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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 2018

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 31 JANUARY 2018

	<i>Notes</i>	Six months ended 31 January	
		2018	2017
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	4	220,611	195,354
Cost of sales		(159,361)	(140,215)
Gross profit		61,250	55,139
Other operating income		28,252	15,170
Selling and distribution expenses		(14,038)	(18,487)
Administrative expenses		(61,759)	(69,910)
Other expenses		(47)	(11,740)
Share of results of associates		(77)	(579)
Finance costs	6	(11,968)	(2,504)
Profit (loss) before tax		1,613	(32,911)
Income tax credit	7	78	108
Profit (loss) for the period	8	1,691	(32,803)

		Six months ended 31 January	
		2018	2017
<i>Note</i>		<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
Profit (loss) for the period attributable to:			
Owners of the Company		1,693	(32,122)
Non-controlling interests		(2)	(681)
		<u>1,691</u>	<u>(32,803)</u>
Earnings (loss) per share			
Basic	9	<u>HK 0.19 cents</u>	<u>(HK 3.74 cents)</u>
Diluted		<u>HK 0.19 cents</u>	<u>(HK 3.74 cents)</u>

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 JANUARY 2018

	Six months ended 31 January	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit (loss) for the period	<u>1,691</u>	<u>(32,803)</u>
Other comprehensive income (expenses)		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translating foreign operations	18,801	(9,276)
Release of exchange reserves upon deregistration of subsidiaries	<u>(1,142)</u>	<u>–</u>
	<u>17,659</u>	<u>(9,276)</u>
Available-for-sale financial assets		
Net (loss) gain arising on revaluation of available-for-sale financial assets for the period	(1,097)	9,780
Reclassification adjustments for impairment loss included in the condensed consolidated statement of profit or loss	<u>–</u>	<u>432</u>
	<u>(1,097)</u>	<u>10,212</u>
Share of other comprehensive income (expenses) of associates		
Share of exchange difference of associates	<u>136</u>	<u>(66)</u>
Other comprehensive income for the period, net of tax	<u>16,698</u>	<u>870</u>
Total comprehensive income (expenses) for the period, net of tax	<u>18,389</u>	<u>(31,933)</u>
Total comprehensive income (expenses) for the period, net of tax, attributable to:		
Owners of the Company	18,401	(31,243)
Non-controlling interests	<u>(12)</u>	<u>(690)</u>
	<u>18,389</u>	<u>(31,933)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 JANUARY 2018

	<i>Notes</i>	31/1/2018 HK\$'000 (Unaudited)	31/7/2017 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	11	270,386	249,971
Intangible assets		407	383
Prepaid lease payments		237,993	229,061
Investment properties		98,210	92,575
Available-for-sale financial assets		5,474	8,981
Interests in associates		–	2,816
Deposits for acquisition of land use rights	12	13,037	13,037
		625,507	596,824
Current assets			
Inventories		44,539	35,540
Trade and other receivables	13	165,129	164,816
Prepaid lease payments		5,061	4,820
Amount due from a director		2,999	–
Amount due from an associate		65	65
Income tax recoverable		–	12
Held-to-maturity investments		–	34,739
Held-for-trading investments		642	680
Bank balances and cash		153,313	105,985
		371,748	346,657
Non-current assets classified as held for sale		–	11,022
		371,748	357,679
Current liabilities			
Trade and other payables	14	112,619	136,063
Amount due to a director		–	2,143
Amount due to an associate		–	1,324
Loans from a related company		–	5,000
Loans from third parties		48,102	26,197
Income tax payable		21,623	20,601
Secured bank borrowings	15	85,142	32,542
		267,486	223,870
Net current assets		104,262	133,809
Total assets less current liabilities		729,769	730,633

	<i>Notes</i>	31/1/2018 <i>HK\$'000</i> (Unaudited)	31/7/2017 <i>HK\$'000</i> (Audited)
Capital and reserves			
Share capital	<i>16</i>	87,118	87,118
Reserves		375,565	357,164
Equity attributable to owners of the Company		462,683	444,282
Non-controlling interests		(408)	(396)
Total equity		462,275	443,886
Non-current liabilities			
Secured bank borrowings	<i>15</i>	253,760	273,700
Deferred income		3,809	3,614
Deferred tax liabilities		9,925	9,433
		267,494	286,747
		729,769	730,633

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 31 JANUARY 2018

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 and hotel services.

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 (the “PRC”), Macau and Indonesia whose functional currencies are Renminbi (“RMB”), Macau Pataca and Indonesian Rupiah 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 2018, 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 2018 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 July 2017, 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 2014–2016 Cycle: Amendments to HKFRS 12
Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised losses

Except as described below, the application of the other 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.

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 amendments do not prescribe a specific method to fulfil the new disclosure requirements. However, the amendments indicate that one way is to provide a reconciliation between the opening and closing balances for liabilities arising from financing activities.

The application of amendments to HKAS 7 has resulted in additional disclosures on the Group's financing activities, especially a reconciliation between the opening and closing balances for liabilities arising from financing activities. The Group will disclose additional information in its annual consolidated financial statements for the year ending 31 July 2018. On initial application of the amendments, the Group is not required to provide comparative information for preceding periods.

4. REVENUE

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

	Six months ended 31 January	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Sales of goods	213,268	193,953
Healthcare and hotel services	7,343	1,401
	220,611	195,354

5. SEGMENT INFORMATION

The Group's reportable and operating segments, based on information reported to the chief operating decision maker ("CODM"), being the chief executive officer of the Company, for the purpose of resource allocation and performance assessment focuses on type of goods or services delivered or provided are as follows:

- Silicone rubber and related products — manufacturing and sale of silicone rubber and related products; and
- Healthcare and hotel services — providing healthcare and hotel services.

No reporting segment identified by the CODM has been aggregated in arriving at the reportable segment of the Group.

- (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 2018		
	Silicone rubber and related products <i>HK\$'000</i> (Unaudited)	Healthcare and hotel services <i>HK\$'000</i> (Unaudited)	Consolidated <i>HK\$'000</i> (Unaudited)
Segment revenue	<u>213,268</u>	<u>7,343</u>	<u>220,611</u>
Segment profit (loss) before tax	<u>36,911</u>	<u>(17,522)</u>	<u>19,389</u>
Segment assets	<u>476,986</u>	<u>519,249</u>	<u>996,235</u>
Segment liabilities	<u>216,469</u>	<u>316,766</u>	<u>533,235</u>

	Six months ended 31 January 2017		
	Silicone rubber and related products <i>HK\$'000</i> (Unaudited)	Healthcare and hotel services <i>HK\$'000</i> (Unaudited)	Consolidated <i>HK\$'000</i> (Unaudited)
Segment revenue	<u>193,953</u>	<u>1,401</u>	<u>195,354</u>
Segment profit (loss) before tax	<u>4,986</u>	<u>(16,658)</u>	<u>(11,672)</u>
Segment assets	<u>506,629</u>	<u>451,849</u>	<u>958,478</u>
Segment liabilities	<u>150,045</u>	<u>317,103</u>	<u>467,148</u>

(b) Reconciliations of segment profit or loss

	Six months ended 31 January	
	2018 <i>HK\$'000</i> (Unaudited)	2017 <i>HK\$'000</i> (Unaudited)
Segment profit (loss) before tax	<u>19,389</u>	(11,672)
Unallocated head office and corporate expenses	<u>(17,776)</u>	(21,239)
Consolidated profit (loss) before tax	<u>1,613</u>	<u>(32,911)</u>

6. FINANCE COSTS

	Six months ended 31 January	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on secured bank borrowings wholly repayable within one year	697	391
Interest on secured bank borrowings wholly repayable after five years	10,921	8,459
Interest on other loans	350	304
Total borrowing costs	11,968	9,154
Less: Amount capitalised in the cost of qualifying assets	–	(6,650)
	11,968	2,504

7. INCOME TAX CREDIT

	Six months ended 31 January	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Over (under)-provision in prior periods		
— Hong Kong Profits Tax	1	(1)
Deferred taxation		
— Current period	77	109
	78	108

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 2018 and 2017 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 2018 and 2017 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. PROFIT (LOSS) FOR THE PERIOD

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

	Six months ended 31 January	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Allowance for inventories (included in cost of sales)	31	10
Reversal of allowance for inventories (included in cost of sales)	(2)	(2,808)
Amortisation of prepaid lease payments	2,441	493
Cost of inventories recognised as expenses	155,481	142,704
Depreciation of property, plant and equipment	10,665	11,640
Dividend income	(302)	(1,513)
Exchange (gain) loss, net	(621)	555
Fair value gain on derivative financial instruments	–	(5,231)
Fair value loss (gain) on held-for-trading investments	38	(2,155)
Gain on deregistration of subsidiaries	(1,142)	–
Government grants		
— Amortisation of deferred income	(23)	(23)
— Grants related to expenses recognised as other operating income	(438)	(779)
Gross rental income	(3,667)	(4,053)
Less: Outgoings incurred for investment properties that generated rental income during the period	378	257
Net rental income	(3,289)	(3,796)
Impairment loss recognised in respect of:		
— trade receivables	244	403
— available-for-sale financial assets	–	432
Reversal of impairment loss recognised in respect of other receivables	–	(690)
Reversal of impairment loss recognised in respect of trade receivables	(506)	–
Interest income	(471)	(1,276)
Investment loss from derivative financial instruments	–	8,075
(Gain) loss on disposal of available-for-sale financial assets	(1,223)	432
Loss on disposal of an associate	630	–
Gain on disposal of prepaid lease payments	(5,319)	–
(Gain) loss on disposal of property, plant and equipment	(14,586)	837
Loss on disposal of held-for-trading investments	–	1,811

9. EARNINGS (LOSS) PER SHARE

Basic and diluted

Earnings (loss) per share is calculated by dividing the profit (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	
	2018	2017
	(Unaudited)	(Unaudited)
Profit (loss) attributable to owners of the Company (<i>HK\$'000</i>)	1,693	(32,122)
Weighted average number of ordinary shares in issue (<i>'000</i>)	871,178	859,432
Earnings (loss) per share (<i>HK cents</i>)	0.19	(3.74)

During the six months ended 31 January 2018 and 2017, the basic earnings (loss) per share and the diluted earnings (loss) per share are the same because there are no potential dilutive shares outstanding.

10. DIVIDENDS

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 31 January 2018 and 2017.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31 January 2018, the Group acquired items of property, plant and equipment with a cost of approximately HK\$20,406,000 (unaudited) (six months ended 31 January 2017: approximately HK\$13,011,000 (unaudited)) for the expansion of production facilities and development of healthcare and hotel businesses. Items of property, plant and equipment with a carrying amount of approximately HK\$4,305,000 (unaudited) were disposed of during the six months ended 31 January 2018 (six months ended 31 January 2017: approximately HK\$1,856,000 (unaudited)), with approximately HK\$14,586,000 (unaudited) gain on disposal (six months ended 31 January 2017: HK\$837,000 ((unaudited) loss on disposal).

12. DEPOSITS FOR ACQUISITION OF LAND USE RIGHTS

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

	31/1/2018	31/7/2017
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Land use rights in Indonesia	13,037	13,037

13. TRADE AND OTHER RECEIVABLES

	31/1/2018 HK\$'000 (Unaudited)	31/7/2017 HK\$'000 (Audited)
Trade and bills receivables	113,985	113,338
Deposits and prepayments	15,159	13,518
Other receivables	35,985	37,960
	<u>165,129</u>	<u>164,816</u>

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:

	31/1/2018 HK\$'000 (Unaudited)	31/7/2017 HK\$'000 (Audited)
0–90 days	89,245	101,362
90 days to 1 year	24,740	11,938
Over 1 year	–	38
	<u>113,985</u>	<u>113,338</u>

14. 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.

	31/1/2018 HK\$'000 (Unaudited)	31/7/2017 HK\$'000 (Audited)
Within 1 month or on demand	17,996	16,820
More than 1 month but less than 3 months	21,746	12,635
More than 3 months but less than 1 year	557	1,482
More than 1 year	1,350	862
	<u>41,649</u>	<u>31,799</u>

15. SECURED BANK BORROWINGS

During the six months ended 31 January 2018, new bank borrowings of approximately HK\$16,000,000 (unaudited) (six months ended 31 January 2017: HK\$272,986,000 (unaudited)) were obtained.

During the six months ended 31 January 2018, the bank loan of RMB238,000,000 (equivalent to approximately HK\$290,360,000) (unaudited) (six months ended 31 January 2017: approximately HK\$268,940,000 (unaudited)) carried fixed interest rate at 7.8% (unaudited) per annum, of which RMB30,000,000 (equivalent to approximately HK\$36,600,000) is repayable within one year and the remaining is repayable after one year. During the six months ended 31 January 2018 and 2017, the remaining bank borrowings 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 7.08% (unaudited) (six months ended 31 January 2017: 7.2% (unaudited)) per annum.

16. 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 2016 (audited), 31 July 2017 (audited) and 31 January 2018 (unaudited)	20,000,000	2,000,000
Issued and fully paid:		
At 1 August 2016 (audited)	784,728	78,473
Issue of shares under placing (<i>Note i</i>)	86,450	8,645
At 31 July 2017 (audited) and 31 January 2018 (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 a total of net proceeds of approximately HK\$111,901,000, net of direct expenses of approximately HK\$1,348,000.

17. 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	
		2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
東莞德洋精密橡塑有限公司 ("東莞德洋") (Note i)	Sales of rubber keypads	150	1,047
	Purchase of rubber keypads	951	3,161
China Sub-civic Center of Beijing Holding Company Limited ("China Sub-civic") (Note ii)	Interest expense	–	21
Shi Qi	Rental expense	146	–

Notes:

- (i) 東莞德洋 is an associate of the Group.
- (ii) China Sub-civic 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 China Sub-civic.

(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	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Short-term benefits	6,665	3,641
Post-employment benefits	33	33
	<u>6,698</u>	<u>3,674</u>

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.

18. CAPITAL COMMITMENTS

	31/1/2018 HK\$'000 (Unaudited)	31/7/2017 HK\$'000 (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	5,177	7,180
— Acquisition of land use rights	3,820	3,820
	8,997	11,000

19. 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 2018 and 31 July 2017 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

	Level 1 HK\$'000 (Unaudited)	31 January 2018 Level 2 HK\$'000 (Unaudited)	Level 3 HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Financial assets at fair value through profit or loss				
Held-for-trading investments	642	—	—	642
Available-for-sale financial assets				
Listed equity securities	5,474	—	—	5,474
	6,116	—	—	6,116

	31 July 2017			
	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	680	–	–	680
Available-for-sale financial assets				
Listed equity securities	8,981	–	–	8,981
	<u>9,661</u>	<u>–</u>	<u>–</u>	<u>9,661</u>

During the six months ended 31 January 2018, there were no transfers between Level 1, 2 and 3 (2017: 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	Fair value as at 31 January 2018	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\$5,474,000 (unaudited) (31 July 2017: HK\$8,981,000 (audited))	Level 1	Quoted bid prices in active markets	N/A	N/A
Listed equity securities classified as held-for-trading investments	HK\$642,000 (unaudited) (31 July 2017: HK\$680,000 (audited))	Level 1	Quoted bid prices in active markets	N/A	N/A

20. EVENTS AFTER THE REPORTING PERIOD

On 27 March 2018 海南泛海頤和房產經紀有限公司 (“海南泛海”), an independent third party to the Company and 大洋(海南)健康產業發展有限公司 (“大洋海南”), an indirect wholly-owned subsidiary of the Company, entered into a property underwriting agreement pursuant to which 海南泛海 has agreed to underwrite the purchase of the properties, an aggregate of 86 rooms with total gross floor area of approximately 7,494.74 sq. m. from building one and building three on Longxi Road, Yalong Bay, Sanya City, Hainan Province, the PRC, for the consideration of approximately RMB239.8 million (equivalent to approximately HK\$292.6 million) from 大洋海南.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the six months ended 31 January 2018, the Group achieved healthy development in most operating aspects and recorded an improvement in its performance. Revenue rose by 12.9% year-on-year to HK\$220.6 million (2017: HK\$195.4 million) due to an increase in sales from both silicone business and the healthcare and hotel business. Despite of the intense competition in the industry, the Group succeeded to have increased sales orders from existing customers. With a surprisingly-robust China economy and the general improvements in worldwide economic conditions, this result in a strong consumer sentiment in consumer electronic products. Therefore, these are the factors in boosting the performance of the Group.

With the immense popularity for the use of silicone materials in daily products, the Group is devoted to explore to markets especially the non-keypads products. The success in expansion in customer base caused the proportion of non-keypads sales continue to increase and had significant contribution to the Group for the period. At the same time, the business of healthcare and hotel services continued to grow dramatically. With the boomed development of the market in Hainan, the business has gained more and more customers' support. Although the revenue from this segment was still insignificant during the period, it is believed that it will become the new driving force of the Group.

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 although Renminbi was relatively stable during the period. 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. These enabled the Group to achieve a business turnaround, underlined by profit attributable to owners of the Company of HK\$1.7 million (2017: loss attributable to owners of the Company of HK\$32.1 million).

OUTLOOK

World economic conditions continued to improve at a steady pace during the period, with most developed economics being stable and regions such as the U.S.A., Europe and Japan in gradual recovery. Developing countries also fared better with Brazil, Southeast Asia leaving recession-dom. This positive trend helped propelling the Group's performance to this set of improvement. Despite of recent improvement, the Group recognised that there are always fresh challenges including those from operational front, global economy, consumer market that can impede the progress. The Group will there leverage its longstanding strengths and employ cost controls to ensure that the Group's resources are best utilised.

In addition, there is rising demand for Original Design Manufacturing ("ODM") services, as customers look for manufacturers that are not just fulfill orders, but also provide valued added feedback and suggestions on improvement and optimisations. The Group is confident that it will be able to capture more opportunities in the growing ODM business and transited from a traditional manufacturer into a technology-driven solutions provider.

The last but not the least, the Group will continue to implement the business strategy to diversified development, including devoting more resources and accelerating the development of healthcare and hotel business. We expect the project will generate profits in the foreseeable future. At the same time, the Group will also explore and identify synergic investment opportunities in order to broaden its revenue sources, improve its competence in response to future changes and rapid development in the market and maximise the return for its shareholders and employees.

FINANCIAL REVIEW

Revenue

During the period, the Group has recorded a revenue of HK\$220.6 million, representing an increase of 12.9% compared with the corresponding period in 2017. The major contributor of the revenue was still from consumer electronic devices peripheral products, which accounted for approximately 54.3% of total turnover. The demand on traditional notebooks and computers continue to shrink which cause the sales for respective keypads 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.

In addition, after the development of high-end holiday resort in Hainan, the properties has started operation and continued to develop into hotel room and service apartment for rental and healthcare-related business which has recorded a decent growth during the period. The Group will put more effort to explore the market to capture the immense awareness of the importance of healthcare in the PRC.

Gross Profit

The gross profit was HK\$61.3 million, an increase of HK\$6.1 million as compared with the corresponding period in 2017. The overall profit margin for the period was 27.8%. The operating environment was still tough in the PRC and caused the production cost keep rising, however, with the effort of tight cost control and operational efficiency, the gross profit ratio can maintained at a steady level.

Other Operating Income

Other operating income increased by HK\$13.1 million or 86.2% to HK\$28.3 million as compared with the corresponding period in 2017. The increase was mainly due to the gain on disposal of office premises as part of streamlining effort.

Selling and Distribution Expenses

Selling and distribution expenses decreased by 24.1% to HK\$14.0 million as compared with the corresponding period in 2017. The decrease was a result of the effective cost control. When counted as a percentage of the Group's turnover, the total amount of selling and distribution expenses was 6.4%, 3.1% decrease as compared with the corresponding period in 2017.

Administrative Expenses

Administrative expenses decreased from HK\$69.9 million to HK\$61.8 million as compared with the corresponding period in 2017. When counted as a percentage of the Group's turnover, the total amount of administrative expenses was 28.0%, 7.8% decreased compared with the corresponding period in 2017. The decrease was due to the effective cost control and the improvement in the efficiency of operation.

Profit attributable to shareholders

The Group achieved to have a turnaround to the profit attributable to shareholders of HK\$1.7 million from the loss of HK\$32.8 million as compared with the corresponding period in 2017.

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 2018 HK\$'000	As at 31 July 2017 HK\$'000
Cash and cash equivalents	153,313	105,985
Net current assets	104,262	133,809
Current Ratio	1.4	1.6
Quick Ratio	1.2	1.4

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 labour 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 2018, the Group employed about 1,300 employees.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 31 January 2018 (31 January 2017: Nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 31 January 2018, 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 2018, 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 2018.

AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENTS

As at 31 January 2018, the Audit Committee of the Company comprises Mr. Pak Wai Keung, Martin (chairman), Ms. Zhang Lijuan, Mr. Wu Tak Kong, 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 2018 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 2017/18 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 2018.

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

Hong Kong, 28 March 2018

As at the date hereof, the Board of the Company comprises two executive directors, namely Ms. Shi Qi and Mr. Qiu Yonghao; three non-executive directors, namely Mr. Gao Feng, Mr. Han Lei and Mr. Sze Wai Lun; and three independent non-executive directors, namely Ms. Zhang Lijuan, Mr. Pak Wai Keung, Martin and Mr. Wu Tak Kong.