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TESSON HOLDINGS LIMITED

天臣控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 1201)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	<i>Notes</i>	2020 HK\$'000	2019 HK\$'000
Revenue	3	762,891	912,346
Cost of sales		(461,706)	(808,880)
Gross profit		301,185	103,466
Interest income		271	1,304
Other income	4	5,331	12,343
Distribution and selling expenses		(15,309)	(14,420)
Administrative expenses		(162,930)	(174,470)
Fair value (loss)/gain of investment properties		(332)	14,648
Impairment losses on trade and other receivables		(2,291)	(18,948)
Profit/(loss) from operations		125,925	(76,077)
Finance costs	6	(12,951)	(17,036)
Share of loss of joint venture		–	(648)

	<i>Notes</i>	2020 HK\$'000	2019 HK\$'000
Profit/(loss) before tax		112,974	(93,761)
Income tax expenses	7	<u>(73,492)</u>	<u>(32,001)</u>
Profit/(loss) for the year	8	39,482	(125,762)
Other comprehensive income/(expenses)			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translating foreign operations		<u>91,433</u>	<u>(56,326)</u>
<i>Items that will not be reclassified to profit or loss</i>		130,915	(182,088)
Surplus arising on revaluation of property, plant and equipment		–	33,707
Deferred tax effect arising on revaluation of property, plant and equipment		<u>–</u>	<u>(5,140)</u>
Total comprehensive income/(expenses) for the year		<u>130,915</u>	<u>(153,521)</u>
Profit/(loss) for the year attributable to:			
Owners of the Company		(25,198)	(104,331)
Non-controlling interests		<u>64,680</u>	<u>(21,431)</u>
		<u>39,482</u>	<u>(125,762)</u>
Total comprehensive income/(expenses) for the year attributable to:			
Owners of the Company		41,717	(130,194)
Non-controlling interests		<u>89,198</u>	<u>(23,327)</u>
		<u>130,915</u>	<u>(153,521)</u>
Loss per share	10		
Basic (<i>HK cents per share</i>)		<u>(2.11)</u>	<u>(8.77)</u>
Diluted (<i>HK cents per share</i>)		<u>(2.11)</u>	<u>(8.77)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

		2020	2019
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		421,476	456,080
Deposits paid for acquisition of property, plant and equipment		3,548	4,917
Investment property		29,526	38,886
Goodwill	<i>11</i>	220,408	207,695
Right-of-use assets		120,910	123,032
Investment in joint venture		10,002	9,425
		805,870	840,035
Current assets			
Inventories		30,870	36,163
Properties for sale under development	<i>12</i>	1,566,127	1,579,488
Trade, bills and other receivables, deposits and prepayments	<i>13</i>	213,691	229,685
Financial assets at fair value through profit or loss		86	134
Amount due from a non-controlling shareholder of a subsidiary	<i>14</i>	309,383	415,118
Pledged bank deposits		–	1,341
Restricted bank deposits		52,659	38,159
Bank and cash balances		15,109	35,389
		2,187,925	2,335,477
Current liabilities			
Trade, bills and other payables	<i>15</i>	340,541	330,978
Contract liabilities	<i>16</i>	938,905	1,228,995
Borrowings	<i>17</i>	251,012	263,784
Lease liabilities		5,144	8,417
Tax payable		120,969	24,060
Amount due to the Controlling Shareholder	<i>18</i>	68	9,595
		1,656,639	1,865,829

	<i>Notes</i>	2020 HK\$'000	2019 <i>HK\$'000</i>
Net current assets		531,286	469,648
Total assets less current liabilities		1,337,156	1,309,683
Non-current liabilities			
Amount due to the Controlling Shareholder	18	–	42,900
Convertible bonds	19	–	43,893
Lease liabilities		15,591	18,321
Deferred tax liabilities		81,175	99,293
		96,766	204,407
NET ASSETS		1,240,390	1,105,276
Capital and reserves			
Share capital		119,649	119,649
Reserves		930,329	857,091
Equity attributable to owners of the Company		1,049,978	976,740
Non-controlling interests		190,412	128,536
TOTAL EQUITY		1,240,390	1,105,276

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. GENERAL INFORMATION

The Company was incorporated in Bermuda as an exempted company with limited liability. In the opinion of the Directors, the Company's controlling shareholder is Double Key International Limited (the "**Controlling Shareholder**"), a company incorporated in British Virgin Islands with limited liability. The addresses of its registered office and principal place of business are Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and Room 401A, Empire Centre, 68 Mody Road, Tsim Sha Tsui, Kowloon, Hong Kong, respectively. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The Company is an investment holding company. During the year, the Group principally engaged in (i) the manufacturing and sale of lithium ion motive battery, lithium ion battery module, battery charging devices, battery materials machines and production lines, new energy solution and sale of relevant equipment, investments holding and import and export trading (the "**Lithium Ion Motive Battery Business**"); and (ii) the property development business, as well as the cultural industry related business, including large-scale event production and themed museums, and architectural design and engineering (the "**Property and Cultural Business**").

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations (hereinafter collectively referred to as the "**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants, and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and by the Hong Kong Companies Ordinance.

The Group's consolidated financial statements have been prepared under the historical cost convention, except for property, plant and equipment and certain financial instruments, which are measured at revalued amounts or fair values. These consolidated financial statements are presented in Hong Kong dollars ("**HK\$**") and all values are rounded to the nearest thousand except when otherwise indicated.

The preparation of the consolidated financial statements in conformity with HKFRSs requires the use of key assumptions and estimates. It also requires management to exercise its judgement in the process of applying the accounting policies.

(a) Adoption of new/revised HKFRSs – effective 1 January 2020

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on 1 January 2020:

HKFRS 3 (Amendments)	Definition of a business
HKAS 1 and HKAS 8 (Amendments)	Definition of material
HKFRS 7, HKFRS 9 and HKAS 39 (Amendments)	Hedge in relation to accounting requirements

(b) New/revised HKFRSs that have been issued but not yet effective

The following new and amendments to HKFRSs have been issued but are not effective for the financial year beginning on 1 January 2020, and have not been early adopted by the Group.

		Effective for annual periods beginning on or after
HKFRS 16	Amendments in relation to COVID-19 Related Rent Concessions	1 June 2020
HKFRS 4, 7, 9 and 16 and HKAS 39	Amendments in relation to Interest Rate Benchmark Reform	1 January 2021
HKFRS 3	Amendments in relation to Reference to the Conceptual Framework	1 January 2022
HKAS 16	Amendments in relation to proceeds before intended use	1 January 2022
HKAS 37	Amendments in relation to onerous contracts cost of fulfilling a contract	1 January 2022
HKFRS 1	Subsidiary as a first-time adopter	1 January 2022
HKFRS 9	Fees in the “10 per cent” test for derecognition of financial liabilities	1 January 2022
HKFRS 16	Lease incentives	1 January 2022
HKAS 41	Taxation in fair value measurements	1 January 2022
HKFRS 17	Insurance contracts	1 January 2023
HKFRS 10 and HKAS 28	Amendments in relation to sale or contribution of assets between an investor and its associate or joint venture	To be determined
HKAS 1	Amendments in relation to Classification of Liabilities as Current or Non-current	1 January 2023
HK-int 5	Amendments in relation to Amendments to HKAS 1	1 January 2023

3. REVENUE

The Group's revenue was derived from lithium ion motive battery products sold, property development and cultural service rendered during the year. Disaggregation of revenue from contracts with customers is set out as below. For both years, all revenue generated by the Group were derived from the People's Republic of China (the "PRC") and recognised at a point in time when the customers obtain control of the goods or services.

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Lithium ion motive battery products	149,171	53,438
Property development and cultural service	613,720	858,908
	<u>762,891</u>	<u>912,346</u>

4. OTHER INCOME

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Government grants	2,213	11,147
Gain on disposal of scrap products	1,376	–
Gain on derecognition of right-of-use assets	117	–
Rental income	1,482	990
Others	143	206
	<u>5,331</u>	<u>12,343</u>

5. SEGMENT INFORMATION

The Group's reportable segments are strategic business units that offer different products. They are managed separately because each business unit requires different technology and marketing strategies. During the current and prior year, the Group's revenue was derived from the Lithium Ion Motive Battery Business and the Property and Cultural Business.

Segment profits or losses do not include unallocated corporate income and expenses. Segment assets do not include unallocated corporate assets. Segment liabilities do not include unallocated corporate liabilities.

Information about profit or loss, assets and liabilities of the reportable segments:

	Lithium Ion Motive Battery Business HK\$'000	Property and Cultural Business HK\$'000	Total HK\$'000
Year ended 31 December 2020			
Revenue from external customers	149,171	613,720	762,891
Segment (loss)/profit	(86,370)	184,168	97,798
Depreciation of property, plant and equipment	62,418	1,122	63,540
Depreciation of right-of-use assets	8,205	1,784	9,989
Additions to segment non-current assets	5,075	757	5,832
At 31 December 2020			
Segment assets	774,096	2,214,553	2,988,649
Segment liabilities	289,806	1,342,479	1,632,285
Year ended 31 December 2019			
Revenue from external customers	53,438	858,908	912,346
Segment (loss)/profit	(144,387)	54,538	(89,849)
Depreciation of property, plant and equipment	30,735	1,035	31,770
Depreciation of right-of-use assets	2,340	–	2,340
Additions to segment non-current assets	34,448	177	34,625
At 31 December 2019			
Segment assets	777,680	2,393,708	3,171,388
Segment liabilities	289,099	1,577,871	1,866,970

Reconciliations of profit or loss, assets and liabilities of the reportable segments:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Revenue		
Total revenue of reportable segments	<u>762,891</u>	<u>912,346</u>
Profit or loss		
Total profit/(loss) of reportable segments	97,798	(89,849)
Corporate and unallocated loss	<u>(58,316)</u>	<u>(35,913)</u>
Profit/(loss) for the year	<u>39,482</u>	<u>(125,762)</u>
Assets		
Total assets of reportable segments	2,988,649	3,171,388
Corporate and unallocated assets	<u>5,146</u>	<u>4,124</u>
Consolidated total assets	<u>2,993,795</u>	<u>3,175,512</u>
Liabilities		
Total liabilities of reportable segments	1,632,285	1,866,970
Corporate and unallocated liabilities	<u>121,120</u>	<u>203,266</u>
Consolidated total liabilities	<u>1,753,405</u>	<u>2,070,236</u>

Geographical information

All revenue generated by the Group were derived from the PRC.

No customer individually contributed over 10% of total revenue of the Group for both years.

In presenting the geographical information, revenue is based on the location of the customers. At the end of the year, the non-current assets of the Group were located as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Non-current assets		
Hong Kong	2,717	3,024
The PRC	<u>803,153</u>	<u>837,011</u>
	<u>805,870</u>	<u>840,035</u>

6. FINANCE COSTS

	2020 HK\$'000	2019 HK\$'000
Interest expenses on borrowings	20,338	15,735
Imputed interest expense on convertible bonds	1,579	2,385
Interest expenses on amounts due to a related company and the Controlling Shareholder	2,893	3,669
Lease interests	1,575	2,022
	<u>26,385</u>	<u>23,811</u>
Less: interest capitalised	<u>(13,434)</u>	<u>(6,775)</u>
	<u><u>12,951</u></u>	<u><u>17,036</u></u>

7. INCOME TAX

	2020 HK\$'000	2019 HK\$'000
PRC Enterprise Income Tax for the year	90,401	82,143
PRC land appreciation tax	6,046	8,706
Deferred tax	<u>(22,955)</u>	<u>(58,848)</u>
	<u><u>73,492</u></u>	<u><u>32,001</u></u>

No provision for Hong Kong profits tax was required since the Group had no assessable profit in Hong Kong for the years presented.

According to the Laws of the PRC on Enterprise Income Tax, all group companies operating in the PRC are subject to the applicable tax rate of 25%, except for certain subsidiaries that are qualified for the tax benefit of being the National High-tech Enterprise, that are entitled to a preferential tax rate of 15% during the reporting years.

8. PROFIT/(LOSS) FOR THE YEAR

The Group's profit/(loss) for the year is stated after charging the following:

	2020 HK\$'000	2019 HK\$'000
Auditor's remuneration	1,200	1,380
Cost of sales	461,706	808,880
Depreciation of property, plant and equipment	64,317	45,183
Depreciation of right-of-use assets	10,991	11,373
Impairment of inventories	–	46,748
Impairment loss on trade receivables	1,778	12,202
Impairment loss on other receivables	513	6,746
Loss on disposal of property, plant and equipment	524	1,376
Loss on early redemption of convertible bonds	15,706	–
Loss on disposal of investment properties	9,377	–
Research and development expenses (including depreciation and staff costs)	5,947	12,289
Staff costs (including directors' emoluments):		
Salaries, bonus and allowances	68,191	76,385
Equity-settled share-based payment expenses	–	821

9. DIVIDENDS

The Directors do not recommend the payment of any dividend for the year ended 31 December 2020 (2019: Nil).

10. LOSS PER SHARE

Basic loss per share

The calculation of basic loss per share is based on the loss attributable to owners of the Company of approximately HK\$25,198,000 (2019: loss of HK\$104,331,000), and the weighted average number of 1,196,485,700 (2019: 1,190,077,207) ordinary shares in issue during the year.

Diluted loss per share

No diluted loss per share is presented as the Company did not have any dilutive potential ordinary shares during the two years ended 31 December 2020 and 2019.

11. GOODWILL

	<i>HK\$'000</i>
At 1 January 2019	211,617
Currency realignment	<u>(3,922)</u>
At 31 December 2019 and 1 January 2020	207,695
Currency realignment	<u>12,713</u>
At 31 December 2020	<u><u>220,408</u></u>
Carrying amounts	
At 31 December 2020	<u>220,408</u>
At 31 December 2019	<u><u>207,695</u></u>

12. PROPERTIES FOR SALE UNDER DEVELOPMENT

	<i>HK\$'000</i>
At 1 January 2019	2,168,976
Additions	212,093
Transfer to investment property	(15,275)
Properties completed and sold	(754,750)
Currency realignment	<u>(31,556)</u>
At 31 December 2019 and 1 January 2020	1,579,488
Additions	304,516
Properties completed and sold	(309,043)
Currency realignment	<u>(8,834)</u>
At 31 December 2020	<u><u>1,566,127</u></u>

All the properties under development were located in the PRC.

At 31 December 2020, properties for sale under development held by the Group located in Nanning, Guangxi with carrying value of approximately HK\$274,711,000 was secured for the bank borrowings.

13. TRADE, BILLS AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade receivables	109,854	68,985
Less: impairment loss	<u>(14,524)</u>	<u>(12,011)</u>
	95,330	56,974
Bills receivable	734	–
Value-added tax receivables	88,621	124,654
Other tax receivables	597	9,207
Other receivables, prepayment and deposits	<u>28,409</u>	<u>38,850</u>
	<u>213,691</u>	<u>229,685</u>

Trade and bills receivables

The Group allows an average credit period of 30 to 60 days to its customers which are state-owned enterprise or those with guarantee provided, and cash on delivery for all other customers. The following is an aging analysis of trade and bills receivables, presented based on the invoice date at the end of the years:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
0 to 60 days	33,758	14,195
61 to 90 days	7,682	1,579
Over 90 days	<u>54,624</u>	<u>41,200</u>
	<u>96,064</u>	<u>56,974</u>

Trade receivables that are not impaired

The Group applies the simplified approach under HKFRS 9 Financial Instrument to provide for expected credit losses using the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses also incorporate forward looking information.

	Current <i>HK\$'000</i>	Less than 60 days past due <i>HK\$'000</i>	Over 60 days and less than 1 year <i>HK\$'000</i>	Over 1 year <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 31 December 2020					
Weighted average expected loss rate	0%	0%	10%	28%	
Receivable amount	42,724	4,056	17,788	46,020	110,588
Loss allowance	–	–	(1,778)	(12,746)	(14,524)
At 31 December 2019					
Weighted average expected loss rate	0%	0%	0%	26%	
Receivable amount	14,913	2,373	4,967	46,732	68,985
Loss allowance	–	–	–	(12,011)	(12,011)

Trade receivables that were not past due relate to a wide range of customers who has no recent history of default. The Group does not hold any collateral over these balances.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

14. AMOUNT DUE FROM A NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY

The amount represented financial assistance provided by Nanchang Rongzhou Investment Company Limited* (南昌市容州投資有限公司) to its shareholder before the completion of the capital contribution in 2018. The amount due from a non-controlling shareholder of a subsidiary is secured by its assets and undistributed earnings, non-interest bearing, and had no fixed term of repayment.

15. TRADE, BILLS AND OTHER PAYABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade payables	91,949	81,803
Bills payable	–	1,341
Amounts payable on acquisition of property, plant and equipment	171,587	164,108
Accruals and other payables	77,005	83,726
	<u>340,541</u>	<u>330,978</u>

The aging of bills payable at the end of the year falls within 180 days (2019: 180 days).

At 31 December 2020, bills payable totalling HK\$nil (2019: HK\$1,341,000) were secured by pledged bank deposits of HK\$nil (2019: HK\$1,341,000).

An aging analysis of the trade payables at the end of the years, based on invoice dates, is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
0 to 60 days	40,939	20,054
61 to 90 days	6,987	5,131
Over 90 days	44,023	56,618
	<u>91,949</u>	<u>81,803</u>

16. CONTRACT LIABILITIES

Disclosures of revenue-related items:

	As at 31 December 2020 <i>HK\$'000</i>	As at 31 December 2019 <i>HK\$'000</i>	As at 1 January 2019 <i>HK\$'000</i>
Total contract liabilities	938,905	1,228,995	2,013,438
Transaction prices allocated to performance obligations unsatisfied at end of year and expected to be recognised as revenue in:			
– 2020	–	696,772	
– 2021	751,664	386,871	
– 2022	236,246	–	
– 2023	–	261,851	
	987,910	1,345,494	
		2020	2019
		<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue recognised in the year that was included in contract liabilities at beginning of year		603,833	847,479
Significant changes in contract liabilities during the year:			
Increase due to operations		207,303	160,703
Transfer of contract liabilities to revenue		(554,016)	(919,732)

A contract liability represents the Group's obligation to transfer products or services to a customer for which the Group has received consideration from the customer.

17. BORROWINGS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Bank Loans		
– secured	166,012	178,784
Other borrowings		
– unsecured	85,000	85,000
	<u>251,012</u>	<u>263,784</u>

At 31 December 2020, bank loans were secured by properties for sale under development held by the Group located in Nanning, Guangxi with carrying value of approximately HK\$274,711,000 (2019: HK\$96,072,000).

Bank loans for the years presented are denominated in Renminbi (“RMB”). Other borrowings presented are denominated in HK\$.

Other borrowings of HK\$85,000,000 was unsecured and repayable within 1 year. The effective interest rates per annum at the end of the years were as follows:

	2020	2019
Borrowings:		
Fixed-rate	<u>8.00%–8.5%</u>	<u>8.00%–8.5%</u>

The borrowings are repayable as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
on demand or within one year	<u>251,012</u>	<u>263,784</u>

18. AMOUNT DUE TO THE CONTROLLING SHAREHOLDER

On 28 February 2017, Cloud Apex Global Limited agreed to assign all rights, titles, benefits and interests of approximately HK\$382,728,000 debt to the Controlling Shareholder and the Controlling Shareholder agreed to subscribe for the convertible bonds in an aggregate principal amount of HK\$300,000,000 (the “Convertible Bonds”) issued by the Company as detailed in Note 19 to replace the loan amounting to HK\$300,000,000.

As at 31 December 2020, the Company had settled the interest-bearing part of the amount due to the Controlling Shareholder. As at 31 December 2019, the amount due to the Controlling Shareholder of approximately HK\$45,580,000 was unsecured, interest bearing at 8% per annum, and are repayable by annual equal instalments from 30 June 2017 to 30 June 2036 together with the related interests thereon. The Company, at its discretion, may either make early repayment or request to defer repayment in accordance with the initial repayment schedule if the Company does not have sufficient funds or if such deferral of repayment is agreed between the Company and the respective party. The remaining amounts are unsecured, non-interest bearing and has no fixed repayment terms.

19. CONVERTIBLE BONDS

On 28 February 2017, the Company issued the Convertible Bonds in an aggregate principal amount of HK\$300,000,000 with a coupon rate of 3% to the Controlling Shareholder as detailed in Note 18 payable quarterly in arrears, no proceeds were raised on the issue of the Convertible Bonds. The Convertible Bonds will mature from the date of issue to 30 June 2036, representing maturity period of 18.3 years, and can be converted into a maximum of 187,500,000 conversion shares of the Company at the conversion price of HK\$1.6 per conversion shares upon full exercise of the conversion rights by the end on the third anniversary to the date of issue of the Convertible Bonds. On 16 April 2018, 150,000,000 conversion shares were allotted and issued, representing conversion of Convertible Bonds at the principal amount of HK\$240,000,000. On 26 August 2020, the Company early redeemed the Convertible Bond.

The Convertible Bonds recognised in the consolidated statement of financial position had been split between liability element and equity component, and are calculated as follows:

	Liability component HK\$'000	Equity component HK\$'000	Total HK\$'000
At 1 January 2019	43,308	15,983	59,291
Imputed interest expense	2,385	–	2,385
Interest paid/payable	(1,800)	–	(1,800)
At 31 December 2019 and 1 January 2020	43,893	15,983	59,876
Expiry of convertible option	–	(15,983)	(15,983)
Imputed interest expense	1,579	–	1,579
Interest paid/payable	(1,178)	–	(1,178)
Loss on early redemption	15,706	–	15,706
Settlement by cash	(60,000)	–	(60,000)
As at 31 December 2020	–	–	–

As at 31 December 2019, the interest charged for the year is calculated by applying an effective interest rate of 5.46% to the liability component.

The Directors estimate the fair value of the equity and liability components of the Convertible Bonds at the issuance date with reference to the independent valuation performed by an independent valuer, Ascent Partners Valuation Services Limited, by discounting the future cash flows at the specific discount rate under level 2 fair value measurement.

20. CAPITAL COMMITMENTS

The Group's capital commitments at the end of the years are as follows:

	2020 HK\$'000	2019 HK\$'000
Contracted but not provided for		
– Property, plant and equipment	40,435	42,757

MANAGEMENT DISCUSSION AND ANALYSIS BUSINESS REVIEW

BUSINESS REVIEW

Lithium Ion Motive Battery Business

Looking back the first half of 2020, the worldwide outbreak of the novel coronavirus disease (“COVID-19”) had affected the macroeconomics as well as the new energy vehicle market in the PRC. With the gradual and stable development of the epidemic, the new energy vehicle market gradually recovered.

According to the statistics from the China Association of Automobile Manufacturers, production and sales of new energy vehicles in the first half of 2020 had both dropped by 37% compared to the same period in 2019. However, market condition demonstrated a recovery trend since March 2020, which was even stronger in the second half of 2020. In accordance to the Economic Operation of the Automobile Industry in December 2020* (《二零二零年十二月汽車工業經濟運行情況》) issued by the Ministry of Industrial and Information Technology of the PRC, throughout the year, production and sales of new energy vehicles increased by 7.5% and 10.9% respectively compared to the same period in 2019. With the improved market conditions, and the fact that the Group successfully cooperated with several large enterprises, diversifying our battery products into different applications, including motorcycles, home appliances, and electrical tools, further enhanced the product mix for our battery products, revenue from sales of our battery products in the year increased. Meanwhile, the Group implemented several policies, including re-organisation of human resources, technical enhancement, and replacement of more efficient raw materials, which had effectively reduced production and administrative costs.

Besides, the Notice of New Energy Automobile Industry Development Plan (2021-2035)* (《新能源汽車產業發展規劃(2021–2035年)的通知》) issued by the State Council of the PRC on November 2020, anticipated the sales of new energy vehicles in 2025 will be 20% of new vehicles sold. On December 2020, four ministries and commissions of the PRC jointly issued the Notice on Further Improving the Financial Subsidy Policy for the Promotion and Application of New Energy Vehicles* (《關於進一步完善新能源汽車推廣應用財政補貼政策的通知》), subsidy decline in 2021 on new energy vehicles was 20% on the basis of that in 2020. Based on these planning and release of the policy, the Group expects demands of the automobile manufacturers will subject to less fluctuation and increase steady in the future. The Group will continue to develop its automobile battery products, and expand its market share in the electric motorcycle, sales revenue is expected to increase. With the rise in production volume, the Group may achieve economy of scale, optimise the use of resources and eventually increase the gross profit of the battery products.

Property and Cultural Business

During the year, more property units in Rongzhou Gangjiucheng* (容州港九城) which was the main property project of the Group located in Nanchang, Jiangxi, were handed over and contributed a significant portion of revenue to the Group. Another project of the Group, Fengxiang Terrace – Rongzhou Cultural Center* (鳳翔台－容州文化中心), was located in Nanning, Guangxi, adjacent to Qingxiu Shan national 5A-level scenic spot, connected to the business area of the city with comprehensive ancillary facilities and transport network. The pre-sale of Fengxiang Terrace* was start in late-2019 and had satisfactory sales performance, up to the end of 2020, the majority part of the residential units available for sale was sold. It is expected that the handover process of part of the property units can be started from the end of the year to early next year at the earliest.

The Group will continue the construction of the remaining portion in Rongzhou Gangjiucheng*, and the commercial and residential project in Fengxiang Terrace*, as well as to commence the staff dormitory project in Lishui, Nanjing in consistent with the construction progress of the battery pack factory in the same area.

PROSPECTS

In response to the outbreak of COVID-19, the Group's production facilities in the PRC had once maintained limited operation in 2020, resulting a temporary decrease in production volume. With the resume of normal operation, the Group will continue to implement new measures to optimise resources allocation and further enhance our product quality. In respect of product research and development, the Group will proactively inject resources to further improve the quality of battery for new energy vehicles, as well as to build up international research team to develop diversified battery products in home appliances aspect. Construction of phase III production base in Weinan, Shaanxi, as well as the battery pack factory in Nanjing, Jiangsu will also be focused in order to lay a solid base for the Group's future development.

Under the Sino-US trade conflicts and the outbreak of COVID-19, the business environment is full of challenges. Nonetheless, the Group remains cautiously optimistic about the lithium ion motive battery market as well as the property market in the PRC. With our wealth of experience, the Directors believe that the Group will gradually overcome the prevailing challenges and continue to develop its businesses. The Group will continue to develop our existing projects, and seize to capture any opportunities in new areas or business that create synergy to the Group's existing businesses, including trading of medical equipments and development of education areas. The Group will endeavour to overcome challenges ahead, and realise its value to the Shareholders and business partners of the Group as always.

FINANCIAL REVIEW

Revenue and gross profit ratio

Lithium Ion Motive Battery Business

In the first half of 2020, COVID-19 outbreak had driven global economic downturn derived, however the market recovered in the second half of the year, revenue from the Lithium Ion Motive Battery Business increased to approximately HK\$149,171,000 (2019: HK\$53,438,000), mainly due to the growth in customer base and further enhancement of our battery product quality. The Group will continue our strategy of diversifying customer base, increase market share, at the same time reduce overhead cost and promote more efficient working environment in order to further improve gross profit to our battery products.

Property and Cultural Business

During the year, part of the phase II properties units with total gross floor area of 66,640 square meters (2019: 123,646 square meters) of Rongzhou Gangjiucheng* had been delivered to the customers and contributed to the Group's revenue in the amount of approximately HK\$603,833,000 (2019: HK\$839,225,000).

The cultural business contributed to the Group's revenue in the amount of approximately HK\$9,887,000 (2019: HK\$19,683,000), the decrease was in line with the reduced number of events and exhibitions due to the temporary closure of themed museums in response to the COVID-19 outbreak.

Administrative expenses

Administrative expenses for the year ended 31 December 2020 decreased to approximately HK\$162,930,000 from approximately HK\$174,470,000 in 2019. In the year, as a result of an increased stability of the battery products, no provision was made in this respect (2019: HK\$46,748,000). The reduction was partly absorbed by the loss on disposal of investment properties of approximately HK\$9,377,000 and the increase in depreciation to approximately HK\$53,231,000 (2019: HK\$32,113,000) due to reclassification to administrative expenses upon maintenance and redeployment of production lines to smoothen production process.

Distribution and selling expenses

During the year, the Group incurred distribution and selling expenses at approximately HK\$15,309,000 which was comparable to that in 2019 at approximately HK\$14,420,000. The expenses mostly represented staff costs of approximately HK\$5,272,000 (2019: HK\$5,654,000), marketing expenses of approximately HK\$3,779,000 (2019: HK\$4,091,000) and travelling and entertainment expenses of approximately HK\$2,837,000 (2019: HK\$1,049,000).

Other income

Other income for the year ended 31 December 2020 reduced to approximately HK\$5,331,000 (2019: HK\$12,343,000), mainly due to the drop in government grant to approximately HK\$2,213,000 (2019: HK\$11,147,000).

Finance costs

Finance costs net of interests capitalised in the year decreased to approximately HK\$12,951,000 (2019: HK\$17,036,000) primarily because of the drop in general loan balance compared to that in mid-2019, as well as settlement on amount due to the controlling shareholder during the year.

Basic and diluted (loss)/earnings per share

Basic and diluted loss per share in the year ended 31 December 2020 were both HK2.11 cents (2019: HK8.77 cents).

In anticipation of the funds required for the development of the Lithium Ion Motive Battery Business, the Board does not recommend the payment of a final dividend for the year.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained sufficient working capital as at 31 December 2020 with net current assets of approximately HK\$531,286,000 (31 December 2019: HK\$469,648,000) and pledged bank deposits and bank and cash balances in the aggregate amount of approximately HK\$15,109,000 (31 December 2019: HK\$36,730,000). The gearing ratio of the Group (which was expressed as a percentage of total borrowings excluding the liabilities portion of the convertible bonds over total equity) was about 20.24% as at 31 December 2020 (31 December 2019: 23.87%).

CONVERTIBLE BONDS

On 28 February 2017, the Company issued convertible bonds in the aggregate principal amount of HK\$300,000,000 with a coupon rate of 3% for replacing part of its loan from the Controlling Shareholder. No proceeds had been raised on the issue of Convertible Bonds. On 16 April 2018, an equivalent amount of HK\$240,000,000 convertible bonds has been converted in to 150,000,000 Ordinary Shares of the Company to the Controlling Shareholder. Immediately after the completion of conversion Shares, the Convertible Bonds in the aggregate principal amount of HK\$60,000,000 remain outstanding.

On 26 August 2020, the Company exercised its redemption right to early redeem the existing outstanding Convertible Bonds and served a redemption notice pursuant to the subscription agreement made on 17 January 2017 for redeeming an outstanding principal amount of HK\$60,000,000 of the Convertible Bonds, which was settled in cash with interest in arrears. Following and as a result of the aforesaid redemption of Convertible Bonds, there was no outstanding Convertible Bonds.

EMPLOYMENT

As at 31 December 2020, the Group had approximately 504 employees (2019: 493), most of whom were working in the Company's subsidiaries in the PRC. During the year, the total employees' costs including Directors' emoluments were approximately HK\$68,191,000 (2019: HK\$76,385,000).

The Group has developed its human resources policies and procedures based on performance and merit. Employees are rewarded on a performance basis within the general framework of its salary and bonus system. Discretionary bonus is linked to the performance of the Group as well as individual performance. Benefits include staff accommodation, medical schemes, share option scheme, Mandatory Provident Fund for employees in Hong Kong and state – sponsored retirement plans for employees in the PRC. The Group has also developed training programs for its management and employees to promote career advancement of the staffs.

FOREIGN EXCHANGE EXPOSURE

Since sales and purchase for the Lithium Ion Motive Battery Business and the Property and Cultural Business are denominated in RMB, the management considers that the Group's exposure to exchange risks is minimal. However, the Company faces foreign exchange risks when it conducts fund raising activities in Hong Kong (in HK\$) and remits funds to its subsidiaries in the PRC (in RMB). The Board will continue to monitor foreign exchange exposure in the future.

CONTINGENT LIABILITIES

As at 31 December 2020, the Group did not have any material contingent liabilities (2019: Nil).

PLEDGE OF ASSETS

Details of pledged assets as at 31 December 2020 are set out in Note 17 in this announcement.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

CORPORATE GOVERNANCE PRACTICES

The Company's corporate governance practices are based on the principles (the "**Principles**") and code provisions (the "**Code Provisions**") as set out in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

The Company and the Directors strive to follow the internal control manuals and put in place sufficient resources to comply with the CG Code. During the year ended 31 December 2020, save for the deviations disclosed below, the Company had complied with all the applicable provisions set out in the CG Code:

According to the code provision A.4.1 of the CG Code, non-executive Directors should be appointed for a specific term, subject to re-election. Dr. Ng Ka Wing and Mr. See Tak Wah were appointed as independent non-executive Directors and have not been appointed for a specific term but will be subject to retirement by rotation and eligible for re-election pursuant to the Bye-laws of the Company.

Pursuant to the Code Provision A.6.7, independent non-executive Directors and non-executive Directors should attend general meetings of the Company. However, one independent non-executive Director was absent from the annual general meeting of the Company held on 31 August 2020 due to other business commitments. To ensure compliance with the CG Code in the future, the Company has arranged and will continue to arrange to furnish all Directors with appropriate information on all general meetings of the Company and take all reasonable measures to schedule meetings in such a way that all Directors can attend the general meetings.

Code Provision A.2.1 of the CG Code stipulates the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Tin Kong has been serving as the chairman and the chief executive officer of the Company (the “CEO”) following the resignation of Mr. Sheng Siguang as the CEO which was effective from 1 August 2019. Such practice deviates from Code Provision A.2.1 of the CG Code. The Board considers that consolidation of these roles by Mr. Tin Kong provides strong and consistent leadership to the Company which facilitates effective planning and efficient management of the Company. The Board will keep reviewing this arrangement from time to time and should candidate with suitable knowledge, skill and experience be identified, the Company will make an appointment to fill the post as appropriate.

The Board will continue to review and improve the corporate governance practices and standards of the Company to ensure the business activities and decision making processes of the Company are regulated in a proper and prudent manner.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transaction by Directors of Listed Issuer (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules for securities transactions.

Having made specific enquiry with all Directors, the Company is pleased to report that the Directors confirmed that they had complied with the required standards set out in the Model Code during the year ended 31 December 2020. The Model Code also applies to other specified senior management of the Group.

REVIEW BY THE AUDIT COMMITTEE

The audit committee of the Company has reviewed the accounting principles and practices adopted by the Group and discussed with the management its risk management and internal controls systems and financial reporting matters including the review of the annual results of the Group for the year ended 31 December 2020.

SCOPE OF WORK OF ZHONGHUI ANDA CPA LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, and the related notes thereto for the year ended 31 December 2020 as set out in this announcement have been agreed by the Group's auditor, ZHONGHUI ANDA CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2020. The work performed by ZHONGHUI ANDA CPA Limited 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 ZHONGHUI ANDA CPA Limited on this announcement.

PUBLICATION OF THE ANNUAL RESULTS AND ANNUAL REPORT

This announcement is published on the respective websites of the Stock Exchange (<https://www.hkexnews.hk>) and the Company (<http://www.tessonholdings.com>). The annual report of the Company for the year ended 31 December 2020 containing all the information as required by the Listing Rules will be available on the aforesaid websites and dispatched to the Shareholders in due course.

By order of the Board
TESSON HOLDINGS LIMITED
Tin Kong
Chairman and Executive Director

Hong Kong, 31 March 2021

As at the date of this announcement, the Board comprises Mr. Tin Kong, Ms. Cheng Hung Mui, Mr. Chen Dekun, and Mr. Sheng Siguang as executive Directors, and Dr. Ng Ka Wing, Mr. See Tak Wah and Mr. Wang Jinlin as independent non-executive Directors.

* *for identification purpose only*