017 (unaudited)	871,178	87,118

Note i: On 25 August 2016, the Company issued 86,450,000 ordinary shares of HK$0.1 each for HK$1.31 each, raising proceeds of approximately HK$113,250,000, before issue costs of approximately HK$1,349,000.

19. SHARE OPTION SCHEMES

The Company has share option schemes for the directors and eligible employees of the Group. Details of the share options outstanding are as follows:

	Six months ended 31 January	
Number of share options	**2017**	2016
Outstanding at 1 August (audited)	–	11,570,000
Exercised during the period	–	(1,193,000)
Forfeited during the period	–	(356,000)
Outstanding at 31 January (unaudited)	–	10,021,000

The shareholder made a mandatory unconditional cash offer for all the issued shares and to cancel all outstanding options on 29 February 2016. The offer started on 29 February 2016 and closed on 27 April 2016.

No share option was granted during the six months ended 31 January 2017 and 2016.

20. RELATED PARTY TRANSACTIONS

(a) Other than disclosed elsewhere in the condensed consolidated interim financial information, the Group entered into the following material transactions with related parties:

Name of company	Nature of transactions	Six months ended 31 January 2017 HK$'000 (Unaudited)	2016 HK$'000 (Unaudited)
Formosan Union Chemical Corp. ("Formosan") *(Note i)*	Dividend income	–	475
United Performance Materials Corporation ("United Performance") *(Note ii)*	Dividend income	–	64
東莞德洋精密橡塑有限公司 ("東莞德洋") *(Note iii)*	Sales of rubber keypads	**1,047**	–
	Purchase of rubber keypads	**3,161**	–
中國北京城市副中心有限公司 ("北京城副") *(Note iv)*	Interest expense	**21**	–

Notes:

(i) Formosan is a company listed on the Taiwan Stock Exchange in which a former director of the Company, Huang Sheng-Shun, has control of the Company and is a key management personnel of Formosan.

(ii) United Performance is a company listed on the Taiwan Stock Exchange in which a former director of the Company, Huang Sheng-Shun, has control of the Company and is a key management personnel of United Performance.

(iii) 東莞德洋 is an associate of the Group.

(iv) 北京城副 is a private company incorporated in Hong Kong in which a director of the Company, Shi Qi, has control of the Company and is a key management personnel of 北京城副.

(b) Compensation of key management personnel

The remuneration of directors of the Company and other members of key management during the period is as follows:

	Six months ended 31 January 2017 HK$'000 (Unaudited)	2016 HK$'000 (Unaudited)
Short-term benefits	**3,641**	2,634
Post-employment benefits	**33**	61
	3,674	2,695

The remuneration of directors of the Company and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

21. CAPITAL COMMITMENTS

	31/1/2017	31/7/2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Capital expenditure contracted for but not provided for in the condensed consolidated interim financial information in respect of:		
— Acquisition of property, plant and equipment	**10,573**	1,558
— Acquisition of properties	**–**	373,217
— Acquisition of land use rights	**3,820**	4,775
	14,393	379,550

22. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Except as set out below, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities as at 31 January 2017 and 31 July 2016 recorded at amortised cost in the condensed consolidated financial statements approximate to their fair values.

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on recurring basis.

Fair value hierarchy

		31 January 2017		
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
Financial assets at fair value through profit or loss				
Held-for-trading investments	**1,030**	**–**	**–**	**1,030**
Available-for-sale financial assets				
Listed equity securities	**34,778**	**–**	**–**	**34,778**
	35,808	**–**	**–**	**35,808**
Financial liabilities				
Derivative financial instruments	**–**	**(6,522)**	**–**	**(6,522)**

	31 July 2016			
	Level 1	Level 2	Level 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Audited)	(Audited)	(Audited)	(Audited)
Financial assets at fair value through profit or loss				
Held-for-trading investments	3,668	–	–	3,668
Structured deposits with banks	–	–	17,261	17,261
Available-for-sale financial assets				
Listed equity securities	24,539	–	–	24,539
	28,207	–	17,261	45,468
Financial liabilities				
Derivative financial instruments	–	(11,753)	–	(11,753)

During the six months ended 31 January 2017, there were no transfers between Level 1, 2 and 3 (2016: nil).

The valuation techniques and inputs used in Level 1, 2 and 3 fair value measurements of financial instruments are set out below:

Financial assets/financial liabilities	Fair value as at 31 January 2017	Fair value hierarchy	Valuation technique(s) and key inputs	Significant unobservable inputs	Relationship of key inputs and significant unobservable inputs to fair value
Listed equity securities classified as available-for-sale financial assets	HK$34,778,000 (unaudited) (31 July 2016: HK$24,539,000 (audited))	Level 1	Quoted bid prices in active markets	N/A	N/A
Listed equity securities classified as held-for-trading investments	HK$1,030,000 (unaudited) (31 July 2016: HK$3,668,000 (audited))	Level 1	Quoted bid prices in active markets	N/A	N/A
Structured deposits with banks *(Note i)*	Nil (unaudited) (31 July 2016: HK$17,261,000 (audited))	Level 3	Discounted cash flow. Structured deposits with banks are valued with reference to the embedded interest rate to discount the future income of structured deposits into present value.	Discounted rate	The estimated fair value would decrease if the discounted rate is higher
Foreign currency forward contracts classified as derivative financial instruments	Liabilities: HK$6,522,000 (unaudited) (31 July 2016: HK$11,753,000 (audited))	Level 2	Discounted cash flow. Forward contracts are valued with reference to the "US$ and RMB" forward rate extracted from Bloomberg and adopted the US Government bonds rate to discount the future income of forward contracts into present value.	N/A	N/A

Note i: The structured deposits with banks were withdrawn from banks during the six months ended 31 January 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The past financial period has remained challenging for the Group as it continued to be affected by a lackluster global economy and intense competition within the industry. The looming Brexit and political turmoil also casted uncertainty to already gloomy economy. Among the stiff challenges, the Group faced the decrease of sales orders from some customers. As a result, the Group experienced a longer transitional period than expected. Nonetheless, the Group remained committed to raising the Group's competitiveness, electing to downscale the production facilities as part of streamlining efforts and diversify the income stream into other industry by acquiring a multi-purpose leisure project in Hainan of PRC.

The global economy remained sluggish with a high level of uncertainty and this resulted in a weak consumer sentiment in traditional consumer electronic products especially for traditional computers and notebooks. The worldwide computer shipments recorded a further contraction in 2016. Hence, these factors ultimately deteriorated the performance of the customers. The Group is devoted to explore the new markets especially the non-keypads products. The growth of non-keypads products has partly offset the decline in traditional keypads products.

For the operating side, the environment in the PRC was still very tough to manufacturing industries. The manufacturing costs kept on surging in the PRC. To counter these costs increases, the Group continued its tight cost controls and improvement in operational efficiency by streamlining the operation and outsourcing certain manufacturing procedures to subcontractors. This is evidenced by the improvement in the gross margin during the period. Understand that the total capacity was still over the demand level, the Group is still in the process of restructuring in order to keep our size to be flexible to deal with any sudden economic challenges.

Outlook

Due to the macro-economic uncertainty, including the new administration and rise of protectionism in the United States whose economic and trade policies are yet to be clearly defined, as well as the high level of competition in the market, it is expected the customer orders will continue to fluctuate in the coming periods. In view of the current situation, the Group will continue to devote more resources to improve the products quality, develop application of raw material and products variety and expand customer base and further co-operate with existing customer to develop non-keypad products.

The operating environment for manufacturing in China remains tough with increase in wages and inflation. To counter these cost increases, the Group will continue to improve operational efficiencies by implementing the cost control measures and restructuring. As part of streamling efforts, the Group will keep on focusing on products development and quality, and consider to increase the proportion of outsourcing. It is believed these proactive measures can improve the Group's competitive position and may eventually expand the market share.

During the period, as part of our commitment to diversifying our business base, we started to penetrate into medical and healthcare business by acquiring a multi-purpose leisure project in Hainan, PRC which was in process of re-development into a high-end healthcare holiday resort. The project has started to generate revenue during the period under review and we expect our group can generate profits from the high-end residential sales, leasing and healthcare services in the foreseeable future. Besides, the Group will endeavor to explore other business opportunities, including the feasibility of diversifying the income stream of the Group by exploring business and investment opportunities into different business areas.

Financial Review

Revenue

During the period, the Group has recorded a revenue of HK$195.4 million, representing a decrease of 12.1% compared with the corresponding period in 2016. The major contributors of the revenue were still from consumer electronic devices peripheral products, keypads for computers and notebooks which accounted for approximately 66.3% of total revenue. The demand on traditional electronic devices and computers continue to shrink which cause the overall revenue to decrease. Meanwhile, with effort on diversification of products mix, the portion of non-keypad products continue to increase and this partly offset the decline of sales for keypad products. With the recent popularity of the use of silicone material on wide range of products, the Group will endeavor to explore the market of non-keypad products.

Gross Profit

The gross profit was HK$55.1 million, an increase of HK$12.2 million as compared with the corresponding period in 2016. The overall profit margin for the period increased from 19.3% to 28.2%. The increase in profit margin was due to the decrease in the number of labor and the disposal of certain plant and machineries which cause the rise in utilisation rate. It led the average unit cost to decrease and hence the gross profit margin to increase.

Other Operating Income

Other operating income increased by HK$3.4 million or 28.9% to HK$15.2 million as compared with the corresponding period in 2016. The increase was mainly due to the increase in fair value of held-for-trading investments and the increase in rental income because of the increased premises for lease.

Selling and Distribution Expenses

Selling and distribution expenses increased by 29.0% to HK$18.5 million as compared with the corresponding period in 2016. The increase was mainly due to increase in promotion and marketing cost related to multi-purpose medical and healthcare project in Hainan. When counted as a percentage of the Group's revenue, the total amount of selling and distribution expenses was 9.5%, 3.0% increase as compared with the corresponding period in 2016.

Administrative Expenses

Administrative expenses increased from HK$38.0 million to HK$69.9 million as compared with the corresponding period in 2016. When counted as a percentage of the Group's revenue, the total amount of administrative expenses was 35.8%, 18.7% increased compared with the corresponding period in 2016. The increase was due to additional cost incurred to explore the investment opportunity in other business areas together with the acquisition of multi-purpose medical and healthcare project in Hainan.

Loss for the Period

Loss for the period decreased from HK$36.8 million to HK$32.8 million as compared with the corresponding period in 2016.

Liquidity and Financial Resources

During the period, the Group's source of fund was cash generated from operating activities and the Group's working capital continued to remain stable.

	As at 31 January 2017 *HK$'000*	As at 31 July 2016 *HK$'000*
Cash and cash equivalents	**129,434**	154,094
Net current assets	**158,537**	218,156
Current ratio	**1.9**	2.5
Quick ratio	**1.7**	2.3

Financial Management and Treasury Policy

The Group adopts a conservative approach for cash management and investment on uncommitted funds. The unused fund has been placed as short-term deposits with authorised financial institutions in Hong Kong and the PRC.

During the period, the Group's receipts were mainly denominated in US dollars and Hong Kong dollars. Payments were mainly made in US dollars and RMB.

In respect of the RMB, as the Group's production plants are mainly located in the PRC, most of our labor costs, manufacturing overheads, selling and administrative expenses were denominated in RMB. Therefore, the appreciation of RMB will adversely affect the Group's profitability. The Group will closely monitor the trend of RMB and take appropriate measure to deal with the RMB exposure.

HUMAN RESOURCES AND REMUNERATION POLICIES

As the Group is committed to develop high value-added products with excellent quality, experienced workers, engineers and professionals are the most important assets to the Group. We offer on-the-job training and encourage staff to attend continuous professional training in order to update their skills and knowledge.

We offer competitive remuneration package, including quality staff quarters, trainings, medical, insurance coverage and retirement benefits, to all employees in Hong Kong and in the PRC. As at 31 January 2017, the Group employed about 1,200 employees.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 31 January 2017 (31 January 2016: Nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 31 January 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has complied with the applicable code provisions set out in the Corporate Governance Code ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the six months ended 31 January 2017, except:

(i) the code provision A.2.1 which requires the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. However, Ms. Shi Qi is acting as both the chairlady of the Board (the "Chairlady") and the Chief Executive Officer (the "CEO").

    The Board believes that vesting the roles of both the Chairlady and the CEO in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board further believes that the balance of power and authority for the present arrangement will not be impaired since the responsibilities of the Chairlady and the CEO have been clearly established and set out in writing. It is also adequately ensured by the current Board which comprises the experienced and high caliber individuals with sufficient number thereof being independent non-executive Directors.

(ii) the code provision C.1.2 which requires the management of the Company to provide all members of the Board with monthly updates giving a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail to enable the Board as a whole and each Director to discharge their duties.

During the review period, the management of the Company did not provide monthly updates to all members of the Board as required by the code provision C.1.2, as all the executive Directors were involved in the daily operation of the Group and were fully aware of the performance, position and prospects of the Company, and the management has provided to all Directors (including non-executive Directors and independent non-executive Directors) quarterly updates giving a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail prior to the regular board meetings of the Company.

In addition, the management of the Company has provided all members of the Board, in a timely manner, updates on any material changes to the performance, position and prospects of the Company and sufficient background or explanatory information for matters brought before the Board.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the Company's code of conduct regarding Director's securities transactions. In response to the specific enquiry by the Company, all the Directors confirmed that they have complied with the required standard as set out in the Model Code throughout the six months ended 31 January 2017.

AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENTS

The Audit Committee of the Company comprises Mr. Pak Wai Keung, Martin (chairman), Ms. Zhang Lijuan, Mr. Yeung Chi Tat and Ms. Lian Yi, all of whom are independent non-executive Directors of the Company. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Company and discussed internal controls and financial reporting matters.

The Company's unaudited condensed consolidated interim financial information for the six months ended 31 January 2017 has been reviewed by the Audit Committee.

PUBLICATION OF INTERIM RESULTS AND DESPATCH OF INTERIM REPORT

This results announcement is published on the websites of The Stock Exchange of Hong Kong Limited (www.hkex.com.hk) and the Company (www.tayang.com). The interim report 2016/17 containing all the information required by the Listing Rules will be dispatched to the Company's shareholders and available on the above websites before the end of April 2017.

On behalf of the Board
Ta Yang Group Holdings Limited
Shi Qi
Chairlady and Chief Executive Officer

Hong Kong, 16 March 2017

As at the date hereof, the Board of the Company comprises four executive directors, namely Ms. Shi Qi, Ms. Xu Chendi, Mr. Qiu Yonghao and Mr. Huang Te-Wei; three non-executive directors, namely Mr. Gao Feng, Mr. Han Lei and Ms. Wang Yayuan; and four independent non-executive directors, namely Ms. Zhang Lijuan, Mr. Yeung Chi Tat, Mr. Pak Wai Keung, Martin and Ms. Lian Yi.