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 UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 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 unaudited consolidated results of the Company and its subsidiaries (together, the "**Group**") for the six months ended 30 June 2020, together with comparative figures for the six months ended 30 June 2019 or other dates/periods, as follows:

FINANCIAL HIGHLIGHTS:

- Revenue for the six months ended 30 June 2020 decreased by 3.9% to HK$1,763.7 million, as compared with the same period of last year.
- Gross profit for the six months ended 30 June 2020 amounted to HK$306.1 million which approximated to that of the same period of last year and gross profit margin increased by 0.7 percentage point to 17.4%, as compared with the same period of last year.
- Profit before income tax for the six months ended 30 June 2020 increased by 12.5% to HK$115.9 million, as compared with the same period of last year.
- Profit attributable to owners of the Company for the six months ended 30 June 2020 increased by 17.3% to HK$95.1 million, as compared with the same period of last year.
- The Board has resolved to distribute an interim dividend of HK3 cents per ordinary share for the six months ended 30 June 2020 (2019: HK2.5 cents per ordinary share).

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(All amounts in HK dollar thousands unless otherwise stated)

	Notes	**Six months ended 30 June** **2020** **(Unaudited)**	2019 (Unaudited)
Revenue	*7*	**1,763,650**	1,834,665
Cost of sales	*9*	**(1,457,547)**	(1,529,546)
Gross profit		**306,103**	305,119
Other income	*8*	**5,462**	6,705
Other gains/(losses) — net	*8*	**6,880**	(5,912)
Selling expenses	*9*	**(78,120)**	(74,841)
Administrative expenses	*9*	**(119,858)**	(122,707)
Net impairment losses on financial assets		**(774)**	(1,205)
Operating profit		**119,693**	107,159
Finance income	*10*	**649**	264
Finance expenses	*10*	**(4,460)**	(4,414)
Finance expenses — net		**(3,811)**	(4,150)
Profit before income tax		**115,882**	103,009
Income tax expenses	*11*	**(20,999)**	(21,916)
Profit for the period attributable to:			
Owners of the Company		**95,106**	81,093
Non-controlling interests		**(223)**	—
		94,883	81,093
Earnings per share for the period			
— basic and diluted per share	*12*	**HK$0.10**	HK$0.08

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in HK dollar thousands unless otherwise stated)

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Profit for the period	**94,883**	81,093
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss		
Currency translation differences	**(19,062)**	(4,756)
Total comprehensive income for the period attributable to:		
Owners of the Company	**76,044**	76,337
Non-controlling interests	**(223)**	—
	75,821	76,337

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET
(All amounts in HK dollar thousands unless otherwise stated)

	Notes	**30 June 2020 (Unaudited)**	31 December 2019 (Audited)
ASSETS			
Non-current assets			
Land use rights	*14*	**4,758**	4,763
Property, plant and equipment	*14*	**510,891**	495,038
Right-of-use assets	*15*	**107,844**	11,881
Investment properties	*16*	**7,200**	7,500
Intangible assets	*14*	**11,153**	10,600
Deferred income tax assets	*27*	**28,187**	22,517
Financial assets at fair value through other comprehensive income	*20*	**16,690**	17,017
Financial assets at fair value through profit or loss — non-current	*21*	**3,075**	3,043
Prepayments for the purchase of property, plant and equipment		**5,482**	27,721
		695,280	600,080
Current assets			
Inventories	*17*	**507,222**	574,382
Trade and other receivables	*18*	**1,047,425**	867,514
Amounts due from related parties	*29(b)*	**1,266**	1,320
Financial assets at fair value through profit or loss — current	*21*	**5,474**	—
Cash and cash equivalents		**106,143**	158,031
Restricted bank deposits	*22*	**77,299**	13,058
		1,744,829	1,614,305
Total assets		**2,440,109**	2,214,385
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	*23*	**10,005**	10,005
Share premium	*23*	**125,788**	125,788
Other reserves		**18,218**	37,280
Retained earnings		**588,903**	521,810
Equity attributable to owners of the Company			
Non-controlling interests		**(516)**	(293)
Total equity		**742,398**	694,590

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)
(All amounts in HK dollar thousands unless otherwise stated)

	Notes	**30 June 2020 (Unaudited)**	31 December 2019 (Audited)
LIABILITIES			
Non-current liabilities			
Non-current bank borrowings	*24*	**115,852**	41,580
Lease liabilities — non-current	*15*	**5,864**	5,775
Derivative financial instruments — non-current	*19*	**2,887**	153
Deferred income tax liabilities	*27*	**63,393**	59,726
Deferred government grants	*25*	**28,114**	27,225
		216,110	134,459
Current liabilities			
Trade and other payables	*26*	**1,245,526**	1,215,452
Contract liabilities		**12,367**	8,948
Amounts due to related parties	*29(c)*	**22,074**	22,164
Dividend payable		**16**	12
Income tax liabilities		**23,949**	17,214
Lease liabilities — current	*15*	**526**	1,319
Short-term bank borrowings	*24*	**107,275**	63,091
Current portion of non-current bank borrowings	*24*	**69,868**	57,136
		1,481,601	1,385,336
Total liabilities		**1,697,711**	1,519,795
Total equity and liabilities		**2,440,109**	2,214,385

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in HK dollar thousands unless otherwise stated)

For the six months ended 30 June 2020 (unaudited)	Share Capital	Share Premium	Other Reserves: Statutory Reserves	Other Reserves: Capital Reserves	Other Reserves: Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI)	Other Reserves: Exchange Reserves	Other Reserves: Share Options	Other Reserves: Total	Retained Earnings	Total	Non-Controlling Interests	Total Equity
Balance at 1 January 2020 (audited)	10,005	125,788	68,547	338	236	(37,309)	5,468	37,280	521,810	694,883	(293)	694,590
Comprehensive income												
Profit for the period	—	—	—	—	—	—	—	—	95,106	95,106	(223)	94,883
Other comprehensive income												
Currency translation difference	—	—	—	—	(7)	(19,055)	—	(19,062)	—	(19,062)	—	(19,062)
Total comprehensive income	—	—	—	—	(7)	(19,055)	—	(19,062)	95,106	76,044	(223)	75,821
Contributions by and distributions to owners of the Company recognised directly in equity												
Dividends *(Note 13)*	—	—	—	—	—	—	—	—	(28,013)	(28,013)	—	(28,013)
Total contributions by and distributions to owners of the Company for the period	—	—	—	—	—	—	—	—	(28,013)	(28,013)	—	(28,013)
Balance at 30 June 2020 (unaudited)	10,005	125,788	68,547	338	229	(56,364)	5,468	18,218	588,903	742,914	(516)	742,398

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

(All amounts in HK dollar thousands unless otherwise stated)

			Other Reserves						
For the six months ended 30 June 2019 (unaudited)	Share Capital	Share Premium	Statutory Reserves	Capital Reserves	Exchange Reserves	Share Options	Total	Retained Earnings	Total Equity
Balance at 1 January 2019 (audited)	10,005	125,788	31,977	338	(21,892)	5,468	15,891	431,651	583,335
Comprehensive income									
Profit for the period	—	—	—	—	—	—	—	81,093	81,093
Other comprehensive income									
Currency translation difference	—	—	—	—	(4,756)	—	(4,756)	—	(4,756)
Total comprehensive income	—	—	—	—	(4,756)	—	(4,756)	81,093	76,337
Contributions by and distributions to owners of the Company recognised directly in equity									
Dividends	—	—	—	—	—	—	—	(25,011)	(25,011)
Total contributions by and distributions to owners of the Company for the period	—	—	—	—	—	—	—	(25,011)	(25,011)
Transaction with owners									
Appropriation to statutory reserves	—	—	4,475	—	—	—	4,475	(4,475)	—
Balance at 30 June 2019 (unaudited)	10,005	125,788	36,452	338	(26,648)	5,468	15,610	483,258	634,661

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts in HK dollar thousands unless otherwise stated)

	Notes	Six months ended 30 June 2020 (Unaudited)	2019 (Unaudited)
Cash flows from operating activities			
Cash generated from operations		**58,967**	38,177
Interest paid		**(4,540)**	(4,493)
Income tax paid		**(15,525)**	(19,132)
Net cash generated from operating activities		**38,902**	14,552
Cash flows from investing activities			
Purchase of property, plant and equipment		**(61,652)**	(50,809)
Purchase of intangible assets		**(2,231)**	(1,738)
Purchase of right-of-use assets		**(69,044)**	—
Proceeds from disposal of property, plant and equipment		**3,621**	5,470
Addition of financial assets at fair value through other comprehensive income		**(5,474)**	—
Grants from government related to assets	*25*	**6,826**	2,519
Net cash used in investing activities		**(127,954)**	(44,558)
Cash flows from financing activities			
Proceeds from bank borrowings	*24*	**816,875**	765,261
Repayments of bank borrowings	*24*	**(684,914)**	(710,106)
Dividends paid	*13*	**(28,009)**	(25,008)
Increase in restricted bank deposits		**(64,241)**	(7,408)
Principal elements of lease payments		**(661)**	(194)
Net cash generated from financing activities		**39,050**	22,545
Net decrease in cash and cash equivalents		**(50,002)**	(7,461)
Cash and cash equivalents at beginning of the period		**158,031**	193,797
Exchange losses on cash and cash equivalents		**(1,886)**	(299)
Cash and cash equivalents at end of the period		**106,143**	186,037
Analysis of balance of cash and cash equivalents:			
Cash and cash on hand		**106,143**	186,037

NOTES

(All amounts in HK dollar thousands unless otherwise stated)

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 switching power supply units for consumer products and smart chargers and controllers for industrial use in the People's Republic of China (the "**PRC**"). 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**").

This interim financial information (the "**Interim Financial Information**") is presented in Hong Kong dollar ("**HK$**") thousands, unless otherwise stated.

This Interim Financial Information was approved for issue on 21 August 2020 and has not been audited.

2 BASIS OF PREPARATION

This Interim Financial Information for the six months ended 30 June 2020 (the "**Period**") has been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34 "Interim Financial Reporting" issued by Hong Kong Institute of Certified Public Accountants. This Interim Financial Information should be read in conjunction with the annual financial statements for the year ended 31 December 2019 (the "**2019 Financial Statements**"), which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**").

3 ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the 2019 Financial Statements, as described in those annual financial statements, except for the adoption of amendments to HKFRSs effective for the financial year beginning 1 January 2020.

(a) New and amended standards adopted by the Group

(i) Definition of Material — amendments to HKAS1 and HKAS 8

(ii) Definition of a Business — amendments to HKFRS 3

(iii) Revised Conceptual Framework for Financial Reporting

(iv) Interest Rate Benchmark Reform — amendments to HKFRS 9, HKAS 39 and HKFRS 7

3 ACCOUNTING POLICIES (CONTINUED)

(b) New and amended standards not yet adopted by the Group

		Effective for annual periods beginning on or after
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	The effective date has now been deferred
HKFRS 17	Insurance Contracts	1 January 2021

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far the Group has identified no aspects of the new and revised standards and interpretations that are expected to have significant financial impact on the Group's performance and position.

4 ESTIMATES

The preparation of the Interim Financial Information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this Interim Financial Information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the 2019 Financial Statements.

5 FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk, cash flow and fair value interest rate risk), credit risk and liquidity risk.

This Interim Financial Information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the 2019 Financial Statements.

There have been no changes in the risk management function since 31 December 2019 or in any risk management policies since 31 December 2019.

5.2 Liquidity risk

Compared to the year ended 31 December 2019, there was no material change in the contractual undiscounted cash outflows for financial liabilities. The Group exercises prudent liquidity risk management by maintaining sufficient cash and bank balances. The Group's liquidity risk is further mitigated through the availability of financing through its own cash resources and the availability of banking facilities to meet its financial commitments. In the opinion of the Directors, the Group does not have any significant liquidity risk.

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by the levels of inputs to valuation techniques. The inputs to valuation techniques are categorised into three levels within a fair value hierarchy, as follows:

- Level 1 — Quoted prices unadjusted in active markets for identical assets or liabilities.
- Level 2 — Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly that is, as prices or indirectly that is, derived from prices.
- Level 3 — Inputs for the asset or liability that are not based on observable market data that is, unobservable inputs.

The following table presents the Group's assets and liabilities that are measured at fair value as at 30 June 2020 and 31 December 2019.

	As at 30 June 2020 (unaudited)			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Recurring fair value measurements				
Assets				
Financial assets at fair value through profit or loss — current	**—**	**—**	**5,474**	**5,474**
Financial assets at fair value through profit or loss — non-current	**—**	**—**	**3,075**	**3,075**
Financial assets at fair value through comprehensive income — non-current	**—**	**—**	**16,690**	**16,690**
Liabilities				
Derivative financial instruments	**—**	**2,887**	**—**	**2,887**

	As at 31 December 2019 (audited)			
	Level 1	Level 2	Level 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Recurring fair value measurements				
Assets				
Financial assets at fair value through profit or loss − non-current	—	—	3,043	3,043
Financial assets at fair value through comprehensive income − non-current	—	—	17,017	17,017
Liabilities				
Derivative financial instruments	—	153	—	153

(a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Fair value estimation (continued)

(b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

(c) Financial instruments in level 3

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of the remaining financial instruments is determined using discounted cash flow analysis.

There were no transfers of financial assets between level 2 and level 3 fair value hierarchy classifications during the Period.

Note that all the resulting fair value estimates are included in level 2 except for unlisted equity investments, insurance for the Controlling Shareholder and wealth management products as explained below.

Quantitative information about fair value measurements using significant unobservable inputs Level 3

Description	Fair value *HK$'000*	Valuation technique	Unobservable input	Assumption
Insurance for the Controlling Shareholder				
As at 31 December 2019	3,043	Discounted cash flow	Discount rate Death benefit Holding time	3.65% 80% of insurance fee Hold before 99 years old
As at 30 June 2020	3,075	Discounted cash flow	Discount rate Death benefit Holding time	3.65% 80% of insurance fee Hold before 99 years old
Unlisted equity investments				
As at 31 December 2019	17,017	Discounted cash flow	Net profit rate Discount rate	6.2%–13.5% 15.00%
As at 30 June 2020	16,690	Discounted cash flow	Net profit rate Discount rate	5.9%–12.4% 15.00%
Wealth management products				
As at 30 June 2020	5,474	Discounted cash flow	Discount rate Holding time	2.4% 181 days

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Fair value estimation (continued)

The following table presents the changes in level 3 instruments for the half-year ended 30 June 2020:

	Unlisted equity investments *HK$'000*	Insurance for the Controlling Shareholder *HK$'000*	Wealth management products *HK$'000*	Total *HK$'000*
Opening Balance 31 December 2019 (audited)	17,017	3,043	—	20,060
Gains recognised in other loss — net	—	32	—	32
Additions	—	—	5,474	5,474
Currency translation differences	(327)	—	—	(327)
Closing balance 30 June 2020 (unaudited)	16,690	3,075	5,474	25,239

(i) Valuation inputs and relationships to fair value (FV)

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements of equity investments at fair value through other comprehensive income ("FVOCI"). See (ii) for the valuation techniques adopted.

Description	Fair value at 30 Jun 2020 *HK$'000*	Fair value at 31 Dec 2019 *HK$'000*	Unobservable inputs*	Range of inputs (probability-weighted average) 2020	Range of inputs (probability-weighted average) 2019	Relationship of unobservable inputs to fair value
Unlisted equity investments	**16,690**	17,017	Discount rate for discounting estimated cash flows	**14%–16%**	14%–16%	Lower discount rate for discounting estimated cash flows (−1%) and higher net profit rate (+1%) would increase FV by HK$2,562,000;
			Net profit rate	**7.7%–9.7%**	7.7%–9.7%	Higher discount rate for discounting estimated cash flows (+1%) and lower net profit rate (−1%) would decrease FV by HK$2,191,000.

* There were no significant inter-relationships between unobservable inputs that materially affect fair values.

(ii) Valuation processes

The finance department of the Group includes a team that performs the valuations of non-property items required for financial reporting purposes, including level 3 fair values. This team reports directly to the chief financial officer (CFO) and the audit committee (AC). Discussions of valuation processes and results are held between the CFO, AC and the valuation team at least once every six months, in line with the Group's half-yearly reporting periods.

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Fair value estimation (continued)

(ii) Valuation processes (continued)

The main level 3 inputs used by the Group are derived and evaluated as follows:

- Discount rates for financial assets are determined using a capital asset pricing model to calculate a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the asset.

- Net profit rate for unlisted equity investments are estimated based on market information for similar types of companies.

6 SEASONALITY

The Group's sales volume has historically been affected by seasonality. As the Group's products are used by the Group's customers in their respective manufacturing processes, the demand for the Group's products fluctuates in accordance with fluctuations in the demand for their products. A significant portion of the Group's downstream industries have generally been in higher demand in the second half of each calendar year due to the seasonal purchase patterns of consumers such as Thanksgiving Day and Christmas holidays. As a result, the Group recorded higher revenue in the second half of the year than that of the first half of the year during each year.

Under the outbreak of COVID-19 in early 2020, domestic consumption and production have been affected in the short run. Started from the end of February, the development of the COVID-19 outbreak is having increasing impact. The impact was mainly reflected in the three segments: (i) electrical home appliances; (ii) smart chargers and controllers; and (iii) lighting. The orders were delayed in the first quarter due to the delayed delivery. In the second quarter, the orders gradually returned to normal.

7 SEGMENT INFORMATION

The chief operating decision-makers have been identified as the executive Directors. 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) smart chargers and controllers, (v) lighting and (vi) others.

Segment information for the interim condensed consolidated statement of profit or loss is set out below:

	Tele-communication	**Media and entertainment**	**Electrical home appliances**	**Smart chargers and controllers**	**Lighting**	**Others**	**Total**
Six months ended 30 June 2020 (unaudited)							
Revenue							
Revenue from external customers							
— At a point in time	**599,289**	**167,783**	**89,884**	**710,015**	**146,850**	**49,829**	**1,763,650**
Segment results	**70,794**	**33,181**	**18,098**	**142,972**	**28,625**	**12,433**	**306,103**
Other income							**5,462**
Other gains — net							**6,880**
Selling expenses							**(78,120)**
Administrative expenses							**(119,858)**
Net impairment losses on financial assets							**(774)**
Finance expenses — net							**(3,811)**
Profit before income tax							**115,882**

7 SEGMENT INFORMATION (CONTINUED)

	Tele-communication	Media and entertainment	Electrical home appliances	Smart chargers and controllers	Lighting	Others	Total
Six months ended 30 June 2019 (unaudited)							
Revenue							
Revenue from external customers							
— At a point in time	542,890	124,944	108,859	748,984	250,116	58,872	1,834,665
Segment results	63,142	23,606	15,810	140,499	47,689	14,373	305,119
Other income							6,705
Other losses — net							(5,912)
Selling expenses							(74,841)
Administrative expenses							(122,707)
Net impairment losses on financial assets							(1,205)
Finance expenses — net							(4,150)
Profit before income tax							103,009

Non-current assets, other than financial instruments and deferred income tax assets, by country:

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
PRC (excluding Hong Kong)	**559,182**	486,382
Hungary	**71,801**	53,540
Hong Kong	**16,311**	17,544
Others	**34**	37
	647,328	557,503

8 OTHER INCOME AND OTHER GAINS/(LOSSES) — NET

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Other income		
Sales of scrap materials	**1,412**	1,069
Sales of raw materials, sample and molds	**705**	1,400
Others	**3,345**	4,236
	5,462	6,705
Other gains/(losses) — net		
Fair value changes on derivative financial instruments	**(2,734)**	(313)
Fair value changes on financial assets at fair value through profit or loss	**31**	28
Fair value changes on investment properties *(Note 16)*	**(300)**	1,300
Net foreign exchange gains/(losses)	**344**	(9,338)
Government grants	**6,642**	2,483
Loss on disposal of property, plant and equipment	**(237)**	(429)
Others	**3,134**	357
	6,880	(5,912)

9 EXPENSES BY NATURE

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Changes in inventories of finished goods and work in progress	**74,460**	29,316
Raw materials and consumables used	**1,132,288**	1,247,832
Allowance for impairment of inventory	**11,737**	5,754
Employee benefit expenses	**251,686**	248,401
Depreciation, amortisation and impairment charges	**36,158**	40,096
Water and electricity expenses	**14,399**	14,875
Transportation and travelling expenses	**13,998**	16,790
Maintenance expenses	**10,641**	10,139
Consultancy fee	**6,766**	5,917
Entertainment expenses	**1,468**	2,132
Research and development expenses		
— Employee benefit expenses	**38,290**	42,755
— Depreciation and amortisation	**4,788**	3,968
— Raw materials, consumables used and others	**11,615**	13,078
Commission expenses	**9,180**	12,296
Certificate and detection fees	**3,498**	2,915
Business tax and surcharge	**6,547**	7,081
Other taxes and levies	**2,121**	1,964
Operating lease payments	**8,883**	6,727
Advertising costs	**2,960**	1,613
Commercial insurance	**3,433**	3,901
Communication expenses	**1,694**	1,424
Bank charges	**737**	1,961
Auditors' remuneration	**2,355**	2,681
Other expenses	**5,823**	3,478
Total cost of sales, selling expenses and administrative expenses	**1,655,525**	1,727,094

10 FINANCE INCOME AND EXPENSES

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Finance expenses:		
Interest on bank borrowings	**(4,444)**	(4,399)
Interest on lease liabilities *(Note 15)*	**(16)**	(15)
	(4,460)	(4,414)
Finance income:		
Interest income	**649**	264
Net finance expenses	**(3,811)**	(4,150)

11 INCOME TAX EXPENSES

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Current income tax		
— PRC corporate income tax	**12,823**	14,125
— Hong Kong profits tax	**9,437**	3,027
Subtotal	**22,260**	17,152
Deferred income tax *(Note 27)*	**(1,261)**	4,764
	20,999	21,916

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 (2019 interim: 16.5%). The payments of dividends by these companies to their shareholders are not subject to any Hong Kong withholding tax.

PRC corporate income tax ("**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 rate for domestic and foreign enterprises has been unified at 25%, effective from 1 January 2008.

Ten Pao Electronic (Huizhou) Co., Ltd. was set up as a foreign investment manufacturing enterprise in the PRC. Ten Pao Electronic (Huizhou) Co., Ltd. was recognised as "New and High Technology Enterprises" and thus enjoys a preferential CIT rate of 15%. Its CIT rate for the Period was 15% (2019 interim: 15%).

12 EARNINGS PER SHARE

(a) Basic earnings per share

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

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company (HK$'000)	**95,106**	81,093
Weighted average number of shares issued (thousands)	**1,000,456**	1,000,456
Basic earnings per share (HK cents)	**10**	8

(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 Period as all the outstanding share options were lapsed on 15 September 2019.

13 DIVIDENDS

The Board resolved on 21 August 2020 to declare an interim dividend of HK3 cents per ordinary share for the six months ended 30 June 2020 (2019 interim: HK2.5 cents per share). This interim dividend, amounting to HK$30.0 million (2019 interim: HK$25.0 million), has not been recognised as a liability in this Interim Financial Information.

On 29 May 2020, a final dividend in respect of the year ended 31 December 2019 of HK2.8 cents per ordinary share, amounting to HK$28,013,000, was approved by the then shareholders of the Company, and HK$28,009,000 was paid on 30 June 2020.

14 LAND USE RIGHTS, PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Land use rights	Property, plant and equipment	Intangible Assets
Net book amount as at 31 December 2019	**4,763**	**495,038**	**10,600**
Additions	**—**	**94,994**	**2,231**
Disposals	**—**	**(3,384)**	**—**
Transfers	**—**	**(28,364)**	**—**
Impairment charges	**—**	**473**	**—**
Currency translation differences	**(5)**	**(9,785)**	**(164)**
Depreciation/amortisation	**—**	**(38,081)**	**(1,514)**
Net book amount as at 30 June 2020 (unaudited)	**4,758**	**510,891**	**11,153**
Net book amount as at 31 December 2018 as originally presented	9,936	419,730	7,075
Effects of the adoption of HKFRS 16	(5,047)	—	—
Net book amount as at 1 January 2019	4,889	419,730	7,075
Additions	—	141,999	6,360
Disposals	—	(7,295)	—
Currency translation differences	(126)	21,867	(155)
Depreciation/amortisation	—	(77,622)	(2,680)
Impairment charge	—	(3,641)	—
Net book amount as at 31 December 2019 (audited)	4,763	495,038	10,600

As at 30 June 2020, the Group's interests in land use rights represented freehold land in Hungary.

15 LEASES

This note provides information for leases where the Group is a lessee. For leases where the Group is a lessor, see Note 16.

(a) Amounts recognised in the balance sheet

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

	30 June 2020	31 December 2019
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Right-of-use assets		
Land use rights	**101,372**	4,781
Buildings	**6,472**	7,100
	107,844	11,881
Lease liabilities		
Current	**526**	1,319
Non-current	**5,864**	5,775
	6,390	7,094

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

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

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Depreciation and amortisation charge of right-of-use assets		
Land use rights	**735**	79
Buildings	**697**	188
	1,432	267
Interest expenses (included in finance expenses-net) *(Note 10)*	**16**	15
Expenses relating to short-term leases (included in cost of sales, selling expenses and administrative expenses)	**8,883**	6,727

16 INVESTMENT PROPERTIES

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
At fair value		
At beginning of period	**7,500**	6,400
Net (losses)/gains from fair value adjustment	**(300)**	1,100
At end of period	**7,200**	7,500

As at 30 June 2020, the Group had no unprovided contractual obligations for future repairs and maintenance (31 December 2019: Nil).

The valuation of the Group's investment properties was performed by the valuer, Dudley Surveyors Limited at 30 June 2020 and 31 December 2019, to determine the fair value of the investment properties. The revaluation gains or losses are included in 'Other gains/(losses) — net' in the interim condensed consolidated statement of profit or loss. The following table analyses the investment properties carried at fair value, by valuation method.

	Office units − Hong Kong			
Description	**Quoted prices in active markets for identical assets Level 1**	**Significant other observable inputs Level 2**	**Significant unobservable inputs Level 3**	**Total**
Recurring fair value measurements method				
Investment properties:				
As at 30 June 2020 (unaudited)	—	7,200	—	7,200
As at 31 December 2019 (audited)	—	7,500	—	7,500

There were no transfers between Level 1, 2, and 3 during the Period (31 December 2019: Nil).

As at 30 June 2020, the Group's bank borrowings were secured over investment properties with the carrying amounts of HK$7,200,000 (31 December 2019: HK$7,500,000) (Note 24(a)).

17 INVENTORIES

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Raw materials	**234,342**	216,092
Work in progress	**97,080**	64,580
Finished goods	**222,106**	329,066
	553,528	609,738
Less: allowance for impairment	**(46,306)**	(35,356)
	507,222	574,382

18 TRADE AND OTHER RECEIVABLES

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Trade receivables	**1,015,965**	838,549
Less: allowance for impairment	**(2,689)**	(15,186)
Trade receivables, net	**1,013,276**	823,363
Bills receivable	**—**	4,064
Prepayments	**10,952**	13,976
Deposits	**10,112**	10,933
Advances to employees	**1,214**	922
Others	**11,871**	14,256
	1,047,425	867,514

18 TRADE AND OTHER RECEIVABLES (CONTINUED)

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:

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Less than 3 months	**940,396**	778,366
More than 3 months but not exceeding 1 year	**75,569**	46,981
More than 1 year	**—**	13,202
	1,015,965	838,549

The Group's sales are made to various customers. While there is concentration of credit risk within a few major customers, these customers are reputable with good track record. As at 30 June 2020, the Group has written off allowance for impairment of HK$12,977,000 (31 December 2019: Nil).

As at 30 June 2020, the carrying amounts of the receivables were approximate to their fair values.

As at 30 June 2020, the Group's bank borrowings were secured over trade and other receivables with the carrying amounts of HK$152,717,000 (31 December 2019: HK$305,302,000) (Note 24(a)).

19 DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Derivative financial liabilities — Non-current	**2,887**	153

	Amount	**Notional amount**
As at 30 June 2020 (unaudited)		
Derivative financial liabilities — Non-current		
Types of contracts		
Interest rate swap contracts	2,887	164,123
As at 31 December 2019 (audited)		
Derivative financial liabilities — Non-current		
Types of contracts		
Interest rate swap contracts	153	52,533

Changes in fair values of derivative financial instruments are recorded in 'Other gains/(losses) — net' in the interim condensed consolidated statement of profit or loss.

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Equity investments at FVOCI comprise the following individual investments:

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Non-current assets		
Unlisted equity investments		
GCteq Wireless	**5,630**	5,741
EOLOCK Co.	**11,060**	11,276
	16,690	17,017

The following table presents the changes in FVOCI for the six months ended 30 June 2020 and 30 June 2019:

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Opening balance as at 1 January	**17,017**	17,119
Currency translation differences	**(327)**	(68)
Closing balance as at 30 June	**16,690**	17,051

Information about the methods and assumptions used in determining fair value is provided in Note 5.3.

As at 30 June 2020, the management of the Group has assessed the fair value of financial assets at FVOCI and held the view of no significant changes between investment cost and fair value.

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Fair value of insurance contract for a member of key management	**3,075**	3,043
Fair value of wealth management products	**5,474**	—
	8,549	3,043

Changes in fair value of financial assets at fair value through profit or loss are recorded in 'Other gains/(losses) — net' in the interim condensed consolidated statement of profit or loss (Note 8).

The fair value of the insurance is based on the unobservable inputs.

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

As at 30 June 2020, the Group's bank borrowings were secured over financial assets at fair value through profit or loss with the carrying amounts of HK$3,075,000 (31 December 2019: HK$3,043,000) (Note 24(a)).

22 RESTRICTED BANK DEPOSITS

As at 30 June 2020, bank deposits amounting to HK$48,425,000 (31 December 2019: HK$11,734,000) are deposits held by the bank in a segregated account as security for borrowings from the bank (Note 24(a)). The remaining bank deposits amounting to HK$28,874,000 (31 December 2019: HK$1,324,000) are deposits held by the bank in a segregated account as security for notes payable (Note 26).

As at 30 June 2020, the weighted average interest rate was 1.09% (31 December 2019: 3.46%).

23 SHARE CAPITAL AND SHARE PREMIUM

Ordinary shares, issued and fully paid:

	Number of ordinary shares *(thousands)*	**Share capital** *(HK$'000)*	**Share premium** *(HK$'000)*
As at 30 June 2020 (unaudited) and 31 December 2019 (audited)	1,000,456	10,005	125,788

Detailed movement of issued shares are analysed as follows:

	Number of shares *(thousands)*	**Share capital** *HK$'000*	**Share premium** *HK$'000*	**Total** *HK$'000*
As at 1 January 2020 (audited) and 30 June 2020 (unaudited)	1,000,456	10,005	125,788	135,793

24 BORROWINGS

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Non-current		
Bank borrowings		
— secured (a)	**185,720**	98,716
Less: current portion of non-current borrowings	**(69,868)**	(57,136)
	115,852	41,580
Current		
Bank borrowings		
— secured (a)	**92,239**	63,091
— unsecured	**15,036**	—
Total short-term bank borrowings	**107,275**	63,091
Current portion of non-current borrowings	**69,868**	57,136
	177,143	120,227
Total borrowings	**292,995**	161,807

Movement in borrowings is as follows:

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Opening balance as at 1 January	**161,807**	207,597
Proceeds from borrowings	**816,875**	765,261
Repayments of borrowings	**(684,914)**	(710,106)
Currency translation differences	**(773)**	(377)
Closing balance as at 30 June	**292,995**	262,375

24 BORROWINGS (CONTINUED)

(a) As at 30 June 2020, bank borrowings amounting to HK$277,959,000 (31 December 2019: HK$161,807,000) are secured over the following assets:

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Restricted bank deposits *(Note 22)*	**48,425**	13,058
Financial assets at fair value through profit or loss *(Note 21)*	**3,075**	3,043
Investment properties *(Note 16)*	**7,200**	7,500
Trade and other receivables *(Note 18)*	**152,717**	305,302
	211,417	328,903

(b) The carrying amounts of the borrowings are denominated in the following currencies:

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
HK$	**191,574**	114,885
RMB	**49,617**	31,034
USD	**51,804**	15,888
	292,995	161,807

25 DEFERRED GOVERNMENT GRANTS

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Opening net book amount	**27,225**	9,390
Receipt of grants	**6,826**	24,170
Credited to statement of profit or loss	**(5,468)**	(6,023)
Currency translation differences	**(469)**	(312)
Closing net book amount	**28,114**	27,225

The amount of receipt of grants represented the subsidies granted by the local government authorities in Hungary relating to the establishment of plant, purchasing equipment and upgrading production lines amounting to EUR783,000 (equivalent to HK$6,826,000) in 2020.

The deferred government grants will be amortised to "other gains/(losses) — net" from the point at which the relevant assets are ready for use on a straight-line basis over the related assets' useful lives.

26 TRADE AND OTHER PAYABLES

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Trade payables	**947,350**	1,011,732
Notes payable	**90,649**	7,391
Wages and staff welfare benefits payable	**152,810**	155,380
Accrual for expenses and other payables	**54,717**	40,949
	1,245,526	1,215,452

The ageing analysis of trade payables is as follows:

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Less than 3 months	**746,861**	760,195
More than 3 months but not exceeding 1 year	**200,489**	251,537
	947,350	1,011,732

27 DEFERRED INCOME TAX ASSETS AND LIABILITIES

The movements in deferred income tax assets and liabilities before offsetting are as follows:

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Deferred income tax assets		
Opening balance as at 1 January	**22,517**	19,383
Recognised in the profit or loss	**6,129**	1,892
Currency translation differences	**(459)**	(118)
Closing balance as at 30 June	**28,187**	21,157

27 DEFERRED INCOME TAX ASSETS AND LIABILITIES (CONTINUED)

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Deferred income tax liabilities		
Opening balance as at 1 January	**59,726**	54,128
Recognised in the profit or loss	**4,868**	6,656
Currency translation differences	**(1,201)**	(345)
Closing balance as at 30 June	**63,393**	60,439

Deferred income tax assets are recognised for tax losses carry-forward to the extent that the realisation of the related tax benefits through the future taxable profits is probable.

As at 30 June 2020, the Group did not recognise deferred income tax asset of HK$893,000 (31 December 2019: HK$2,876,000) in respect of the tax losses amounting to HK$4,579,000 (31 December 2019: HK$15,869,000), as their recoverability is uncertain.

As of 30 June 2020, the Group had tax loss carryforwards of HK$25,068,000 (31 December 2019: HK$24,393,000) which can be carried forward to offset future taxable income. The net operating tax loss carryforwards, including subsidiaries in the PRC and Hungary, will begin to expire as follows:

	30 June 2020	31 December 2019
	HK$	*HK$*
	(Unaudited)	(Audited)
2021	**3,023,000**	3,023,000
2022	**3,226,000**	3,226,000
2023	**3,857,000**	3,857,000
2024	**10,486,000**	14,287,000
2025	**4,476,000**	—
	25,068,000	24,393,000

28 COMMITMENTS

(a) Operating lease commitments

The Group leases premises under non-cancellable operating lease agreements.

The Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Not later than one year	**5,325**	10,888

(b) Capital commitments

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
In respect of the acquisitions of plant and equipment, contracted but not provided for	**5,587**	71,241

29 RELATED PARTY TRANSACTIONS

The following is a summary of significant related party transactions entered into the ordinary course of business between the Group and its related parties.

(a) Transactions with related parties during the Period

(i) Purchases of goods and services

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Purchase of goods		
Golden Ocean Copper Manufacture Co., Limited	**27,900**	29,399
Huizhou Xinyang Cables Co., Limited	**—**	28
	27,900	29,427

Goods and services are bought from entities controlled by the Controlling Shareholder on normal commercial terms and conditions.

29 RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with related parties during the Period (continued)

(ii) Operating lease expenses

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Huizhou Golden Ocean Wire Co., Limited	**1,673**	1,325
Huizhou Tiannengyuan Charging Technology Co., Ltd.	**2,709**	2,290
Sky Fortune Enterprise Limited	**348**	312
Golden Lake (HK) Company Limited	**—**	132
	4,730	4,059

The amounts represented rental expenses for land and buildings for factory and office purposes in accordance with the lease agreements.

(b) Balances due from related parties

	30 June 2020		31 December 2019	
	Maximum balance outstanding during the Period		*Maximum balance outstanding during the year*	
		(Unaudited)		(Audited)
Huizhou Tiannengyuan Charging Technology Co., Ltd.	**1,150**	**1,150**	1,172	1,172
Sky Fortune Enterprise Limited	**116**	**116**	104	104
Golden Lake (HK) Company Limited	**44**	**—**	44	44
	1,310	**1,266**	1,320	1,320

The balances due from related parties were mainly denominated in RMB. They were unsecured, interest-free, trading in nature and repayable on demand. Their fair values approximated their carrying amounts at 30 June 2020.

29 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Balances due to related parties

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Huizhou Golden Ocean Wire Co., Limited	**741**	232
Golden Ocean Copper Manufacture Co., Limited	**21,333**	21,932
	22,074	22,164

The balances due to related parties were mainly denominated in RMB. They were unsecured, interest-free, trading in nature and due within 3 months. The fair values approximated their carrying amounts at 30 June 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

Ten Pao is a market leading provider of smart power supply solutions, with an abundance of industry experience spanning forty years and an excellent customer base. Through an exceptional research and development ("**R&D**") team, a one-stop production model, a diverse product portfolio and value-adding services that are tailored and swiftly responsive to customer needs, we have earned affirmation from the industry. Presently, we are the major supplier for numerous domestic and international brands and are instrumental in the rapid development of the industry.

In the first half of 2020, the global COVID-19 ("**coronavirus**") pandemic, geopolitical tensions and the resulting trade conflicts brought about a challenging business environment. The Group remained steadfast in strengthening its capabilities in the face of macroeconomic challenges and was proactive in implementing a series of responsive measures in the Period. These measures include enhancing the overall efficiency of automation at our production bases, strategically optimising the customer portfolio, strengthening inventory management efficiency, implementing effective cost controls and improving our cash flow. As a result, the Group was able to maintain a stable business performance and a healthy cash flow during the Period.

For the six months ended 30 June 2020, Group revenue decreased slightly by 3.9% to HK$1,763.7 million when compared to the same period of last year. This was mainly attributable to the adverse impact of the temporary suspension of the Group's manufacturing facility in Huizhou, the PRC in the first quarter as a result of the PRC government's order in preventing and combating the coronavirus. Despite the decrease in revenue, gross profit for the Period amounted to HK$306.1 million which approximated to that of the same period of last year, and gross profit margin increased by 0.7 percentage point to 17.4%, which are attributable to measures including tightened cost control policies and increased rate of automated production. Net profit before tax was HK$115.9 million, and net profit attributable to owners of the Company increased by 17.3% to HK$95.1 million when compared to the same period of last year. Earnings per share amounted to HK10 cents (2019: HK8 cents).

To reward the Company's shareholders for their continuing support, the Board has resolved to pay an interim dividend of HK3 cents per ordinary share for the six months ended 30 June 2020 (2019: HK2.5 cents per ordinary share).

Market and Business Review

During the Period, the coronavirus pandemic brought pressure on the manufacturing industry in different ways. At the production level, as a means to keep the pandemic at bay, the PRC government issued a notice to extend the Lunar New Year Holidays of 2020. The Group's manufacturing plants in the PRC temporarily suspended operations in February this year, and gradually resumed some operations in March. However, the spread of the pandemic globally since March led to international logistics delays which affected the transportation of finished products and raw materials. The Group, as a supply chain partner of various consumer goods brands, was inevitably affected by the above factors. During the Period, the Group was in active communication with its customers and redeployed resources, and hence, successfully recovered most of the production progress in the second quarter and maintained its business stability.

For the six months ended 30 June 2020, revenue from the Group's business segment of smart chargers and controllers for power tools was approximately HK$710.0 million, decreased by 5.2% when compared to the same period of last year. Despite a slight decrease was recorded in this segment revenue due to external factors, the segment revenue remained relatively stable. This was primarily attributable to the Group's efforts not only in maintaining a good cooperative relationship with existing customers, but also in actively deepening the level of cooperation, and at the same time adopting flexible marketing strategies to continue to expand a customer base that has growth potential. Customers of this segment are mainly international corporations with excellent foundations, high risk-bearing capabilities, as well as diversified distribution channels. Leveraging our close business relationship with core customers and the high quality of the Group's products and services, orders from this segment of smart chargers and controllers for power tools remained steady. Continual enhancement of production automation also helped maintain segment profit at HK$143.0 million.

The Group's business segment of switching power supply units for consumer products covers telecommunications equipment, media and entertainment equipment, household appliances, and lighting equipment etc.. For the six months ended 30 June 2020, segment revenue decreased by 3.0% when compared to the same period of last year. This was mainly attributable to the sales decrease recorded in the lighting equipment segment, whilst the decrease was mitigated by the sales increment in the telecommunication segment and media and entertainment segment. During the Period, thanks to the Group's forward-looking strategic plan of setting up a manufacturing plant in Dazhou City, Sichuan in 2019, in close proximity to the main production centres of a number of telecommunications equipment customers, the Group was able to capture this opportunity to successfully obtain additional orders. Following years of in-depth cooperation with two of the top five well-known mobile phone manufacturers in the PRC, one of which entered into a further trusting relationship with the Group and began to place a larger volume of orders with the Group for its flagship products and new products, casting a vote of trust in the product quality of Ten Pao. Regarding market trends, the PRC's 5G telecommunications technology continued to develop during the Period, sparking a wave of 5G mobile phone replacement, as well as speeding up the development of ultra-fast charging and flash-charging products. As for the lighting equipment segment, some customer groups were based in Africa, Europe, the U.S. and other regions where the pandemic was relatively more serious, thus affecting sales in these areas. However, due to the Group's efforts in customer portfolio diversification and active expansion of sales contribution from domestic customers, the impact on revenue for this segment was lessened.

For the past few years, the Group has put much effort in consolidating resources to enhance cost efficiency. In terms of cost control, the Group's tendering system for qualified suppliers has matured. This, coupled with a policy of supplier diversification, provided further safeguard for Ten Pao's products. Standardisation of design also helped the Group to control material costs, which enhanced the Group's bargaining power with suppliers. The Group's tendering system for suppliers played a significant role at this time, enabling Ten Pao to maintain a stable gross profit margin in a difficult period. Additionally, the Group raised the proportion of automated production lines during the Period. This not only improved the consistency and reliability of product quality, but also eased the impact of rising labour costs and greatly enhanced production efficiency. As a result of the above, gross profit margin for the Period increased.

To support the sustainable development of the Group's business, Ten Pao has in the past few years gradually expanded its domestic and overseas production layout. As geopolitics brings changes to the market, diversification of production sites helps consolidate the Group's global production network, ease the impact of geopolitical tensions, and at the same time, promote the Group's local business development. During the Period, phase three expansion of the plant in Hungary was successfully completed and the set-up of production lines is currently in progress. The plant in Hungary is expected to contribute additional production capacity starting from the third quarter of this year. In the PRC, the production base in Dazhou, Sichuan Province has commenced operation. Its proximity to the production centres of various manufacturers of consumer electronics brands will give Ten Pao a competitive edge to bring in more new customers and orders. The production capacity of the Dazhou plant is gradually being released, with its phase 2 expected to enter production in the second half of 2020. The Vietnam production base has also begun to contribute production capacity during the Period and the Group will continue to explore the opportunity to expand the manufacturing capacity there.

Prospect

The coronavirus pandemic and global geopolitical instability are expected to place further downward pressure on economic growth in the second half of 2020. To sustain the Group's competitive strength, resilience and profitability, we have been attentively monitoring changes in the external environment, adopting flexible response measures, maintaining cost efficiency and diversifying our global production capacity. At the same time, the Group is also actively exploring market opportunities and potential. Apart from continuing to launch new products in line with environmental protection policies related to 5G telecommunication technology research and development and green mobility development, the Group has invested resources to explore business opportunities in other industries, in preparation for the steady development of Ten Pao in the long term.

Ten Pao has been devoting resources to technological innovation and product R&D in the 5G smartphone power supply market to capitalise on market opportunities. According to a market research report by Strategy Analytics, with the commercialisation of 5G telecommunication technology, the global demand for 5G smartphones is expected to surge by 12 times in 2020, indicating a strong appetite from the market that could well stimulate the demand for its complementary power supply products. Moreover, the high level of energy consumption in 5G smartphones, together with the growing market demand for higher power, fast-charging, flash-charging and wireless-charging products, will continue to fuel the technological upgrading and sales of such products. As a close working partner of renowned manufacturers of 5G smartphones, Ten Pao will continue to innovate and optimise our expertise in power supply technology and our existing product portfolio to provide the market with even better solutions for quality power supply and, riding on the wave of the replacement cycle for 5G smartphones, to strive for greater market share. At the same time, the Group will invest more R&D resources in related flash-charging technology, driving the market towards an era of greater convenience and faster speed in electricity supply. Apart from smartphones, 5G technology advancement also encourages technological innovation and application in many other commercial areas, including the Internet of Things (IoT). Ten Pao will commit additional resources to the R&D of technology in these areas to further expand its product offerings and increase its market share.

Green mobility remains an objective that is being proactively promoted by the PRC government. In October 2019, the PRC government issued the "General Proposal of Quality Green Living" (綠色生活創建行動總體方案), which has stated guidelines to expedite the construction of power charging infrastructures, with the goal of raising the green mobility ratio within urban cities by 2020. In addition, the PRC government has plans to subsidise the construction and operation of electrical power charging infrastructures, further lifting the demand and market potential for smart charging products for electric vehicles (EVs) and portable power supply/charging products. The Group will continue to expand our research capability in green mobility and related products, and to actively develop this blue ocean market. Meanwhile, the Group had entered into an agreement with a renowned energy company for the grant of license to use its logo in certain kinds of consumer electronic products and merchandising rights in the market. These products are scheduled to launch to the market in the first half of 2021.

To align with Ten Pao's sales growth and to diversify regional risks, the Group will continue to carefully plan our domestic and overseas production layout. In terms of domestic facilities, the second phase of the Dazhou plant in Sichuan is expected to commence production by the second half of 2020; while construction of a new plant on the additional land purchased in Huizhou will kick off in the second half of 2020, with completion and commencement of operation expected in 2022, bringing additional production capability to the Huizhou headquarters. In terms of overseas production capacity, in addition to the Hungary and Vietnam bases, the Group is also actively exploring the possibility of setting up a production base in India, which will support Ten Pao in developing the South Asian market. Moreover, the Group will invest more resources to increase the proportion of automated production lines to maximise manufacturing efficiency and profitability.

Over the past 40 years, the Group has been committed to product innovation and technological advancement of one-stop smart power supply solutions, allowing us to realise our full potential and gain a lead in the dynamic market. Our management team, with its rich industry experience and market exposure, has also provided us with reliable market insight and risk management capability, enabling the Group to gain a firm foothold amidst the challenges and economic ups and downs of the past years. Looking ahead, Ten Pao will uphold its pragmatic business philosophy, and continue to capture every market opportunity and potential to strengthen the Group's profitability and consolidate its leading position in the switching power supply industry, and hence, leading to sustainable returns for its shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintains a strong and healthy balance sheet. As at 30 June 2020, net current assets amounted to HK$263.2 million as compared with HK$229.0 million as at 31 December 2019. As of 30 June 2020, current ratio was 1.18 times (31 December 2019: 1.17 times) (current ratio is calculated by using the following formula: current assets/current liabilities).

Gearing ratio was 39.5% as at 30 June 2020 (31 December 2019: 23.3%) (gearing ratio is calculated by using the following formula: total borrowings/total equity). During the Period, the Group's production in the PRC was temporarily suspended after the Lunar New Year holiday due to the coronavirus and only resumed full production capacity in the second quarter. Therefore, a majority part of the shipment was made in the second quarter and hence the account receivables increased accordingly. Additional borrowings was used to finance such credits given to customers.

Net cash generated from operating activities was HK$38.9 million for the six months ended 30 June 2020 (six months ended 30 June 2019: HK$14.6 million), which was mainly due to the improvement in the operating results during the Period. The Group achieved an operating profit of HK$119.7 million for the six months ended 30 June 2020 (six months ended 30 June 2019: HK$107.2 million).

Net cash used in investing activities for the six months ended 30 June 2020 was HK$128.0 million (six months ended 30 June 2019: HK$44.6 million) as the Group has acquired more property, plant and equipment, amounting to HK$61.7 million (six months ended 30 June 2019: HK$50.8 million) and purchased a piece of land in the PRC at a total consideration of HK$95.0 million during the six months ended 30 June 2020.

During the six months ended 30 June 2020, net cash generated from financing activities was HK$39.1 million (six months ended 30 June 2019: HK$22.5 million) as the net borrowings was HK$132.0 million for the six months ended 30 June 2020 as compared with HK$55.2 million for the six months ended 30 June 2019.

DEBT MATURITY PROFILE

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

	30 June 2020	31 December 2019
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 1 year	**177,143**	120,227
Between 1 and 2 years	**53,086**	30,360
Between 2 and 5 years	**62,766**	11,220
	292,995	161,807

FINANCIAL RISK MANAGEMENT

Foreign Exchange Risk

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

The Group generates a notable portion of revenue and receivables in USD and HK$, while our cost of sales is primarily denominated in RMB. For the six months ended 30 June 2020, the Group's revenue denominated in USD and HK$ amounted to approximately 69.7% of its total revenue (six months ended 30 June 2019: 67.9%).

The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and it 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 six months ended 30 June 2020, no forward foreign exchange contracts had been entered into by the Group as the Group did not consider there was any risk associated with exchange rate fluctuation that may adversely affect the results of 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 30 June 2020, the Group had bank borrowings of HK$293.0 million (31 December 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 interim condensed consolidated balance sheet represented 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 the 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 30 June 2020, all of the bank balances, term deposits and restricted bank deposits of the Group 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 losses from non-performance by these banks and financial institutions. As at 30 June 2020 and 31 December 2019, the Group held cash and bank balances and restricted bank deposits totalling HK$183.4 million and HK$171.1 million, respectively, with four major banks in the PRC and Hong Kong.

Liquidity Risk

The liquidity position of the Group is monitored closely by its 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 30 June 2020, the Group did not have any significant contingent liabilities (31 December 2019: Nil).

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 six months ended 30 June 2020.

HUMAN RESOURCES

The Group employed a total of approximately 6,400 full-time employees as of 30 June 2020. The Group believes human resources are its valuable assets and maintains its solid commitment to attracting, developing and retaining talented employees, in addition to providing dynamic career opportunities and a favorable working environment to its employees. The Group constantly provides training with diverse operational functions and offers competitive remuneration packages and incentives to all employees. The Group regularly reviews its human resources policies for addressing corporate development needs. The total labour costs for the six months ended 30 June 2020 was HK$290.0 million, as compared to HK$291.2 million for the same period last year.

CORPORATE GOVERNANCE PRACTICES

The Board and the management 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 six months ended 30 June 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 the Group's 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 and, hence, is in the best interests of the Group. 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 on the Board 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, all the Directors have confirmed their compliance with the Model Code throughout the six months ended 30 June 2020 and up to the date of this announcement. In addition, no incident of non-compliance of the Model Code by the Relevant Employees was noted by the Company during the six months ended 30 June 2020 and up to the date of this announcement.

INTERIM DIVIDEND

The Board has resolved to distribute an interim dividend of HK3 cents per ordinary share for the six months ended 30 June 2020 (2019: HK2.5 cents per ordinary share) to the Company's shareholders. The interim dividend is expected to be paid on 27 October 2020 to all shareholders whose names appear on the register of members of the Company on 9 October 2020.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 7 October 2020 (Wednesday) to 9 October 2020 (Friday), both days inclusive, for the purpose of determining the entitlement to the interim dividend for the six months ended 30 June 2020. In order to be qualified for the said interim dividend, unregistered holders of shares of the Company should ensure 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 6 October 2020 (Tuesday).

AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENTS

The Audit Committee 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 Company's unaudited interim condensed consolidated financial statements for the six months ended 30 June 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 Group and considered them effective.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.tenpao.com). The interim report for the six months ended 30 June 2020 containing all the information required by the Listing Rules will be despatched to the Company's shareholders 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
天寶集團控股有限公司
Hung Kwong Yee
Chairman and Chief Executive Officer

Hong Kong, 21 August 2020

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Hung Kwong Yee, Mr. Hung Sui Tak 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.