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## TEN PAO GROUP HOLDINGS LIMITED

### 天寶集團控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1979)**

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

The board (the “**Board**”) of directors (the “**Directors**”) of Ten Pao Group Holdings Limited (“**Ten Pao**” or the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (together, the “**Group**”) for the year ended 31 December 2020, together with comparative figures for the year ended 31 December 2019 as follows:

#### **FINANCIAL HIGHLIGHTS:**

- Revenue for the year ended 31 December 2020 increased by 23.4% to HK\$4,488.6 million.
- Gross profit for the year ended 31 December 2020 increased by 30.7% to HK\$827.3 million. Gross profit margin increased by 1.0 percentage point to 18.4%.
- Profit before income tax for the year ended 31 December 2020 increased by 72.3% to HK\$373.8 million.
- Profit attributable to owners of the Company for the year ended 31 December 2020 was HK\$289.1 million, representing an increase of 63.5%.
- The Board recommended the payment of a final dividend of HK5.5 cents per ordinary share of the Company for the year ended 31 December 2020, which is subject to the approval of the Company’s shareholders at the 2021 AGM.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

The following table sets forth our consolidated statement of profit or loss for the years indicated:

	<i>Notes</i>	<b>Year ended 31 December</b>	
		<b>2020</b>	<b>2019</b>
		<b>HK\$'000</b>	<b>HK\$'000</b>
<b>REVENUE</b>	4	<b>4,488,625</b>	3,636,291
Cost of sales	6	<b>(3,661,286)</b>	(3,003,095)
		<hr/>	<hr/>
<b>Gross profit</b>		<b>827,339</b>	633,196
Other income	5	<b>13,569</b>	10,945
Other losses – net	5	<b>(24,428)</b>	(4,912)
Selling expenses	6	<b>(155,675)</b>	(148,062)
Administrative expenses	6	<b>(278,977)</b>	(266,285)
Net impairment losses on financial assets		<b>(1,383)</b>	(305)
		<hr/>	<hr/>
<b>Operating profit</b>		<b>380,445</b>	224,577
Finance income		<b>581</b>	615
Finance expenses		<b>(7,205)</b>	(8,272)
		<hr/>	<hr/>
Finance expenses – net		<b>(6,624)</b>	(7,657)
		<hr/>	<hr/>
<b>Profit before income tax</b>		<b>373,821</b>	216,920
Income tax expense	7	<b>(85,189)</b>	(40,461)
		<hr/>	<hr/>
Profit for the year		<b>288,632</b>	176,459
<b>Profit for the year attributable to:</b>			
<b>Owners of the Company</b>		<b>289,057</b>	176,752
<b>Non-controlling interests</b>		<b>(425)</b>	(293)
		<hr/>	<hr/>
		<b>288,632</b>	176,459
		<hr/>	<hr/>
<b>Earnings per share</b>			
– basic and diluted per share	8	<b>HK28.9 cents</b>	HK17.7 cents
		<hr/>	<hr/>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

The following table sets forth our consolidated statement of comprehensive income for the years indicated:

	Year ended 31 December	
	2020	2019
	HK\$'000	HK\$'000
<b>Profit for the year</b>	<u>288,632</u>	<u>176,459</u>
<b>Other comprehensive income:</b>		
<i>Items that may be reclassified to profit or loss</i>		
Currency translation differences	<u>80,118</u>	<u>(15,417)</u>
<i>Items that will not be reclassified to profit or loss</i>		
Changes in the fair value of equity investments at fair value through other comprehensive income	<u>(4,508)</u>	<u>236</u>
<b>Total comprehensive income for the year attributable to:</b>		
Owners of the Company	<u>364,667</u>	<u>161,571</u>
Non-controlling interests	<u>(425)</u>	<u>(293)</u>
	<u>364,242</u>	<u>161,278</u>

## CONSOLIDATED BALANCE SHEET

The following table sets forth our consolidated balance sheet as at the dates indicated:

		<b>As at 31 December</b>	
		<b>2020</b>	2019
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Land use rights		5,205	4,763
Property, plant and equipment		585,214	495,038
Right-of-use assets	10	116,611	11,881
Investment properties		7,100	7,500
Intangible assets		11,009	10,600
Deferred income tax assets		37,152	22,517
Financial assets at fair value through profit or loss		3,131	3,043
Financial assets at fair value through other comprehensive income	15	12,487	17,017
Prepayments for the purchase of property, plant and equipment		31,210	27,721
		<u>809,119</u>	<u>600,080</u>
<b>Current assets</b>			
Inventories		1,039,894	574,382
Trade and other receivables	11	1,216,560	867,514
Amounts due from related parties		1,464	1,320
Cash and cash equivalents		426,573	158,031
Restricted bank deposits		138,855	13,058
		<u>2,823,346</u>	<u>1,614,305</u>
<b>Total assets</b>		<u><b>3,632,465</b></u>	<u><b>2,214,385</b></u>
<b>EQUITY</b>			
<b>Capital and reserves attributable to owners of the Company</b>			
Share capital	14	10,005	10,005
Share premium	14	125,788	125,788
Other reserves		120,701	37,280
Retained earnings		745,030	521,810
		<u>1,001,524</u>	<u>694,833</u>
<b>Non-controlling interests</b>		<u>(718)</u>	<u>(293)</u>
<b>Total equity</b>		<u><b>1,000,806</b></u>	<u><b>694,590</b></u>

## CONSOLIDATED BALANCE SHEET (CONTINUED)

		As at 31 December	
		2020	2019
	Notes	HK\$'000	HK\$'000
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Non-current bank borrowings	13	86,109	41,580
Lease liabilities			
— non-current	10	6,027	5,775
Derivative financial instruments			
— non-current		8,945	153
Deferred income tax liabilities		88,031	59,726
Deferred government grants		44,191	27,225
		<u>233,303</u>	<u>134,459</u>
<b>Current liabilities</b>			
Trade and other payables	12	2,090,532	1,215,452
Contract liabilities		14,253	8,948
Amounts due to related parties		17,560	22,164
Dividend payable		12	12
Income tax liabilities		51,185	17,214
Lease liabilities — current	10	1,646	1,319
Short-term bank borrowings	13	142,850	63,091
Current portion of non-current bank borrowings	13	80,318	57,136
		<u>2,398,356</u>	<u>1,385,336</u>
<b>Total liabilities</b>		<u>2,631,659</u>	<u>1,519,795</u>
<b>Total equity and liabilities</b>		<u>3,632,465</u>	<u>2,214,385</u>

## NOTES:

### 1. GENERAL INFORMATION

Ten Pao Group Holdings Limited (天寶集團控股有限公司) (the “**Company**”) was incorporated in the Cayman Islands on 27 January 2015 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company’s registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company, an investment holding company, and its subsidiaries (collectively, the “**Group**”) are principally engaged in the developing, manufacturing and sales of electric charging products in the People’s Republic of China (the “**PRC**” or “**China**”). The controlling shareholder of the Group is Mr. Hung Kwong Yee (洪光椅) (the “**Controlling Shareholder**” or “**Chairman Hung**”).

On 11 December 2015, shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

### 2. BASIS OF PRESENTATION

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“**HKFRS**”) and requirements of the Hong Kong Companies Ordinance (Cap. 622). The consolidated financial statements have been prepared under the historical cost convention, except for the followings: certain financial assets and liabilities (including derivative instruments at fair value through profit or loss and equity investments at fair value through other comprehensive income) and investment property, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies.

### 3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

#### (a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2020:

- *Definition of Material — amendments to HKAS 1 and HKAS 8*
- *Definition of a Business — amendments to HKFRS 3*
- *Interest Rate Benchmark Reform — amendments to HKFRS 9, HKAS 39 and HKFRS 7*
- *Revised Conceptual Framework for Financial Reporting*

The Group also elected to adopt the following amendments early.

- *Annual Improvements to HKFRS Standards 2018–2020 Cycle*
- *Covid-19-Related Rent Concessions — amendments to HKFRS 16*

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods, except for the Amendment to HKFRS 16 set out above.

The Group has early adopted Amendment to HKFRS 16 — Covid-19-Related Rent Concessions retrospectively from 1 January 2020. The amendment provides an optional practical expedient allowing lessees to elect not to assess whether a rent concession related to COVID-19 is a lease modification. Lessees adopting this election may account for qualifying rent concessions in the same way as they would if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: a. the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; b. any reduction in lease payments affects only payments due on or before 30 June 2021; and c. there is no substantive change to other terms and conditions of the lease.

**(b) New standards and interpretations not yet adopted**

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

**4. SEGMENT INFORMATION**

The chief operating decision-maker has been identified as the executive directors of the Company. The executive directors review the Group's internal reporting in order to assess performance and allocate resources and have determined the operating segments based on the internal reports that are used to make strategic decisions. The executive directors considered the nature of the Group's business and determined that the Group's electric charging products can be categorised into six reportable segments as follows: (i) telecommunication, (ii) media and entertainment, (iii) electrical home appliances, (iv) lighting, (v) smart chargers and controllers, and (vi) others.

With the outbreak of COVID-19 in early 2020, domestic consumption and production had been affected in the short term. As from the end of February 2020, the spread of COVID-19 began to impose greater adverse effect. The impact of the pandemic was mainly reflected in the electrical home appliances segment. Annual revenue of this segment decreased by HK\$90.33 million as compared with year 2019. Owing to delays in delivery, orders were likewise delayed in the first quarter of 2020. In the second quarter of 2020, however, orders gradually returned to normal. In the third and fourth quarters of 2020, with full resumption of Ten Pao's production capacity, not only were orders not affected, but also were clearly on the rise.

The segment information for the reportable segments is set out as below:

	Telecommunication HK\$'000	Media and entertainment HK\$'000	Electrical home appliances HK\$'000	Lighting HK\$'000	Smart chargers and controllers HK\$'000	Others HK\$'000	Total HK\$'000
<b>31 December 2020</b>							
<b>Revenue</b>							
Revenue from external customers							
— At a point in time	1,585,568	396,256	172,496	456,064	1,721,640	156,601	4,488,625
Segment results	212,188	76,992	41,847	87,764	376,457	32,091	827,339
Other income							13,569
Other losses – net							(24,428)
Selling expenses							(155,675)
Administrative expenses							(278,977)
Finance expenses – net							(6,624)
Net impairment losses on financial assets							(1,383)
<b>Profit before income tax</b>							<b>373,821</b>
<b>31 December 2019</b>							
<b>Revenue</b>							
Revenue from external customers							
— At a point in time	1,141,308	305,843	262,822	460,062	1,358,636	107,620	3,636,291
Segment results	145,748	64,274	40,561	95,057	262,128	25,428	633,196
Other income							10,945
Other losses – net							(4,912)
Selling expenses							(148,062)
Administrative expenses							(266,285)
Finance expenses – net							(7,657)
Net impairment losses on financial assets							(305)
<b>Profit before income tax</b>							<b>216,920</b>



## 5. OTHER INCOME AND OTHER LOSSES – NET

### (a) Other income

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Sales of scrap materials	2,623	3,009
Sales of raw materials, samples and moulds	4,951	1,840
Inspection and certification fee income	1,772	2,717
Rental income	1,390	1,653
Others	2,833	1,726
	<u>13,569</u>	<u>10,945</u>

### (b) Other losses – net

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Fair value changes on derivative financial instruments	(8,792)	(200)
Fair value changes on financial assets at fair value through profit or loss	88	54
Fair value changes on investment properties	(400)	1,100
Net foreign exchange loss	(32,922)	(11,559)
Government grants	12,864	9,887
Loss on disposal of property, plant and equipment	(2,737)	(259)
Others	7,471	(3,935)
	<u>(24,428)</u>	<u>(4,912)</u>

## 6. EXPENSES BY NATURE

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Changes in inventories of finished goods and work in progress	(255,913)	(81,396)
Raw materials and consumables used	3,336,482	2,583,507
Employee benefit expenses	560,599	499,374
Research and development expenses		
— Employee benefit expenses	93,074	93,221
— Raw materials, consumables used and others	33,108	29,842
— Depreciation and amortisation	10,718	7,861
Depreciation, amortisation and impairment charges	82,911	77,120
Transportation and travelling expenses	34,948	32,882
Water and electricity expense	34,091	31,269
Commission expenses	24,603	23,623
Maintenance expenses	21,627	23,130
Operating lease payments	20,742	16,086
Consultancy fee	14,308	12,881
Business tax and surcharge	14,109	11,243
Allowance for impairment of inventory	10,240	9,107
Commercial insurance	8,870	7,634
Certificate and detection fees	12,141	7,392
Auditors' remuneration		
— Audit services	3,393	3,966
— Non-audit services	2,223	1,446
Entertainment expenses	4,354	5,058
Other taxes and levies	6,143	4,505
Communication expenses	4,258	3,154
Bank charges	3,271	2,902
Advertising expenses	4,218	2,878
Other expenses	11,420	8,757
<b>Total cost of sales, selling expenses and administrative expenses</b>	<b>4,095,938</b>	<b>3,417,442</b>

## 7. INCOME TAX EXPENSE

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Current income tax		
— PRC corporate income tax (“CIT”)	52,603	26,474
— Hong Kong profits tax	21,484	10,689
	<hr/>	<hr/>
Subtotal	74,087	37,163
Deferred income tax	11,102	3,298
	<hr/>	<hr/>
	<b>85,189</b>	<b>40,461</b>
	<hr/>	<hr/>

### (a) Cayman Islands income tax

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and accordingly, is exempted from Cayman Islands income tax.

### (b) Hong Kong profits tax

Subsidiaries in Hong Kong are subject to 16.5% income tax rate before 2018. Under the current Hong Kong Inland Revenue Ordinance, from the year of assessment 2018/2019 onwards, the subsidiaries in Hong Kong are subject to profits tax at the rate of 8.25% on assessable profits up to HK\$2,000,000, and 16.5% on any part of assessable profits over HK\$2,000,000. The payments of dividends by these companies to their shareholders are not subject to any Hong Kong withholding tax.

### (c) PRC CIT

CIT is provided on the assessable income of entities within the Group incorporated in the PRC, calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits.

Pursuant to the PRC Corporate Income Tax Law passed by the Tenth National People’s Congress on 16 March 2007 (the “CIT Law”), the CIT rate for domestic and foreign enterprises has been unified at 25%, effective from 1 January 2008.

Ten Pao Electronic (Huizhou) Co., Ltd. was recognised as “New and High Technology Enterprises” and enjoys a preferential CIT rate of 15%. Its CIT rate for the year ended 31 December 2020 was 15% (2019: 15%).

### (d) PRC withholding income tax

According to the CIT Law, starting from 1 January 2008, a withholding income tax of 10% will be levied on the immediate holding companies outside the PRC when their PRC subsidiaries declare dividend out of profits earned after 1 January 2008. A lower 5% withholding income tax rate may be applied when the immediate holding companies of the PRC subsidiaries are established in Hong Kong and fulfil requirements under the tax treaty arrangements between the PRC and Hong Kong.

(e) **British Virgin Islands (“BVI”) and Samoa income tax**

No provision for income tax in BVI and Samoa has been made as the Group has no income assessable to income tax in BVI and Samoa during the year (2019: Nil).

(f) **Hungary corporate income tax**

The corporate income tax rate in Hungary is 9% during the year (2019: Nil).

(g) **Taxation on the Group’s profit**

The taxation on the Group’s profit before income tax differs from the theoretical amount that would arise using the main statutory tax rate applicable to profit of the Group as follows:

	<b>2020</b> <i>HK\$’000</i>	2019 <i>HK\$’000</i>
Profit before income tax	<b>373,821</b>	216,920
Tax calculated at applicable corporate income tax rate of 25%	<b>93,456</b>	54,230
Effect of differences in tax rates	<b>(9,528)</b>	(4,507)
Preferential tax treatment of CIT	<b>(13,878)</b>	(10,327)
Withholding tax	<b>23,070</b>	6,876
Tax losses and deductible temporary difference for which no deferred income tax asset was recognised	<b>2,650</b>	2,876
Utilisation of tax losses previously not recognised	<b>(4,281)</b>	(1,374)
Expenses not deductible for taxation purposes	<b>5,896</b>	4,744
Accelerated research and development deductible expenses	<b>(11,992)</b>	(11,805)
Income not subject to tax	<b>(204)</b>	(252)
	<b>85,189</b>	40,461

The effective corporate income tax rate was 23% for the year (2019: 19%). The increase in the effective corporate income tax rate of 2020 compared to 2019 was primarily due to the increase in the profits of its subsidiaries in the PRC.

## 8. EARNINGS PER SHARE

### (a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of ordinary shares in issue for the year.

	2020	2019
Profit attributable to owners of the Company (HK\$'000)	289,057	176,752
Weighted average number of shares issued (thousands)	1,000,456	1,000,456
Basic earnings per share (HK cents)	28.9	17.7

### (b) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

The Company has one category of dilutive potential ordinary shares: share options. The number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the average market share price of the Company's shares) for the same amount of proceed are share issues for no consideration which causes dilution to earnings per share. Diluted earnings per share is the same as basic earnings per share due to the absence of dilutive ordinary shares during the year as all the outstanding share options were lapsed on 15 September 2019.

## 9. DIVIDENDS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Interim dividend paid per ordinary share: HK3.0 cents (2019: HK2.5 cents)	30,013	25,011
Proposed final dividend per ordinary share: HK5.5 cents (2019: HK2.8 cents)	55,025	28,013
	<u>85,038</u>	<u>53,024</u>

The dividends paid in 2020 and 2019 were HK\$58,026,000 and HK\$50,023,000 respectively.

A final dividend of HK5.5 cents per ordinary share, amounting to HK\$55,025,000 in respect of the year ended 31 December 2020 is to be proposed at the annual general meeting of the Company to be held on 28 May 2021.

## 10. LEASE

### (a) Amounts recognised in the consolidated balance sheet

The consolidated balance sheet shows the following amounts relating to leases:

	<b>31 December 2020 HK\$'000</b>	31 December 2019 HK\$'000
<b>Right-of-use assets</b>		
Land use rights	<b>108,862</b>	4,781
Buildings	<b>7,749</b>	7,100
	<b>116,611</b>	11,881
<b>Lease liabilities</b>		
Current	<b>1,646</b>	1,319
Non-current	<b>6,027</b>	5,775
	<b>7,673</b>	7,094

The lease periods of land use rights are 50 years and are located in the PRC. As at 31 December 2020, the remaining lease periods of the Group's land use rights ranged from 16 to 50 years (2019: 17 to 33). Amortisation was included in administrative expenses.

### (b) Amounts recognised in the consolidated statement of profit or loss

The consolidated statement of profit or loss shows the following amounts relating to leases:

	<b>2020 HK\$'000</b>	2019 HK\$'000
<b>Depreciation and amortisation charge of right-of-use assets</b>		
Land use rights	<b>1,821</b>	163
Buildings	<b>1,373</b>	875
	<b>3,194</b>	1,038
Interest expense	<b>27</b>	67
Expense relating to short-term leases (included in cost of sales, selling expenses and administrative expenses)	<b>20,742</b>	16,086

## 11. TRADE AND OTHER RECEIVABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade receivables	1,141,969	838,549
Less: allowance for impairment	<u>(3,536)</u>	<u>(15,186)</u>
Trade receivables, net	1,138,433	823,363
Bills receivable	560	4,064
Prepayments	18,544	13,976
Deposits	15,034	10,933
Advances to employees	950	922
Value added tax allowance	14,053	—
Employee welfare	5,808	4,645
Export tax refund receivables	8,935	1,869
Others	<u>14,243</u>	<u>7,742</u>
	<u><b>1,216,560</b></u>	<u><b>867,514</b></u>

(a) The carrying amounts of the trade receivables are denominated in the following currencies:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
USD	572,452	366,580
RMB	479,567	381,033
HK\$	89,950	90,934
Others	<u>—</u>	<u>2</u>
	<u><b>1,141,969</b></u>	<u><b>838,549</b></u>

(b) The credit period granted to customers is generally between 30 and 90 days based on invoices date. The ageing analysis of the trade receivables from the date of sales is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Less than 3 months	1,041,274	778,366
More than 3 months but not exceeding 1 year	100,695	46,981
More than 1 year	<u>—</u>	<u>13,202</u>
	<u><b>1,141,969</b></u>	<u><b>838,549</b></u>

## 12. TRADE AND OTHER PAYABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade payables	1,715,975	1,011,732
Notes payable	111,153	7,391
Wages and staff welfare benefits payable	218,895	155,380
Accrual for expenses and other payables	34,976	40,949
Other taxes payable	9,533	—
	<u>2,090,532</u>	<u>1,215,452</u>

(a) The ageing analysis of trade payables is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Less than 3 months	1,347,344	760,195
More than 3 months but not exceeding 1 year	361,704	251,537
More than 1 year	6,927	—
	<u>1,715,975</u>	<u>1,011,732</u>

(b) The fair values of trade and other payables approximated their carrying amounts as at 31 December 2020 and 2019.

## 13. BORROWINGS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>Non-current</b>		
Bank borrowings		
— secured (a)	166,427	98,716
Less: current portion of non-current borrowings	<u>(80,318)</u>	<u>(57,136)</u>
	<u>86,109</u>	<u>41,580</u>
<b>Current</b>		
Bank borrowings		
— secured (a)	<u>142,850</u>	<u>63,091</u>
Current portion of non-current borrowings	<u>80,318</u>	<u>57,136</u>
Total short-term bank borrowings	<u>223,168</u>	<u>120,227</u>
<b>Total borrowings</b>	<u>309,277</u>	<u>161,807</u>



- (a) As at 31 December 2020, bank borrowings amounting to HK\$309.3 million (2019: HK\$161.8 million) are secured over the following assets:

	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Restricted bank deposits	<b>138,855</b>	13,058
Financial assets at fair value through profit or loss	<b>3,131</b>	3,043
Investment properties	<b>7,100</b>	7,500
Trade and other receivables	<b>340,188</b>	305,302
	<b>489,274</b>	328,903

#### 14. SHARE CAPITAL AND SHARE PREMIUM

Ordinary shares, issued and fully paid:

	<b>Number of shares</b>	<b>Share capital</b> <i>HK\$'000</i>	<b>Share premium</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
As at 1 January 2019, 31 December 2019 and 31 December 2020	<u>1,000,456,000</u>	<u>10,005</u>	<u>125,788</u>	<u>135,793</u>

#### 15. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Equity investments at fair value through other comprehensive income comprise the following individual investments:

	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>Non-current assets</b>		
<i>Unlisted securities</i>		
GCteq Wireless	<b>6,110</b>	5,741
EOLOCK Co.	<b>6,377</b>	11,276
	<b>12,487</b>	17,017

Movement of financial assets at fair value through other comprehensive income is analysed as follows:

	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>At 1 January</b>	<b>17,017</b>	17,119
Fair value change	<b>(5,303)</b>	236
Currency translation differences	<b>773</b>	(338)
<b>At 31 December</b>	<b>12,487</b>	17,017

## CHAIRMAN'S STATEMENT

On behalf of the Board, I am pleased to present the audited consolidated results of the Group for the year ended 31 December 2020.

Ten Pao achieved remarkable results again in 2020 under the leadership of the Board and its management team. Despite the unprecedented challenges brought about by the global outbreak of COVID-19 and intensified international trade disputes, Ten Pao, as an industry leading one-stop smart power supply solutions provider, was able to prosper amid market headwinds. Leveraging on Ten Pao management team's extensive industry experience, keen foresight and effective leadership, the Group managed to significantly mitigate risks associated with external factors via the prudent utilisation of resources and the deployment of optimum operation strategies during the year under review. Moreover, the Group devoted additional resources in the automation and digital upgrading of production lines and operation processes, enhanced the risk aversion capability of the supply chain, and successfully reduced operation costs, in good preparation for the post epidemic market recovery and business development, and for capturing of market opportunities. Over the year under review, the business segment of switching power supply units for consumer products acted as a major driver for the development of the Group. The number of orders increased significantly, and revenue of the segment rose by about 21.5% to HK\$2,767.0 million. The segment of smart chargers and controllers for power tools also achieved remarkable growth, with revenue reaching HK\$1,721.6 million, representing an increase of 26.7% over year 2019. The above outstanding segment performance uplifted total revenue by about 23.4% to hit a record-high of HK\$4,488.6 million. I would like to take this opportunity to extend my sincere gratitude to all staff for their tireless diligence as well as their outstanding contributions to Ten Pao amidst the difficult market environment in the past year.

Although the PRC economy was affected by the outbreak of the COVID-19 pandemic at the beginning of 2020, the outbreak was swiftly put under control on account of the PRC government's stringent prevention and control measures. Along with the commitment to curb the pandemic, the "dual circulation" economic strategy actively promoted by the PRC government in year 2020 stimulated economic rebound, thus supporting the PRC in becoming the only major world economy to have achieved positive economic growth in 2020. The remarkable increase in market demand for 5G smartphones and other telecommunications consumer products, given the gradual economic recovery, drove the demand for peripheral products such as high-end smart fast charging and flash-charging products, and led to an increase in orders secured from our telecommunications equipment clients during year 2020, including two of the top five leading smartphone manufacturing clients in the PRC, further stimulating growth of the Group's business. The Group is optimistic about the future development of the smartphone market and will strategically plan deployment locations for production facilities to be in proximity with the production bases of key clients, so as to create dual advantage in terms of geographical and logistical convenience, and to meet the continuous growth of clients' demand.

Customer portfolio for the Group's segment of smart chargers and controllers for power tools consists of international enterprises with solid fundamentals, high risk-bearing capabilities and well-established distribution channels. On top of that, the long-term business relationships built over years of cooperation with the Group have bolstered these multi-national clients' confidence in the quality of our products. Moreover, international exchanges and logistics are expected to gradually recover in 2021, as the impact of the COVID-19 pandemic begins to fade, which, coupled with the Group's longstanding customer relationship and attentive communication, should give momentum to the growth of this segment.

Looking ahead, the Group's mid to long-term development plan will focus on three major directions, namely resources investing into the research and development of charging products for the new energy industry, continual global expansion of production capacity, and integration of the automation and digitalisation model into the whole production and operation systems. These measures, along with the commitment to refine the Group's business strategy and stringent cost-control framework and systems, will lay a solid foundation for the long-term development of Ten Pao, against the ever-changing market environment.

The pandemic and geopolitical instability not only brought challenges to the industry, but also accelerated the transformation of industry structure, resulting in the rapid emergence of individual industry sectors. Among these, the new energy industry has demonstrated strong growth potential, benefitting from subsidy policies launched by various overseas countries in recent years and their implementation of plans for the construction of infrastructure for charging facilities. In view of the favourable outlook, Ten Pao will actively involve by investing resources in the new energy industry, and make good use of this business opportunity to strengthen the Group's long-term development base. During the year under review, the Group has set up a new energy business division to explore business opportunities in related fields such as automotive electronics, and green mobility. The Group has also deployed resources to research and develop a range of new energy charging equipment, portable power supply/charging products, and other peripheral automotive electronic products so as to create new sustainable income streams for Ten Pao.

Ten Pao is in constant pursuit for comprehensive coverage of production capacity to meet the ever-growing market demand, and to diversify any operational risk that may arise due to geopolitical instability. In the past year, the Group continued to optimise domestic and overseas production capacity. The third phase expansion of the Hungary plant was successfully completed and had commenced operation. In addition, development of the production base in Vietnam went smoothly during the year. Domestically, the second phase expansion of the production base in Dazhou City, Sichuan also completed and commenced production within the year. Moving forward, the Group will continue to identify opportunities to expand its production capacity, while implementing the automation of the production system and smart digitalisation of the operating system. Meanwhile, the Group has, as scheduled, begun the construction of a new smart manufacturing plant in the second half of 2020 in Huizhou, and it is estimated that the construction will complete in 2022.

The popularisation of 5G technology has created new norms in daily lives, and opportunities for upgrade in production management. The Group is actively promoting smart production management and digitalisation upgrade plans to enhance production efficiency. The Group has set up a smart manufacturing department to digitalise and upgrade production lines and production management platforms, in order to facilitate the timely accumulation of big data for more accurate management, and hence, ensuring product quality and multi-faceted enhancement of long-term production efficiency. The new plant under construction in Huizhou will be the first pilot project of the Group's upgrade plan towards smart and digital production. Going forward, the Group will expand its digital reform to other production bases to unify all production models and build a centralised global smart and digitalised production network, leading Ten Pao to a new era of smart and digitalised production.

On behalf of the Board and the management team of the Group, I would like to take this opportunity to express once again my heartfelt gratitude to all staff for their dedication and professionalism, especially under such unprecedented pressure on the international economy due to the pandemic and geopolitical tension over the year. Hard work and perseverance from all employees are indispensable for Ten Pao to achieve one of the best performances in the year. In addition, I would like to express my appreciation to all shareholders, investors, customers, and partners for their unwavering support to the Group. Looking ahead, Ten Pao will endeavour to improve and develop as a one-stop smart power supply solutions provider for globally renowned consumer electronics brands and to solidify the Group's leading position in the industry to deliver long-term and sustainable returns to shareholders.

## **BUSINESS REVIEW**

### **Overview**

Ten Pao is an industry leading smart power supply solutions provider. Capitalising on its competitive advantages, including diverse client portfolio, prominent research and development capabilities, unwavering commitment to maintain high product quality and safety, as well as its one-stop production model, Ten Pao has gained recognition from internationally-renowned brands. For over four decades, the Group has been innovating and making advances in the power supply industry to meet the ever-changing market demand.

The year 2020 was a bumper year for the Group. While the outbreak of the COVID-19 along with the intensified international trade dispute had significantly derailed the global economy, the Group achieved remarkable performance and drove up both sales revenue and net profit to a record high in the year through the rigorous management of external risks, close monitoring of market movements, flexible deployment of resources and operations strategy to meet changing situations, and continuing commitment to automation and enhancing smart production lines to strengthen the risk-aversion capability of its supply chain, thus enabling Ten Pao to deal with fluctuations in market demand effectively. For the year ended 31 December 2020, the Group's revenue increased to HK\$4,488.6 million, representing a year-on-year growth of approximately 23.4%. The increase was mainly attributable to the increase in orders of the business segment of switching power supply units for consumer products, particularly the telecommunication sector, and the strong demand from customers of the segment of smart chargers and controllers. In addition, the Group recorded substantial growth in profit in 2020 owing to economies of scale and operational efficiency brought about by highly effective cost control and continuous progress in automated production. Gross profit climbed by 30.7% to approximately HK\$827.3 million and gross profit margin rose by 1.0 percentage point to 18.4%, compared with year 2019. Profit before income tax was approximately HK\$373.8 million, representing an increase of 72.3% compared to HK\$216.9 million in 2019. Profit attributable to owners of the Company increased by 63.5% to HK\$289.1 million, compared to HK\$176.8 million in 2019. Basic earnings per share amounted to HK28.9 cents (2019: HK17.7 cents).

To reward the Company's shareholders for their continuous support, the Board has recommended the payment of a final dividend of HK5.5 cents per ordinary share for the year ended 31 December 2020 (2019: HK2.8 cents per ordinary share). Together with the interim dividend of HK3.0 cents per ordinary share for the six months ended 30 June 2020 already paid out (2019: HK2.5 cents per ordinary share), total dividend for the year ended 31 December 2020 will be HK8.5 cents per ordinary share, representing a dividend payout ratio of 29.5%.

## Market and Business Review

Looking back the start of 2020, the manufacturing industry in the PRC had been brought to a halt by the outbreak of the COVID-19 pandemic, sending shockwaves to the international logistics industry and putting economic pressure on various industry sectors. Nevertheless, the domestic manufacturing industry, with its solid foundation, demonstrated strong resilience under the pandemic. According to the National Bureau of Statistics of PRC, the PRC was the only major world economy to have achieved positive economic growth in 2020, with the gross domestic product (GDP), for the first time, outreached one trillion Renminbi (RMB). Favorable factors in the domestic market, coupled with the global production coverage and diversified business and client portfolio in both the domestic and overseas markets, have enabled the Group to outperform the market during the year under review. In recent years, Ten Pao has placed more emphasis on enhancing its core competitiveness, and strengthening the flexibility and adaptability of its operations and production. These have helped the Group quickly adapting to any uncertainties and the ever-changing operating environment and maintaining sustainable growth in the long run. With the Group's persistent efforts in internal improvements over the past few years, Ten Pao has reached the stage of harvest, and has successfully seized market opportunities during the year and achieved exceptional results.

For the year under review, the Group had continued to expand the business segment of switching power supply units for consumer products, which acted as a major driver to the Group's business growth. Revenue of this segment increased from approximately HK\$2,277.7 million in 2019 to HK\$2,767.0 million, rising by 21.5% year-on-year and occupying 61.6% of the Group's total revenue for the year ended 31 December 2020. Gross profit of this segment amounted to approximately HK\$450.9 million, representing an increase of 21.5% over year 2019. Gross profit margin remained steady at 16.3% (2019: 16.3%). In 2020, the "dual circulation" economic strategy actively promoted by the PRC government had helped stimulating consumption. This, together with the consistent launch of new 5G smartphones, had stimulated rapid development for our clients in the telecommunications sector, including two of the top five leading mobile phone manufacturers in the PRC. Ten Pao's earlier forward-looking strategic plan played a crucial role in capturing opportunities. The Group's production facility located in Dazhou City, Sichuan has geographical and logistical advantages, since it is in close proximity to the main production centers of a number of telecommunications equipment clients. The Group was able to capture this opportunity, brought by increasing demand for client products, to successfully obtain a substantial amount of additional orders, particularly for high-end smart fast charging and flash-charging products. Thanks to the Group's efforts in resources reallocation, active expansion of sales contribution from domestic customers and further client portfolio diversification during the year under review, the negative revenue impact of overseas markets was significantly mitigated.

For the year ended 31 December 2020, the business segment of smart chargers and controllers also achieved remarkable growth with revenue increased by 26.7% over year 2019 to HK\$1,721.6 million, contributing 38.4% of the total revenue. Gross profit from this segment amounted to HK\$376.5 million, indicating a 43.6% increase from HK\$262.1 million in 2019, and gross profit margin was 21.9%, as compared with 19.3% in 2019. The increase of segment revenue was primarily attributable to the Group's efforts in maintaining a good and long-term cooperative relationship with existing customers who are mainly international enterprises with solid foundations, high risk-bearing capabilities, as well as diversified distribution channels and they have full confidence in the quality of the Group's products. Leveraging our close business relationship over the years with these core customers, the Group maintained active communication with them and strengthened cooperation over the year, resulting in a steady increase in the number of orders.

Ten Pao is committed to the continuous improvement on production efficiency and cost management. As the pandemic gradually came under control in the PRC, the Group swiftly caught up with delayed development plans and orders in the second quarter of 2020. During the year, prices of major raw materials had remained relatively stable; but as the economy gradually recovered, the supply of raw materials became unstable and prices fluctuated in the fourth quarter of 2020. Nevertheless, the Group's well-established and effective supplier tendering system, strategic localisation and standardisation of raw materials, as well as ongoing diversification of suppliers have helped the Group to maintain a steady supply of raw materials and control of their price levels. The Group has also strengthened communication with suppliers, solidified strategic partnerships with suppliers, and strategically established sufficient inventories of key raw materials in order to ensure a stable source of raw material supply and to reduce the impact of raw material price fluctuation on the Group's product pricing and thus, gross profit. The market expects an upward trajectory on the price of raw materials in 2021, and the possibility of a product price hike will largely depend on the future market supply and demand. At the same time, the Group has continued to increase the proportion of automated production lines during the year, which not only reduced the impact of rising labour costs and employee turnover, but also offered a more efficient channel to monitor product quality and production efficiency. Notably, the sudden emergence of the pandemic has underlined the importance of an automated production system and smart operational model. Moving forward, the Group will accelerate the integration of the automation and digitalisation model into its production and operation systems as a whole, to strengthen the Group's ability in providing customers with its premium one-stop solutions, and enhance the Group's operational flexibility and control in the long run.

The PRC economy displayed strong resilience amidst market headwinds in 2020, and thus, the market anticipated rapid recovery for the PRC economy. This optimistic market outlook has led to a continuous appreciation in the exchange rate of Renminbi since end of May 2020, putting mild economic pressure on the Group's export business. However, the Group's diverse and balanced production layout in domestic and overseas regions played a role in the year, enabling the Group to optimise the use of resources, increase investment in and development of resources for domestic sales, seize the opportunities brought about by domestic economic recovery, and mitigate the impact of exchange rate changes. The Group will also closely monitor exchange rate volatility and continue to regulate the allocation of resources in domestic and overseas markets, in order to minimise the impact caused by exchange rate fluctuations.

During the year under review, the Group actively refined its overseas and domestic production layout to strengthen its global production network, in order to alleviate risks from changes in geopolitics and align with long-term business development plans of its customers. In terms of overseas production capacity, phase three expansion of the Hungary plant was successfully completed, installment of production lines went smoothly and the plant commenced operation in the third quarter of 2020. In addition, the production base in Vietnam also began to contribute to the Group's production capacity during the year. The Group has also been planning for capacity expansion in the Vietnam base. Domestically, the production capacity of the plant in Dazhou City, Sichuan has gathered momentum, as phase two expansion of the facility commenced production in the second half of 2020. Meanwhile, the Group has begun the construction of a new plant on an additional piece of land in Huizhou purchased by the Group during the second half of 2020, as scheduled. It is estimated that construction will complete in 2022. This plant in the Huizhou Industrial Park will serve as Ten Pao's pilot project in realising a digital and intelligent manufacturing base.

## **Outlook**

The COVID-19 pandemic, international trade disputes and other market uncertainties have created a new normality. These have accelerated the establishment of new industries, operation methods and production mode upgrade and acted as catalysts to fundamentally challenge the production methods of today and the business models of tomorrow. As an industry leading one-stop smart power supply solutions provider, Ten Pao has always actively contributed to the evolvement of the industry. On top of the current expansion in production capacity for staying in line with the growth of existing customers' orders and enlargement of the customer network, the Group will also invest its key resources in the development of the new energy industry and smart production, so as to lay a solid foundation for the long-term development of the Group.



Looking ahead, the new energy industry will continue to draw global attention. Many countries from around the world including the PRC have actively promoted government subsidy schemes and has sped up the development of infrastructural charging facilities. Numerous automotive manufacturers, real estate developers and internet industry giants have also entered the new energy arena, indicating the determination and confidence from the government, market and corporations towards developing the industry. This has also opened up opportunities for Ten Pao to venture into various promising industries, including automotive electronics, green mobility and others. During the year, the Group has established a new energy business division, and plans to invest resources in product research and development and production, with the goal of building a one-stop new energy product and service support center in the western region of the PRC, one of the major production hubs for new energy vehicles. The Group is also in active discussion with potential customers on collaboration opportunities, and will direct more resources to developing more new energy charging facilities, portable power supply/charging products, and other complimentary automotive electronic products, establishing a new key development area for the Group. Apart from domestic investment of resources, in the year, the Group has also entered into an agreement with an internationally renowned energy company — Shell Oil Company, and has been granted a license for the use of its trademark on portable power supply/charging products and portable charging station for new energy vehicles and merchandising rights in the market. Plans have been made to launch these products on both online and offline platforms in North America in the second half of 2021, which will broaden the international sales network and platform of automotive electronics for Ten Pao. In addition, Ten Pao will continue to cultivate existing innovations, including high-end smart fast chargers, portable power supply/charging products, and other charging products with higher power, flash-charging and wireless charging products. With the advancement of 5G technology driving technological innovation and various commercialisation, including the Internet of Things, Ten Pao shall continue to research and develop broader applications in the 5G field and explore market opportunities.

The Group has actively developed its global production network to better align with Ten Pao's goals of long-term sales growth and avoid risks brought by trade disputes. In terms of overseas production, despite the delayed development schedule due to the pandemic in the first half of 2020, the Group has made every effort to catch up on affected projects. Among these, Ten Pao made plans in the second half of 2020 to expand its production base in Vietnam and considered the establishment of a self-owned plant. Although the plan was delayed due to the impact of the pandemic, it is now back on the track. The plant is expected to contribute additional production capacity by the second quarter of 2021, which will further expand Ten Pao's customer network and business areas. The Group will also continue to look for more opportunities to expand its global production capacity in Southeast Asia, South Asia and North America to mitigate the impact of geopolitical tension. On the domestic front, the Group is committed to promoting the expansion of the third phase of the plant in Sichuan, aiming at securing more new customers and developing more business areas by leveraging its geographical advantage. Furthermore, it is estimated that construction of the new plant at the headquarters of the Huizhou Industrial Park will be completed and put into operation by 2022 as scheduled.

Aside from expanding its production capacity, Ten Pao is also actively promoting smart production management and digitalisation upgrade plans to enhance the Group's production efficiency, risk resistance and flexibility to respond to future uncertainties. The Group has set up a smart manufacturing department to digitalise production lines and production management platforms, in order to facilitate the accumulation of big data for a more accurate management and the upgrade of the production chain, and hence, ensuring product quality and multi-faceted enhancement of long-term production efficiency. The new plant in Huizhou will be the first pilot project of the Group's upgrade plan towards smart and digital production. Going forward, Ten Pao will expand its digital reform to other production bases to unify all production models and build a centralised global smart production network for Ten Pao, leading Ten Pao to a new era of smart production.

The accomplishments of Ten Pao were built upon years of hardwork, which have laid the foundation for its long-term development. Going forward in 2021, we will stay ever-prepared and competitive for sustainable development by improving the proportion and technology of smart and automated production lines, constructing a global production capacity network, upholding a prudent management plan on cost and quality, while focusing on research and development, and making continuous effort to identify new business opportunities. Furthermore, the Group will effectively enhance its risk-weathering capabilities to navigate the unpredictable macro market. Ten Pao will continue to consolidate its leading position in the switching power supply industry and strive to bring long-term and sustainable returns to our shareholders.

## **FINANCIAL REVIEW**

### **Revenue**

The Group's revenue is derived from sales of switching power supply units for consumer products and sales of smart chargers and controllers for industrial use.

The total revenue increased by 23.4% from HK\$3,636.3 million for the year ended 31 December 2019 to HK\$4,488.6 million for the year ended 31 December 2020. The increase was mainly attributable to the increase in the volume of products sold as a result of the increase in the demand from our customers, particularly the demand from telecommunication segment which achieved a growth of 38.9% and the demand from smart chargers and controllers segment which achieved a growth of 26.7% during the year ended 31 December 2020.

## Revenue by Product Segment

The following table sets forth the breakdown of our revenue by product segments for the year ended 31 December 2020 and the comparative figures.

	Year ended 31 December			
	2020		2019	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
Switching power supply units for consumer products				
Telecommunication	<b>1,585,568</b>	<b>35.3</b>	1,141,308	31.4
Media and entertainment	<b>396,256</b>	<b>8.8</b>	305,843	8.4
Electrical home appliances	<b>172,496</b>	<b>3.8</b>	262,822	7.2
Lighting equipment	<b>456,064</b>	<b>10.2</b>	460,062	12.6
Others	<b>156,601</b>	<b>3.5</b>	107,620	3.0
Subtotal	<b>2,766,985</b>	<b>61.6</b>	2,277,655	62.6
Smart chargers and controllers for industrial use	<b>1,721,640</b>	<b>38.4</b>	1,358,636	37.4
Total revenue	<b>4,488,625</b>	<b>100</b>	3,636,291	100

During the year ended 31 December 2020, the sales of switching power supply units for telecommunication equipment increased by 38.9% from HK\$1,141.3 million for the year ended 31 December 2019 to HK\$1,585.6 million for the year ended 31 December 2020, mainly due to the increase in demand from two of the top five leading smartphone manufacturing clients in the PRC for the high-end fast-charging products of the Group. Sales of smart chargers and controllers increased by 26.7% to HK\$1,721.6 million for the year ended 31 December 2020 when compared with year 2019, mainly due to additional orders from customers.

## Revenue by Geographic Location

The following table sets out an analysis of the total revenue by geographic location, and is based on the destination to which we delivered our products to our customers, whereas the ultimate products produced by our customers were sold globally. As such, the delivery destination of our products might not be the same as the countries in which the relevant final products were sold.

	Year ended 31 December			
	2020		2019	
	HK\$'000	%	HK\$'000	%
PRC, excluding Hong Kong	2,615,248	58.2	2,267,166	62.4
Europe	575,345	12.8	422,365	11.6
Asia, excluding PRC	546,300	12.2	462,901	12.7
US	541,018	12.1	190,523	5.2
Africa	166,755	3.7	212,467	5.9
Others	43,959	1.0	80,869	2.2
Total revenue	<u>4,488,625</u>	<u>100</u>	<u>3,636,291</u>	<u>100</u>

## Cost of Sales

Cost of sales primarily consists of cost of raw materials, direct labour costs and production overheads. Cost of raw materials mainly includes expenses relating to our purchases of raw materials such as plastic parts, integrated circuits, cables, metal parts, transformers and inductors, capacitors, diodes, printed circuit board components, triodes, copper and aluminium materials, and resistors. Direct labour costs mainly comprise wages, pension costs and social security costs for those who are directly involved in the manufacturing of our products. Production overheads mainly comprise depreciation of plant and machinery, administrative staff costs relating to production, subcontracting expenses, utility expenses and other miscellaneous production costs.

Cost of sales increased by 21.9% for the year ended 31 December 2020 as compared with 2019, which was consistent with the increase in revenue by 23.4% during the year.

## Gross Profit and Gross Profit Margin

During the year ended 31 December 2020, the Group recorded a gross profit of HK\$827.3 million, representing an increase of 30.7% from the year ended 31 December 2019.

The gross profit margin of the Group increased from 17.4% for the year ended 31 December 2019 to 18.4% for the year ended 31 December 2020. Such increase was primarily due to the improvement in the production efficiency and the rise in the level of automation.

### **Other Income**

Other income mainly consists of sales of scrap materials from our manufacturing process, sales of raw materials, samples and moulds, inspection and certification fee income for obtaining standard certifications as requested by customers and others. The increase in other income is mainly attributable to the increase in the sales of raw materials, samples and moulds to customers.

### **Other Losses — Net**

Net other losses mainly consists of fair value changes on derivative financial instruments, net foreign exchange difference for transactions denominated in foreign currencies, government grants for approved technology projects, and loss on disposal of property, plant and equipment. Net other losses recorded during the year ended 31 December 2020 were primarily due to net exchange loss of HK\$32.9 million recorded as a result of the depreciation of US dollars against Renminbi during the year ended 31 December 2020.

### **Selling Expenses**

Selling and marketing expenses primarily consist of employee benefit expenses, transportation and travelling expenses, commission expenses to salespersons and agents, certificate and detection fees mainly for obtaining safety certifications, consultancy fee, entertainment fee, operating lease payments, advertising costs, commercial insurance for our trade receivables and others.

Selling and marketing expenses increased by 5.1% from HK\$148.1 million for the year ended 31 December 2019 to HK\$155.7 million for the year ended 31 December 2020. The increase was primarily attributable to the increase in the business of the Group and the increase in employee benefit expenses paid for the sales team.

### **Administrative Expenses**

Administrative expenses primarily consist of employee benefit expenses for administrative staff, depreciation, amortisation and impairment charges, consultancy fee, transportation and travelling expenses, entertainment expenses, bank charges, R&D costs and others.

Administrative expenses increased by 4.8% from HK\$266.3 million for the year ended 31 December 2019 to HK\$279.0 million for the year ended 31 December 2020. The increase was primarily attributable to the increase in the employee benefit expenses, research and development expenses, operating lease payments and certificate and detection fees as a result of the increase in the business of the Group.

## **Finance Expenses — Net**

Net finance expenses represent interest charges on our interest-bearing bank borrowing and interest income on our bank deposits. The Group had net finance expenses of HK\$6.6 million and HK\$7.7 million for the years ended 31 December 2020 and 2019, respectively, representing a decrease of 13.5% as the Group's average bank borrowing costs decreased during the year under review.

## **Income Tax Expense**

Income tax expense represents income tax payable by the Group under relevant income tax rules and regulations where the Group operates.

Income tax expense consists of current income tax and deferred income tax. Current income tax consists of the PRC corporate income tax at a rate of 15% for a PRC subsidiary of the Company which was recognised as “New and High Technology Enterprises” and enjoys a preferential corporate income tax rate and at a rate of 25% for the other PRC subsidiaries of the Company, respectively. Hong Kong profits tax is calculated at 16.5% of the estimated assessable profits for the Company's subsidiaries in Hong Kong. Deferred income tax is recognised on temporary differences arising between the taxbases of assets and liabilities and their carrying amounts. Income tax expense increased from HK\$40.5 million for the year ended 31 December 2019 to HK\$85.2 million for the year ended 31 December 2020. The increase in income tax expense was primarily due to the increase in profit before income tax from HK\$216.9 million for the year ended 31 December 2019 to HK\$373.8 million for the year ended 31 December 2020. Profits contribution from the Hong Kong subsidiaries of the Company increased during the year under review and were taxed at the rate of 16.5%. As of 31 December 2020, the Group had fulfilled all its tax obligations and did not have any unresolved tax disputes.

## **TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY**

Total comprehensive income for the year attributable to owners of the Company increased by 125.7% to HK\$364.7 million for the year ended 31 December 2020 from HK\$161.6 million for the year ended 31 December 2019, including currency translation gain of HK\$80.1 million as a result of the appreciation of Renminbi in 2020.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group maintains a strong and healthy position. As of 31 December 2020, net current assets was HK\$425.0 million as compared with HK\$229.0 million at 31 December 2019. As of 31 December 2020, current ratio was 1.18 times (2019: 1.17 times) (current ratio is calculated by using the following formula: current assets/current liabilities). Gearing ratio was 30.9% (2019: 23.3%) (gearing ratio is calculated by using the following formula: total borrowings/total equity). The increase in the gearing ratio was mainly attributable to the increase of the average borrowings in 2020 to finance the expansion of the business, particularly used in the working capital and the expansion in the production capacity.

Cash generated from operations for the year ended 31 December 2020 was HK\$599.8 million (2019: HK\$249.8 million) and the increase was mainly attributable to the increase in operating profit from HK\$224.6 million in the year ended 31 December 2019 to HK\$380.4 million during the year ended 31 December 2020 and the increase in credit from the supplier.

Cash used in investing activities for the year ended 31 December 2020 was HK\$251.5 million (2019: HK\$145.4 million). During the year, the Group made a payment of HK\$105.7 million for the acquisition of the land use rights of a piece of land in Huizhou for the construction of a smart manufacturing plant.

During the year ended 31 December 2020, net cash used in financing activities was HK\$36.5 million (2019: HK\$98.7 million) as the Group increased the level of borrowings to finance the expansion of business during the year ended 31 December 2020.

## DEBT MATURITY PROFILE

The maturity profile of the Group's borrowings is set out below:

	<b>As at 31 December</b>	
	<b>2020</b>	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 year	<b>223,168</b>	120,227
Between 1 and 2 years	<b>22,736</b>	30,360
Between 2 and 5 years	<b>63,373</b>	11,220
	<b>309,277</b>	161,807

## FINANCIAL RISK MANAGEMENT

### Foreign Exchange Risk

The Group operates mainly in the PRC, with notable portion of our revenue derived from our export sales to overseas countries. The Group is exposed to foreign currency risks, in particular fluctuation in currency exchange rates of HK\$ and USD against RMB.

The Group generates a notable portion of revenue and receivables in USD and HK\$, while our cost of sales is primarily denominated in RMB. For the year ended 31 December 2020, our revenue denominated in USD and HK\$ amounted to approximately 57.0% of our total revenue.

The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and may enter into certain forward foreign exchange contracts, when necessary, to manage its exposure against foreign currencies and to mitigate the impact on exchange rate fluctuations. During the year ended 31 December 2020, no new forward foreign exchange contracts had been entered into by the Group.

## **Cash Flow and Fair Value Interest Rate Risk**

As the Group has no significant interest-bearing assets (other than bank balances and cash), the Group's income and operating cash flows are substantially independent of changes in market interest rates. As of 31 December 2020, the Group had bank borrowings of HK\$309.3 million (2019: HK\$161.8 million) which were primarily denominated in HK\$, RMB and USD.

## **Credit Risk**

The Group has no significant concentrations of credit risk. The carrying amounts of trade receivables, deposits and other receivables, bank balances and cash included in the consolidated balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets. The Group has policies in place to ensure credit terms are only granted to customers with an appropriate credit history, and credit evaluations on them were performed periodically, taking into account their financial position, past experience and other factors. For customers to whom no credit terms were offered, the Group generally requires them to pay deposits and/or advances prior to delivery of products. The Group typically does not require collaterals from customers. Provisions are made for the balances when they are past due and the management considers the default risk is high.

As at 31 December 2020, all of the bank balances, term deposits and restricted bank deposits were deposited with highly reputable and sizable banks and financial institutions without significant credit risk in the PRC and Hong Kong. The management does not expect to incur any loss from non-performance by these banks and financial institutions. As at 31 December 2020 and 2019, the Group held bank balances, term deposits and restricted bank deposits totalling HK\$565.4 million, and HK\$171.1 million, respectively, with four major banks in the PRC and Hong Kong.

## **Liquidity Risk**

The liquidity position is monitored closely by the management. The Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance its operations and mitigate the effects of fluctuations in cash flows.

## **CONTINGENT LIABILITIES**

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

## **HUMAN RESOURCES**

The Group employed a total of approximately 8,000 full-time employees as of 31 December 2020 (2019: approximately 6,500). The Group believes its human resources are its valuable assets and maintains its firm commitment to attracting, developing and retaining talented employees, in addition to providing dynamic career opportunities and cultivating a favourable working environment. The Group constantly invests in training across diverse operational functions and offer competitive remuneration packages and incentives to all employees. The Group regularly reviews its human resources policies for addressing corporate development needs.



## CORPORATE GOVERNANCE PRACTICES

The Board and the management of the Company are committed to abiding by the principles of good corporate governance with emphasis on transparency and accountability. The Board has established an audit committee (the “**Audit Committee**”), a nomination committee and a remuneration committee with defined terms of reference in accordance with the requirements set out in 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**”).

The Board has reviewed the Company’s corporate governance practices and is satisfied that the Company has been in compliance with the code provisions set out in the CG Code throughout the year ended 31 December 2020 and up to the date of this announcement, with the exception of code provision A.2.1.

According to code provision A.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same person. The Company deviates from this code provision because Chairman Hung performs both the roles of the chairman of the Board and the chief executive officer of the Company. Chairman Hung, the founder of the Group with the established market reputation in the switching power supply industry in the PRC, has extensive experience in its business operation and management in general. The Board believes that vesting the two roles in the same person provides the Company with strong and consistent leadership and facilitates the implementation and execution of the Group’s business strategies which is in the best interests of the Company. Under the leadership of Chairman Hung, the Board works effectively and performs its responsibilities with all key and appropriate issues discussed in a timely manner. In addition, as all major decisions are made in consultation with members of the Board and relevant Board committees, and there are three independent non-executive Directors offering independent perspectives, the Board is of the view that there are adequate safeguards in place to ensure sufficient balance of powers within the Board. The Board shall nevertheless review the structure and composition of the Board from time to time in light of prevailing circumstances, to maintain a high standard of corporate governance practices of the Company.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) contained in Appendix 10 to the Listing Rules as the code of conduct governing Directors’ dealings in the Company’s securities. Employees of the Group (the “**Relevant Employees**”) who, because of their office or employment, are likely to possess inside information in relation to the Company or its securities are also subject to compliance with the Model Code. Following specific enquiry, each of the Directors has confirmed compliance with the Model Code throughout the year ended 31 December 2020 and up to the date of this announcement. No incident of non-compliance of the Model Code by the Relevant Employees was noted by the Company during the year ended 31 December 2020 and up to the date of this announcement.

## **FINAL DIVIDEND**

The Board has recommended the payment of a final dividend of HK5.5 cents (2019: HK2.8 cents) per ordinary share of the Company for the year ended 31 December 2020 to the Company's shareholders. The proposed final dividend, subject to the approval of the Company's shareholders at the forthcoming annual general meeting to be held on Friday, 28 May 2021 (the "**2021 AGM**"), is expected to be paid on Tuesday, 13 July 2021 to all shareholders whose names are to be appeared on the register of members of the Company on Friday, 2 July 2021.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Tuesday, 25 May 2021 to Friday, 28 May 2021 (both days inclusive) for the purpose of determining the right to attend and vote at the 2021 AGM. In order to be qualified for attending and voting at the 2021 AGM, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. (Hong Kong time) on Monday, 24 May 2021.

Conditional on the passing of the resolution approving the declaration of the proposed final dividend at the 2021 AGM, the register of members of the Company will also be closed from Tuesday, 29 June 2021 to Friday, 2 July 2021 (both days inclusive) for the purpose of determining the entitlement to the proposed final dividend for the year ended 31 December 2020. In order to be qualified for the proposed final dividend (subject to the approval of the shareholders of the Company at the 2021 AGM), unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at the address stated above for registration not later than 4:30 p.m. (Hong Kong time) on Monday, 28 June 2021.

## **AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENTS**

The Board has established the Audit Committee which comprises three independent non-executive Directors, namely Mr. Chu Yat Pang Terry (chairman), Mr. Lam Cheung Chuen and Mr. Lee Kwan Hung.

The Audit Committee has reviewed the audited consolidated financial results of the Group for the year ended 31 December 2020 in conjunction with the Company's management. The Audit Committee has also reviewed the effectiveness of the risk management and internal control systems of the Company and considered the risk management and internal control systems to be effective and adequate.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2020.

## **REVIEW OF PRELIMINARY ANNOUNCEMENT OF RESULTS BY THE INDEPENDENT AUDITORS**

The figures in respect of the Group's annual results for the year ended 31 December 2020 as set out in this preliminary announcement have been agreed by the Group's independent auditors, PricewaterhouseCoopers, Certified Public Accountants of Hong Kong ("**PricewaterhouseCoopers**") to the amounts set out in the Group's consolidated financial statements for the year. The work performed by PricewaterhouseCoopers 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 PricewaterhouseCoopers on this announcement of results.

## **PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT**

This annual results announcement is published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.tenpao.com](http://www.tenpao.com)). The annual report for the year ended 31 December 2020 containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

By order of the Board  
**Ten Pao Group Holdings Limited**  
**Hung Kwong Yee**  
*Chairman & Chief Executive Officer*

Hong Kong, 19 March 2021

*As at the date of this announcement, the Board comprises two executive Directors, namely Mr. Hung Kwong Yee and Ms. Yang Bingbing; and three independent non-executive Directors, namely Mr. Lam Cheung Chuen, Mr. Chu Yat Pang Terry and Mr. Lee Kwan Hung.*