TEN PAO GROUP HOLDINGS LIMITED
天寶集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1979)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

The board (the "**Board**") of directors (the "**Directors**") of Ten Pao Group Holdings Limited ("**Ten Pao**" or the "**Company**") announces the audited consolidated results of the Company and its subsidiaries (together, the "**Group**") for the year ended 31 December 2018, together with comparative figures for the year ended 31 December 2017 as follows:

FINANCIAL HIGHLIGHTS:

- Revenue for the year ended 31 December 2018 increased by 6.5% to HK$3,202.5 million.
- Gross profit for the year ended 31 December 2018 decreased by 16.7% to HK$438.0 million. Gross profit margin decreased by 3.8 percentage points to 13.7%.
- Profit before income tax for the year ended 31 December 2018 decreased by 66.2% to HK$67.9 million.
- Profit attributable to owners of the Company for the year ended 31 December 2018 was HK$55.4 million, representing a decrease of 64.8%.
- The Board recommended the payments of a final dividend of HK1.5 cents and a special final dividend of HK1.0 cent, respectively, per ordinary share for the year ended 31 December 2018, which is subject to the approval of the Company's shareholders at the 2019 AGM.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

		Year ended 31 December	
		2018	2017
	Notes	***HK$'000***	*HK$'000*
REVENUE	*4*	**3,202,452**	3,007,015
Cost of sales	*6*	**(2,764,448)**	(2,481,455)
Gross profit		**438,004**	525,560
Other income	*5*	**15,656**	10,360
Other gains/(losses) – net	*5*	**1,940**	(12,206)
Selling expenses	*6*	**(140,459)**	(121,279)
Administrative expenses	*6*	**(228,367)**	(195,607)
Net impairment losses on financial assets	*3(a)*	**(10,512)**	–
Operating profit		**76,262**	206,828
Finance income		**588**	269
Finance expenses		**(8,956)**	(6,173)
Finance expenses – net		**(8,368)**	(5,904)
Profit before income tax		**67,894**	200,924
Income tax expense	*7*	**(12,478)**	(43,349)
Profit for the year attributable to owners of the Company		**55,416**	157,575
Earnings per share			
– basic and diluted per share	*8*	**HK5.5 cents**	HK15.8 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	Year ended 31 December	
	2018	2017
	HK$'000	*HK$'000*
Profit for the year	**55,416**	157,575
Other comprehensive income:		
Items that may be reclassified to profit and loss		
Currency translation differences	**(35,022)**	40,306
	(35,022)	40,306
Total comprehensive income for the year attributable to owners of the Company	**20,394**	197,881

CONSOLIDATED BALANCE SHEET

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

		As at 31 December	
		2018	2017
	Notes	***HK$'000***	*HK$'000*
ASSETS			
Non-current assets			
Land use rights		**9,936**	10,547
Property, plant and equipment		**419,730**	400,863
Investment properties		**6,400**	5,700
Intangible assets		**7,075**	6,497
Deferred income tax assets		**19,383**	19,712
Derivative financial instruments		**47**	12
Financial assets at fair value through profit or loss		**2,989**	2,901
Financial assets at fair value through other comprehensive income	*14*	**17,119**	–
Prepayments for the purchase of property, plant and equipment		**7,786**	4,774
		490,465	451,006
Current assets			
Inventories		**490,053**	399,824
Trade and other receivables	*10*	**668,505**	819,478
Amounts due from related parties		**1,096**	1,192
Cash and cash equivalents		**193,797**	180,786
Restricted bank deposits		**10,871**	27,429
		1,364,322	1,428,709
Total assets		**1,854,787**	1,879,715
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	*13*	**10,005**	10,005
Share premium	*13*	**125,788**	125,788
Other reserves		**15,891**	45,939
Retained earnings		**431,651**	410,617
Total equity		**583,335**	592,349

CONSOLIDATED BALANCE SHEET (CONTINUED)

		As at 31 December	
		2018	2017
	Notes	***HK$'000***	*HK$'000*
LIABILITIES			
Non-current liabilities			
Non-current bank borrowings	*12*	**59,690**	67,900
Deferred income tax liabilities		**54,128**	53,589
Deferred government grants		**9,390**	9,909
		123,208	131,398
Current liabilities			
Trade and other payables	*11*	**971,788**	1,008,171
Contract liabilities		**4,181**	–
Amounts due to related parties		**12,802**	15,567
Dividend payable		**12**	12
Income tax liabilities		**11,554**	12,309
Short-term bank borrowings	*12*	**92,516**	73,590
Current portion of non-current bank borrowings	*12*	**55,391**	46,314
Derivative financial instruments		**–**	5
		1,148,244	1,155,968
Total liabilities		**1,271,452**	1,287,366
Total equity and liabilities		**1,854,787**	1,879,715

NOTES:

1. GENERAL INFORMATION

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

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

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

2. BASIS OF PRESENTATION

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

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

3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

(a) New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for financial year beginning on or after 1 January 2018:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers

The Group's assessment of the impact of these new or amended standards is set out below.

Adoption of HKFRS 9

(i) Impact on the financial statements

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The adjustments arising from the new impairment rules are therefore not reflected in the restated balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

The following tables show the impacts recognised for each individual line item. Line items that were not affected by the changes have not been included.

Balance sheet (extract)	**Carrying amount 31 December 2017**	**HKFRS 9**	**Carrying amount 1 January 2018**
	HK$'000	*HK$'000*	*HK$'000*
Current assets			
Trade and other receivables	819,478	(4,397)	815,081
Total assets	1,879,715	(4,397)	1,875,318
Net assets	592,349	(4,397)	587,952
Retained earnings	410,617	(4,397)	406,220
Total equity	592,349	(4,397)	587,952

(ii) Impairment of financial assets

The Group has two types of financial assets that is subject to HKFRS 9's new expected credit loss model:

- trade receivables for sales of inventory
- other receivables

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings and equity is disclosed in the table in below.

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

Trade receivables

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. This resulted in an increase of the loss allowance on 1 January 2018 by HK$4,397,000 for trade receivables. The loss allowance increased by a further HK$10,512,000 to HK$15,207,000 for trade receivables during the current reporting period.

The closing loss allowances for trade receivables as at 31 December 2018 reconcile to the opening loss allowances as follows:

	2018	2017
	HK$'000	*HK$'000*
At 31 December — calculated under HKAS 39	**571**	268
Amounts restated through opening retained earnings	**4,397**	–
Opening loss allowance as at 1 January 2018 — calculated under HKFRS 9	**4,968**	268
Increase in trade receivables impairment allowance recognised in profit or loss during the year	**10,512**	285
Currency translation difference	**(273)**	18
At 31 December	**15,207**	571

Other receivables

As at 31 December 2018, the Group has assessed that the expected loss rate for other receivables was immaterial. Thus no loss allowance for other receivables was recognised.

Adoption of HKFRS 15

The Group has also adopted HKFRS 15 "Revenue from contracts with customers" on 1 January 2018. HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a five-step approach: (i) identify the contract(s) with a customer; (ii) identify separate performance obligations in a contract; (iii) determine the transaction price; (iv) allocate transaction price to performance obligations; and (v) recognise revenue when performance obligation is satisfied. HKFRS 15 also provides specific guidance on contract costs and license arrangements. It also includes a cohesive set of disclosure requirements about revenue and cash flows arising from the contracts with customers. In accordance with the transitional provision in HKFRS 15, there is no impact on the consolidated financial statements of the Group, except for presentation of assets and liabilities related to contracts with customers as below:

- Contract liabilities in relation to advance received from customers, were previously included in trade and other payables.

Balance sheet (extract)	**Carrying amount 31 December 2017**	**HKFRS 15**	**Carrying amount 1 January 2018**
	HK$'000	***HK$'000***	***HK$'000***
Trade and other payables	1,008,171	(9,995)	998,176
Contract liabilities	–	9,995	9,995

(b) New and amended standards not yet adopted

		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 16	Leases	1 January 2019
HK (IFRIC)- Int 23	Uncertainty over Income Tax Treatments	1 January 2019
Amendments to HKFRS 9	Prepayment Features with Negative Compensation	1 January 2019
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures	1 January 2019
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement	1 January 2019
Annual Improvements projects	Annual Improvements to HKFRSs 2015–2017 Cycle	1 January 2019
Amendments to HKAS 1 and HKAS 8	Definition of Material	1 January 2020
Amendments to HKFRS 3	Definition of a business	1 January 2020
Conceptual Framework for Financial Reporting 2018		1 January 2020
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 HKFRS 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. SEGMENT INFORMATION

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

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

	Telecommunication *HK$'000*	**Media and entertainment** *HK$'000*	**Electrical home appliances** *HK$'000*	**Lighting** *HK$'000*	**Smart chargers and controllers** *HK$'000*	**Others** *HK$'000*	**Total** *HK$'000*
31 December 2018							
Revenue							
Revenue from external customers							
— At a point in time	**1,146,393**	**371,569**	**255,329**	**315,611**	**1,058,193**	**55,357**	**3,202,452**
Segment results	**98,435**	**69,485**	**38,355**	**51,153**	**170,098**	**10,478**	**438,004**
Other income							**15,656**
Other gains – net							**1,940**
Selling expenses							**(140,459)**
Administrative expenses							**(228,367)**
Finance expenses – net							**(8,368)**
Net impairment losses on financial assets							**(10,512)**
Profit before income tax							**67,894**

	Telecommunication *HK$'000*	Media and entertainment *HK$'000*	Electrical home appliances *HK$'000*	Lighting *HK$'000*	Smart chargers and controllers *HK$'000*	Others *HK$'000*	Total *HK$'000*
31 December 2017							
Revenue							
Revenue from external customers							
— At a point in time	1,250,029	443,253	220,233	212,284	782,841	98,375	3,007,015
Segment results	145,457	106,128	48,868	45,365	158,781	20,961	525,560
Other income							10,360
Other losses – net							(12,206)
Selling expenses							(121,279)
Administrative expenses							(195,607)
Finance expenses – net							(5,904)
Profit before income tax							200,924

5. OTHER INCOME AND OTHER GAINS/(LOSSES) – NET

(a) Other income

	2018	2017
	HK$'000	*HK$'000*
Sales of scrap materials	**5,687**	2,892
Sales of raw materials, samples and moulds	**2,481**	4,463
Others	**7,488**	3,005
	15,656	10,360

(b) Other gains/(losses) – net

	2018	2017
	HK$'000	*HK$'000*
Fair value changes on derivative financial instruments	**40**	228
Fair value changes on financial assets at fair value through profit or loss	**88**	103
Fair value changes on investment properties	**700**	270
Net foreign exchange loss	**(3,518)**	(14,820)
Government grants	**6,966**	4,380
Loss on disposal of property, plant and equipment	**(216)**	(36)
Others	**(2,120)**	(2,331)
	1,940	(12,206)

6. EXPENSES BY NATURE

	2018	2017
	HK$'000	*HK$'000*
Changes in inventories of finished goods and work in progress	**(48,107)**	(42,949)
Raw materials and consumables used	**2,296,703**	2,045,647
Allowance for/(reversal of allowance for) impairment of inventory	**4,918**	(477)
Allowance for impairment of trade receivables	**–**	285
Employee benefit expenses	**505,686**	446,495
Depreciation, amortisation and impairment charges	**68,021**	55,041
Water and electricity expense	**30,973**	27,436
Transportation and travelling expenses	**29,930**	28,995
Maintenance expenses	**21,995**	30,232
Consultancy fee	**11,470**	20,913
Entertainment expenses	**7,580**	7,018
Research and development expenses		
− Employee benefit expenses	**76,822**	66,759
− Depreciation and amortisation	**12,373**	8,270
− Raw materials, consumables used and others	**25,218**	24,512
Commission expenses	**20,832**	10,246
Certificate and detection fees	**9,037**	8,471
Business tax and surcharge	**9,093**	13,032
Other taxes and levies	**3,654**	3,589
Operating lease payments	**14,197**	11,147
Advertising expenses	**3,234**	5,710
Commercial insurance	**7,724**	9,027
Communication expenses	**2,934**	1,730
Bank charges	**3,622**	2,728
Auditors' remuneration		
− Audit services	**4,005**	4,308
− Non-audit services	**2,571**	1,725
Other expenses	**8,789**	8,451
Total cost of sales, selling expenses and administrative expenses	**3,133,274**	2,798,341

7. INCOME TAX EXPENSE

	2018	2017
	HK$'000	*HK$'000*
Current income tax		
− PRC corporate income tax ("**CIT**")	**2,303**	21,069
− Hong Kong profits tax	**7,553**	13,730
Subtotal	**9,856**	34,799
Deferred income tax	**2,622**	8,550
	12,478	43,349

(a) Cayman Islands income tax

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

(b) Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for the year (2017: 16.5%).

(c) PRC CIT

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

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

Ten Pao Electronic (Huizhou) Co., Ltd. was recognised as "New and High Technology Enterprises" and enjoys a preferential CIT rate of 15%. Its CIT rate for the year ended 31 December 2018 was 15% (2017: 15%).

(d) PRC withholding income tax

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

(e) British Virgin Islands ("BVI") and Samoa income tax

No provision for income tax in BVI and Samoa has been made as the Group has no income assessable to income tax in BVI and Samoa during the year (2017: Nil).

(f) Hungary corporate income tax

No provision for corporate income tax in Hungary has been made as the Group has no income assessable to corporate income tax in Hungary during the year (2017: Nil).

(g) Taxation on the Group's profit

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

	2018	2017
	HK$'000	*HK$'000*
Profit before income tax	**67,894**	200,924
Tax calculated at applicable corporate income tax rate of 25%	**16,974**	50,231
Effect of differences in tax rates	**(2,601)**	(5,903)
Preferential tax treatment of CIT	**(5,241)**	(8,643)
Withholding tax	**3,124**	9,857
Tax losses and deductible temporary difference for which no deferred income tax asset was recognised	**6,085**	378
Utilisation of tax losses previously not recognised	**(30)**	(129)
Expenses not deductible for taxation purposes	**4,919**	3,049
Accelerated research and development deductible expenses	**(10,457)**	(5,419)
Income not subject to tax	**(295)**	(72)
	12,478	43,349

The effective corporate income tax rate was 18% for the year (2017: 22%). The decrease in the effective corporate income tax rate of 2018 compared to 2017 was primarily due to the decrease in the profits of its subsidiaries in the PRC.

8. EARNINGS PER SHARE

(a) Basic earnings per share

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

	2018	2017
Profit attributable to owners of the Company (HK$'000)	**55,416**	157,575
Weighted average number of shares issued (thousands)	**1,000,456**	1,000,114
Basic earnings per share (HK cents)	**5.5**	15.8

(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. During the year, the outstanding share options do not have any dilutive impact. Therefore, the diluted earnings per share of the Company equals the basic earnings per share.

9. DIVIDENDS

	2018	2017
	HK$'000	*HK$'000*
Interim dividend paid per ordinary share: nil (2017: HK2.5 cents)	**–**	25,011
Proposed final dividend per ordinary share: HK1.5 cents (2017: HK2.5 cents)	**15,007**	25,011
Proposed special final dividend per ordinary share: HK1.0 cent (2017: nil)	**10,005**	–
	25,012	50,022

The dividends paid in 2018 and 2017 were HK$25,011,000 and HK$59,999,000 respectively.

A final dividend of HK1.5 cents per ordinary share, amounting to HK$15,007,000, and a special final dividend of HK1.0 cent per ordinary share, amounting to HK$10,005,000, in respect of the year ended 31 December 2018 are to be proposed at the annual general meeting of the Company to be held on 27 May 2019.

10. TRADE AND OTHER RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivables	**635,572**	769,153
Less: allowance for impairment	**(15,207)**	(571)
Trade receivables, net	**620,365**	768,582
Bills receivable	**132**	7,028
Prepayments	**17,588**	9,827
Deposits	**14,739**	4,558
Advances to employees	**301**	6,177
Value added tax allowance	**9,155**	14,155
Others	**6,225**	9,151
	668,505	819,478

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

	2018	2017
	HK$'000	*HK$'000*
USD	**318,431**	313,837
RMB	**218,087**	369,692
HK$	**97,672**	84,919
Others	**1,382**	705
	635,572	769,153

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

	2018	2017
	HK$'000	*HK$'000*
Less than 3 months	**583,367**	719,105
More than 3 months but not exceeding 1 year	**39,896**	50,048
More than 1 year	**12,309**	–
	635,572	769,153

11. TRADE AND OTHER PAYABLES

	2018	2017
	HK$'000	*HK$'000*
Trade payables	**792,672**	807,070
Advance	**–**	9,995
Notes payable	**1,248**	7,996
Wages and staff welfare benefits payable	**128,085**	127,795
Accrual for expenses and other payables	**36,657**	36,640
Other taxes payable	**13,126**	18,675
	971,788	1,008,171

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

	2018	2017
	HK$'000	*HK$'000*
Less than 3 months	**572,064**	619,779
More than 3 months but not exceeding 1 year	**220,605**	187,088
More than 1 year	**3**	203
	792,672	807,070

(b) The fair values of trade and other payables approximated their carrying amounts as at 31 December 2018 and 2017.

12. BORROWINGS

	2018	2017
	HK$'000	*HK$'000*
Non-current		
Bank borrowings		
– secured (a)	**115,081**	114,214
Less: current portion of non-current borrowings	**(55,391)**	(46,314)
	59,690	67,900
Current		
Bank borrowings		
– secured (a)	**79,933**	66,616
– unsecured	**12,583**	6,974
Total short-term bank borrowings	**92,516**	73,590
Current portion of non-current borrowings	**55,391**	46,314
	147,907	119,904
Total borrowings	**207,597**	187,804

(a) As at 31 December 2018, bank borrowings amounting to HK$195.0 million (2017: HK$180.8 million) are secured over the following assets:

	2018	2017
	HK$'000	*HK$'000*
Restricted bank deposits	**10,871**	27,429
Financial assets at fair value through profit or loss	**2,989**	2,901
Investment properties	**6,400**	5,700
Trade and other receivables	**192,829**	359,904
Property, plant and equipment	**–**	14,517
	213,089	410,451

13. SHARE CAPITAL AND SHARE PREMIUM

Ordinary shares, issued and fully paid:

	Number of shares	**Share capital** *HK$'000*	**Share premium** *HK$'000*	**Total** *HK$'000*
At 1 January 2017	1,000,000,000	10,000	125,064	135,064
Proceeds from shares issued upon exercise of share options	456,000	5	592	597
Transfer from other reserve upon exercise of share options	–	–	132	132
At 31 December 2017 and 31 December 2018	1,000,456,000	10,005	125,788	135,793

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

	2018 ***HK$'000***	2017 *HK$'000*
Non-current assets		
Unlisted securities		
GCteq Wireless	**5,706**	–
EOLOCK	**11,413**	–
	17,119	–

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

	2018 ***HK$'000***	2017 *HK$'000*
At 1 January	**–**	–
Additions	**17,119**	–
At 31 December	**17,119**	–

CHAIRMAN'S STATEMENT

On behalf of the Board, I hereby present the audited consolidated results of the Group for the year ended 31 December 2018.

In 2018, the continued volatility of global financial markets, the uncertainties in the macroeconomic environment and the rising tensions in international relations have presented challenges to all sectors. Slowdown in the market demand and rising raw material costs have suppressed the growth of the switching power supply unit industry. As a leading one-stop smart power supply solutions provider in China, the Group's management, guided by forward-looking insights honed by rich operational experience, has adopted a proactive approach to address such conditions during the year under review. The strategy was highlighted by adjustment of resources to address the rising prices and short supply of raw materials and the continuous allocation of resources to enhance its innovation and research and development ("**R&D**") capabilities implemented through active efforts to plan for the future business development and market layout. Building on a solid foundation of development lasting nearly 40 years and facilitated by its vertically integrated automated production model, as well as ongoing cost control measures, the Group managed to record stable revenue in the second half of 2018, despite its profit being under some pressure in the first half of 2018 thus maintaining an operating profit for the year under review. Total revenue slightly increased by approximately 6.5% to HK$3,202.5 million when compared with that of last year. Of this, the segment of smart chargers and controllers for power tools continued to maintain good development momentum, with revenue reaching HK$1,058.2 million, acting as the main driver of growth for the business results and increased by 35.2% when compared with that of last year. The revenue of the Group's other switching power supply units for consumer products segments decreased by 3.6% to HK$2,144.3 million.

According to International Data Corporation ("**IDC**")'s Worldwide Quarterly Mobile Phone Tracker report, despite the overall decline in smartphone shipments in the global market during 2018, which led to a slowdown in the revenue growth of switching power supply units for consumer products, the PRC smartphone brands successfully captured greater market share in China, achieving a significant year-on-year growth[1]. The Group for its part in China forged stronger relationships with its existing leading smartphone manufacturer customers and successfully secured one of China's top five renowned smartphone manufacturers as a new customer, which has commenced business cooperation during the year under review. Moreover, owing to the rapid development of 5G technology, the smartphone manufacturers expect to launch the first batch of 5G mobile phones during 2019[2]. In this case, the industry is preparing for a new wave of mobile phone replacements, which would spark the growth in the demand for charger for new devices with upgraded specifications and create a favorable business environment for the Group.

1 http://www.sohu.com/a/292611184_115565/ https://www.idc.com/getdoc.jsp?containerId=prAP44865419
2 https://www.jiemian.com/article/2721606.html

Given the continual transformation of the traditional manufacturing industry to smart manufacturing, the Group has kept abreast with this trend to actively cope with the development process of the industry by optimizing all of its production processes during recent years. The construction of phase two of the Group's Hungarian factory has been successfully completed, with Automatic Insertion (AI) and Surface Mount Technology (SMT) equipment already under operation. Meanwhile the construction of phase three is under planning. The Group also plans to strategically set up a new production facility in Northwestern China to mitigate the operational pressure brought by rising wages and labor shortages in the areas of the existing production facilities. Besides, the strategic location of the planned factory will gain a boost through the railway connection with the Hungarian factory. This will enable the Group to further explore for customers in Europe and China and optimize its customer portfolio while providing flexible product solutions to meet the demand of different markets and customers, so as to enhance its effectiveness and achieve sustainable profit growth.

Looking ahead to 2019, the Group is confident to grasp the opportunities in the challenging market environment and to formulate flexible strategic planning and actively respond to the shifts in the environment. With Ten Pao's innovation, R&D and efficient production capabilities and through the leadership of its management team with rich operational experience, the Group will continue to offer customers more advanced technological solutions, including devices enhancing the charging efficiency of smartphones, further developing high-power electric supply product technologies for industrial, medical and commercial applications, so as to create greater product value for our customers.

Last but not least, on behalf of the Board and the management of the Company, I would like to extend my sincere gratitude to all staff members for their hard work, unity, perseverance and effort as well as for their significant contribution to the Group during the year under review. Furthermore, I would also like to express my heartfelt appreciation to our shareholders, investors, customers and partners for their unwavering support. Ten Pao will strive its utmost to fortify its leadership in the switching power supply unit industry. It will also pursue continuous innovation and develop more quality products, with the aim of bringing satisfactory returns to its shareholders.

BUSINESS REVIEW

Overview

Capitalising on nearly 40 years of abundant experience in development within the power supply industry, the Group has strived to become a one-stop provider of smart power supply solutions to leading and fast-growing international brands. In the first half of 2018, unfavorable factors including uncertainties in the economy, persistently tense international conditions, slower growth of the global power supply industry, the rising Renminbi exchange rate, and higher labour and material costs have combined to limit the customer orders for the Group to varying degrees in the year ended 31 December 2018. This has inevitably affected Ten Pao's business performance and led to an operating loss in the first half of 2018.

In the second half of 2018, Ten Pao addressed these issues leveraging its rich operational experience as the management and all staff have also reacted in a proactive manner. The Group has diligently implemented the existing business strategies, including effectively executing cost control measures, strengthening R&D capabilities and boosting production capacity and efficiency while increasing automation and cost-effectively allocating resources. At the same time, it is adjusting the strategy of securing orders in a timely manner and optimising the layout of domestic and overseas production bases. On top of this, given the declining Renminbi exchange rate in the second half of 2018 and the downward adjustment of the prices of certain raw materials since the fourth quarter of 2018, Ten Pao's businesses has gradually generated solid revenue, and gross profit has shown improvement against the first half of 2018. Consequently, Ten Pao still managed to record an operating profit in 2018. For the year ended 31 December 2018, the revenue actually increased by 6.5% to HK$3,202.5 million from last year. Gross profit declined by 16.7% to HK$438.0 million with a gross profit margin of 13.7%. Profit before income tax was HK$67.9 million. Profit attributable to owners of the Company amounted to HK$55.4 million. Basic earnings per share were HK5.5 cents.

To reward the Group's shareholders for their continued support, the Board has recommended the payment of a final dividend of HK1.5 cents per ordinary share for the year ended 31 December 2018. In addition, to celebrate the 40th anniversary of the Group's founding, the payment of a special final dividend of HK1.0 cent per ordinary share for the year ended 31 December 2018 was recommended. The total dividend for the year ended 31 December 2018 was HK2.5 cents per ordinary share (2017: HK5.0 cents per ordinary share), representing a dividend payout ratio of 45.1%.

Market and Business Review

Owing to the strong demand in the electronic components market driven by the development of smartphone and electronic vehicle industry, the tight supply of related raw materials since the second half of 2017 continued in the first half of 2018, leading to a notable increase in the prices of the raw materials essential for consumer electronic products, such as active components, passive components, plastics and metals. The increase in the price of passive components was particularly significant. The whole supply lead time was lengthened accordingly. However, leveraging its strong customer base built over the past years, the Group proactively adjusted its order taking procedures during the year under review. At the same time, while maintaining product quality as its priority, the Group has selected alternative materials with secure supply sources and competitive prices, to reduce its reliance on a single raw material. Consequently, the Group continued to record a profit and was able to maintain a reliable supply of products and ensure a stable source of income.

According to IDC's Worldwide Quarterly Mobile Phone Tracker report on global smartphone sales volume, during the year under review, the slowdown[1] in the growth of the global smartphone market inevitably affected the Group's revenue from switching power supply units for telecommunication equipment, especially smartphones. Nevertheless, with the Group's sound and close partnership with existing customers and the successful introduction of one of the top five renowned smartphone manufacturers as a new customer during the year under review, it has further enlarged its market share. Moreover, raw material prices had been stabilizing in the fourth quarter of 2018 and show a declining trend. The lower cost of passive components gave Ten Pao an advantage in the original equipment manufacturing (OEM) business. Revenue of the Group's switching power supply units for consumer products segments decreased by 3.6% to HK$2,144.3 million when compared with that of last year, making up 67.0% of the total revenue of the Group. Gross profit for these segments amounted to HK$267.9 million, with a gross profit margin of 12.5%. Ten Pao's switching power supply units for consumer products are not only used in telecommunications equipment, but are also widely used in various industries, including media and entertainment equipment, electrical home appliances, lighting equipment and other products (such as healthcare equipment). Most of its products are incorporated into and/or applied in the customers' self-branded end products. The Group will invest more in R&D resources to boost its core competitiveness and maintain the stable growth across all business segments.

During the year under review, the segment of smart chargers and controllers for power tools continued to be a main growth driver of Ten Pao. In addition to maintaining close cooperation with existing core customers, the Group has also forged a maturing business relationship with new customers. Revenue of the segment during the year climbed by 35.2% to HK$1,058.2 million when compared with that of last year, exceeding the Group's overall revenue growth. Gross profit increased by 7.1% to HK$170.1 million and gross profit margin was 16.1%.

[1] http://www.sohu.com/a/292611184_115565/ https://www.idc.com/getdoc.jsp?containerId=prAP44865419

Benefitting from and spurred by the favorable policy implemented by the Hungarian government, the Group has actively expanded its factory and production capacity there. It has leveraged the advantage of its overseas factory to take more orders and attract new customers during the year under review, mainly power tools manufacturers. Construction of phase two of the Group's Hungarian factory has been smoothly completed, with AI and SMT equipment already commencing operation. As smart manufacturing is the future key development trend in the industry, the Group has optimised its automated production lines. During the year under review, the Group added automated elements to more production lines, equipped the new production capacity with automated production technology and conducted comprehensive evaluation and adjustment to the operation of automated production lines. In the long term, automated production is believed to become the main trend for the development of the industry as it can effectively lower labor costs, help to enhance the production technology level and ensure the consistency of products.

Business Outlook

Ten Pao will keep its finger on the pulse of market trends, and respond to changes in the industry with flexible measures, in order to create additional sources of income and, ultimately, to achieve sustainable development of the Group's business. Generally speaking, these measures would include increasing investments in R&D, creating more technological innovations, deploying automated equipment, diversifying its product mix, introducing brand new power supply devices and expanding its customer base.

For many years, the Group has strived to expand sources of customers and strategically plan the domestic and international market layout. The factory in Hungary shall start phase three expansion in 2019, which includes enlarging the floor area of the production base, increasing production capacity, adding new production lines and installing automated modules. The aim of these efforts is to handle rising orders from existing customers in Europe and new customers, mostly power tool manufacturers, as well as satisfy the demand of different customers, increase the Group's overall profitability and support its long-term business development. Elsewhere, Ten Pao's management team has already spotted the strong potential for development in Northwestern China. After continuous discussion, analysis and active allocation of resources by the management, Ten Pao plans to build a production base there, which is expected to start production in the second half of 2019. The Group believes that this expansion plan will bring benefits in many aspects. In recent years, the government has launched development subsidies and policies supporting advanced technologies, in order to facilitate the development of related industries there. Many communication and electronic companies have thus chosen to set up operations in Northwestern China. Many of them are customers with which the Group has a close business relationship and which already have offices and/or production bases there, so it strategically chose to build a factory to effectively tap the opportunities to work with existing and potential customers, and mitigate labor shortages and rising labor costs in the Pearl River Delta. In addition, Northwestern China has a high speed railway connection with Hungary, which makes the transportation between both areas more convenient. Thus the factories in Northwestern China and Hungary can complement each other and become a strong backbone to support customers around the world. Besides, the Group also plans to create a new cooperation model in Southeast Asia, to actively expand its customer base, further optimise its domestic and international business layout, bolster the competitive advantages of Ten Pao and ease the impact from uncertain international trade conditions in these years.

To address the ever-changing demand in the market, the Group continues investing in innovation and technological advancement with a focus on developing high-tech embedded solutions in order to optimize and strengthen its product mix. The market generally believes that 2019 will be the first year of 5G phone development, and the forthcoming wave of mobile phone replacements will boost the demand for upgrade of charging components, which is expected to expand the application of power supplies and charging devices to a new horizon. Telecom operators have exerted full efforts to seize market share and relevant products are ready to enter the market. As a visionary one-stop smart power supply solutions provider, the Group is upgrading the technologies of ultra-fast charging, flash charging and even super ultra-fast charging for its smartphone customers. Following the increasing popularity of wireless charging in the market, the production cost has gradually been reduced. Therefore, the Group will enhance its R&D, actively develop high-power electric supply technologies, and the application of its power supplies to industrial, medical and commercial sectors. Besides, the government has implemented environmental policies in these years to increase the efficiency of energy use by individuals, communities and across different industries in order to reduce pollution and achieve green sustainable development in China. As such, the Group has adhered to its corporate philosophy of boldly delivering innovations, and allocates resources to develop “green mobility” related concept products applicable to power supply and/or power charging and charging devices for two-wheel electric vehicles for both existing and new customers. Hopefully, an array of new products can satisfy market demand and fuel the growth momentum for the Group’s business.

Capitalizing on the solid foundation that Ten Pao has built in the past 40 years, its professional R&D team, continued deployment of automated production equipment and gradual optimization of its capacity layout, the Group is poised to capture enormous opportunities in the market. In the future, Ten Pao will maintain its pragmatic strategy in order to reinforce its leading presence in the industry, explore more business opportunities in the changing market and strive to deliver long-term sustainable returns to shareholders.

FINANCIAL REVIEW

Revenue

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

The total revenue increased by 6.5% from HK$3,007.0 million for the year ended 31 December 2017 to HK$3,202.5 million for the year ended 31 December 2018. The increase was mainly attributable to the increase in the volume of products sold as a result of the increase in the demand from our customers.

Revenue by Product Segment

The following table sets forth the breakdown of our revenue by product segments for the year ended 31 December 2018 and the comparative figures.

	Year ended 31 December			
	2018		2017	
	HK$'000	***%***	*HK$'000*	*%*
Switching power supply units for consumer products				
Telecommunication	**1,146,393**	**35.8**	1,250,029	41.6
Media and entertainment	**371,569**	**11.6**	443,253	14.8
Electrical home appliances	**255,329**	**8.0**	220,233	7.3
Lighting equipment	**315,611**	**9.9**	212,284	7.1
Others	**55,357**	**1.7**	98,375	3.2
Subtotal	**2,144,259**	**67.0**	2,224,174	74.0
Smart chargers and controllers for industrial use	**1,058,193**	**33.0**	782,841	26.0
Total revenue	**3,202,452**	**100**	3,007,015	100

During the year ended 31 December 2018, the sales of smart chargers and controllers for industrial use increased by 35.2% from HK$782.8 million for the year ended 31 December 2017 to HK$1,058.2 million for the year ended 31 December 2018 as a result of increasing demand from our existing customers and certain newly developed customers in recent years. Sales of switching power supply units for telecommunication equipment decreased by 8.3% to HK$1,146.4 million for the year ended 31 December 2018 when compared with last year mainly due to the overall decline in smartphone shipments in the global market during the year under review and the cut in average selling price to the existing leading smartphone manufacturers in the PRC. Sales of switching power supply units for lighting equipment increased by 48.7% to HK$315.6 million for the year ended 31 December 2018 when compared with last year as new orders were received from existing customers in the United States (the "**US**") and new customers in the PRC.

Revenue by Geographic Location

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

	Year ended 31 December			
	2018		2017	
	HK$'000	*%*	*HK$'000*	*%*
PRC, excluding Hong Kong	**1,904,866**	**59.5**	1,800,306	59.9
Europe	**434,040**	**13.6**	426,288	14.2
Asia, excluding PRC	**427,438**	**13.3**	409,016	13.6
US	**191,683**	**6.0**	195,250	6.5
Africa	**161,938**	**5.0**	116,733	3.9
Others	**82,487**	**2.6**	59,422	1.9
Total revenue	**3,202,452**	**100**	3,007,015	100.0

Cost of Sales

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

Cost of sales increased by 11.4% for the year ended 31 December 2018 when compared with last year, mainly attributable to the increase in business and the effect of the significant increase in the price of various kinds of raw materials, particularly the passive electronic components, and the increase in wages of the workers.

Gross Profit and Gross Profit Margin

During the year ended 31 December 2018, the Group recorded a gross profit of HK$438.0 million, representing a decrease of 16.7% from the year ended 31 December 2017.

The gross profit margin of the Group decreased from 17.5% for the year ended 31 December 2017 to 13.7% for the year ended 31 December 2018. The decrease in gross profit margin of the Group was primarily due to the significant increase in the prices of raw materials and the increase in the wages of workers.

Other Income

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

Other Gains/(Losses) — Net

Other gains — net mainly consists of fair value changes on derivative financial instruments, net foreign exchange difference for transactions denominated in foreign currencies, government grants for approved technology projects, and loss on disposal of property, plant and equipment. Other gains — net recorded during the year ended 31 December 2018 primarily due to depreciation of Renminbi during the year ended 31 December 2018 which resulted in a significant decrease in exchange loss and the increase in government grants during the year ended 31 December 2018.

Selling Expenses

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

Selling and marketing expenses increased by 15.8% from HK$121.3 million for the year ended 31 December 2017 to HK$140.5 million for the year ended 31 December 2018. The increase was primarily attributable to the increase in the business of the Group and the increase in employee benefit expenses paid for the sales team.

Administrative Expenses

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

Administrative expenses increased by 16.7% from HK$195.6 million for the year ended 31 December 2017 to HK$228.4 million for the year ended 31 December 2018. The increase was primarily attributable to the increase in employee benefit expenses paid to the employees and the increase in R&D expenses during the year ended 31 December 2018.

Finance Expenses — Net

Net finance expenses represent interest charges on our interest-bearing bank borrowing and interest income on our bank deposits. The Group had net finance expenses of HK$8.4 million and HK$5.9 million for the years ended 31 December 2018 and 2017, respectively, representing an increase of 41.7% as the Group's average bank borrowings increased during the year under review as a result of the funds required to pay for suppliers who demanded a shorter payment term.

Income Tax Expense

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

Income tax expense consists of current income tax and deferred income tax. Current income tax consists of the PRC enterprise income tax at a rate of 15% for a PRC subsidiary of the Company which was recognised as "New and High Technology Enterprises" and enjoys a preferential Corporate Income Tax rate and at a rate of 25% for the other PRC subsidiaries of the Company, respectively. Hong Kong profits tax is calculated at 16.5% of the estimated assessable profits for the Company's subsidiaries in Hong Kong. Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Income tax expense decreased from HK$43.3 million for the year ended 31 December 2017 to HK$12.5 million for the year ended 31 December 2018. The decrease in income tax expense was primarily due to the decrease in profit before income tax from HK$200.9 million for the year ended 31 December 2017 to HK$67.9 million for the year ended 31 December 2018 and the decrease in withholding tax of the Company's subsidiaries in the PRC. Profits contribution from the Hong Kong subsidiaries of the Company increased during the year under review and were taxed at the rate of 16.5%. As of 31 December 2018, the Group had fulfilled all its tax obligations and did not have any unresolved tax disputes.

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

Total comprehensive income for the year attributable to owners of the Company decreased by 89.7% to HK$20.4 million for the year ended 31 December 2018 from HK$197.9 million for the year ended 31 December 2017, including currency translation loss of HK$35.0 million as a result of the depreciation of Renminbi in 2018.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintains a strong and healthy position. As of 31 December 2018, net current assets was HK$216.1 million as compared with HK$272.7 million of 31 December 2017. As of 31 December 2018, current ratio was 1.19 times (2017: 1.24 times) (current ratio is calculated by using the following formula: current assets/current liabilities). Gearing ratio was 35.6% (2017: 31.7%) (gearing ratio is calculated by using the following formula: total borrowings/total equity). The increase in gearing ratio was mainly attributable to the increase in average bank borrowing to finance the shortened credit terms from the suppliers during the year ended 31 December 2018.

Cash generated from operations for the year ended 31 December 2018 was HK$163.5 million (2017: HK$265.7 million) and the decrease was mainly attributable to the shortened credit from the suppliers as a result of the increase in prices and short supply in raw materials during the year ended 31 December 2018.

Cash used in investing activities for the year ended 31 December 2018 was HK$139.6 million (2017: HK$166.9 million) and the decrease was mainly attributable to the slowdown in the investment in property, plant and equipment in view of the uncertainties in the macroeconomic environment.

During the year ended 31 December 2018, net cash generated from financing activities was HK$12.3 million (2017: net cash used HK$59.3 million).

DEBT MATURITY PROFILE

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

	As at 31 December	
	2018	2017
	HK$'000	*HK$'000*
Within 1 year	**147,907**	119,904
Between 1 and 2 years	**41,843**	36,496
Between 2 and 5 years	**17,847**	31,404
	207,597	187,804

FINANCIAL RISK MANAGEMENT

Foreign Exchange Risk

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

The Group generates a notable portion of revenue and receivables in USD and HK$, while our cost of sales is primarily denominated in RMB. For the year ended 31 December 2018, our revenue denominated in USD and HK$ amounted to approximately 66.5% of our total revenue.

The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and may enter into certain forward foreign exchange contracts, when necessary, to manage its exposure against foreign currencies and to mitigate the impact on exchange rate fluctuations. During the year ended 31 December 2018, no new forward foreign exchange contracts had been entered into by the Group.

Cash Flow and Fair Value Interest Rate Risk

As the Group has no significant interest-bearing assets (other than bank balances and cash), the Group's income and operating cash flows are substantially independent of changes in market interest rates. As of 31 December 2018, the Group has bank borrowings of HK$207.6 million (2017: HK$187.8 million) which is primarily denominated in HK$ and USD.

Credit Risk

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

As at 31 December 2018, all of the bank balances, term deposits and restricted bank deposits were deposited with highly reputable and sizable banks and financial institutions without significant credit risk in the PRC and Hong Kong. The management does not expect to incur any loss from non-performance by these banks and financial institutions. As at 31 December 2018 and 2017, the Group held bank balances, term deposits and restricted bank deposits totalling HK$204.7 million, and HK$208.2 million, respectively, with four major banks in the PRC and Hong Kong.

Liquidity Risk

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

CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any significant contingent liabilities.

HUMAN RESOURCES

The Group employed a total of approximately 6,500 full-time employees as of 31 December 2018 (2017: approximately 6,500). The Group believes its human resources are its valuable assets and maintains its firm commitment to attracting, developing and retaining talented employees, in addition to providing dynamic career opportunities and cultivating a favourable working environment. The Group constantly invests in training across diverse operational functions and offer competitive remuneration packages and incentives to all employees. The Group regularly reviews its human resources policies for addressing corporate development needs.

CORPORATE GOVERNANCE PRACTICES

The Board and the management of the Company are committed to abiding by the principles of good corporate governance with emphasis on transparency and accountability. The Board has established an audit committee (the "**Audit Committee**"), a nomination committee and a remuneration committee with defined terms of reference in accordance with the requirements set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has been in compliance with the code provisions set out in the CG Code throughout the year ended 31 December 2018 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 power supply industry in the PRC, has extensive experience in its business operation and management in general. The Board believes that vesting the two roles in the same person provides the Company with strong and consistent leadership and facilitates the implementation and execution of the Group's business strategies which is in the best interests of the Company. Under the leadership of Chairman Hung, the Board works effectively and performs its responsibilities with all key and appropriate issues discussed in a timely manner. In addition, as all major decisions are made in consultation with members of the Board and relevant Board committees, and there are three independent non-executive Directors offering independent perspectives, the Board is of the view that there are adequate safeguards in place to ensure sufficient balance of powers within the Board. The Board shall nevertheless review the structure and composition of the Board from time to time in light of prevailing circumstances, to maintain a high standard of corporate governance practices of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions of the Directors. Employees of the Group (the "**Relevant Employees**") who, because of their office or employment, are likely to possess inside information in relation to the Company or its securities are also subject to compliance with the Model Code. Following specific enquiry, each of the Directors has confirmed compliance with the Model Code throughout the year ended 31 December 2018 and up to the date of this announcement. No incident of non-compliance of the Model Code by the Relevant Employees was noted by the Company during the year ended 31 December 2018 and up to the date of this announcement.

FINAL AND SPECIAL FINAL DIVIDENDS

The Board has recommended the payments of a final dividend of HK1.5 cents (2017: HK2.5 cents) and a special final dividend of HK1.0 cent (2017: nil), respectively, per ordinary share of the Company for the year ended 31 December 2018 to the Company's shareholders. The proposed final dividend and special final dividend, subject to the approval of the Company's shareholders at the forthcoming annual general meeting to be held on Monday, 27 May 2019 (the "**2019 AGM**"), is expected to be paid on Friday, 28 June 2019 to all shareholders whose names to be appeared on the register of members of the Company on Wednesday, 12 June 2019.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 22 May 2019 to Monday, 27 May 2019 (both days inclusive) for the purpose of determining the right to attend and vote at the 2019 AGM. In order to be qualified for attending and voting at the 2019 AGM, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. (Hong Kong time) on Tuesday, 21 May 2019.

Conditional on the passing of the resolutions approving the declaration of the proposed final dividend and special final dividend at the 2019 AGM, the register of members of the Company will also be closed from Monday, 10 June 2019 to Wednesday, 12 June 2019 (both days inclusive) for the purpose of determining the entitlement to the proposed final dividend and special final dividend for the year ended 31 December 2018. In order to be qualified for the proposed final dividend and special final dividend (subject to the approval of the shareholders of the Company at the 2019 AGM), unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at the address stated above for registration not later than 4:30 p.m. (Hong Kong time) on Thursday, 6 June 2019.

AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENTS

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

The Audit Committee has reviewed the audited consolidated financial results of the Group for the year ended 31 December 2018 in conjunction with the Company's management. The Audit Committee has also reviewed the effectiveness of the risk management and internal control systems of the Company and considered the risk management and internal control systems to be effective and adequate.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

REVIEW OF PRELIMINARY ANNOUNCEMENT OF RESULTS BY THE INDEPENDENT AUDITORS

The figures in respect of the Group's annual results for the year ended 31 December 2018 as set out in this preliminary announcement have been agreed by the Group's independent auditors, PricewaterhouseCoopers, Certified Public Accountants of Hong Kong ("**PricewaterhouseCoopers**") to the amounts set out in the Group's consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by PricewaterhouseCoopers on this announcement of results.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.tenpao.com). The annual report for the year ended 31 December 2018 containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

By order of the Board
Ten Pao Group Holdings Limited
天寶集團控股有限公司
Hung Kwong Yee
Chairman & Chief Executive Officer

Hong Kong, 21 March 2019

As at the date of this announcement, the executive Directors are Mr. Hung Kwong Yee and Mr. Hung Sui Tak; and the independent non-executive Directors are Mr. Lam Cheung Chuen, Mr. Chu Yat Pang Terry and Mr. Lee Kwan Hung.