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TIAN CHANG GROUP HOLDINGS LTD.
天長集團控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2182)

**ANNOUNCEMENT OF ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

The board (the “**Board**”) of directors (the “**Directors**”) of Tian Chang Group Holdings Ltd. (the “**Company**”) is pleased to announce the consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2020, together with the comparative figures for the year ended 31 December 2019, as follows:

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2020

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Revenue	5	787,394	1,251,074
Cost of goods sold		(593,697)	(937,715)
Gross profit		193,697	313,359
Other income	6	7,588	4,925
Other gains and losses	7	818	1,914
Impairment losses recognised on trade receivables		(1,101)	–
Selling and distribution costs		(8,477)	(11,374)
Administrative and other operating expenses		(96,175)	(135,404)
Finance costs	8	(8,822)	(9,069)
Profit before tax	8	87,528	164,351
Income tax expenses	9	(13,814)	(37,155)
Profit for the year, attributable to equity holders of the Company		73,714	127,196
Earnings per share attributable to equity holders of the Company		<i>HK cents</i>	<i>HK cents</i>
Basic	11	11.89	20.52
Diluted	11	11.88	20.52

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2020

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the year	73,714	127,196
Other comprehensive income (loss):		
<i>Item that may be reclassified subsequently to profit or loss</i>		
Exchange differences on translation of foreign operations	<u>34,542</u>	<u>(13,312)</u>
Total comprehensive income for the year, attributable to equity holders of the Company	<u>108,256</u>	<u>113,884</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Non-current assets			
Property, plant and equipment		720,736	621,025
Financial assets at FVPL		29,586	28,419
Finance lease receivables	12	4,042	–
Rental deposits		229	210
Deferred tax assets		1,256	1,238
		<u>755,849</u>	<u>650,892</u>
Current assets			
Finance lease receivables	12	2,425	–
Inventories		99,187	83,882
Trade and other receivables	13	188,828	153,155
Income tax recoverable		35	33
Bank balances and cash		116,966	85,567
		<u>407,441</u>	<u>322,637</u>
Current liabilities			
Trade and other payables	14	202,302	211,031
Income tax payables		17,989	2,603
Payables for construction in progress		24,609	35,642
Interest-bearing borrowings	15	193,259	105,113
Deferred income		1,064	58
Lease liabilities	16	16,891	18,625
		<u>456,114</u>	<u>373,072</u>
Net current liabilities		<u>(48,673)</u>	<u>(50,435)</u>
Total assets less current liabilities		<u>707,176</u>	<u>600,457</u>
Non-current liabilities			
Payables for construction in progress		1,992	12,280
Interest-bearing borrowings	15	36,739	14,517
Deferred income		9,222	507
Lease liabilities	16	10,534	27,413
Deferred tax liabilities		10,461	8,515
		<u>68,948</u>	<u>63,232</u>
NET ASSETS		<u>638,228</u>	<u>537,225</u>
Capital and reserves			
Share capital		62,000	62,000
Reserves		576,228	475,225
TOTAL EQUITY		<u>638,228</u>	<u>537,225</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2020

1. GENERAL INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 26 April 2017 and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 8 March 2018. The ultimate controlling party of the Group is Mr. Chan Tsan Lam (the “**Ultimate Controlling Party**”). The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company’s principal place of business is situated at Unit 6, 13/F, Block B, Hoi Luen Industrial Centre, 55 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong.

The principal activity of the Company is investment holding. The Group is principally engaged in manufacturing and sales of electronic cigarettes products (“**e-cigarettes products**”) and medical consumable products, and providing integrated plastic solutions in Hong Kong and in the People’s Republic of China (the “**PRC**”).

Certain comparative figures are reclassified to conform with presentation for the current year.

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The application of the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the amendments to HKFRSs in the current year had no significant impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Impacts on application of Amendments to HKAS 1 and HKAS 8 Definition of Material

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current year had no significant impact on the consolidated financial statements.

Impacts on application of Amendments to HKFRS 3 Definition of a Business

The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired.

In addition, the amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. The election on whether to apply the optional concentration test is available on transaction-by-transaction basis.

The amendments had no impact on the consolidated financial statements of the Group but may impact future periods should the Group make any acquisition.

Impacts on applicable of Amendments to HKFRS 9, HKAS 39 and HKFRS 7 Interest Rate Benchmark Reform

The amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reform.

The amendments had no impact on the consolidated financial statements of the Group.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts and the related Amendments ¹
Amendments to HKFRS 16	Covid-19-Related Rent Concession ⁴
Amendments to HKFRS 3	Reference to the Conceptual Framework ²
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2 ⁵
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ¹
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use ²
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract ²
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020 ²

¹ Effective for annual periods beginning on or after 1 January 2023.

² Effective for annual periods beginning on or after 1 January 2022.

³ Effective for annual periods beginning on or after a date to be determined.

⁴ Effective for annual periods beginning on or after 1 June 2020.

⁵ Effective for annual periods beginning on or after 1 January 2021.

The directors of the Company anticipate that the application of all these new and amendments to HKFRSs will have no material impact on the financial performance and financial position of the Group.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. The consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Going concern assessment

At 31 December 2020, the current liabilities of the Group exceeded its current assets by approximately HK\$48,673,000 (2019: HK\$50,435,000).

At 31 December 2020, the Group had unutilised banking facilities of approximately HK\$209,568,000 (2019: HK\$237,517,000).

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

4. SEGMENT INFORMATION

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

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

- 1) E-cigarettes products segment: manufacture and sales of e-cigarettes products.
- 2) Integrated plastic solutions segment: manufacture and sales of moulds and plastic products.
- 3) Medical consumable products segment: a new business segment set up and engaged by the Group for the manufacture and sales of medical consumable products during the year ended 31 December 2020.

Segment revenue and results

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

Segment revenue represents revenue derived from manufacturing and sales of e-cigarettes products, moulds and plastic products and medical consumable products (2019: *manufacturing and sales of e-cigarettes and moulds and plastic products*).

Segment results represent the gross profit less selling and distribution costs and impairment losses recognised on trade receivables incurred by each segment without allocation of other income, other gains and losses, administrative and other operating expenses, finance costs and income tax expenses. This is the information reported to the CODM of the Group for the purposes of resource allocation and performance assessment.

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

	E-cigarettes products <i>HK\$'000</i>	Integrated plastic solutions <i>HK\$'000</i>	Medical consumable products <i>HK\$'000</i>	Total <i>HK\$'000</i>
<u>Year ended 31 December 2020</u>				
Segment revenue	<u>441,703</u>	<u>339,307</u>	<u>6,384</u>	<u>787,394</u>
Gross profit	<u>105,418</u>	<u>85,755</u>	<u>2,524</u>	<u>193,697</u>
Impairment losses recognised on trade receivables	–	(1,101)	–	(1,101)
Selling and distribution costs	–	(6,582)	(1,895)	(8,477)
Segment results	<u>105,418</u>	<u>78,072</u>	<u>629</u>	<u>184,119</u>
<i>Unallocated income and expenses</i>				
Other income				7,588
Other gains and losses				818
Administrative and other operating expenses				(96,175)
Finance costs				(8,822)
Profit before tax				<u>87,528</u>
Income tax expenses				(13,814)
Profit for the year				<u>73,714</u>
	E-cigarettes products <i>HK\$'000</i>	Integrated plastic solutions <i>HK\$'000</i>	Medical consumable products <i>HK\$'000</i>	Total <i>HK\$'000</i>
<u>Year ended 31 December 2019</u>				
Segment revenue	<u>859,910</u>	<u>391,164</u>	–	<u>1,251,074</u>
Gross profit	<u>216,175</u>	<u>97,184</u>	–	<u>313,359</u>
Impairment losses recognised on trade receivables	–	–	–	–
Selling and distribution costs	–	(11,374)	–	(11,374)
Segment results	<u>216,175</u>	<u>85,810</u>	–	<u>301,985</u>
<i>Unallocated income and expenses</i>				
Other income				4,925
Other gains and losses				1,914
Administrative and other operating expenses				(135,404)
Finance costs				(9,069)
Profit before tax				<u>164,351</u>
Income tax expenses				(37,155)
Profit for the year				<u>127,196</u>

5. REVENUE

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<u>Revenue from contracts with customers within HKFRS 15</u>		
Sales of e-cigarettes products	441,703	859,910
Sales of moulds and plastic products	339,307	391,164
Sales of medical consumable products	6,384	–
	<u>787,394</u>	<u>1,251,074</u>

The revenue from contracts with customers is based on fixed price and recognised at a point in time.

Transaction price allocated to the remaining performance obligation for contract with customers

E-cigarettes products, moulds and plastic products and medical consumable products are delivered within a period of less than one year. In addition, the transaction price allocated to the unsatisfied contracts is insignificant and therefore is not disclosed as permitted in HKFRS 15.

6. OTHER INCOME

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Bank interest income	473	791
Finance lease interest income	102	–
Government grants (<i>Note</i>)	2,302	17
Management service income	145	–
Rental and utilities recharge income	964	1,605
Sales of scrap materials	1,690	1,239
Sundry income	1,912	1,273
	<u>7,588</u>	<u>4,925</u>

Note: Included in the amount is the amortisation of government grant of HK\$315,000 (2019: HK\$17,000) in relation to the acquisition of property, plant and equipment.

7. OTHER GAINS AND LOSSES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Exchange (loss)/gain, net	(1,050)	1,218
Fair value gains on financial assets at FVPL	1,631	847
Written off of property, plant and equipment	(165)	–
Loss on disposal of property, plant and equipment	–	(151)
Gain on transfer of property, plant and equipment to finance lease receivables	402	–
	<u>818</u>	<u>1,914</u>

8. PROFIT BEFORE TAX

This is stated after charging:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Finance costs		
Interest on interest-bearing borrowings	6,976	6,112
Interest on payables for construction in progress	698	894
Interest on lease liabilities	1,148	2,063
	<u>8,822</u>	<u>9,069</u>
Staff costs, including directors' emoluments		
Employee benefits expenses	104,679	157,087
Discretionary bonus	21,095	44,420
Contributions to defined contribution retirement schemes	5,715	13,770
Share-based payment expense	1,761	–
	<u>133,250</u>	<u>215,277</u>
Other items		
Cost of inventories	593,697	937,715
Auditor's remuneration	1,122	1,333
Depreciation (charged to "cost of goods sold" and "administrative and other operating expenses", as appropriate)	47,111	38,560
Inventories written off	1,152	1,525
Short-term lease payments (charged to "administrative and other operating expenses")	49	90
Share-based payment expenses to eligible participants other than employees	286	–
Research and development expenses	20,554	25,272
	<u>20,554</u>	<u>25,272</u>

9. TAXATION

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Current tax		
Hong Kong Profits Tax		
Current year	4,658	5,091
Under provision in prior year	1,256	29
PRC Enterprise Income Tax		
Current year	11,389	37,667
Over provision in prior year	(4,962)	(585)
	<u>12,341</u>	<u>42,202</u>
Deferred tax		
Changes in temporary differences	863	(6,662)
Utilisation of tax losses recognised	610	1,615
	<u>1,473</u>	<u>(5,047)</u>
Total income tax expenses for the year	<u>13,814</u>	<u>37,155</u>

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

For the years ended 31 December 2020 and 2019, the assessable profits of a Hong Kong incorporated subsidiary of the Group (as elected by the management of the Group) are subject to the two-tiered profits tax rates regime that the first HK\$2 million of assessable profits will be taxed at 8.25% and assessable profits above HK\$2 million will be taxed at 16.5%. The Hong Kong Profits Tax of other Hong Kong incorporated subsidiaries of the Group is calculated at the standard tax rate of 16.5% of their respective estimated assessable profits for the years ended 31 December 2020 and 2019.

The Group's entities established in the PRC are subject to Enterprise Income Tax of the PRC at a statutory rate of 25% for the years ended 31 December 2020 and 2019.

10. DIVIDENDS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
a. Final dividend in respect of 2019 of HK1.5 cents per ordinary share (2018: HK3.0 cents)	9,300	18,600
b. Interim dividend in respect of 2020 of HK Nil per ordinary share (2019: HK1.5 cents)	–	9,300
	<u>9,300</u>	<u>27,900</u>
c. Not recognised final dividend - Final dividend declared after the balance sheet date of HK1.5 cents per ordinary share (2019: HK1.5 cents) (Note)	<u>9,300</u>	<u>9,300</u>

Note: At a meeting held on 30 March 2021, the Directors recommended the payment of a final dividend of HK1.5 cents (2019: HK1.5 cents) per ordinary share totalling approximately HK\$9,300,000 (2019: HK\$9,300,000) for the year ended 31 December 2020. The proposed dividend for the year ended 31 December 2020 will be accounted for as an appropriation of reserves in the year ending 31 December 2021 if it is approved at the forthcoming annual general meeting. The proposed final dividend has not been recognised as dividend payables in the consolidated statement of financial position as at 31 December 2020.

11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to equity holders of the Company is based on the following data:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<i>Earnings for the purpose of calculating basic and diluted earnings per share:</i>		
Profit for the year attributable to equity holders of the Company	<u>73,714</u>	<u>127,196</u>
	<i>'000</i>	<i>'000</i>
<i>Number of shares:</i>		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	620,000	620,000
Effect of dilutive potential ordinary shares:		
– Share options of the Company	<u>396</u>	<u>–</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>620,396</u>	<u>620,000</u>
Basic earnings per share (HK cents)	<u>11.89</u>	<u>20.52</u>
Diluted earnings per share (HK cents)	<u>11.88</u>	<u>20.52</u>

For the year ended 31 December 2020, diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding by the assumption of the conversion of all potential dilutive shares arising from the vested share options granted by the Company. The computation of diluted earnings per share does not assume the exercise of the unvested share options granted by the Company because the adjusted exercise price of those share options was higher than the average market price of the Company's shares.

For the year ended 31 December 2019, diluted earnings per share is the same as basic earnings per share as there were no potential ordinary shares outstanding during the year.

12. FINANCE LEASE RECEIVABLES

The finance lease receivables are set out below:

	Minimum lease payments		Present value of minimum lease payments	
	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Finance lease receivables comprise:				
Within one year	2,730	–	2,425	–
In the second year	2,730	–	2,425	–
In the third year	1,820	–	1,617	–
	<hr/>	<hr/>	<hr/>	<hr/>
Gross investment in the lease	7,280	–	6,467	–
Less: unearned finance income	(813)	–	–	–
	<hr/>	<hr/>	<hr/>	<hr/>
Present value of minimum lease payment receivables	6,467	–	6,467	–
	<hr/>	<hr/>	<hr/>	<hr/>
Analysed as:				
Current	2,425	–	2,425	–
Non-current	4,042	–	4,042	–
	<hr/>	<hr/>	<hr/>	<hr/>
	6,467	–	6,467	–
	<hr/>	<hr/>	<hr/>	<hr/>

During the year ended 31 December 2020, the Group entered into a lease agreement with a third party whereas the Group leased out its machineries with carrying values amounted to approximately HK\$7,344,000 for a term of three years. The sum of lease payments is fixed and approximates the carrying values of the leased assets.

13. TRADE AND OTHER RECEIVABLES

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade receivables			
From third parties	<i>13(a)</i>	151,227	125,345
Loss allowance		(5,893)	(4,568)
		<u>145,334</u>	<u>120,777</u>
	<i>13(b)</i>	145,334	120,777
		<u>2,502</u>	<u>2,655</u>
Bills receivables			
		2,502	2,655
Other receivables			
Deposits		146	181
Prepayment for insurance		3,058	3,150
Prepayment for utilities		7,666	5,354
Other receivables		1,954	1,349
Value-added tax receivables		26,907	18,247
Prepaid expenses and other deposits		1,261	1,442
		<u>40,992</u>	<u>29,723</u>
		<u>188,828</u>	<u>153,155</u>

13(a) Trade receivables from third parties

The Group grants credit period up to 90 days to its customers upon the issuance of invoices.

13(b) The aging of trade receivables, net of loss allowance, by invoice date is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within 30 days	119,363	64,603
31 to 60 days	10,063	47,555
61 to 90 days	7,379	4,578
91 to 180 days	8,330	2,600
Over 180 days	199	1,441
	<u>145,334</u>	<u>120,777</u>

14. TRADE AND OTHER PAYABLES

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade payables			
To third parties	<i>14(a)</i>	<u>130,062</u>	<u>118,323</u>
Other payables			
Contract liabilities		7,602	10,767
Salaries and bonus payable		39,765	54,279
Accruals and other creditors		<u>24,873</u>	<u>27,662</u>
		<u>72,240</u>	<u>92,708</u>
		<u>202,302</u>	<u>211,031</u>

14(a) Trade payables

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within 30 days	65,611	37,761
31 to 60 days	51,851	47,219
61 to 90 days	6,652	24,924
Over 90 days	<u>5,948</u>	<u>8,419</u>
	<u>130,062</u>	<u>118,323</u>

The credit period on trade payables is up to 90 days.

15. INTEREST-BEARING BORROWINGS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Secured bank borrowings:	229,998	119,630
The carrying amounts of the secured bank borrowings that do not contain a repayable on demand clause are repayable:		
Within one year	18,910	6,064
In the second year	17,324	6,289
In the third to fifth year	19,415	8,228
	55,649	20,581
The carrying amounts of the secured bank borrowings that contain a repayable on demand clause (shown under current liabilities) but repayable:		
Within one year	145,596	80,086
In the second year	10,253	7,597
In the third to fifth year	18,500	11,366
	174,349	99,049
	229,998	119,630
Less: Amounts due within one year shown under current liabilities	(193,259)	(105,113)
Amounts shown under non-current liabilities	36,739	14,517

The secured bank borrowings are repayable within seven years since its inception. At 31 December 2020, the secured bank borrowings carried weighted average effective interest rate of approximately 3.34% (2019: 4.13%) per annum.

16. LEASE LIABILITIES

At 31 December 2020, the weighted average discount rate applied on the calculation of present value of lease liabilities was 2.82% per annum (2019: 3.70%).

	Lease payments		Present value of lease payments	
	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Amounts payable:				
Within one year	17,280	20,173	16,891	18,625
After 1 year but within 2 years	10,503	18,074	10,402	17,252
After 2 years but within 5 years	133	10,379	132	10,161
	27,916	48,626	27,425	46,038
Less: future finance charges	(491)	(2,588)	–	–
Total lease liabilities	27,425	46,038	27,425	46,038

The Group uses the lessee's incremental borrowing rates to discount future lease payments since interest rates implicit in the leases are not readily determinable. In determining the discounts rates for its leases, the Group refers to a rate that is readily observable as the starting point and then applies judgement and adjusts such observable rate to determine the incremental borrowing rate.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2020, the escalating Sino-US trade war brought challenges to the business environment. Apart from the trade dispute, the outbreak of novel coronavirus (“**COVID-19**”) pandemic forced the governments in the world to take pandemic prevention measures by imposing travel restrictions and countries lockdown. These created an abnormally volatile operating environment which led to a drop of demand for our products. On the other hand, expecting the demand for disposable face masks and other medical consumable products to maintain at a high level in the future, the Group started a new chapter in the establishment and development of the medical consumable products segment.

The Group operates its business through three segments, including integrated plastic solutions segment, electronic cigarette (the “**e-cigarettes**”) products segment and medical consumable products segment. The integrated plastic solutions segment engages in mould design and fabrication services as well as plastic component design and manufacturing services. The e-cigarettes products segment engages in the manufacturing and sales of e-cigarettes products under the brand names owned by a well-known tobacco group. During the year, the Group also engaged in medical consumable products segment by manufacturing and sales of disposable face masks products under our own brand name of “**CAREWE**”. The Group distributes our products within the domestic market and to overseas markets, including Europe, Asia and the United States (the “**U.S.**”).

During the year, the Group’s total revenue amounted to approximately HK\$787.4 million, representing a decrease of approximately 37.1% (2019: HK\$1,251.1 million). The Group recorded a gross profit of approximately HK\$193.7 million (2019: HK\$313.4 million) with a gross profit margin of approximately 24.6% (2019: 25.0%).

The Group recorded a profit for the year attributable to equity holders of the Company of approximately HK\$73.7 million (2019: HK\$127.2 million). Basic earnings per share attributable to equity holders of the Company were approximately HK11.89 cents (2019: HK20.52 cents).

BUSINESS SEGMENT ANALYSIS

Integrated Plastic Solutions

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

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

Manufacturing of E-cigarettes Products

The Group manufactured e-cigarettes products as an original equipment manufacturer (“**OEM**”). Such e-cigarette products included disposable e-cigarettes, refillable e-cigarettes, battery rods, clearomisers, liquidpods and heated tobacco device.

Manufacturing of medical consumable products

By utilising the cleanroom facilities in the Group’s production plant in Huizhou and acquiring disposable face mask production machines, the Group established a production line for masks during the year ended 31 December 2020, as disclosed in the announcement of the Company dated 7 July 2020.

The cleanroom facility in Huizhou has been certified in compliance with the cleanroom standard of ISO14644-1:2015 Class 8, as recognised by the U.S. National Environmental Balancing Bureau. The manufacturing quality system has also fulfilled the standard of EN ISO13485:2016 Medical Devices-Quality Management Systems as certified by the Société Générale de Surveillance S.A. (“**SGS**”). In addition, the Group has been granted the Medical Device Manufacturing Enterprise License (醫療器械生產許可證) on medical device production, from the National Medical Products Administration in the People’s Republic of China (the “**PRC**”). The production line has been set up and tested during the second quarter of 2020.

The procedure face masks have been tested and proved to be meeting up to the standard of ASTM F2100 Level 3 in the U.S. and the standard of EN14683 Type IIR in Europe. Apart from the procedure face masks, the Group also developed face masks with higher level of protection, such as particulate face masks – KN95 and FFP2. The particulate face masks – KN95, has passed the requirements of GB2626-2016 standard in the PRC and NIOSH N95 – Pre-Certification Test issued by the ICS Laboratories in the U.S. In addition, the particulate face masks – FFP2, has also passed the requirements of EN 149:2001+A1:2009 standard, credited as FFP2 respirator device, and certified with CE Mark (through Notified Body #0598) granted by the SGS.

FINANCIAL REVIEW

Revenue

Revenue for the year ended 31 December 2020 was approximately HK\$787.4 million, representing a decrease of approximately HK\$463.7 million, or approximately 37.1%, from approximately HK\$1,251.1 million for the year ended 31 December 2019.

The integrated plastic solutions segment revenue for the year ended 31 December 2020 was approximately HK\$339.3 million, accounting for approximately 43.1% of the total revenue and representing a decrease of approximately HK\$51.9 million, or approximately 13.3%, from segment revenue of HK\$391.2 million for the year ended 31 December 2019. This decrease was primarily due to the decrease in sales order of certain products resulted from the declining global economy under the Sino-US trade war and the outbreak of COVID-19 pandemic during the year.

The e-cigarettes products segment revenue for the year ended 31 December 2020 was approximately HK\$441.7 million, accounting for approximately 56.1% of the total revenue and representing a decrease of approximately HK\$418.2 million, or approximately 48.6%, from approximately HK\$859.9 million for the year ended 31 December 2019. The decrease was attributable to the impact of COVID-19 pandemic, the process of new products development was slower than planned, thus, the orders for new products were reduced.

The medical consumable products segment revenue for the year ended 31 December 2020 was approximately HK\$6.4 million, accounting for approximately 0.8% of the total revenue. This was a new segment established during the year.

Gross Profit

Gross profit for the year ended 31 December 2020 was approximately HK\$193.7 million (*2019: HK\$313.4 million*), representing a gross profit margin of 24.6% (*2019: 25.0%*).

Segment gross profit for integrated plastic solutions for 2020 was approximately HK\$85.8 million (*2019: HK\$97.2 million*), representing a gross profit margin of 25.3% (*2019: 24.8%*). The increase in gross profit margin was primarily contributed by the change of product mix of which the products are of higher profit margin which improved the overall gross profit margin.

Segment gross profit for e-cigarettes products for 2020 was approximately HK\$105.4 million (*2019: HK\$216.2 million*), representing a gross profit margin of 23.9% (*2019: 25.1%*). The decrease was primarily due to the decrease in sales volume. The production fixed overhead lowered the gross profit margin.

Segment gross profit for medical consumable products for 2020 was approximately HK\$2.5 million, representing a gross profit margin of 39.1%.

Other Income

Other income for the year ended 31 December 2020 was approximately HK\$7.6 million, representing an increase of approximately HK\$2.7 million, or approximately 55.1%, from approximately HK\$4.9 million for the year ended 31 December 2019. The increase was primarily due to an increase of government grant received together with the increase in sales of scrap materials.

Selling and Distribution Costs

Selling and distribution costs for the year ended 31 December 2020 were approximately HK\$8.5 million, representing a decrease of approximately HK\$2.9 million, or approximately 25.4%, from approximately HK\$11.4 million for the year ended 31 December 2019. The decrease was primarily due to the decrease in sales volume during the year.

Administrative and Other Operating Expenses

Administrative and other operating expenses for the year ended 31 December 2020 were approximately HK\$96.2 million, representing a decrease of approximately HK\$39.2 million, or approximately 29.0%, from approximately HK\$135.4 million for the year ended 31 December 2019. The decrease was primarily due to a decrease in headcount and the performance bonus to the directors and senior management.

Finance Costs

Finance costs for the year ended 31 December 2020 were approximately HK\$8.8 million, which was similar to that for the year ended 31 December 2019 of HK\$9.1 million.

Income Tax Expense

Income tax expenses for the year ended 31 December 2020 was approximately HK\$13.8 million, representing a decrease of approximately HK\$23.4 million, or approximately 62.9%, from approximately HK\$37.2 million for the year ended 31 December 2019. The decrease in income tax expense was mainly attributable to the decrease in profit before tax and the additional tax deduction allowance for research and development costs in the PRC.

Profit Attributable to Equity Holders of the Company

As a result of foregoing, profit for the year ended 31 December 2020 was approximately HK\$73.7 million, representing a decrease of approximately HK\$53.5 million, or approximately 42.1%, from approximately HK\$127.2 million for the year ended 31 December 2019.

FUTURE PLAN AND PROSPECTS

In view of the unsettled pandemic situation, the Board expects that it will continue to cast uncertainties over the business environment and the recovery of business will be highly challenging in 2021. The Group expects that the demand for its products may be affected due to uncertainty of the market. Currently, the Group has sufficient cash on hand, together with available banking facilities, to meet the current business needs.

Amidst a challenging business environment, the Group will stay competitive in the market by diversifying the product portfolio through research and development and enhancing product quality. The new factory premises under construction is expected to be completed in May 2021, which will facilitate further research and development. It will also accommodate new product production lines with automated machines to reduce the reliance of manpower. In this connection, precision level and an improvement of output for its products in the future is expected.

THE IMPACT OF THE COVID-19

The outbreak of COVID-19 pandemic has brought great challenges to the Group in 2020. The Group experienced certain weeks of production halt in the first half of 2020, yet the business has been recovering gradually during the second half of 2020. The Group will keep paying close attention to the development of the COVID-19 pandemic and evaluate its impact on the Group's financial position and operating results in order to make timely response and adjustments as appropriate going forward.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flow and banking facilities provided by its principal bankers. As at 31 December 2020, the Group had cash and cash equivalents of approximately HK\$117.0 million (2019: HK\$85.6 million). The interest-bearing borrowings as at 31 December 2020 was approximately HK\$230.0 million (2019: HK\$119.6 million) with interest rates weighted average effective interest rate of approximately 3.34% per annum (2019: 4.13% per annum). The Group's gearing ratio as at 31 December 2020, calculated based on the total borrowings to the equity attributable to equity holders of the Company, was 44.5% (2019: 39.8%). The Group recorded net current liabilities of approximately HK\$48.7 million as of 31 December 2020 (2019: approximately HK\$50.4 million). The management believes that the Group has maintained adequate financial resources to fulfill its working capital requirements.

FOREIGN EXCHANGE RISK

The monetary assets and liabilities and business transactions of the Group are mainly carried out and conducted in Hong Kong dollars, the U.S. dollars and Renminbi. The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and to mitigate the impact on exchange rate fluctuations by entering into certain foreign currency forward contracts. Saved as disclosed in this announcement, as at 31 December 2020, the Group did not have any outstanding foreign currency forward contracts. The Group will continue to evaluate the Group's foreign currency exposure and take actions as appropriate.

MATERIAL ACQUISITIONS AND DISPOSALS

For the year ended 31 December 2020, the Group has made no material acquisitions or disposals of subsidiaries and associated companies.

CONTINGENT LIABILITIES

As at 31 December 2020, the Group did not have any significant contingent liabilities.

USE OF PROCEEDS

The net proceeds of the Group raised from the initial public offering were approximately HK\$77.6 million, after deducting the underwriting fees, commissions and other listing expenses. As at 31 December 2020, the net proceeds have been fully utilised as intended. The below table sets out the proposed applications of the net proceeds set out in the section headed “Future Plans and Use of Proceeds” in the prospectus of the Company dated 14 February 2018 and the actual utilised amount as at 31 December 2020. During the year, the Group incurred approximately HK\$4.7 million for equipment upgrade and capacity expansion and related investments.

	Planned use proceeds HK\$ million	Actual utilised amount as at 31 December 2020 HK\$ million
For the leasehold improvement in phase II of the Group’s new site in Huizhou	3.0	3.0
For equipment upgrade and capacity expansion and related investments	69.8	69.8
For working capital	4.8	4.8
Total	<u>77.6</u>	<u>77.6</u>

SUBSEQUENT EVENT

As at the date of this announcement, no subsequent events occurred after 31 December 2020 which may have a significant effect on the assets and liabilities or future operations of the Group.

EMPLOYEE AND REMUNERATION POLICY

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

SHARE OPTION SCHEME

On 28 May 2019, the Company adopted a share option scheme (the “**Option Scheme**”) for the purpose of providing reward to selected participants for their contribution to the Group. Eligible participants of the Option Scheme include, without limitation, employees, executive directors, non-executive directors, shareholders, advisers and consultants.

For the year ended 31 December 2020, the Company has the following share options granted to the eligible participants under the Option Scheme:

Grantees	Date of grant (Note)	Exercise price (HK\$)	Options outstanding at 1 January 2020	Options granted during the year	Options exercised during the year	Options cancelled/ lapsed/forfeited during the year	Options outstanding at 31 December 2020	Exercisable at 31 December 2020
Directors, chief executives and substantial shareholders								
Chan Tsan Lam	13 May 2020	0.355	-	620,000	-	-	620,000	310,000
Chan Yin Yan	13 May 2020	0.355	-	6,200,000	-	-	6,200,000	3,100,000
Poon Po Han Lisa	13 May 2020	0.355	-	6,200,000	-	-	6,200,000	3,100,000
Hung Chun Leung	13 May 2020	0.355	-	500,000	-	-	500,000	250,000
Chan Bing Kai	13 May 2020	0.355	-	500,000	-	-	500,000	250,000
Cheng Chak	13 May 2020	0.355	-	620,000	-	-	620,000	310,000
Employees and senior management	13 May 2020	0.355	-	19,900,000	-	-	19,900,000	9,950,000
Others	13 May 2020	0.355	-	3,300,000	-	-	3,300,000	1,650,000
				37,840,000	-	-	37,840,000	18,920,000
			-	37,840,000	-	-	37,840,000	18,920,000

Note: On 13 May 2020, options to subscribe for 37,840,000 ordinary shares were granted to eligible participants under the Option Scheme. 50% of the share options were exercisable and vested on the date of grant and the remaining 50% of the share options shall be vested and exercisable from 13 May 2021 to 12 May 2030.

SIGNIFICANT INVESTMENTS HELD

During the year ended 31 December 2020, the Group did not hold any significant investment in equity interest in any other company.

FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in this announcement and the announcement of the Company dated 8 October 2019 regarding the construction of new factory premises in the remaining land area in Huizhou (which is expected to be completed in May 2021), the Group has no further plan to make material investments or increase its capital assets.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The Company and any of its subsidiaries has not purchased, redeemed or sold any of its listed securities during the year ended 31 December 2020.

CORPORATE GOVERNANCE MEASURES

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

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

Save as disclosed above, during the year ended 31 December 2020, the Company has complied with the CG Code.

AUDIT COMMITTEE AND REVIEW OF ANNUAL RESULTS

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

Our audit committee consists of three members, being Mr. Ng Chi Wai, Mr. Hung Chun Leung and Mr. Chan Bing Kai. Mr. Ng Chi Wai currently serves as the chairman of our audit committee, who holds the appropriate professional qualification as required under rules 3.10(2) and 3.21 of the Listing Rules.

The Audit Committee has reviewed with the management the Group’s consolidated financial statements for the year ended 31 December 2020, the accounting principles and practices adopted and discussed auditing, internal control and financial reporting matters.

SCOPE OF WORK OF THE COMPANY’S AUDITOR

The figures in respect of the Company’s consolidated statement of financial position, consolidated income statement and other comprehensive income, and related notes thereto for the year ended 31 December 2020 as set out in the announcement have been agreed by the Company’s auditors, TANDEM (HK) CPA Limited (“**TANDEM**”), to the amounts set out in the Company’s audited consolidated financial statements for the year ended 31 December 2020. The work performed by TANDEM in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by TANDEM on the announcement.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

Upon specific enquiry, all Directors have confirmed that they have complied with the Model Code during the year ended 31 December 2020. In addition, the Company is not aware of any non-compliance of the Model Code by the senior management of the Company during the year ended 31 December 2020.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK1.5 cents per share for the year ended 31 December 2020 (*for the year ended 31 December 2019: HK1.5 cents per share*) to the shareholders whose names appear on the register of members of the Company at the close of business on 17 June 2021. The proposed final dividend is subject to the approval of the shareholders at the forthcoming annual general meeting. The final dividend, if approved, is expected to be paid on 28 June 2021.

For determining the entitlement to the proposed final dividend of HK1.5 cents per share of the Company for the year ended 31 December 2020, the transfer books and register of members of the Company will be closed from Tuesday, 15 June 2021 to Thursday, 17 June 2021, both days inclusive. During the above period, no transfer of shares of the Company will be registered. In order to qualify for the entitlement to the proposed final dividend, subject to passing of an ordinary resolution at the forthcoming annual general meeting, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company’s branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong before 4:30 p.m. on Friday, 11 June 2021.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement of the Group for the year ended 31 December 2020 is available for viewing on the website of the Stock Exchange at www.hkexnews.hk and on the website of the Company at www.hktcgroup.com.

An annual report for the year ended 31 December 2020, containing all the information required by the Listing Rules, will be dispatched to the shareholders of the Company and published on the above websites in due course.

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

Hong Kong, 30 March 2021

As at the date of this announcement, the executive directors of the Company are Mr. Chan Tsan Lam, Ms. Poon Po Han Lisa and Ms. Chan Yin Yan, and the independent non-executive directors of the Company are Mr. Ng Chi Wai, Mr. Hung Chun Leung and Mr. Chan Bing Kai.