# 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)**

## ANNOUNCEMENT OF UNAUDITED ANNUAL RESULTS FOR THE SEVENTEEN MONTHS ENDED 31 DECEMBER 2019

### FINAL RESULTS

The Board of Directors (the "Board") of Ta Yang Group Holdings Limited (the "Company") announces the consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the 17 months ended 31 December 2019, together with the audited comparative figures for the year ended 31 July 2018. These results have been reviewed by the Company's audit committee (the "Audit Committee"). For the reasons explained in the paragraph headed "Review of Unaudited Annual Results" in this announcement, the auditing process for the annual results of the Group for the 17 months ended 31 December 2019 has not been completed.

### UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
*FOR THE SEVENTEEN MONTHS ENDED 31 DECEMBER 2019*

| | *Notes* | **Seventeen months ended 31 December 2019 *HK$'000* (Unaudited)** | Year ended 31 July 2018 *HK$'000* (Audited) |
|---|---|---|---|
| Revenue | *3* | **520,956** | 377,160 |
| Cost of sales | | **(416,002)** | (294,303) |
| Gross profit | | **104,954** | 82,857 |
| Other operating income | | **72,825** | 111,372 |
| Selling and distribution expenses | | **(26,863)** | (26,726) |
| Administrative expenses | | **(183,406)** | (122,455) |
| Other expenses | | **(3,159)** | (5,738) |
| Share of results of associates | | **(22,913)** | (77) |
| Finance costs | | **(28,322)** | (23,746) |
| Impairment losses under expected credit loss model, net of reversal | | **(3,075)** | – |

| | Notes | Seventeen months ended 31 December 2019 HK$'000 (Unaudited) | Year ended 31 July 2018 HK$'000 (Audited) |
|---|---|---|---|
| (Loss) profit before tax | | **(89,959)** | 15,487 |
| Income tax expense | *5* | **(17,783)** | (19,797) |
| Loss for the period/year | *6* | **(107,742)** | (4,310) |
| Loss for the period/year attributable to: | | | |
| Owners of the Company | | **(106,780)** | (3,756) |
| Non-controlling interests | | **(962)** | (554) |
| | | **(107,742)** | (4,310) |
| Loss per share | | | |
| Basic (HK cents) | *8* | **(12.26)** | (0.43) |
| Diluted (HK cents) | | **(12.26)** | (0.43) |

**UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
*FOR THE SEVENTEEN MONTHS ENDED 31 DECEMBER 2019*

| | **Seventeen months ended 31 December 2019** *HK$'000* **(Unaudited)** | Year ended 31 July 2018 *HK$'000* (Audited) |
|---|---|---|
| Loss for the period/year | **(107,742)** | (4,310) |
| Other comprehensive (expenses)/income | | |
| Items that will not be reclassified subsequently to profit or loss: | | |
| Net loss arising on revaluation of financial assets at fair value through other comprehensive income for the period/year | **(103)** | – |
| Release of revaluation of financial assets at fair value through other comprehensive income upon disposal | **(2,931)** | – |
| Gain on revaluation of properties, net of tax | **–** | 2,078 |
| Gain on revaluation of prepaid lease payments, net of tax | **–** | 2,110 |
| | **(3,034)** | 4,188 |
| Items that may be reclassified subsequently to profit or loss: | | |
| Release of exchange reserve upon deregistration of subsidiaries | **(511)** | (4,787) |
| Release of exchange reserve upon disposal of associates | **–** | 118 |
| Exchange differences arising on translating foreign operations | **(9,776)** | (539) |
| | **(10,287)** | (5,208) |

| | Seventeen months ended 31 December 2019 *HK$'000* (Unaudited) | Year ended 31 July 2018 *HK$'000* (Audited) |
|---|---|---|
| Available-for-sale financial assets | | |
| Net gain arising on revaluation of available-for-sale financial assets for the period/year | – | 3,807 |
| Release of revaluation of available-for-sale financial assets upon disposal | – | (1,159) |
| | – | 2,648 |
| Share of other comprehensive income of associates | | |
| Share of exchange difference of associates | – | 19 |
| Other comprehensive (expenses) income for the period/year | **(13,321)** | 1,647 |
| Total comprehensive expenses for the period/year, net of income tax | **(121,063)** | (2,663) |
| Total comprehensive expenses for the period/year, net of income tax, attributable to | | |
| Owners of the Company | **(120,101)** | (2,109) |
| Non-controlling interests | **(962)** | (554) |
| | **(121,063)** | (2,663) |

**UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
*AS AT 31 DECEMBER 2019*

| | Notes | At 31 December 2019 HK$'000 (Unaudited) | At 31 July 2018 HK$'000 (Audited) |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | | **150,384** | 171,954 |
| Intangible assets | | **370** | 383 |
| Prepaid lease payments | | **110,744** | 120,406 |
| Investment properties | | **87,191** | 102,442 |
| Financial assets at fair value through other comprehensive income | | **2,648** | – |
| Available-for-sale financial assets | | **–** | 9,219 |
| Interests in associates | | **39,629** | – |
| Deposits for acquisition of land use rights | | **–** | 14,065 |
| | | **390,966** | 418,469 |
| Current assets | | | |
| Inventories | | **31,734** | 46,404 |
| Trade and other receivables | *9* | **241,362** | 229,859 |
| Prepaid lease payments | | **2,465** | 4,824 |
| Held-for-trading investments | | **116** | 582 |
| Bank balances and cash | | **95,257** | 192,888 |
| | | **370,934** | 474,557 |
| Non-current assets classified as held for sale | | **–** | 21,214 |
| | | **370,934** | 495,771 |
| Current liabilities | | | |
| Trade and other payables | *10* | **100,232** | 89,897 |
| Income tax payable | | **48,243** | 40,458 |
| Secured bank borrowings | | **276,350** | 322,605 |
| | | **424,825** | 452,960 |
| Net current (liabilities)/assets | | **(53,891)** | 42,811 |
| Total assets less current liabilities | | **337,075** | 461,280 |

| | Notes | At 31 December 2019 HK$'000 (Unaudited) | At 31 July 2018 HK$'000 (Audited) |
|---|---|---|---|
| Capital and reserves | | | |
| Share capital | | **87,118** | 87,118 |
| Reserves | | **231,087** | 355,055 |
| Equity attributable to owners of the Company | | **318,205** | 442,173 |
| Non-controlling interests | | **(2,275)** | 4,211 |
| Total equity | | **315,930** | 446,384 |
| Non-current liabilities | | | |
| Secured bank borrowings | | **3,330** | – |
| Deferred income | | **3,112** | 3,453 |
| Deferred tax liabilities | | **14,703** | 11,443 |
| | | **21,145** | 14,896 |
| | | **337,075** | 461,280 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*FOR THE SEVENTEEN MONTHS ENDED 31 DECEMBER 2019*

## 1. GENERAL AND BASIS OF PREPARATION

**Basis of Preparation**

The unaudited consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance.

The unaudited consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is also the functional currency of the Company. The management believes that the Group's operation involved HK$ and Renminbi ("RMB") while the financing is mainly in HK$. Taking into account of all the factors, the management exercised their judgement in determining the functional currency which is HK$ after considering that the adoption of HK$ as the functional currency is the most faithful reflection of the economic effects of the underlying transactions, events and conditions that are relevant to the Company.

**Change of financial year end date**

During the current financial period, the reporting period end date of the Group was changed from 31 July to 31 December as the directors of the Company determined to bring the annual reporting period end date of the Group in line with that of the Company's principal subsidiaries and the joint venture incorporated in the PRC. Accordingly, the consolidated financial statements for the current period cover the seventeen-month period ended 31 December 2019. The corresponding comparative amounts shown for the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and related notes cover a twelve-month period from 1 August 2017 to 31 July 2018.

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

**New and Amendments to HKFRSs that are mandatorily effective for the current period**

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current period:

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

Except as described below, the application of the new and amendments to HKFRSs in the current period has had no material impact on the Group's financial performance and positions for the current period and prior year and/or on the disclosures set out in these consolidated financial statements.

## 3. 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 taxes.

Revenue recognised for the period/year are as follows:

| | **Seventeen months ended 31 December 2019** *HK$'000* **(Unaudited)** | Year ended 31 July 2018 *HK$'000* (Audited) |
|---|---|---|
| Revenue | | |
| Sales of goods | **510,617** | 362,494 |
| Healthcare and hotel services | **10,339** | 14,666 |
| | **520,956** | 377,160 |

## 4. 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:

(a) Silicone rubber and related products — manufacturing and sale of silicone rubber and related products; and

(b) Healthcare and hotel services — providing healthcare and hotel services.

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

**Segment revenue and results**

The following is an analysis of the Group's revenue and results by reportable and operating segment.

**For the seventeen months ended 31 December 2019**

| | **Silicone rubber and related products** *HK$'000* **(Unaudited)** | **Healthcare and hotel services** *HK$'000* **(Unaudited)** | **Total** *HK$'000* **(Unaudited)** |
|---|---|---|---|
| REVENUE | | | |
| External sales | **510,617** | **10,339** | **520,956** |
| Segment results (including share of results of associates) | **58,744** | **(45,083)** | **13,661** |
| Unallocated income | | | **25,034** |
| Unallocated expenses | | | **(128,654)** |
| Loss before tax | | | **(89,959)** |

For the year ended 31 July 2018

| | Silicone rubber and related products *HK$'000* (Audited) | Healthcare and hotel services *HK$'000* (Audited) | Total *HK$'000* (Audited) |
|---|---|---|---|
| REVENUE | | | |
| External sales | 362,494 | 14,666 | 377,160 |
| Segment results (including share of results of associates) | 34,551 | 18,828 | 53,379 |
| Unallocated income | | | 1,531 |
| Unallocated expenses | | | (39,423) |
| Profit before tax | | | 15,487 |

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 2 of annual report. Share of results of associates is included under silicone rubber and related products segment as CODM considers that their performance assessment is same as subsidiaries in this segment. Segment results represent profit earned by (loss from) each segment without allocation of certain other income, directors' emoluments and central administrative costs. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales during the seventeen months ended 31 December 2019 and the year ended 31 July 2018.

As at 31 December 2019 and 31 July 2018, segment assets and liabilities of the silicone rubber and related products include interests in associates, amount due from an associate and amount due to an associate.

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than assets for corporate use including AFS financial assets, held-for-trading investments, certain furniture, fixtures and equipment, deposits and other receivables and bank balances and cash; and
- all liabilities are allocated to operating segments other than corporate liabilities including certain accrued expenses and other payables.

## 5. INCOME TAX EXPENSE

| | **Seventeen months ended 31 December 2019** *HK$'000* **(Unaudited)** | Year ended 31 July 2018 *HK$'000* (Audited) |
|---|---|---|
| PRC Land Appreciation Tax | **1,476** | 20,536 |
| Under/(over) provision in prior years | | |
| Hong Kong Profits Tax | **6,348** | – |
| PRC Enterprise Income Tax | **6,217** | (708) |
| | **12,565** | (708) |
| Deferred taxation | | |
| Current period/year | **3,742** | (31) |
| | **17,783** | 19,797 |

## 6. LOSS FOR THE PERIOD/YEAR

| | **Seventeen months ended 31 December 2019** *HK$'000* **(Unaudited)** | Year ended 31 July 2018 *HK$'000* (Audited) |
|---|---|---|
| Loss for the period/year has been arrived at after charging: | | |
| Auditor's remuneration | | |
| — Audit service | **1,600** | 1,290 |
| — Non-audit service | **–** | 65 |
| Allowance for inventories (included in cost of sales) | **849** | 252 |
| Amortisation of prepaid lease payments | **3,703** | 4,892 |
| Costs of inventories sold *(Note)* | **393,830** | 277,784 |
| Depreciation of property, plant and equipment | **34,433** | 23,695 |
| Directors' emoluments | **9,576** | 8,275 |
| Staff costs (excluding directors' emoluments) | **184,348** | 137,502 |

*Note:*

Cost of inventories sold includes approximately HK$131,484,000 (2018: HK$96,442,000) relating to staff costs, depreciation expenses and operating lease charges which amounts are also included in the respective total amounts disclosed separately above.

Hong Kong Profits Tax has not been provided for in the consolidated financial statements for the current period and prior year as the Group did not derive any assessable profits in Hong Kong.

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

No provision for Indonesia Income Tax for the current period and prior year 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 current period and prior year 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 the period/year.

Land appreciation tax of the PRC is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazette on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

## 7. DIVIDENDS

No dividend was paid or proposed for the seventeen months ended 31 December 2019 and the year ended 31 July 2018, nor has any dividend been proposed since the end of the reporting period.

## 8. 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 the seventeen months ended 31 December 2019 and the year ended 31 July 2018.

| | **Seventeen months ended 31 December 2019 (Unaudited)** | Year ended 31 July 2018 (Audited) |
|---|---|---|
| Loss for the period/year attributable to owners of the Company (HK$'000) | **(106,780)** | (3,756) |
| Weighted average number of ordinary shares in issue ('000) | **871,178** | 871,178 |

During the seventeen months ended 31 December 2019 and the year ended 31 July 2018, the basic loss per share and the diluted loss per share are the same because there are no potential dilutive shares outstanding.

## 9. TRADE RECEIVABLES

The following is an aged analysis of trade and bills receivables, net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition date.

| | **At 31 December 2019** *HK$'000* **(Unaudited)** | At 31 July 2018 *HK$'000* (Audited) |
|---|---|---|
| 0–90 days | **92,928** | 91,207 |
| 91 days to 1 year | **9,194** | 6,373 |
| Over 1 year | **–** | – |
| | **102,122** | 97,580 |

## 10. TRADE PAYABLES

An aged analysis of trade and bills payables based on the invoice date at the end of the reporting period is as follows:

| | **At 31 December 2019** *HK$'000* **(Unaudited)** | At 31 July 2018 *HK$'000* (Audited) |
|---|---|---|
| Within 1 month or on demand | **11,011** | 15,951 |
| More than 1 month but less than 3 months | **20,263** | 15,325 |
| More than 3 months but less than 12 months | **8,736** | 403 |
| More than 12 months | **1,875** | 1,629 |
| | **41,885** | 33,308 |

The average credit period on purchases of goods is ranging from 30 to 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

*Company's Overall Performance*

For the seventeen months ended 31 December 2019, the Group maintained steady business development and recorded a total turnover of HK$521.0 million (year ended 31 July 2018: HK$377.2 million). The Group stayed committed to developing markets with prime quality, high technology and excellent service quality, and strove to improve its product portfolio and customer base. Further, the Group pursued strict controls over purchase cost, rational investment in machinery and manpower and rigorous product quality control so as to boost production capacity and efficiency and alleviate the shortage of production line workers. Thanks to its switch to the manufacturing of products with higher added-value and implementation of rational cost control, the Group recorded gross profit of HK$105.0 million for the seventeen months ended 31 December 2019 (year ended 31 July 2018: HK$82.9 million).

However, due to the increase in costs for the Group's development and preparation for potential business and establishment of the head office in Chengdu and the absence of income from disposal of non-core assets during the period, the Group' results of operations for the seventeen months were down to a loss of HK$107.7 million (year ended 31 July 2018: a loss of HK$4.3 million).

In terms of silicone product business, the total turnover for the seventeen months amounted to HK$510.6 million (twelve months in 2018: HK$362.5 million). In response to the change in the application range of silicone products, the Group improved the production of traditional cellphone keyboards and automobile console accessories, and strove to expand the market share of its wearable consumer products, especially silicone accessories for traditional European and American audio equipment brands in the category of electronic consumer products. Given its superiority in shape, color, feel and functionality, silicon is used by major audio equipment brands as the key component of their accessories including headphone covers, headsets and audio buttons. Such products are well received by existing and new customers.

In an environment where changes are taking place in the application range of silicone products, the Group endeavors to develop new products to cater for new uses while clinging to its traditional keypad products and customer base, and draws on its experiences in the R&D, production and management of new products to innovate its traditional processes and thus enable wider application of silicone accessories in traditional products. Due to its unique properties of temperature resistance, weather resistance, electrical insulation, physical inertness, low surface tension and low surface energy, silicone cannot be replaced by other materials. Thus for the same type of products, more silicone accessories are being used than before, which maximizes the application of silicon in products and also enhances the aesthetic appeal and functionality of products. For instance, in the past remote control shells were made of plastic with only press-key panels made of silicone, and now the Group is working with its customers to develop silicone shells for remote controls based on the special design of the silicone-coated plastic head part of silicone watchbands, which will be treated with special techniques to achieve dust resistance and a certain degree of smoothness.

In terms of healthcare and hotel business, the Group's healthcare and hotel business in Hainan was immune to market instability and maintained steady growth. The Group will closely monitor market trends to explore and adjust management strategy in a timely manner.

The joint venture company (the "Joint Venture") jointly founded by the Group, Yunnan Investment Construction and China Technology Emerging, was approved to establish and operate during the period. The Joint Venture has been planning to participate in public-private partnership (PPP) projects with profitability potential, and improve the Group's management standard for its environmental construction business, which will provide strong momentum for the Group's future development.

In addition, the Group has kept up its efforts in developing potential business, such as investing in innovation projects in the fields of artificial intelligence and clean energy, which could create synergies with the Group's healthcare and environmental construction business and is expected to bring substantial financial returns to the Group.

**Financial Review**

As announced by the Company on 21 June 2019, the Company's financial year end date has been changed from 31 July to 31 December. Going forward, the Group's financial years would cover a period of twelve months from 1 January to 31 December of a relevant year. The financial statements presented for current financial reporting period covers a period of seventeen months from 1 August 2018 to 31 December 2019, instead of the usual twelve months results. As a result of this, the corresponding comparative amounts shown covered twelve months period from 1 August 2017 to 31 July 2018 are not directly comparable with the amounts shown for the current period.

*Revenue*

Revenue represents gross revenue generated from the sales of our products and service provided, net of sales tax and other similar taxes.

The consolidated revenue for the seventeen months ended 31 December 2019 was decreased by 38% to HK$521.0 million (year ended 31 July 2018: HK$377.2 million) while our loss attributable to equity Shareholders was HK$107.7 million (year ended 31 July 2018: a loss of HK$4.3 million).

Basic loss per share of the Company was HK12.26 cents (year ended 31 July 2018: HK0.43 cents loss) per share based on the weighted average number of 871,178,000 (2018: 865,257,000) shares in issue during the year.

**Sales by Product**

***Silicone Rubber and Related Products***

*Consumer electronic devices peripheral products*

Revenue for the consumer electronic devices peripheral products increased by approximately 40% to HK$288.5 million for the seventeen months ended 31 December 2019 from HK$205.7 million for the year ended 31 July 2018 which partially can be explained by the additional five months revenue during the current period.

During the period, the Group has put more efforts to explore the market of portable products and allocate resources to research and develop innovative products such as sporty wristbands to obtain new orders. Although the competition in the saturated market is fierce, the Group will continue to provide high quality products with tempting prices to enlarge customer base.

*Mobile phone peripheral products*

Revenue for the sales of mobile phone peripheral products decreased by approximately 64% to HK$5.6 million for the seventeen months ended 31 December 2019 from HK$15.5 million for the twelve months in 2018 because one major customer of the Group has innovated a new mobile phone which brings the Group a lot of new orders for the year ended 31 July 2018.

*Keypads for computers and notebooks*

Revenue for the sales of keypads for computers and notebooks decreased by approximately 7% to HK$44.0 million for the seventeen months ended 31 December 2019 from HK$47.1 million for the year ended 31 July 2018.

With the mounting tension amid trade war between China and the U.S, the consumer market's environment is instable and the PC market has not recovered yet. Overseas PC shipments continued to decline. Therefore, the sales in this segment had been negatively impacted by the persistent shrinkage of the market.

*Automotive peripheral products*

Revenue for the sales of automotive peripheral products decreased by approximately 41% to HK$15.4 million for the seventeen months ended 31 December 2019 from HK$26.0 million for the year ended 31 July 2018.

As the global economy was still sluggish which caused the consumer sentiment on the automotive market to be weak. This led the sales orders and sales price per unit of automotive peripheral products continue to decline. The Group will focus on researching and developing high quality products to enlarge customer base and increase gross profit margin on sales.

*Lifestyle products*

Revenue for sales of lifestyle products increased by 10% to HK$26.5 million for the seventeen months ended 31 December 2019 from HK$24.1 million for the year ended 31 July 2018 because of the additional five months revenue during the current period.

*Chemical products*

Revenue for sales of chemical products decreased by 100% to Nil from HK$8.3 million for the year ended 31 July 2018 due to stagnant customers population over the past two years and very high development cost. The Group will focus on other products that have high gross profit margin and potential customers.

*Healthcare and Hotel Services*

Revenue from provision of healthcare and hotel services decreased by 29% to HK$10.4 million for the seventeen months ended 31 December 2019 from HK$14.7 million for the year ended 31 July 2018. During the period, after disposal, the property management continues to operate the remaining 101 hotel rooms/service apartments for rental and healthcare-related business. To sustain its growth, the Group will continue to put more efforts to explore the market to capture the immense awareness of importance of healthcare in the PRC.

**Cost of Sales**

*Cost structure*

The overall cost of sales increased by approximately 41% from HK$294.3 million for the year ended 31 July 2018 to HK$416.0 million for the seventeen months ended 31 December 2019. The operating environment is still very tough for all PRC based manufacturers. Due to the increase of raw materials cost (included the additional five months raw materials cost and overheads) and government regulations such as environmental protection rules, the manufacturing cost rises. For the healthcare and hotel service segment, the increase of services cost is predominantly from the increased numbers of hotel employees and the depreciation of medical facilities.

**Gross Profit**

The gross profit of the Group increased approximately 27% from HK$82.9 million for the year ended 31 July 2018 to HK$105.0 million for the seventeen months ended 31 December 2019. It was primarily due to the additional five months gross profit.

**Other Operating Income**

Other operating income decreased by approximately 35% to HK$72.8 million for the seventeen months ended 31 December 2019 from HK$111.4 million for the twelve months in 2018. The decrease was mainly due to gains from one-off disposal of property, plant and equipment, and prepaid lease payments for the year ended 31 July 2018.

**Selling and Distribution Expenses**

Selling and distribution expenses increased by approximately 1% to HK$26.9 million for the seventeen months ended 31 December 2019 from HK$26.7 million for the year ended 31 July 2018. When counted as a percentage of revenue, the total amount was 5% (2018: 7%). The decrease was due to the reduction of promotion and marketing cost related to multi-purpose medical healthcare project in Hainan and silicone segment's marketing staff's cost.

**Administrative Expenses**

Administrative expenses increased by approximately 49% to HK$183.4 million in 2019 from HK$122.5 million for the year ended 31 July 2018. The increase was due to the increase in cost for the Group's development and preparation of potential business and establishment of the head office in Chengdu.

**Loss attributable to Shareholders**

Loss attributable to Shareholders for the seventeen months ended 31 December 2019 was HK$107.7 million (year ended 31 July 2018: HK$4.3 million).

## DIVIDEND POLICY

Our Directors expect that dividends will be paid as interim and/or final dividends. We currently intend to pay annual cash dividends of not less than 30% of our Group's audited consolidated profits after taxation to our Shareholders for the applicable period. However, the determination to pay such dividends will be made at the discretion of our Board and will be based upon our operating results, cash flows, financial positions, capital requirements and other relevant circumstances that the Board deems relevant. The payment of dividends may be limited by legal restrictions and by agreements that we may enter into in the future. Our Directors are of the views that our dividend policy will not affect the sufficiency of our working capital in the coming years.

## FINANCIAL MANAGEMENT AND TREASURY POLICY

The Group adopts a conservative approach for cash management and investment on uncommitted funds.

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

In respect of the US dollar, the management regards that the foreign exchange risk for Hong Kong dollar to US dollar is not material because (i) Hong Kong dollar remains pegged to the US dollar and (ii) most of the Group's purchases are denominated in US dollars, which are to be settled by sales receipts in US dollars.

In respect of the RMB, as the Group's production plants are 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.

## LIQUIDITY AND FINANCIAL RESOURCES

During the period, the Group's source of fund was from cash generated from operating activities.

| | **As at 31 December 2019** *HK$'000* **(Unaudited)** | As at 31 July 2018 *HK$'000* (Audited) |
|---|---|---|
| Cash and cash equivalents | **95,257** | 192,888 |
| Net cash (outflow) inflow | **(87,089)** | 90,110 |
| Current ratio | **0.9** | 1.1 |
| Quick ratio | **0.8** | 1.0 |
| Gearing ratio | **0.9** | 0.7 |

## MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The Group had no material acquisition or disposal of any subsidiaries and associated companies for the seventeen months ended 31 December 2019.

## SIGNIFICANT INVESTMENTS HELD BY THE GROUP

During the reporting period, the Group did not make any significant investments.

## CAPITAL COMMITMENTS, CONTINGENCIES AND CHARGES ON ASSETS

Capital commitments contracted by the Group but not yet provided for in the financial statements as at 31 December 2019 were approximately HK$1.8 million (2018: HK$5.6 million), which was mainly related to the expansion of production capacity in the PRC. Such capital commitments will be financed by the net proceeds from the international offering.

As at 31 December 2019, the Group had no material contingent liabilities. As at 31 December 2019, certain properties of the Group of HK$198.6 million (2018: HK$211.9 million) were pledged to secure banking facilities or bank borrowings granted to the Group.

## HUMAN RESOURCES AND REMUNERATION POLICIES

As the Group is committed to expand our production capacity and develop high value-added products, such as mobile phone keypads, 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 December 2019, the Group has 1,275 permanent and temporary employees (2018: 1,263). The total salaries and related costs for the seventeen months ended 31 December 2019 amounted to approximately HK$184.3 million (twelve months in 2018: HK$137.5 million).

## OUTLOOK

Given their extensive application, silicone products will continue to enjoy steadily growing market demand. With self-owned raw materials factory, mold design and processing factory and end-product factory, the Group is able to provide integrated services to customers. The Group will capitalize on its premium products and quality customer service to retain existing customers, ensure stable growth of project contracts, and develop new customers at home and abroad.

The Group will accelerate the development of new products with higher profitability, continue to develop new customers and make adjustments to selling prices. The silicone products for healthcare and baby care (such as electronic blood pressure monitors and baby products) produced by the Group per orders from customers are well received by the market. The Group has enhanced its capacity to produce a wider range of silicone products, and will develop more silicone products to increase its market share.

In the first quarter of 2020, the Company has obtained CE Certification of Compliance for its self-developed non-powered air-purifying particle respirator and entered into strategic cooperation framework agreement in respect of the supply of silicone masks. The Company is confident that the personal protective equipment and silicone mask market will be in demand during 2020 to fight against the COVID-19 outbreak. For details, please refer to the voluntary announcements of the Company on 13 February 2020, 25 February 2020, 16 March 2020 and 19 March 2020.

In the long run, the Group will make an active effort to explore, prepare and establish businesses with better potential. While pursuing prudent growth of existing silicone business, the Group will implement a diversified business strategy. In addition to expanding healthcare and hotel business, and participating in domestic environmental construction projects through the Joint Venture, the Group has launched efforts to explore domestic and overseas markets for its own-brand masks and medical devices in an attempt to complement the Group's projects in the healthcare field, thereby increasing profit and diversifying business risks to create greater value for the Group.

## EVENTS AFTER REPORTING PERIOD

### Outbreak of novel coronavirus disease ("COVID-19")

An outbreak of COVID-19 erupted and rapidly spread across the globe subsequent to the period. A number of provinces and municipalities in the PRC have taken emergency public health measures and various actions to prevent the spread of the COVID-19, including the postponement of work resumption by the local government after the Chinese New Year Holidays. The aforesaid prevention measures interrupted the Group's production capacity and schedule and certain employees were not able to report for duties due to (i) the suspension or limited service of transportation facilities in certain areas; or (ii) the implementation of 14-day mandatory quarantine measures. The prevention measures also adversely affected the supply chain logistics and the Group experienced delay in the supply of raw materials from its suppliers. Further, the outbreak of the COVID-19 significantly reduced consumer spending, and hence, retail sales of consumer goods were adversely affected.

On 10 February 2020, the Group's production facilities gradually resumed production after two weeks' production halt. The Directors believe that the outbreak of the COVID-19 would significantly impact the global consumer market. The Group's production volume and customer demand for the first half of 2020 may also decline due to the aforesaid reasons. The Group will pay close attention to the development of the COVID-19 outbreak and continuously manage relevant resources and adjust its purchase and production activities in a timely manner to mitigate the adverse impact.

As at the date of this announcement, the Group's production facilities have already resumed full production and the Group is working closely with its employees, suppliers and customers to mitigate the adverse impact arising from the outbreak of the COVID-19. The Group will make further announcements as and when appropriate pursuant to the requirements under the Listing Rules.

## CLOSURE OF REGISTER OF MEMBERS

The annual general meeting of the Company is expected to be held on Monday, 29 June 2020. A notice convening the annual general meeting will be published and despatched to the shareholders of the Company in due course.

In order to determine members who are entitled to attend and vote at the annual general meeting of the Company to be held on Monday, 29 June 2020, the register of members of the Company will be closed from Tuesday, 23 June 2020 to Monday, 29 June 2020, both days inclusive, during which period no transfer of shares can be registered. All transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrar, Union Registrars Limited at Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, for registration not later than 4:00 p.m. on Monday, 22 June 2020.

## FINAL DIVIDEND

The directors of the Company do not recommend the payment of final dividend for the seventeen months ended 31 December 2019 (2018: Nil).

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the seventeen months ended 31 December 2019.

## 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 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the period from 1 August 2018 to 31 December 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 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 reporting 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.

(iii) as at the date of this announcement, the Company is in compliance with Rules 3.10(1) and (2), 3.10A, and 3.21 of the Listing Rules, there are four independent non-executive Directors. Among the four independent non-executive Directors, one of them has appropriate professional qualifications in accounting or related financial management expertise. Independent non-executive Directors represent at least one-third of the board. The audit committee comprises a minimum of three members.

However, during the reporting period, following the resignation of Mr. Pak Wai Keung, Martin as independent non-executive Director on 29 October 2018, the number of independent non-executive Directors fell below the requirement of Rules 3.10(1) and 3.10A of the Listing Rules, and the number of members of Audit Committee fell below the requirement of 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 on 25 January 2019, the number of independent non-executive Directors and the number of members of the Audit Committee meet with the requirements under Rules 3.10(1) and 3.10A, and 3.21 of the Listing Rules respectively.

Subsequent to the resignation of Mr. Cheung Simon as an independent non-executive Director on 18 December 2019, the number of independent non-executive Directors fell below the requirement of Rules 3.10(1) and 3.10A of the Listing Rules, and the number of members of Audit Committee fell below the requirement of Rule 3.21 of the Listing Rules.

On 13 January 2020, Mr. Wu Tak Kong resigned and Mr. Lin Bing was appointed as an independent non-executive Director and the chairman of the Audit Committee. On 21 January 2020, Mr. Liu Gang was appointed as an independent non-executive Director and a member of the Audit Committee. Subsequent to the appointment of Mr. Liu Gang on 21 January 2020, the number of independent non-executive Directors and the number of members of the Audit Committee meet with the requirements under Rules 3.10(1) and 3.10A, and 3.21 of the Listing Rules respectively.

## MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as its code of conduct regarding Directors' securities transactions upon successful listing and all Directors have confirmed, upon specific enquiry made, that they complied with the Model Code for the period ended 31 December 2019.

## REVIEW OF UNAUDITED ANNUAL RESULTS

The auditing process for the annual results for the seventeen months ended 31 December 2019 has not been completed due to restrictions in force in parts of China to combat the COVIS-19 coronavirus outbreak. The unaudited results contained herein have not been agreed by the Company's auditor. The Company expects after the uplift of the travel restrictions as imposed by the relevant local authorities, the audit field works will be able to resume accordingly. An announcement relating to the Group's audited results, including the consolidated financial statements and its audit opinions thereon, would be finalized upon the completion of the auditing process in accordance with Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants.

The Audit Committee has reviewed the unaudited consolidated financial statements of the Company for the seventeen months ended 31 December 2019 and also reviewed the accounting principles and practices adopted by the Group and discussed financial reporting matters. Other members of the Board who are not in the Audit Committee have also reviewed the unaudited consolidated financial statements of the Company for the seventeen months ended 31 December 2019 and are satisfied with the contents thereof.

## FURTHER ANNOUNCEMENT(S)

Following the completion of the auditing process, the Company will issue further announcement(s) in relation to the audited results for the seventeen months ended 31 December 2019 as agreed by the Company's auditors and the material differences (if any) as compared with the unaudited annual results contained herein. In addition, the Company will issue further announcement as and when necessary if there are other material development in the completion of the auditing process. The Company expects the auditing process will be completed on or around 22 April 2020.

## AUDIT COMMITTEE

The Audit Committee was established with terms of reference in compliance with the CG Code. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, financial reporting system, risk management and internal control systems, and has reviewed the Group's annual results for the Reporting Period. The Audit Committee is of the view that the consolidated financial statements have been prepared in accordance with the applicable standards, the Listing Rules and the statutory provisions and sufficient disclosures have been made.

**PUBLICATION ON ANNUAL RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY**

All the financial and other related information required by Appendix 16 to the Listing Rules will be published on the websites of the Stock Exchange and the Company (www.tayang.com) in due course.

**The auditing process of the financial information of the Group for the seventeen months ended 31 December 2019 contained herein has not been fully completed. Therefore, the unaudited results contained herein have yet to be finalised with the auditors as required under Rule 13.49(2) of the Listing Rule, and are subject to adjustments. Shareholders and potential investors of the Company should exercise caution when dealing in the securities of the Company.**

By Order of the Board
**Ta Yang Group Holdings Limited**
**Shi Qi**
*Chairlady and Chief Executive Officer*

Hong Kong, 31 March 2020

*As at the date this announcement, the Board comprises five executive Directors, namely Ms. Shi Qi, Mr. Cheng Hong, Mr. Gao Feng, Mr. Zhao Ang and Mr. Yin Zhiqiang; two non-executive Directors, namely, Mr. Han Lei and Mr. Sze Wai Lun; and four independent non-executive Directors, namely Mr. Lin Bing, Mr. Liu Gang, Mr. Hu Jiangbing and Ms. Zhang Lijuan.*