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TEN PAO GROUP HOLDINGS LIMITED

天寶集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1979)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

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 2021, together with comparative figures for the six months ended 30 June 2020 or other dates/periods, as follows:

FINANCIAL HIGHLIGHTS:

- Revenue for the six months ended 30 June 2021 increased by 88.0% to HK\$3,316.4 million, as compared with the same period of last year.
- Gross profit for the six months ended 30 June 2021 increased by 85.4% to HK\$567.5 million. Gross profit margin decreased by 0.3 percentage point to 17.1%, as compared with the same period of last year.
- Profit before income tax for the six months ended 30 June 2021 increased by 114.4% to HK\$248.5 million, as compared with the same period of last year.
- Profit attributable to owners of the Company for the six months ended 30 June 2021 increased by 100.0% to HK\$190.2 million, as compared with the same period of last year.
- The Board has resolved to distribute an interim dividend of HK5.7 cents per ordinary share for the six months ended 30 June 2021 (2020: HK3.0 cents per ordinary share).

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS*(All amounts in HK dollar thousands unless otherwise stated)*

		Six months ended 30 June	
	<i>Notes</i>	2021	2020
		(Unaudited)	(Unaudited)
Revenue	6	3,316,353	1,763,650
Cost of sales	8	(2,748,838)	(1,457,547)
Gross profit		567,515	306,103
Other income	7	8,858	5,462
Other (losses)/gains — net	7	(10,052)	6,880
Selling expenses	8	(126,704)	(78,120)
Administrative expenses	8	(188,727)	(119,858)
Reversal of net impairment losses/(net impairment losses) on financial assets		504	(774)
Operating profit		251,394	119,693
Finance income	9	1,694	649
Finance expenses	9	(4,596)	(4,460)
Finance expenses — net		(2,902)	(3,811)
Profit before income tax		248,492	115,882
Income tax expenses	10	(53,535)	(20,999)
Profit for the period attributable to:			
Owners of the Company		190,195	95,106
Non-controlling interests		4,762	(223)
		194,957	94,883
Earnings per share for the period			
— basic and diluted per share	11	HK\$0.19	HK\$0.10

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in HK dollar thousands unless otherwise stated)

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
Profit for the period	<u>194,957</u>	<u>94,883</u>
Other comprehensive income:		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Currency translation differences	16,097	(19,062)
Change in the fair value of equity investments at fair value through other comprehensive income	<u>(4,091)</u>	<u>—</u>
	12,006	(19,062)
Total comprehensive income for the period attributable to:		
Owners of the Company	202,201	76,044
Non-controlling interests	<u>4,762</u>	<u>(223)</u>
	<u>206,963</u>	<u>75,821</u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

(All amounts in HK dollar thousands unless otherwise stated)

	<i>Notes</i>	30 June 2021 (Unaudited)	31 December 2020 (Audited)
ASSETS			
Non-current assets			
Land use rights	13	5,042	5,205
Property, plant and equipment	13	760,990	585,214
Right-of-use assets	14	144,829	116,611
Investment properties	15	7,700	7,100
Intangible assets	13	10,742	11,009
Deferred income tax assets	26	46,146	37,152
Derivative financial instruments — non-current	18	276	—
Financial assets at fair value through other comprehensive income	19	9,374	12,487
Financial assets at fair value through profit or loss	20	15,182	3,131
Prepayments for the purchase of property, plant and equipment		<u>47,670</u>	<u>31,210</u>
		<u>1,047,951</u>	<u>809,119</u>
Current assets			
Inventories	16	1,051,872	1,039,894
Trade and other receivables	17	1,680,971	1,216,560
Amounts due from related parties	28(b)	246	1,464
Cash and cash equivalents		120,502	426,573
Restricted bank deposits	21	<u>132,874</u>	<u>138,855</u>
		<u>2,986,465</u>	<u>2,823,346</u>
Total assets		<u>4,034,416</u>	<u>3,632,465</u>
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	22	10,005	10,005
Share premium	22	125,788	125,788
Other reserves		132,672	120,701
Retained earnings		<u>935,225</u>	<u>745,030</u>
Equity attributable to owners of the Company		<u>7,685</u>	<u>(718)</u>
Non-controlling interests		<u>7,685</u>	<u>(718)</u>
Total equity		<u>1,211,375</u>	<u>1,000,806</u>

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

	<i>Notes</i>	30 June 2021 (Unaudited)	31 December 2020 (Audited)
LIABILITIES			
Non-current liabilities			
Non-current bank borrowings	23	116,601	86,109
Lease liabilities — non-current	14	29,132	6,027
Derivative financial instruments — non-current	18	5,944	8,945
Deferred income tax liabilities	26	94,144	88,031
Deferred government grants	24	53,566	44,191
		<hr/> 299,387	<hr/> 233,303
Current liabilities			
Trade and other payables	25	2,111,643	2,090,532
Contract liabilities		18,314	14,253
Amounts due to related parties	28(c)	33,870	17,560
Dividend payable		12	12
Income tax liabilities		42,112	51,185
Lease liabilities — current	14	6,856	1,646
Derivative financial instruments — current	18	88	—
Short-term bank borrowings	23	238,897	142,850
Current portion of non-current bank borrowings	23	71,862	80,318
		<hr/> 2,523,654	<hr/> 2,398,356
Total liabilities		<hr/> 2,823,041	<hr/> 2,631,659
Total equity and liabilities		<hr/> 4,034,416	<hr/> 3,632,465

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(All amounts in HK dollar thousands unless otherwise stated)

For the six months ended 30 June 2021 (unaudited)	Other Reserves											Total Equity
	Share Capital	Share Premium	Statutory Reserves	Capital Reserves	Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI)	Exchange Reserves	Share Options	Total	Retained Earnings	Total	Non- Controlling Interests	
Balance at 1 January 2021	10,005	125,788	76,358	338	(4,275)	42,812	5,468	120,701	745,030	1,001,524	(718)	1,000,806
Comprehensive income												
Profit for the period	—	—	—	—	—	—	—	—	190,195	190,195	4,762	194,957
Other comprehensive income												
Currency translation difference	—	—	—	—	(289)	16,386	—	16,097	—	16,097	—	16,097
Fair value change of FVOCI	—	—	—	—	(4,091)	—	—	(4,091)	—	(4,091)	—	(4,091)
Total comprehensive income	—	—	—	—	(4,380)	16,386	—	12,006	190,195	202,201	4,762	206,963
Transaction with owners												
Capital contributed by non-controlling interests (Note 28(d))	—	—	—	(35)	—	—	—	(35)	—	(35)	3,641	3,606
Total transactions with owners, recognised directly in equity	—	—	—	(35)	—	—	—	(35)	—	(35)	3,641	3,606
Balance at 30 June 2021 (unaudited)	10,005	125,788	76,358	303	(8,655)	59,198	5,468	132,672	935,225	1,203,690	7,685	1,211,375

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

(All amounts in HK dollar thousands unless otherwise stated)

For the six months ended 30 June 2020 (unaudited)	Other Reserves							Total	Retained Earnings	Total	Non- Controlling Interests	Total Equity
	Share Capital	Share Premium	Statutory Reserves	Capital Reserves	FVOCI	Exchange Reserves	Share Options					
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	—	—	—	—	—	—	—	—	(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 CASH FLOWS

(All amounts in HK dollar thousands unless otherwise stated)

	<i>Notes</i>	Six months ended 30 June	
		2021	2020
		(Unaudited)	(Unaudited)
Cash flows (used in)/generated from operating activities			
Cash (used in)/generated from operations		(112,097)	58,967
Interest paid		(5,034)	(4,540)
Income tax paid		(66,950)	(15,525)
		(184,081)	38,902
Cash flows from investing activities			
Purchase of property, plant and equipment		(253,740)	(61,652)
Purchase of intangible assets		(579)	(2,231)
Purchase of right-of-use assets		—	(69,044)
Proceeds from disposal of property, plant and equipment		9,832	3,621
Addition of financial assets at fair value through profit or loss		(12,018)	(5,474)
Grants from government related to assets	24	12,467	6,826
		(244,038)	(127,954)
Cash flows from financing activities			
Proceeds from bank borrowings	23	1,058,039	816,875
Repayments of bank borrowings	23	(944,163)	(684,914)
Dividends paid		—	(28,009)
Capital contributed by non-controlling interests	28	3,606	—
Decrease/(increase) in restricted bank deposits		5,981	(64,241)
Principal elements of lease payments		(4,300)	(661)
		119,163	39,050
Net cash generated from financing activities		119,163	39,050
Net decrease in cash and cash equivalents		(308,956)	(50,002)
Cash and cash equivalents at beginning of the period		426,573	158,031
Exchange gains/(losses) on cash and cash equivalents		2,885	(1,886)
		120,502	106,143
Cash and cash equivalents at end of the period		120,502	106,143
Analysis of balance of cash and cash equivalents:			
Cash and cash on hand		120,502	106,143

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 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 23 August 2021 and has not been audited.

2 BASIS OF PREPARATION

This Interim Financial Information for the six months ended 30 June 2021 (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 2020 (the “**2020 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 2020 Financial Statements, as described in those annual financial statements, except for the adoption of amendments to HKASs effective for the financial year beginning 1 January 2021.

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting the standard.

- Interest Rate Benchmark Reform — Phase 2 — Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16

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 HKAS 1	Classification of liabilities as current or non-current	1 January 2022
Amendment to HKFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendment to HKAS 37	Cost of Fulfilling a Contract	1 January 2022
Amendment to HKAS 16	Proceeds before Intended Use	1 January 2022
Annual improvements project HKFRS 17	Annual improvements 2018–2020 cycle Insurance contracts	1 January 2022 1 January 2023
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associates or joint ventures	To be determined

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 2020 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 2020 Financial Statements.

There have been no changes in the risk management function since 31 December 2020 or in any risk management policies since 31 December 2020.

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2 Liquidity risk

Compared to the year ended 31 December 2020, 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.

5.3 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 2021 and 31 December 2020.

	As at 30 June 2021 (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 — non-current	—	—	15,182	15,182
Financial assets at fair value through comprehensive income — non-current	—	—	9,374	9,374
Derivative financial assets — non-current	—	276	—	276
Liabilities				
Derivative financial instruments — non-current	—	5,944	—	5,944
Derivative financial instruments — current	—	88	—	88

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Fair value estimation (continued)

	As at 31 December 2020 (audited)			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Recurring fair value measurements				
Assets				
Financial assets at fair value through profit or loss — non-current	—	—	3,131	3,131
Financial assets at fair value through comprehensive income — non-current	—	—	12,487	12,487
Liabilities				
Derivative financial instruments — current	—	8,945	—	8,945

(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.

(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.

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Fair value estimation (continued)

Note that all the resulting fair value estimates are included in level 2 except for unlisted equity investments and insurance for the Controlling Shareholder 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 2020	3,131	Discounted cash flow	Discount rate Death benefit Holding time	3.65% 80% of insurance fee Hold before 99 years old
As at 30 June 2021	3,165	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 2020	12,487	Discounted cash flow	Net profit rate Discount rate	8.1%–13.0% 15.00%
As at 30 June 2021	21,391	Discounted cash flow	Net profit rate Discount rate	7.6%–25.3% 15.00%

The following table presents the changes in level 3 instruments for the half-year ended 30 June 2021:

	Unlisted equity investments HK\$'000	Insurance for the Controlling Shareholder HK\$'000	Total HK\$'000
Opening balance at 31 December 2020 (audited)	12,487	3,131	15,618
Gains recognised in other (losses)/gains			
— net	—	33	33
Fair value change in FVOCI	(3,256)	—	(3,256)
Additions	12,017	1	12,018
Currency translation differences	143	—	143
Closing balance at 30 June 2021 (unaudited)	21,391	3,165	24,556

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Fair value estimation (continued)

(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		Unobservable inputs*	Range of inputs (probability-weighted average)		Relationship of unobservable inputs to fair value
	30 Jun 2021 HK\$'000	31 Dec 2020 HK\$'000		2021	2020	
Unlisted equity investments	21,391	12,487	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\$1,903,000;
			Net profit rate	18%–20%	10%–12%	Higher discount rate for discounting estimated cash flows (+1%) and lower net profit rate (–1%) would decrease FV by HK\$1,667,000.

* 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.

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 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 2021 (unaudited)							
Revenue							
Revenue from external customers							
— At a point in time	<u>1,367,648</u>	<u>218,350</u>	<u>73,246</u>	<u>1,303,648</u>	<u>235,766</u>	<u>117,695</u>	<u>3,316,353</u>
Segment results	<u>224,773</u>	<u>29,693</u>	<u>15,208</u>	<u>239,958</u>	<u>37,882</u>	<u>20,001</u>	567,515
Other income							8,858
Other losses — net							(10,052)
Selling expenses							(126,704)
Administrative expenses							(188,727)
Reversal of net impairment losses on financial assets							504
Finance expenses — net							<u>(2,902)</u>
Profit before income tax							<u>248,492</u>

6 SEGMENT INFORMATION (CONTINUED)

	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	<u>599,289</u>	<u>167,783</u>	<u>89,884</u>	<u>710,015</u>	<u>146,850</u>	<u>49,829</u>	<u>1,763,650</u>
Segment results	<u>70,794</u>	<u>33,181</u>	<u>18,098</u>	<u>142,972</u>	<u>28,625</u>	<u>12,433</u>	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							<u>(3,811)</u>
Profit before income tax							<u>115,882</u>

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

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
PRC (excluding Hong Kong)	832,058	665,512
Hungary	74,280	76,429
Vietnam	50,755	—
Hong Kong	19,874	14,369
Others	<u>6</u>	<u>39</u>
	<u>976,973</u>	<u>756,349</u>

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

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
Other income		
Sales of scrap materials	3,419	1,412
Sales of raw materials, sample and molds	2,347	705
Safety fee income	1,001	886
Rental income	854	702
Others	1,237	1,757
	<u>8,858</u>	<u>5,462</u>
Other (losses)/gains — net		
Fair value changes on derivative financial instruments	3,188	(2,734)
Fair value changes on financial assets at fair value through profit or loss	33	31
Fair value changes on investment properties (<i>Note 15</i>)	600	(300)
Net foreign exchange (losses)/gains	(18,676)	344
Government grants	4,073	6,642
Loss on disposal of property, plant and equipment	(445)	(237)
Others	1,175	3,134
	<u>(10,052)</u>	<u>6,880</u>

8 EXPENSES BY NATURE

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
Changes in inventories of finished goods and work in progress	51,209	74,460
Raw materials and consumables used	2,293,312	1,132,288
Allowance for impairment of inventory	28,757	11,737
Employee benefit expenses	387,468	251,686
Depreciation, amortisation and impairment charges	49,748	36,158
Water and electricity expenses	20,131	14,399
Transportation and travelling expenses	33,740	13,998
Maintenance expenses	21,784	10,641
Consultancy fee	6,737	6,766
Entertainment expenses	2,342	1,468
Research and development expenses		
— Employee benefit expenses	62,605	38,290
— Depreciation and amortisation	8,842	4,788
— Raw materials, consumables used and others	30,754	11,615
Commission expenses	17,903	9,180
Certificate and detection fees	9,014	3,498
Business tax and surcharge	6,515	6,547
Other taxes and levies	3,813	2,121
Operating lease payments	10,128	8,883
Advertising costs	2,812	2,960
Commercial insurance	6,162	3,433
Communication expenses	1,191	1,694
Bank charges	888	737
Auditors' remuneration	2,524	2,355
Other expenses	5,890	5,823
	<hr/>	<hr/>
Total cost of sales, selling expenses and administrative expenses	3,064,269	1,655,525
	<hr/>	<hr/>

9 FINANCE INCOME AND EXPENSES

	Six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
Finance expenses:		
Interest on bank borrowings	(4,222)	(4,444)
Interest on lease liabilities (<i>Note 14</i>)	(374)	(16)
	<u>(4,596)</u>	<u>(4,460)</u>
Finance income:		
Interest income	1,694	649
	<u>1,694</u>	<u>649</u>
Net finance expenses	<u>(2,902)</u>	<u>(3,811)</u>

10 INCOME TAX EXPENSES

	Six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
Current income tax		
— PRC corporate income tax	37,127	12,823
— Hong Kong profits tax	20,750	9,437
	<u>57,877</u>	<u>22,260</u>
Subtotal	57,877	22,260
Deferred income tax (<i>Note 26</i>)	(4,342)	(1,261)
	<u>53,535</u>	<u>20,999</u>

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 (2020 interim: 8.25%).

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% (2020 interim: 15%).

11 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	
	2021 (Unaudited)	2020 (Unaudited)
Profit attributable to owners of the Company (HK\$'000)	190,195	95,106
Weighted average number of shares issued (thousands)	1,000,456	1,000,456
Basic earnings per share (HK cents)	19	10

(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.

Diluted earnings per share presented is the same as basic earnings per share as there was no potentially dilutive ordinary share outstanding as at 30 June 2021 and 2020.

12 DIVIDENDS

The Board resolved on 23 August 2021 to declare an interim dividend of HK5.7 cents per ordinary share for the six months ended 30 June 2021 (2020 interim: HK3.0 cents per share). This interim dividend, amounting to HK\$57.0 million (2020 interim: HK\$30.0 million), has not been recognised as a liability in this Interim Financial Information.

On 28 May 2021, a final dividend of HK5.5 cents per ordinary share in respect of the year ended 31 December 2020, amounting to HK\$55,025,000, was approved by the then shareholders of the Company.

13 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 2020	5,205	585,214	11,009
Additions	—	228,380	579
Disposals	—	(10,277)	—
Currency translation differences	(163)	9,994	116
Depreciation/amortisation	—	(52,321)	(962)
	<hr/>	<hr/>	<hr/>
Net book amount as at 30 June 2021 (unaudited)	5,042	760,990	10,742
	<hr/>	<hr/>	<hr/>
Net book amount as at 1 January 2020	4,763	495,038	10,600
Additions	—	173,230	3,653
Disposals	—	(8,320)	(1,217)
Impairment charge	—	(2,189)	—
Currency translation differences	442	11,791	667
Depreciation/amortisation	—	(84,336)	(2,694)
	<hr/>	<hr/>	<hr/>
Net book amount as at 31 December 2020 (audited)	5,205	585,214	11,009
	<hr/>	<hr/>	<hr/>

As at 30 June 2021, the Group's interests in land use rights represented freehold land in Hungary.

14 LEASES

This note provides information for leases where the Group is a lessee.

(a) Amounts recognised in the balance sheet

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

	30 June 2021 <i>HK\$'000</i> (Unaudited)	31 December 2020 <i>HK\$'000</i> (Audited)
Right-of-use assets		
Land use rights	108,944	108,862
Buildings	35,885	7,749
	144,829	116,611
Lease liabilities		
Current	6,856	1,646
Non-current	29,132	6,027
	35,988	7,673

(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 2021 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Unaudited)
Depreciation and amortisation charge of right-of-use assets		
Land use rights	1,156	735
Buildings	4,151	697
	5,307	1,432
Interest expenses (included in finance expenses — net) (<i>Note 9</i>)	374	16
Expenses relating to short-term leases (included in cost of sales, selling expenses and administrative expenses)	10,128	8,883

15 INVESTMENT PROPERTIES

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
At fair value		
At beginning of period	7,100	7,500
Net gains/(losses) from fair value adjustment	600	(400)
At end of period	7,700	7,100

As at 30 June 2021, the Group had no unprovided contractual obligations for future repairs and maintenance (31 December 2020: Nil).

The valuation of the Group's investment properties was performed by Dudley Surveyors Limited at 30 June 2021 and 31 December 2020, to determine the fair value of the investment properties. The revaluation gains or losses are included in 'Other (losses)/gains — 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.

Description	Quoted prices in active markets for identical assets Level 1	Office units – Hong Kong		Total
		Significant other observable inputs Level 2	Significant unobservable inputs Level 3	
Recurring fair value measurements method				
Investment properties:				
As at 30 June 2021 (unaudited)	—	7,700	—	7,700
As at 31 December 2020 (audited)	—	7,100	—	7,100

There were no transfers between Level 1, 2, and 3 during the Period (31 December 2020: Nil).

As at 30 June 2021, the Group's bank borrowings were secured over investment properties with the carrying amounts of HK\$7,700,000 (31 December 2020: HK\$7,100,000) (Note 23(a)).

16 INVENTORIES

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Raw materials	517,239	438,764
Work in progress	176,097	265,185
Finished goods	436,219	384,374
	<u>1,129,555</u>	<u>1,088,323</u>
Less: allowance for impairment	(77,683)	(48,429)
	<u>1,051,872</u>	<u>1,039,894</u>

17 TRADE AND OTHER RECEIVABLES

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Trade receivables	1,621,909	1,141,969
Less: allowance for impairment of trade receivables	(3,069)	(3,536)
	<u>1,618,840</u>	<u>1,138,433</u>
Trade receivables, net	1,618,840	1,138,433
Bills receivable	36	560
Prepayments	16,068	18,544
Deposits	19,947	15,034
Advances to employees	1,878	950
Value added tax allowance	6,476	14,053
Employee welfare	5,519	5,808
Export tax refund receivables	4,356	8,935
Others	7,851	14,243
	<u>1,680,971</u>	<u>1,216,560</u>

17 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 2021 (Unaudited)	31 December 2020 (Audited)
Less than 3 months	1,347,946	1,041,274
More than 3 months but not exceeding 1 year	273,963	100,695
	<u>1,621,909</u>	<u>1,141,969</u>

As at 30 June 2021, the carrying amounts of the receivables were approximate to their fair values.

As at 30 June 2021, the Group's bank borrowings were secured over trade and other receivables with the carrying amounts of HK\$236,018,000 (31 December 2020: HK\$340,188,000) (Note 23(a)).

18 DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Derivative financial assets — Non-current	276	—
Derivative financial liabilities — Current	88	—
Derivative financial liabilities — Non-current	5,944	8,945
	<u>Amount</u>	<u>Notional amount</u>
As at 30 June 2021 (unaudited)		
Derivative financial assets — Non-current		
Types of contracts		
Interest rate swap contracts	276	40,667
Derivative financial liabilities — Current		
Types of contracts		
Interest rate swap contracts	88	9,442
Derivative financial liabilities — Non-current		
Types of contracts		
Interest rate swap contracts	5,944	135,790
As at 31 December 2020 (audited)		
Derivative financial liabilities — Non-current		
Types of contracts		
Interest rate swap contracts	8,945	168,876

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

19 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Equity investments at FVOCI comprise the following individual investments:

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Non-current assets		
<i>Unlisted equity investments</i>		
GCteq Wireless (Shenzhen) Co., Ltd.	6,180	6,110
Qingdao Eolock Intelligent Technology Co., Ltd.	3,194	6,377
	9,374	12,487

The following table presents the changes in FVOCI for the six months ended 30 June 2021 and 30 June 2020:

	Six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
Opening balance as at 1 January	12,487	17,017
Fair value change	(3,256)	—
Currency translation differences	143	(327)
Closing balance as at 30 June	9,374	16,690

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

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Fair value of insurance contract for a member of key management	3,165	3,131
Fair value of unlisted equity investments in Chengdu Emfuture Automotion Engineering Co., Ltd.	12,017	—
	15,182	3,131

Changes in fair value of financial assets at fair value through profit or loss are recorded in 'Other (losses)/ gains — net' in the interim condensed consolidated statement of profit or loss (Note 7).

The fair value of the insurance and the fair value of unlisted equity investments in Chengdu Emfuture Automation Engineering Co., Ltd. are based on the unobservable inputs.

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

As at 30 June 2021, the Group's bank borrowings were secured over financial assets at fair value through profit or loss with the carrying amounts of HK\$15,182,000 (31 December 2020: HK\$3,131,000) (Note 23(a)).

21 RESTRICTED BANK DEPOSITS

As at 30 June 2021, bank deposits amounting to HK\$79,127,000 (31 December 2020: HK\$138,855,000) are deposits held by the bank in a segregated account as security for borrowings from the bank (Note 23(a)). The remaining bank deposits amounting to HK\$53,747,000 (31 December 2020: Nil) are deposits held by the bank in a segregated account as security for notes payable (Note 25).

As at 30 June 2021, the weighted average interest rate was 2.24% (31 December 2020: 3.01%).

22 SHARE CAPITAL AND SHARE PREMIUM

Ordinary shares, issued and fully paid:

	Number of ordinary shares <i>(thousands)</i>	Share capital <i>(HK\$'000)</i>	Share premium <i>(HK\$'000)</i>
As at 1 January 2021, 30 June 2021, 1 January 2020 and 31 December 2020	1,000,456	10,005	125,788

23 BORROWINGS

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Non-current		
Bank borrowings		
— secured (a)	188,463	166,427
Less: current portion of non-current borrowings	(71,862)	(80,318)
	116,601	86,109
Current		
Bank borrowings		
— secured (a)	92,526	142,850
— unsecured	146,371	—
Total short-term bank borrowings	238,897	142,850
Current portion of non-current borrowings	71,862	80,318
	310,759	223,168
Total borrowings	427,360	309,277

Movement in borrowings is as follows:

	Six months ended 30 June 2021 (Unaudited)	2020 (Unaudited)
Opening balance as at 1 January	309,277	161,807
Proceeds from borrowings	1,058,039	816,875
Repayments of borrowings	(944,163)	(684,914)
Currency translation differences	4,207	(773)
Closing balance as at 30 June	427,360	292,995

23 BORROWINGS (CONTINUED)

- (a) As at 30 June 2021, bank borrowings amounting to HK\$280,989,000 (31 December 2020: HK\$309,277,000) are secured over the following assets, the remaining borrowings are credit loan:

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Restricted bank deposits (<i>Note 21</i>)	79,127	138,855
Financial assets at fair value through profit or loss — non current (<i>Note 20</i>)	15,182	3,131
Investment properties (<i>Note 15</i>)	7,700	7,100
Trade and other receivables (<i>Note 17</i>)	236,018	340,188
	<u>338,027</u>	<u>489,274</u>

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

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
HK\$	334,778	173,604
RMB	35,000	82,879
USD	57,582	52,794
	<u>427,360</u>	<u>309,277</u>

24 DEFERRED GOVERNMENT GRANTS

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Opening net book amount	44,191	27,225
Receipt of grants	12,467	15,285
Credited to statement of profit or loss	(2,782)	(159)
Currency translation differences	(310)	1,840
	<u>53,566</u>	<u>44,191</u>

Receipt of grants during the Period mainly represented fiscal and tax incentives, and decoration subsidy from Dazhu Economic Development Zone amounted to RMB10,316,000 (equivalent to HK\$12,397,000) in 2021.

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

25 TRADE AND OTHER PAYABLES

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Trade payables	1,594,865	1,715,975
Notes payable	220,038	111,153
Wages and staff welfare benefits payable	238,582	218,895
Accrual for expenses and other payables	54,689	34,976
Other taxes payables	3,469	9,533
	<u>2,111,643</u>	<u>2,090,532</u>

The ageing analysis of trade payables is as follows:

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Less than 3 months	1,223,344	1,347,344
More than 3 months but not exceeding 1 year	371,521	361,704
More than 1 year	—	6,927
	<u>1,594,865</u>	<u>1,715,975</u>

The fair value of trade and other payables approximated their carrying amounts as at 30 June 2021 and 31 December 2020.

26 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	
	2021 (Unaudited)	2020 (Unaudited)
Deferred income tax assets		
Opening balance as at 1 January	37,152	22,517
Recognised in the profit or loss	9,437	6,129
Recognized in the other comprehensive income	(835)	—
Currency translation differences	392	(459)
	<u>46,146</u>	<u>28,187</u>
Closing balance as at 30 June	<u>46,146</u>	<u>28,187</u>

26 DEFERRED INCOME TAX ASSETS AND LIABILITIES (CONTINUED)

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
Deferred income tax liabilities		
Opening balance as at 1 January	88,031	59,726
Recognised in the profit or loss	5,095	4,868
Currency translation differences	1,018	(1,201)
	<hr/>	<hr/>
Closing balance as at 30 June	94,144	63,393
	<hr/>	<hr/>

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 2021, the Group did not recognise deferred income tax asset of HK\$1,857,000 (31 December 2020: HK\$2,650,000) in respect of the tax losses amounting to HK\$12,980,000 (31 December 2020: HK\$17,542,000), as their recoverability is uncertain.

As of 30 June 2021, the Group had tax loss carryforwards of HK\$42,574,000 (31 December 2020: HK\$37,864,000) 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	31 December
	2021	2020
	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	10,439,000	10,439,000
2025	17,319,000	17,319,000
2026	4,710,000	—
	<hr/>	<hr/>
	42,574,000	37,864,000
	<hr/>	<hr/>

27 COMMITMENTS

(a) Operating lease commitments

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

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Not later than one year	6,848	9,657

(b) Capital commitments

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
In respect of the acquisitions of plant and equipment, contracted but not provided for	10,996	52,000

28 RELATED PARTY TRANSACTIONS

The following is a summary of significant related party transactions entered into in 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	
	2021 (Unaudited)	2020 (Unaudited)
Purchase of goods		
Golden Ocean Copper Manufacturer Co., Limited	49,133	27,900

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

28 RELATED PARTY TRANSACTIONS (CONTINUED)

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

(ii) Operating lease expenses

	Six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
Huizhou Golden Ocean Wire Co., Limited	1,748	1,673
Huizhou Tiannengyuan Charging Technology Co., Ltd.	2,836	2,709
Sky Fortune Enterprise Limited	348	348
	4,932	4,730

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 2021		31 December 2020	
	<i>Maximum balance outstanding during the Period</i>	(Unaudited)	<i>Maximum balance outstanding during the year</i>	(Audited)
Huizhou Tiannengyuan Charging Technology Co., Ltd.	1,516	—	1,248	1,248
Huizhou Golden Ocean Wire Co., Limited	90	46	112	100
Sky Fortune Enterprise Limited	116	116	116	116
Golden Lake (HK) Co., Limited	84	84	44	—
	1,806	246	1,520	1,464

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 2021.

28 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Balances due to related parties

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Huizhou Tiannengyuan Charging Technology Co., Ltd	258	—
Huizhou Golden Ocean Wire Co., Limited	320	318
Golden Ocean Copper Manufacturer Co., Limited	<u>33,292</u>	<u>17,242</u>
	<u>33,870</u>	<u>17,560</u>

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 2021.

(d) Other related party transactions

In January 2021, Madame Yang Bingbing, a Director of the Company, and Mr Hong Wei Xie, senior management of the Group, had contributed RMB1,500,000 and RMB1,500,000, respectively, and obtained 3% and 3% equity interests, respectively, of Dazhou Ten Pao Jin Hu Electronic Co., Ltd, a wholly owned subsidiary of the Group. The difference between the capital contribution of RMB3,000,000 (equivalent to HK\$3,606,000) and 6% equity interests in net assets of the above company on the date of contribution of RMB30,000 (equivalent to HK\$35,000) is included in capital reserve of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

Ten Pao is an industry-leading smart power supply solutions provider. Over the past 40 and more years, the Group's strong research and development capabilities, high-quality management team, diversified product portfolio and thoughtful value-added customer services have enabled Ten Pao to win the recognition of many domestically and internationally renowned brands and to actively drive the technological innovation in the power supply industry.

Ten Pao's business performance remained steady during the first half of 2021, despite ongoing impact from the COVID-19 pandemic and geopolitical tensions. During the first half of the year, Ten Pao's management team took proactive response measures, including continuously expanding the Group's international diversified customer portfolio, optimising global production capacity planning and enhancing the automation efficiency of production bases. The Group also strategically improved the resilience of its raw materials and supply chain structure, thus successfully strengthening the Group's operational flexibility, risk resistance and cash flow turnover. For the six months ended 30 June 2021 (the "Period"), revenue increased by 88.0% to HK\$3,316.4 million compared to the same period last year. Revenue growth was mainly driven by the overall business segment of power supply products with increased customer orders. While continuing to develop its business, the Group also strengthened cost control measures during the Period, and pushed ahead with domestic and overseas production capacity planning and raw material price and demand management. Additionally, the management further improved management efficiency to reduce operating costs and achieve economies of scale. As a result, profits during the Period increased. Profit before tax was HK\$248.5 million, while profit attributable to owners of the Company increased by 100.0% to HK\$190.2 million over the same period last year. Basic earnings per share for the Period rose to HK19 cents from HK10 cents in the same period in 2020.

To reward the long-term support of the shareholders of the Company and share the business results, the Board decided to pay an interim dividend of HK5.7 cents per ordinary share (2020: HK3.0 cents per ordinary share) for the six months ended 30 June 2021.

Market and Business Review

During the Period, the economy of the People's Republic of China (the "PRC") continued to improve. According to data from the State Council, the GDP in the second quarter of 2021 amounted to approximately 53.22 trillion Renminbi (RMB), a year-on-year increase of 12.7%. However, during the Period, raw materials for the electronics manufacturing industry fell short in supply, and international logistics was affected by social distancing measures in individual regions. Market recovery remained unstable. The business development strategy that Ten Pao has been actively pursuing played an important role at this time. The main customers of the Group are mostly international brand enterprises with strong fundamentals and robust risk resistance. In terms of material supply management, Ten Pao maintained good communication with suppliers and customers, and ably applied strategies to manage the raw material supply chain to reduce the impact of raw material supply and price instability on Ten Pao, thus enabling the Group to maintain a stable gross profit margin and capture market opportunities in difficult times.

For the six months ended 30 June 2021, the Group's business segment of power supply units for consumer products continued to develop. During the Period, the number of customer orders increased, and segment revenue amounted to HK\$2,012.7 million, accounting for 60.7% of total revenue of the Group. The segment gross profit was about HK\$327.6 million, and the segment gross profit margin was 16.3%. 2021 marks the commencement year of the PRC's 14th "five-year plan", with the government actively promoting the economic "dual circulation strategy" to stimulate consumption. Strong demand for various electronic consumer products drove up demand for Ten Pao's high-end smart fast charging and flash-charging products. The good performance of this segment also reflects the Group's appropriate deployment of forward-looking strategies. The Group's production facility in Dazhou City, Sichuan Province, has the geographical and logistics advantages of being in close proximity to the main production centres of customers, including two of the top five leading smartphone manufacturers in the PRC that have in-depth cooperation with the Group. Completion of the second phase expansion of the Dazhou plant during the Period also provided additional production capacity, enabling the Group to capture market opportunities from the increasing customer demand for high-end smart fast charging and flash-charging products, and to benefit from the increase in the number of customer orders in the business segment of power supply units for consumer products.

During the Period, the Group continued with measures to enhance production efficiency and cost control. Regarding the supply of raw materials, the Group had, since the end of 2020, anticipated that the raw material supply market would be unstable and prices would begin to fluctuate. In order to alleviate the impact, Ten Pao proactively communicated with major raw material suppliers, established long-term strategic relationships with them, actively promoted materials standardisation, and built up a strategic reserve of raw materials during the Period. The Group also reached agreement with major customers to accept Ten Pao's adjustment of product prices to alleviate the cost pressure on the Group brought by the increase in raw material prices. In addition, the Group regularly increased the proportion of production automation to reduce pressure on the business caused by the continuous rise in labour costs. This, at the same time, helped to strengthen product quality monitoring and overall production efficiency. As a result, the gross profit during the Period could still maintain an increase despite the unstable supply of raw materials.

To support continuous business development and meet customer order demands, the Group is committed to establishing a flexible and global production layout that will also reduce the impact of geopolitical instability. In terms of overseas production capacity, apart from the expansion of the plant in Hungary, the production base in Vietnam has officially commenced mass production in the second quarter of 2021, and production lines will be added as planned. At present, the local production expansion plan in Vietnam is in progress. It is expected that additional production capacity will be provided in the second half of 2021 to meet customer order requirements and to help the Group disperse the impacts of geopolitical instability. In terms of domestic production capacity, the second phase of the production expansion plan in Dazhou City, Sichuan Province has been completed as scheduled to align with customer developments. At the same time, the construction of the digital and intelligent manufacturing base in Huizhou Industrial Park is well underway and the base is expected to begin operation in 2022.

Prospect

Entering the second half of 2021, the Group expects that the impact of the COVID-19 pandemic and geopolitical instability will continue. As demand in the automotive market heats up, the shortage of automotive chips will likewise affect the upstream material of silicon wafers. It is anticipated that the shortage of electronic raw materials will remain unabated within this year and the global economy will not be able to get back on track speedily. Thus, business in the second half of the year will continue to be adversely affected by rising raw material prices and shortage in raw material supply. However, considering the continued economic recovery in the PRC and the Central Government's emphasis, as clearly stated in the 14th Five-Year Plan, on the fundamental role of consumption in economic development and promotion of consumption activities as an important pillar of the national economy, domestic market demand for consumer electronics is expected to remain high. The Group remains cautiously optimistic about the overall business in the second half of the year and will continue to carefully monitor changes in the external environments. At the same time, the Group will put effort into diversifying its business and improving cost-effectiveness, in line with the expansion of its global production capacity, dispersion of external risks and consolidation of the Group's core competitiveness.

In recent years, changes in the external environments have accelerated the development of many industries. Among these, the new energy industry has attracted much market attention. Many governments, including that of the PRC, have actively implemented policies and cooperated with giants in various industries to promote the construction of a new energy infrastructure. Since the establishment of a new energy business division last year, the Group has focused on investing resources in the research and development and production of new energy products, and has actively explored customer sources to capture the abundant market opportunities in the southwestern region of the PRC, one of the major production hubs for new energy vehicles. Last year, Ten Pao entered into an agreement with an internationally renowned energy company, pursuant to which Ten Pao was granted a license for the use of its trademark on portable power station and portable electric vehicle chargers for new energy vehicles and marketing rights. The portable electric vehicle chargers for new energy vehicles have been launched on online retail platforms in North America in the second quarter of 2021. Online retail for the portable power station will begin in the second half of the year. Current sales are in line with expectations. The Group plans to continue to develop offline platforms in the second half of 2021, explore more market opportunities and improve sales performance in this field. At the same time, the Group will continue to deepen its efforts in new energy industries such as automotive electronics and green mobility, and jointly research and develop with potential customers more smart charging equipment, including power products such as charging piles, intelligent charging cabinets and portable power station. Concurrently, with the popularisation and commercialisation of 5G technology in the PRC and around the world, it is expected that commercial fields other than that of smartphones will apply technological innovation and explore related markets, such as the Internet of Things (IoT) peripherals and smart home applications. The Group will pay close attention to the application and development of industry technology, actively research and develop high-end smart fast charging and flash-charging products to capture market opportunities.

In terms of global production capacity layout, the Group will continue with relevant manufacturing strategies to align with customer development strategies and disperse risks brought by trade disputes. The Group expects to continue to expand the production capacity of its Vietnam production base and set up additional production lines in the future. In the long run, the Group will continue to look for more opportunities to expand global production capacity in Southeast Asia, South Asia and North America. In terms of domestic layout, the Group will continue to use the Huizhou and Dazhou plants as main production bases, and put efforts in expanding the customer portfolio, diversifying areas of business and increasing the proportion of automated production. In addition, there is a plan for the new plant at Huizhou Industrial Park to be put into use gradually from 2022 to 2023, which will be an important step in Ten Pao's plan to build digital intelligent factories.

Regarding the development of intelligent manufacturing, Ten Pao is actively promoting smart production management and digitalisation upgrade plans to enhance the Group's production efficiency, risk resistance and flexibility to respond to future uncertainties. The smart manufacturing department set up by the Group will play a role. Apart from the optimization of automated production lines and the management of production data, the department will also carry out collection of big data to ensure product quality with precise information for management and improve overall production efficiency from multiple perspectives. Moreover, Ten Pao is expanding its digital reforms to other production bases to align production models under a unified global smart production network, leading Ten Pao to a new era of smart production.

Over the past 40 and more years since its establishment, Ten Pao has weathered much turbulence in the global economy and has performed outstandingly, chiefly attributable to the perseverance, pragmatism and efforts of the management team and all staff members. Although changes in the external economy have presented many challenges, Ten Pao has continually achieved record high performance, reflecting the Group's strong execution capability and corporate flexibility. Forward-looking strategic planning has enabled Ten Pao to seize opportunities in an ever-changing operating environment, turn crisis into opportunity and improve the Group's profitability. Looking ahead to the second half of 2021, the Group will continue to carefully monitor market risks, flexibly allocate resources, take advantage of early opportunities to ensure that the Group can respond quickly in an unpredictable global business environment, maintain Ten Pao's industry leading position, and concentrate efforts on bringing abundant and sustainable returns to shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintains a strong and healthy balance sheet. As at 30 June 2021, net current assets amounted to HK\$462.8 million as compared with HK\$425.0 million as at 31 December 2020. As of 30 June 2021, current ratio was 1.18 times (31 December 2020: 1.18 times) (current ratio is calculated by using the following formula: current assets/current liabilities).

Gearing ratio was 35.3% as at 30 June 2021 (31 December 2020: 30.9%) (gearing ratio is calculated by using the following formula: total borrowings/total equity) as the Group had employed additional bank financing during the six months ended 30 June 2021 in view of the expansion of the Group's business.

Net cash used in operating activities was HK\$184.1 million for the six months ended 30 June 2021 (net cash generated from operating activities for the six months ended 30 June 2020: HK\$38.9 million), which was mainly due to additional working capitals used in the granting of credits to customers as the turnover increased by 88.0% as compared with the same period of last year.

Net cash used in investing activities for the six months ended 30 June 2021 was HK\$244.0 million (six months ended 30 June 2020: HK\$128.0 million) as the Group has acquired more property, plant and equipment, amounting to HK\$253.7 million (six months ended 30 June 2020: HK\$61.7 million).

During the six months ended 30 June 2021, net cash generated from financing activities was HK\$119.2 million (six months ended 30 June 2020: HK\$39.1 million).

DEBT MATURITY PROFILE

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

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Within 1 year	310,759	223,168
Between 1 and 2 years	47,675	22,736
Between 2 and 5 years	68,926	63,373
	427,360	309,277

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 2021, the Group's revenue denominated in USD and HK\$ amounted to approximately 52.0% of its total revenue (six months ended 30 June 2020: 69.7%).

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 2021, 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 2021, the Group had bank borrowings of HK\$427.4 million (31 December 2020: HK\$309.3 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 2021, 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 2021 and 31 December 2020, the Group held cash and bank balances and restricted bank deposits totalling HK\$253.4 million and HK\$565.4 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 2021, the Group did not have any significant contingent liabilities (31 December 2020: 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 2021.

HUMAN RESOURCES

The Group employed a total of approximately 8,500 full-time employees as of 30 June 2021. 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 2021 was HK\$450.1 million, as compared to HK\$290.0 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 2021 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 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 2021 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 2021 and up to the date of this announcement.

INTERIM DIVIDEND

The Board has resolved to distribute an interim dividend of HK5.7 cents per ordinary share for the six months ended 30 June 2021 (2020: HK3.0 cents per ordinary share) to the Company's shareholders. The interim dividend is expected to be paid on 26 October 2021 to all shareholders whose names appear on the register of members of the Company on 8 October 2021.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 6 October 2021 (Wednesday) to 8 October 2021 (Friday), both days inclusive, for the purpose of determining the entitlement to the interim dividend for the six months ended 30 June 2021. 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 5 October 2021 (Tuesday). The ex-dividend date will be 4 October 2021 (Monday).

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 2021 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 2021 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
Hung Kwong Yee
Chairman and Chief Executive Officer

Hong Kong, 23 August 2021

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