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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 2019

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 31 January 2019

		Six months ended 31 January	
		2019	2018
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	5	202,006	220,611
Cost of sales		(145,163)	(159,361)
Gross profit		56,843	61,250
Other operating income		17,625	28,252
Selling and distribution expenses		(11,461)	(14,038)
Administrative expenses		(77,483)	(61,759)
Other expenses		(33)	(47)
Share of results of associates		–	(77)
Finance costs	7	(10,195)	(11,968)
(Loss) profit before tax		(24,704)	1,613
Income tax credit	8	9	78
(Loss) profit for the period	9	(24,695)	1,691
(Loss) profit for the period attributable to:			
Owners of the Company		(24,073)	1,693
Non-controlling interests		(622)	(2)
		(24,695)	1,691
(Loss) earnings per share	10		
Basic and diluted (HK cents)		(2.76)	0.19

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR
LOSS AND OTHER COMPREHENSIVE INCOME**

For the six months ended 31 January 2019

	Six months ended 31 January	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
(Loss) profit for the period	<u>(24,695)</u>	<u>1,691</u>
Other comprehensive income (expenses)		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translating foreign operations	2,775	18,801
Release of exchange reserves upon deregistration of subsidiaries	<u>–</u>	<u>(1,142)</u>
	<u>2,775</u>	<u>17,659</u>
Items that will not be reclassified subsequently to profit or loss:		
Financial assets at fair value through other comprehensive income		
Net loss arising on revaluation of financial assets at fair value through other comprehensive income for the period	(1,501)	–
Available-for-sale financial assets		
Net loss arising on revaluation of available-for-sale financial assets for the period	–	(1,097)
Share of other comprehensive income of associates		
Share of exchange difference of associates	<u>–</u>	<u>136</u>
	<u>(1,501)</u>	<u>(961)</u>
Other comprehensive income for the period, net of tax	<u>1,274</u>	<u>16,698</u>
Total comprehensive (expenses) income for the period, net of tax	<u><u>(23,421)</u></u>	<u><u>18,389</u></u>
Total comprehensive (expenses) income for the period, net of tax, attributable to:		
Owners of the Company	(22,883)	18,401
Non-controlling interests	<u>(538)</u>	<u>(12)</u>
	<u><u>(23,421)</u></u>	<u><u>18,389</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 January 2019

	Notes	31/1/2019 HK\$'000 (Unaudited)	31/7/2018 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	12	166,796	171,954
Intangible assets		386	383
Prepaid lease payments		121,690	120,406
Investment properties		103,333	102,442
Financial assets at fair value through other comprehensive income		7,718	–
Available-for-sale financial assets		–	9,219
Deposits for acquisition of land use rights	13	14,065	14,065
		<u>413,988</u>	<u>418,469</u>
Current assets			
Inventories		44,003	46,404
Trade and other receivables	14	276,527	229,859
Prepaid lease payments		3,060	4,824
Financial assets at fair value through profit or loss		546	–
Held-for-trading investments		–	582
Bank balances and cash		96,659	192,888
		<u>420,795</u>	<u>474,557</u>
Non-current assets classified as held for sale		<u>21,178</u>	<u>21,214</u>
		<u>441,973</u>	<u>495,771</u>
Current liabilities			
Trade and other payables	15	98,700	89,897
Income tax payable		40,776	40,458
Secured bank borrowings	16	278,585	322,605
		<u>418,061</u>	<u>452,960</u>
Net current assets		<u>23,912</u>	<u>42,811</u>
Total assets less current liabilities		<u>437,900</u>	<u>461,280</u>

	<i>Note</i>	31/1/2019 HK\$'000 (Unaudited)	31/7/2018 <i>HK\$'000</i> (Audited)
Capital and reserves			
Share capital	17	87,118	87,118
Reserves		332,172	355,055
Equity attributable to owners of the Company		419,290	442,173
Non-controlling interests		3,673	4,211
Total equity		422,963	446,384
Non-current liabilities			
Deferred income		3,402	3,453
Deferred tax liabilities		11,535	11,443
		14,937	14,896
		437,900	461,280

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 31 January 2019

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 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 2019, 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.

Going concern basis

During the six months ended 31 January 2019, the Group incurred a net loss of approximately HK\$24,695,000 and net cash operating outflow of approximately HK\$41,842,000.

In preparing the condensed consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that the Group has breached the covenant requirement of a secured bank borrowing of approximately HK\$229,680,000 as at 31 January 2019 which may cause such amount to become immediately repayable. As at 31 January 2019, the full amount of secured bank borrowing was classified as current liability.

The directors of the Company have performed an assessment of the Group’s future liquidity and cash flows, taking into account that the Group is negotiating with the relevant bank (i) on restructuring the respective borrowing; and (ii) no action will be taken by the relevant bank to demand immediate repayment due to the breach of covenant requirement of the respective loan. However, written agreement of waiver for the breach of loan covenant has not been obtained as at the date of approval of these condensed consolidated financial statements.

The directors of the Company consider that it is highly probable to obtain waiver from the relevant bank such that the bank will not demand immediate repayment of the borrowing. Accordingly, the Group will have sufficient working capital to satisfy its present requirements for at least the next twelve months from the date of approval of these condensed consolidated financial statements. The directors of the Company are satisfied that it is appropriate to prepare the condensed consolidated financial statements on a going concern basis.

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 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 July 2018, 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.

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and related Amendments
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKAS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part if Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration

The impact of the adoption of HKFRS 9 and HKFRS 15 has been summarised below. The application of other new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these condensed consolidated financial statements.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 superseded HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard established a five-step model for determining whether, how much and when revenue is recognised. The Group has elected to adopt the modified retrospective approach for contracts with customers that are not completed as at the date of initial application (i.e. 1 August 2018) with the cumulative effect of initially applying HKFRS 15 as an adjustment to the opening balance of accumulated losses, or other component of equity, and comparative information was prepared under HKAS 18 Revenue and HKAS 11 Construction Contracts and the related interpretations.

The directors of the Company have assessed each type of the performance obligations and consider that the revenue recognition policy under HKFRS 15 is similar to those under HKAS 18 Revenue. The adoption of HKFRS 15 does not have any impact on the timing the Group recognises revenue.

Therefore, the adoption of HKFRS 15 Revenue from Contracts with Customers has had no material impact on the Group's financial performance and position for the current and prior years and/or on the disclosures set out in these condensed consolidated financial statements.

HKFRS 9 Financial Instruments

HKFRS 9 replaces HKAS 39 Financial Instruments: Recognition and measurement, and introduces new requirements for the (1) classification and measurement of financial assets and financial liabilities, (2) impairment of financial assets and (3) general hedge accounting. The Group has applied HKFRS 9 retrospectively to financial instruments that have not been derecognised at the date of initial application (i.e. 1 August 2018) in accordance with the transaction provisions under HKFRS 9, and chosen not to restate comparative information. Differences in the carrying amounts of financial assets and financial liabilities on initial application are recognised in accumulated losses and other components of equity as at 1 August 2018.

Classification and measurement of financial instruments

At the date of initial application of HKFRS 9, the Group's management has reviewed and assessed all financial assets held by the Group on the basis of the Group's business model for managing these financial assets and their contractual cash flow characteristics, and has classified its financial assets and financial liabilities into the appropriate categories of HKFRS 9, as explained below:

Trade and other receivables:

They are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets continue to be subsequently measured at amortised cost upon application of HKFRS 9.

Equity investments previously classified as available-for-sale investments carried at fair value:

These equity investments qualified for designation as measured as financial assets at fair value through other comprehensive income ("FVTOCI") under HKFRS 9. The Group has elected this option in respect of certain of the Group's equity instruments amounting to approximately HK\$7,718,000 as they are held for medium or long-term strategic purpose, and reclassified them to financial assets at FVTOCI. On initial application of HKFRS 9, the fair value gains and losses of these equity investments continue to be recognised in the investment revaluation reserve but they will not be reclassified to profit or loss when they are derecognised.

All other financial assets and financial liabilities continue to be measured on the same basis as are previously measured under HKAS 39.

Impairment of financial assets

The Group has the following type of financial instruments that are subject to the new impairment requirements under HKFRS 9.

Trade receivable at amortised cost

The Group applied the simplified approach to provide for expected credit losses ("ECL") under HKFRS 9 and recognised lifetime expected losses for all trade receivable. The trade receivable are grouped based on shared credit risk characteristics and past due information for measuring ECL.

Other receivables

In respect of the Group's other receivables, the management of the Group considered that the credit risk has increased significantly since initial recognition, and recognised lifetime ECL on initial application of HKFRS 9, taking into account indicators showing that the credit risk has increased significantly e.g. contractual payments are more than 90 days past due and/or financial position of the counterparties, etc., alternatively, lifetime ECL is recognised if determining whether credit risk has increasing significantly requires undue cost or effort.

Financial assets with low credit risk include bank balances and cash, the Group measured a 12-month ECL.

As a result of this change in accounting policy on financial assets impairment, there is no significant impact to the Group's financial statements and accordingly no adjustment to the opening balance of equity at 1 August 2018 and no restatement to the comparative information are required.

4. CHANGES IN ACCOUNTING POLICIES

HKFRS 9 Financial instruments

Classification and measurement

All recognised financial assets that are within the scope of HKFRS 9 are to be subsequently measured at amortised cost or fair value, depending on the entity's business model for managing the financial assets and cash flow characteristics of the asset.

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest on principal outstanding are measured at amortised cost. Interest income from these financial assets is included in other operating income using the effective interest method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other operating income or other expenses, together with foreign exchange gains and losses.

In respect of the Group's equity instruments, the Group subsequently measures them at fair value. On initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate equity instrument as at FVTOCI if the instrument is neither held for trading nor a contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies, with fair value gains and losses recognised in other comprehensive income and accumulated in investments revaluation reserve. The cumulative gain or loss will not be reclassified to profit or loss when they are derecognised. Instead, they will be transferred to retained earnings. Dividends from equity instruments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established. Changes in the fair value of equity instruments at FVTPL are recognised in other operating income or other expenses in the condensed consolidated statement of profit or loss and other comprehensive income as applicable.

Impairment of financial assets

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivable). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9 and records lifetime ECL that results from all possible default events over the expected life of these financial instruments. In estimating the ECL, the Group has established a provision matrix taking into account the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and economic environment.

For other financial instruments, the ECL is based on the 12-month ECL. The 12-months ECL is the portion of lifetime ECL that results from possible default events within 12 months after the reporting date, unless when there has been a significant increase in credit risk since initial recognition of the financial instrument, the allowance will be based on the lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with that assessed at the date of initial recognition. In making the assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. The Group presumes that the credit risk on a financial asset has increased significantly when contractual payments are more than 90 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the above requirements, the Group assumes that the credit risk on a financial asset has not increased significantly since initial recognition if the financial asset is determined to have low credit risk at the reporting date. A financial asset is determined to have a low credit risk if (i) it has a low risk of default; (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

The measurement of ECL is a function of the probability of default, loss given default and the exposure at default and is estimated as the difference between all contractual cash flows that are due to the Group under the contract and the cash flows that the Group expects to receive, discounted at the original effective interest rate.

Except for financial assets carried at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account. For financial assets carried at FVTOCI, the loss allowance is recognised in OCI and accumulated in the investments revaluation reserve without reducing the carrying amount of the financial assets.

HKFRS 15 Revenue from contracts with customers

Revenue is recognised to depict the transfer of promised goods and services to customers at an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services to a customer. Specifically, the Group uses a five-step approach to recognise revenue:

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 Group satisfies a performance obligation

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligations is transferred to customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same. For contracts that contain more than one performance obligation, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;

- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

5. 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. All revenue is recognised at a point in time under HKFRS 15 during the six months ended 31 January 2019. All revenue is recognised under HKAS 18 during the six months ended 31 January 2018.

	Six months ended 31 January	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Sales of goods	197,539	213,268
Healthcare and hotel services	4,467	7,343
	202,006	220,611

6. 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 2019			
	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>197,539</u>	<u>4,467</u>	<u>202,006</u>
Segment profit (loss) before tax	<u>28,306</u>	<u>(25,540)</u>	<u>2,766</u>
Segment assets	<u>450,342</u>	<u>381,533</u>	<u>831,875</u>
Segment liabilities	<u>166,335</u>	<u>264,874</u>	<u>431,209</u>
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>

(b) Reconciliations of segment profit or loss

Six months ended 31 January		
	2019 <i>HK\$'000</i> (Unaudited)	2018 <i>HK\$'000</i> (Unaudited)
Segment profit before tax	<u>2,766</u>	19,389
Unallocated corporate expenses	<u>(27,470)</u>	<u>(17,776)</u>
Consolidated (loss) profit before tax	<u>(24,704)</u>	<u>1,613</u>

7. FINANCE COSTS

	Six months ended 31 January	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interests arising from:		
Bank borrowings	10,195	11,618
Other loans	—	350
	<u>10,195</u>	<u>11,968</u>
Total borrowing costs	<u>10,195</u>	<u>11,968</u>

8. INCOME TAX CREDIT

	Six months ended 31 January	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Over-provision in prior periods		
— Hong Kong Profits Tax	—	1
Deferred taxation		
— Current period	9	77
	<u>9</u>	<u>78</u>

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 2019 and 2018 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 2019 and 2018 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.

9. PROFIT (LOSS) FOR THE PERIOD

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

	Six months ended 31 January	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Allowance for inventories (included in cost of sales)	342	31
Reversal of allowance for inventories (included in cost of sales)	(84)	(2)
Amortisation of prepaid lease payments	1,325	2,441
Cost of inventories recognised as expenses	132,937	155,481
Depreciation of property, plant and equipment	11,790	10,665
Dividend income	(178)	(302)
Exchange gain, net	(1,605)	(621)
Fair value loss on financial assets at fair value through profit or loss	37	–
Fair value loss on held-for-trading investments	–	38
Gain on deregistration of subsidiaries	–	(1,142)
Government grants		
— Amortisation of deferred income	(77)	(23)
— Grants related to expenses recognised as other operating income	(2,158)	(438)
Gross rental income	(952)	(3,667)
Less: Outgoings incurred for investment properties that generated rental income during the period	115	378
Net rental income	<u>(837)</u>	<u>(3,289)</u>
Loss allowance recognised in respect of:		
— trade receivables	783	244
Reversal of impairment loss recognised in respect of trade receivables	–	(506)
Interest income	(350)	(471)
Gain on disposal of available-for-sale financial assets	–	(1,223)
Loss on disposal of an associate	–	630
Gain on disposal of prepaid lease payments	(1,731)	(5,319)
Gain on disposal of property, plant and equipment	<u>(6,292)</u>	<u>(14,586)</u>

10. (LOSS) EARNINGS PER SHARE

Basic and diluted

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

	Six months ended 31 January	
	2019	2018
	(Unaudited)	(Unaudited)
(Loss) profit attributable to owners of the Company (HK\$'000)	<u>(24,073)</u>	<u>1,693</u>
Weighted average number of ordinary shares in issue ('000)	<u>871,178</u>	<u>871,178</u>

During the six months ended 31 January 2019 and 2018, the basic earnings (loss) per share and the diluted earnings (loss) per share are the same because there are no potential dilutive shares outstanding.

11. DIVIDENDS

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 31 January 2019 and 2018.

12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31 January 2019, the Group acquired items of property, plant and equipment with a cost of approximately HK\$10,256,000 (six months ended 31 January 2018: approximately HK\$20,406,000) 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\$5,091,000 were disposed of during the six months ended 31 January 2019 (six months ended 31 January 2018: approximately HK\$4,305,000), with approximately HK\$6,292,000 gain on disposal (six months ended 31 January 2018: HK\$14,586,000 (loss on disposal)).

13. DEPOSITS FOR ACQUISITION OF LAND USE RIGHTS

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

	31/1/2019 HK\$'000 (Unaudited)	31/7/2018 HK\$'000 (Audited)
Land use rights in Indonesia	14,065	14,065

14. TRADE AND OTHER RECEIVABLES

	31/1/2019 HK\$'000 (Unaudited)	31/7/2018 HK\$'000 (Audited)
Trade and bills receivables	122,629	97,580
Deposits and prepayments	25,823	14,772
Consideration receivable from disposal of properties	104,453	103,571
Other receivables	23,622	13,936
	276,527	229,859

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:

	31/1/2019 HK\$'000 (Unaudited)	31/7/2018 HK\$'000 (Audited)
0–90 days	101,193	91,207
91 days to 1 year	21,436	6,373
	122,629	97,580

15. 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.

	31/1/2019 HK\$'000 (Unaudited)	31/7/2018 HK\$'000 (Audited)
Within 1 month or on demand	11,531	15,951
More than 1 month but less than 3 months	21,802	15,325
More than 3 months but less than 1 year	1,899	403
More than 1 year	1,356	1,629
	36,588	33,308

16. SECURED BANK BORROWINGS

During the six months ended 31 January 2019, no new bank borrowings (six months ended 31 January 2018: HK\$16,000,000) were obtained.

As at 31 July 2018 and 31 January 2019, a bank borrowing of approximately HK\$290,360,000 and HK\$229,680,000 respectively was secured with certain properties which were disposed of last year. The Group has breached the bank covenant. Reference to the respective bank borrowing and pledge asset agreements entered into between the Group and the bank, the bank has the right to demand for immediate payment. The bank borrowing has been therefore classified as a current liability as at 31 July 2018 and 31 January 2019. The Group is negotiating with the relevant bank (i) on restructuring the respective borrowing based on the secured sold and unsold properties; and (ii) no action will be taken by the relevant bank to demand immediate repayment of the portion of bank borrowing relating to the secured unsold properties.

During the six months ended 31 January 2019 and 2018, 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 6.92% (six months ended 31 January 2018: 7.08%) per annum.

17. 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 2017 (audited), 31 July 2018 (audited) and 31 January 2019 (unaudited)	<u>20,000,000</u>	<u>2,000,000</u>
Issued and fully paid:		
At 1 August 2017 (audited), 31 July 2018 (audited) and 31 January 2019 (unaudited)	<u>871,178</u>	<u>87,118</u>

18. 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	
		2019 HK\$'000 (Unaudited)	2018 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
	Purchase of rubber keypads	—	951
Shi Qi	Rental expense	<u>171</u>	<u>146</u>

Note:

- (i) 東莞德洋 was an associate of the Group and was disposed of during the six months ended 31 January 2018.

(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	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Short-term benefits	4,090	6,665
Post-employment benefits	<u>18</u>	<u>33</u>
	<u>4,108</u>	<u>6,698</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.

19. CAPITAL COMMITMENTS

	31/1/2019 HK\$'000 (Unaudited)	31/7/2018 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	2,831	2,782
— Acquisition of land use rights	<u>2,906</u>	<u>2,856</u>
	<u>5,737</u>	<u>5,638</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the six months ended 31 January 2019, the Group's business developed stably and healthily, accumulated turnover for the six months amounted to HK\$202,006,000 (the corresponding period in 2018: HK\$220,611,000). The Group strived to improve its products portfolio and switched to manufacture products with higher added-value, resulting in higher profit margin as compared with the corresponding period in 2018. However, due to the cost for the Group's development and preparation of potential business and establishment of the head office in Chengdu increased, causing the Group's performance turning from profit to loss. Loss for the six months amounted to HK\$24,695,000 (profit in the corresponding period in 2018: HK\$1,691,000).

In terms of silicone product business, the Group has been utilizing high quality, high technology and excellent service quality to develop market, striving to become an industry leader. Under the influence of the Sino – US trade war and the fluctuations of currency exchange rate, the Group controls purchase cost strictly, invests in machinery and manpower rationally and manages product quality rigorously. Facing the transformation of silicone products market application, the production of traditional cellphone keyboards and automobile control consoles has been gradually eliminated, while the wearable consumer-type products, which are promoted by the Group's engineering technology team proactively, are popular between old and new customers. The Group currently offers the production of accessories to sports watches and bracelets to some important international customers and has seized certain share in the production market of these accessories. Various European and American electronics consumer brands gradually tend to like silicone products for their features of environmental protection, practicability and aesthetics, increasing the demand for silicone products. More products adopt silicone as their necessary design component, such as headphone cover, headset, beauty products and daily products. Such transition of the market demand will enrich the Group's products portfolio.

Affected by international trade uncertainties and domestic economic instability, retailing and tourism industries were hit heavily. However, the Group's healthcare and hotel business in Hainan was not impacted at all, but rather developed stably. The Group will monitor the market trend closely, exploring and adjusting management strategy timely.

The last but not the least, a joint venture company (the "Joint Venture"), jointly founded by Tayang Tongchuang (Chengdu) New Energy Co., Ltd., which is a wholly-owned subsidiary of the Group, Yunnan Investment Construction Co., Ltd. and China Technology Emerging City Construction Development Co., Ltd., was officially approved to establish and operate during the period. The Joint Venture was proactively planning to participate in environmental protection construction projects with potential for generating profits. It is expected that the Joint Venture will bring substantial financial returns for the Group and improve the Group's management standard in environmental protection construction industry, providing strong momentum for future development. Meanwhile, as an important economy, technology, cultural innovation and foreign exchange centre and comprehensive transportation hub in the western and central regions of China, Chengdu City has also witnessed rapid development in recent years with the sound policies for attracting investment. Hence the Group determined to set up the head office in Chengdu and was of the view that, the settlement in Chengdu will achieve a mutually beneficial win-win result.

OUTLOOK

The Group will continue to implement a strategy of business diversification. Except continuing to maintain stable and healthy growth in the original silicone industry, the Group will also continue to expand areas in healthcare and hotel. Furthermore, the Group, as a joint venture company, also participated in constructing domestic environmental protection engineering projects during the period, creating greater value for the Group. In the long run, the Group will actively develop, prepare and establish businesses with more potential, increasing the Group's overall profitability while diversifying business risk.

Despite the current domestic manufacturing market is sluggish and affected by the trade war between China and the U.S, the demand of silicone market still maintains steady growth. The Group has its own raw materials production factory, mold design and processing factory and finished goods production factory, providing integrated production and value-added service for customers. The Group will maintain its existing customers and accelerate to develop new domestic and foreign customers by offering high-quality products and customer service. Rising raw materials prices from the fourth quarter of 2018, coupled with recent RMB appreciation and labor cost increase arising from domestic manpower shortage are putting pressure on production cost. The Group focuses on manufacturing new products with high profit and adjusting sales price, and will also continue to develop new domestic and foreign customers, and streamline production processes to improve profitability in order to deal with above-mentioned challenges. Meanwhile, the Group will continue to increase capital investment, enhance production capability and efficiency, alleviate the issue of production line manpower shortage and look for opportunities to invest in production automation and new technology. Recently, the Group is undertaking the production of silicone products (such as electronic blood pressure monitors and baby products) for healthcare and infants, striving to expand the production types and scope of silicone products. The Group will proactively develop more silicone products to obtain larger market share.

As one of the shareholders of the Joint Venture of environmental protection construction, the Group will cooperate with Yunnan Investment Construction Co., Ltd. and China Technology Emerging City Construction Development Co., Ltd. and fully exploit the competitive advantages, management experiences and technology standard which they possess in their respective industries to promote the Joint Venture's business development together. The foundation of the Joint Venture will further diversify the Group's businesses and assist the Group to seize new business opportunities.

The six months ended 31 January 2019 are extraordinary and significant for the Group. Faced with severe and complicated business situations, all colleagues of the Group unite and struggle, progress with determination, tackle arduous difficulties with efforts and succeed in overcoming various challenges; in a market full of fluctuations, the Group proactively develop business, bringing continuous good news and frequent positive reports. The Group not only makes new breakthroughs in structure adjustment and transformation of traditional business, but also realizes rapid development of new business perfectly. Facing the arrival of the second half of 2019, the Group will continue to follow the trend and adjust comprehensively, profoundly and systematically to adapt ever-changing market environment, the Group firmly believes 2019 will be a milestone year in the road of Ta Yang Group's innovation and development.

FINANCIAL REVIEW

Revenue

During the period, the Group has recorded a revenue of HK\$202.0 million, representing a decrease of 8.4% as compared with the corresponding period in 2018. The major contributor of the revenue was still from selling silicone and its related products, which accounted for approximately 97.8% of total turnover. Affected by the Sino-US trade war, sales in the U.S recorded a decrease of approximately 56.8% during the period, causing the silicone segment's revenue decreasing approximately 7.4%. Meanwhile, the Group committed to developing markets in China and Asian regions, sales in China and Asian regions recorded an increase of approximately 8.2% during the period.

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. During the period, revenue from healthcare and hotel business accounted for approximately 2.2% of total turnover.

Gross Profit

The gross profit was HK\$56.8 million, a decrease of HK\$4.4 million as compared with the corresponding period in 2018. The overall profit margin for the period increased to 28.1% from 27.8% of the corresponding period in 2018. Despite raw materials prices began to increase from the fourth quarter of 2018, the Group succeeded in controlling cost and improving operation efficiency via tight control of purchase cost and rational allocation of machineries and manpower, resulting in gross profit increase.

Other Operating Income

Other operating income decreased by HK\$10.6 million or 37.6% to HK\$17.6 million as compared with the corresponding period in 2018. The decrease was mainly due to the gain on one-off disposal of properties in the corresponding period in 2018.

Selling and Distribution Expenses

Selling and distribution expenses decreased by 18.4% to HK\$11.5 million as compared with the corresponding period in 2018. 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 5.7%, a decrease of 0.7% as compared with the corresponding period in 2018.

Administrative Expenses

Administrative expenses increased from HK\$61.8 million to HK\$77.5 million as compared with the corresponding period in 2018. When counted as a percentage of the Group's turnover, the total amount of administrative expenses was 38.4%, an increase of 10.4% as compared with the corresponding period in 2018. The increase was due to the increase of the cost for the Group's development and preparation of potential business and establishment of the head office in Chengdu.

Profit attributable to shareholders

The Group recorded loss attributable to shareholders of HK\$24.1 million during the period while the profit of the corresponding period last year amounted to HK\$1.7 million.

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 2019 HK\$'000	As at 31 July 2018 HK\$'000
Cash and cash equivalents	96,659	192,888
Net current assets	23,912	42,811
Current Ratio	1.1	1.1
Quick Ratio	1.0	1.0

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 2019, 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 2019 (31 January 2018: Nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 31 January 2019, 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 2019, 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 period under review, 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.

NON-COMPLIANCE WITH RULES 3.10(1) AND 3.21 OF THE LISTING RULES

Pursuant to Rule 3.10(1) and Rule 3.21 of the Listing Rules, every board of directors of a listed issuer must include at least three independent non-executive directors and the audit committee must comprise a minimum of three members. Following the resignation of Mr. Pak Wai Keung, Martin as an independent non-executive Director and the chairman and a member of the audit committee of the Company with effect from 29 October 2018, the number of independent non-executive Directors fell below the minimum number of three as required under Rule 3.10(1) of the Listing Rules, and the number of members of the audit committee of the Company fell below the minimum number prescribed under Rule 3.21 of the Listing Rules.

Following the appointment of Mr. Cheung Simon as an independent non-executive Director and a member of the audit committee of the Company with effect from 25 January 2019, the Board had a total of three independent non-executive Directors which is in compliance with Rule 3.10(1) of the Listing Rules and the audit committee of the Company comprises three independent non-executive Directors, which is in compliance with Rule 3.21 of the Listing Rules.

Details of the abovementioned non-compliance and the remedial actions taken by the Company are detailed in the announcements of the Company dated 29 October 2018 and 25 January 2019.

AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENTS

As as 31 January 2019, the Audit Committee of the Company comprises Mr. Wu Tak Kong (chairman), Ms. Zhang Lijuan and Mr. Cheung Simon, all being 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 2019 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 2018/19 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 2019.

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

Hong Kong, 28 March 2019

As at the date hereof, the Board of the Company comprises three executive Directors, namely Ms. Shi Qi, Mr. Zhao Ang and Mr. Cheng Hong; three non-executive Directors, namely Mr. Gao Feng, Mr. Han Lei and Mr. Sze Wai Lun; and three independent non-executive Directors, namely Mr. Wu Tak Kong, Ms. Zhang Lijuan and Mr. Cheung Simon.