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 2018

The board (the "**Board**") of directors (the "**Directors**") of Ten Pao Group Holdings Limited ("**Ten Pao**" or the "**Company**") hereby announces the unaudited consolidated results of the Company and its subsidiaries (together, the "**Group**") for the six months ended 30 June 2018, together with comparative figures for the six months ended 30 June 2017 or other dates/periods, as follows:

FINANCIAL HIGHLIGHTS:

- Revenue for the six months ended 30 June 2018 increased by 6.9% to HK$1,470.3 million.

- Gross profit for the six months ended 30 June 2018 decreased by 41.3% to HK$157.9 million. Gross profit margin decreased by 8.8 percentage points to 10.7%.

- The Group recorded a loss before income tax of HK$17.7 million for the six months ended 30 June 2018 as compared to a profit before income tax of HK$118.5 million for the six months ended 30 June 2017.

- A loss attributable to owners of the Company of HK$11.6 million was recorded for the six months ended 30 June 2018 as compared to a profit attributable to owners of the Company of HK$92.7 million for the six months ended 30 June 2017.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(All amounts in HK dollar thousands unless otherwise stated)

	Notes	Six months ended 30 June **2018** **(Unaudited)**	2017 (Unaudited)
Revenue	*7*	**1,470,310**	1,375,788
Cost of sales	*9*	**(1,312,410)**	(1,106,853)
Gross profit		**157,900**	268,935
Other income	*8*	**13,132**	6,866
Other losses – net	*8*	**(1,767)**	(6,776)
Selling expenses	*9*	**(65,252)**	(58,113)
Administrative expenses	*9*	**(118,435)**	(89,517)
Operating (loss)/profit		**(14,422)**	121,395
Finance income	*10*	**210**	128
Finance expenses	*10*	**(3,465)**	(3,052)
Finance expenses – net		**(3,255)**	(2,924)
(Loss)/profit before income tax		**(17,677)**	118,471
Income tax credit/(expense)	*11*	**6,115**	(25,774)
(Loss)/profit for the period attributable to owners of the Company		**(11,562)**	92,697
(Losses)/earnings per share for the period – basic and diluted per share	*12*	**HK$(0.01)**	HK$0.09

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in HK dollar thousands unless otherwise stated)

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
(Loss)/profit for the period	**(11,562)**	92,697
Other comprehensive income:		
Items that may be reclassified subsequently to profit and loss		
Currency translation differences	**(6,779)**	17,338
Total comprehensive (loss)/income for the period attributable to owners of the Company	**(18,341)**	110,035

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

	Notes	**30 June 2018 (Unaudited)**	31 December 2017 (Audited)
ASSETS			
Non-current assets			
Land use rights	*14*	**10,276**	10,547
Property, plant and equipment	*14*	**418,122**	400,863
Investment properties	*15*	**6,150**	5,700
Intangible assets	*14*	**6,861**	6,497
Deferred income tax assets	*26*	**26,397**	19,712
Financial assets at fair value through other comprehensive income – non current	*23*	**11,861**	–
Derivative financial instruments	*18*	**73**	12
Financial assets at fair value through profit or loss – non current	*19*	**2,947**	2,901
Prepayments for the purchase of property, plant and equipment		**3,197**	4,774
		485,884	451,006
Current assets			
Inventories	*16*	**447,998**	399,824
Trade and other receivables	*17*	**771,612**	819,478
Amounts due from related parties	*28(b)*	**852**	1,192
Cash and cash equivalents		**169,631**	180,786
Restricted bank deposits	*20*	**23,919**	27,429
		1,414,012	1,428,709
Total assets		**1,899,896**	1,879,715
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	*21*	**10,005**	10,005
Share premium	*21*	**125,788**	125,788
Other reserves		**39,160**	45,939
Retained earnings		**374,044**	410,617
Total equity		**548,997**	592,349

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

	Notes	**30 June 2018 (Unaudited)**	31 December 2017 (Audited)
LIABILITIES			
Non-current liabilities			
Non-current bank borrowings	*22*	**87,406**	67,900
Deferred income tax liabilities	*26*	**51,671**	53,589
Deferred government grants	*24*	**9,467**	9,909
		148,544	131,398
Current liabilities			
Trade and other payables	*25*	**927,989**	1,008,171
Amounts due to related parties	*28(c)*	**15,545**	15,567
Dividend payable		**15**	12
Income tax liabilities		**5,442**	12,309
Short-term bank borrowings	*22*	**197,972**	73,590
Current portion of non-current bank borrowings	*22*	**55,392**	46,314
Derivative financial instruments	*18*	**–**	5
		1,202,355	1,155,968
Total liabilities		**1,350,899**	1,287,366
Total equity and liabilities		**1,899,896**	1,879,715

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in HK dollar thousands unless otherwise stated)

			Other reserves						
For the six months ended 30 June 2018 (unaudited)	**Share capital**	**Share premium**	**Statutory reserves**	**Capital reserves**	**Exchange reserves**	**Share options**	**Total**	**Retained earnings**	**Total equity**
Balance at 1 January 2018 (audited)	10,005	125,788	27,003	338	13,130	5,468	45,939	410,617	592,349
Comprehensive income									
Loss for the period	–	–	–	–	–	–	–	(11,562)	(11,562)
Other comprehensive income									
Currency translation difference	–	–	–	–	(6,779)	–	(6,779)	–	(6,779)
Total comprehensive loss	–	–	–	–	(6,779)	–	(6,779)	(11,562)	(18,341)
Contributions by and distributions to owners of the Company recognised directly in equity									
Dividends *(Note 13)*	–	–	–	–	–	–	–	(25,011)	(25,011)
Total contributions by and distributions to owners of the Company for the period	–	–	–	–	–	–	–	(25,011)	(25,011)
Balance at 30 June 2018 (unaudited)	10,005	125,788	27,003	338	6,351	5,468	39,160	374,044	548,997

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

(All amounts in HK dollar thousands unless otherwise stated)

			Other reserves						
For the six months ended 30 June 2017 (unaudited)	Share capital	Share premium	Statutory reserves	Capital reserves	Exchange reserves	Share options	Total	Retained earnings	Total Equity
Balance at 1 January 2017 (audited)	10,000	125,064	19,022	338	(27,176)	5,600	(2,216)	321,034	453,882
Comprehensive income									
Profit for the period	–	–	–	–	–	–	–	92,697	92,697
Other comprehensive income									
Currency translation difference	–	–	–	–	17,338	–	17,338	–	17,338
Total comprehensive income	–	–	–	–	17,338	–	17,338	92,697	110,035
Contributions by and distributions to owners of the Company recognised directly in equity									
Dividends	–	–	–	–	–	–	–	(35,000)	(35,000)
Total contributions by and distributions to owners of the Company for the period	–	–	–	–	–	–	–	(35,000)	(35,000)
Balance at 30 June 2017 (unaudited)	10,000	125,064	19,022	338	(9,838)	5,600	15,122	378,731	528,917

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts in HK dollar thousands unless otherwise stated)

	Note	Six months ended 30 June **2018** **(Unaudited)**	 2017 (Unaudited)
Cash flows from operating activities			
Cash (used in)/generated from operations		**(44,507)**	124,917
Interest paid		**(3,408)**	(2,983)
Income tax paid		**(12,982)**	(51,009)
Net cash (used in)/generated from operating activities		**(60,897)**	70,925
Cash flows from investing activities			
Purchase of property, plant and equipment		**(72,398)**	(66,201)
Purchase of intangible assets		**(930)**	(81)
Proceeds from disposal of property, plant and equipment		**5,210**	10
Addition of financial assets at fair value through other comprehensive income	*23*	**(11,861)**	–
Net cash used in investing activities		**(79,979)**	(66,272)
Cash flows from financing activities			
Proceeds from bank borrowings	*22*	**699,765**	567,679
Repayments of bank borrowings	*22*	**(547,055)**	(539,104)
Dividends paid	*13*	**(25,008)**	(34,998)
Increase in restricted bank deposits		**3,510**	(53)
Net cash generated from/(used in) financing activities		**131,212**	(6,476)
Net decrease in cash and cash equivalents		**(9,664)**	(1,823)
Cash and cash equivalents at beginning of the period		**180,786**	205,173
Exchange (losses)/gains on cash and cash equivalents		**(1,491)**	2,550
Cash and cash equivalents at end of the period		**169,631**	205,900
Analysis of balance of cash and cash equivalents:			
Cash and cash on hand		**169,631**	205,900

NOTES

(All amounts in HK dollar thousands unless otherwise stated)

1 GENERAL INFORMATION

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

The Company, an investment holding company, and its subsidiaries (collectively, the "**Group**") are principally engaged in the developing, manufacturing and sales of switching power supply units for consumer products and smart chargers and controllers for industrial use in the People's Republic of China (the "**PRC**"). The controlling shareholder of the Group is Mr. Hung Kwong Yee (洪光椅) (the "**Controlling Shareholder**" or "**Chairman Hung**").

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

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

This Interim Financial Information was approved for issue on 10 August 2018 and has not been audited.

2 BASIS OF PREPARATION

This Interim Financial Information for the six months ended 30 June 2018 (the "**Period**") has been prepared in accordance with Hong Kong Accounting Standard 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 2017 (the "**2017 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 annual financial statements for the year ended 31 December 2017, as described in those annual financial statements, except for the adoption of amendments to HKFRSs effective for the financial year beginning 1 January 2018.

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies and make retrospective adjustments as a result of adopting these new or amended standards. The Group's assessment of the impact of these new or amended standards is set out below.

HKFRS 9 Financial Instruments

Nature of change

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

3 ACCOUNTING POLICIES (CONTINUED)

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

HKFRS 9 Financial Instruments (continued)

Impact

The Group has reviewed its financial assets and liabilities and assessed the impact from the adoption of HKFRS 9 as follows. The majority of the Group's debt instruments that are currently classified as financial assets at fair value through profit or loss ("FVPL") satisfy the conditions for classification as at FVPL and hence there is no change to the accounting for these assets.

There is no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designed at fair value through profits or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from *HKAS 39 Financial Instruments: Recognition and Measurement* and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under HKFRS 15 Revenue from Contracts with Customers. Based on the assessments undertaken to date, the Group expects no increase in loss allowance for trade debtors.

HKFRS 15 Revenue from Contracts with Customers

Nature of change

The Hong Kong Institute of Certified Public Accountants has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and related literature.

The new standards is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Impact

Management has assessed the effects of applying the new standards on the Group's financial statements and has identified there is no material impact on the Group.

3 ACCOUNTING POLICIES (CONTINUED)

(b) Impact of standards issued but not yet applied by the Group

HKFRS 16 Leases

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of HK$4,261,000. However, the Directors do not expect the adoption of HKFRS 16 would result in significant impact on the Group's financial performance and positions except for the recognition of the right-of-use assets and corresponding lease liabilities arising from accounting for operating leases by the Group as a lessee.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date.

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 2017 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 2017 Financial Statements.

There have been no changes in the risk management function since 31 December 2017 or in any risk management policies since 31 December 2017.

5.2 Liquidity risk

Compared to the year ended 31 December 2017, 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.

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Fair value estimation (continued)

The following table presents the Group's assets and liabilities that are measured at fair value as at 30 June 2018 and 31 December 2017.

	As at 30 June 2018 (unaudited)			
	Level 1	**Level 2**	**Level 3**	**Total**
Recurring fair value measurements				
Assets				
Derivative financial instruments	**–**	**73**	**–**	**73**
Financial assets at fair value through other comprehensive income – non current	**–**	**–**	**11,861**	**11,861**
Financial assets at fair value through profit or loss-non current	**–**	**–**	**2,947**	**2,947**

	As at 31 December 2017 (audited)			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Assets				
Derivative financial instruments	–	12	–	12
Financial assets at fair value through profit or loss-non current	–	–	2,901	2,901
Liabilities				
Derivative financial instruments	–	5	–	5

(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 forward foreign exchange contracts determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- The fair value of the remaining financial instruments is determined using discounted cash flow analysis.

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Fair value estimation (continued)

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

Fair value of financial assets and liabilities measured at amortised cost. There were no other changes in valuation technique during the Period.

The fair values of the following financial assets and liabilities approximate their respective carrying amounts:

- Bank borrowings
- Trade and other payables
- Trade and other receivables
- Amounts due from related parties
- Amounts due to related parties
- Cash and cash equivalents
- Restricted bank deposits

6 SEASONALITY

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

7 SEGMENT INFORMATION

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

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

	Tele-communication	**Media and entertainment**	**Electronic cigarette**	**Electrical home appliances**	**Smart chargers and controllers**	**Lighting**	**Others**	**Total**
Six months ended 30 June 2018 (unaudited)								
Revenue								
Revenue from external customers	**550,897**	**162,854**	**15,781**	**82,777**	**487,905**	**88,685**	**81,411**	**1,470,310**
Segment results	**33,219**	**25,788**	**4,411**	**15,000**	**59,683**	**12,453**	**7,346**	**157,900**
Other income								**13,132**
Other losses – net								**(1,767)**
Selling expenses								**(65,252)**
Administrative expenses								**(118,435)**
Finance expenses – net								**(3,255)**
Loss before income tax								**(17,677)**

	Tele-communication	Media and entertainment	Electronic cigarette	Electrical home appliances	Smart chargers and controllers	Lighting	Others	Total
Six months ended 30 June 2017 (unaudited)								
Revenue								
Revenue from external customers	530,587	263,955	13,969	84,230	352,489	90,068	40,490	1,375,788
Segment results	63,826	66,572	4,215	21,453	78,242	22,973	11,654	268,935
Other income								6,866
Other losses – net								(6,776)
Selling expenses								(58,113)
Administrative expenses								(89,517)
Finance expenses – net								(2,924)
Profit before income tax								118,471

7 SEGMENT INFORMATION (CONTINUED)

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

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
PRC (excluding Hong Kong)	**409,988**	402,632
Hungary	**26,225**	17,414
Hong Kong	**8,235**	8,114
Others	**158**	221
	444,606	428,381

8 OTHER INCOME AND OTHER LOSSES – NET

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Other income		
Sales of scrap materials	**7,088**	1,447
Sales of raw materials, sample and molds	**1,744**	1,518
Others	**4,300**	3,901
	13,132	6,866
Other losses – net		
Fair value changes on derivative financial instruments	**66**	81
Fair value changes on financial assets at fair value through profit or loss	**46**	33
Fair value changes on investment properties *(Note 15)*	**450**	90
Net foreign exchange loss	**(4,689)**	(7,111)
Government grants	**4,040**	1,082
Loss on disposal of property, plant and equipment	**(544)**	(285)
Others	**(1,136)**	(666)
	(1,767)	(6,776)

9 EXPENSES BY NATURE

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Changes in inventories of finished goods and work in progress	**36,119**	(517)
Raw materials and consumables used	**1,032,130**	901,233
Allowance for impairment of inventory	**552**	439
Allowance for/(reversal of allowance for) impairment of trade receivables	**3,366**	(256)
Employee benefit expenses	**243,543**	199,767
Depreciation and amortisation	**33,603**	24,654
Water and electricity expenses	**14,723**	11,841
Transportation and travelling expenses	**13,580**	13,418
Maintenance expenses	**9,996**	12,697
Consultancy fee	**6,767**	9,649
Entertainment expenses	**3,759**	3,219
Research and development expenses		
– Employee benefit expenses	**39,400**	31,253
– Depreciation and amortisation	**5,756**	3,871
– Raw materials, consumables used and others	**13,847**	11,860
Commission expenses	**10,268**	4,473
Certificate and detection fees	**2,714**	3,811
Business tax and surcharge	**3,723**	3,673
Other taxes and levies	**1,364**	1,548
Operating lease payments	**7,281**	4,977
Advertising costs	**570**	625
Commercial insurance	**3,617**	4,311
Communication expenses	**1,210**	765
Bank charges	**1,706**	1,390
Auditors' remuneration	**2,768**	2,724
Other expenses	**3,735**	3,058
Total cost of sales, selling expenses and administrative expenses	**1,496,097**	1,254,483

10 FINANCE INCOME AND EXPENSES

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Finance expenses:		
Interest on bank borrowings	**(3,465)**	(3,052)
Finance income:		
Interest income	**210**	128
Net finance expenses	**(3,255)**	(2,924)

11 INCOME TAX (CREDIT)/EXPENSE

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Current income tax		
– PRC corporate income tax	**–**	11,931
– Hong Kong profits tax	**2,487**	6,073
Subtotal	**2,487**	18,004
Deferred income tax *(Note 26)*	**(8,602)**	7,770
	(6,115)	25,774

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

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 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 recognized as "New and High Technology Enterprises" and thus enjoys a preferential CIT rate of 15% from 1 January 2016 to 10 October 2018. Its CIT rate for the Period was 15% (2017 interim: 15%).

12 (LOSSES)/EARNINGS PER SHARE

(a) Basic (losses)/earnings per share

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

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
(Loss)/profit attributable to owners of the Company (HK$'000)	**(11,562)**	92,697
Weighted average number of shares issued (thousands)	**1,000,005**	1,000,000
Basic (losses)/earnings per share (HK cents)	**(1)**	9

(b) Diluted (losses)/earnings per share

Diluted (losses)/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 (losses)/earnings per share. During the Period, the outstanding share options do not have any material dilutive impact. Therefore, the diluted (losses)/earnings per share of the Company approximates the basic (losses)/earnings per share.

13 DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2018 (2017 interim: HK2.5 cents per ordinary share).

On 25 May 2018, a final dividend of HK2.5 cents per ordinary share for the year ended 31 December 2017, absorbing an amount of HK$25,011,000, was approved by all the then shareholders of the Company, and HK$25,008,000 was paid on 28 June 2018.

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

	Land use rights	Property, plant and equipment	Intangible assets
Net book amount as at 1 January 2018	10,547	400,863	6,497
Additions	–	66,310	930
Disposals	–	(5,754)	–
Transfers	–	(346)	346
Currency translation differences	(183)	(4,515)	(77)
Depreciation/amortisation	(88)	(38,436)	(835)
Net book amount as at 30 June 2018 (unaudited)	10,276	418,122	6,861
Net book amount as at 1 January 2017	5,268	275,900	5,035
Additions	4,790	166,037	1,854
Disposals	–	(2,602)	–
Transfers	–	(373)	373
Currency translation differences	660	23,869	407
Depreciation/amortisation	(171)	(61,968)	(1,172)
Net book amount as at 31 December 2017 (audited)	10,547	400,863	6,497

As at 30 June 2018, none of the Group's bank borrowings were secured over property, plant and equipment (31 December 2017: HK$14,517,000) (Note 22(a)).

15 INVESTMENT PROPERTIES

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
At fair value		
At beginning of period	**5,700**	5,430
Net gains from fair value adjustment	**450**	270
At end of period	**6,150**	5,700

As at 30 June 2018, the Group had no unprovided contractual obligations for future repairs and maintenance (31 December 2017: Nil).

The valuation of the Group's investment properties was performed by the valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited, to determine the fair value of the investment properties as at 31 December 2017 and 30 June 2018. The revaluation gains or losses are included in 'Other losses – net' in the interim condensed consolidated statement of profit or loss. The following table analyses the investment properties carried at fair value, by valuation method.

		Office units – Hong Kong		
Description	**Quoted prices in active markets for identical assets Level 1**	**Significant other observable inputs Level 2**	**Significant unobservable inputs Level 3**	**Total**
Recurring fair value measurements method				
Investment properties:				
As at 30 June 2018 (unaudited)	–	6,150	–	6,150
As at 31 December 2017 (audited)	–	5,700	–	5,700

There were no transfers between Level 1, 2, and 3 during the Period (31 December 2017: Nil).

As at 30 June 2018, the Group's bank borrowings were secured over investment properties with the carrying amounts of HK$6,150,000 (31 December 2017: HK$5,700,000) (Note 22(a)).

16 INVENTORIES

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Raw materials	**215,490**	159,023
Work in progress	**85,700**	58,318
Finished goods	**169,416**	205,825
	470,606	423,166
Less: allowance for impairment	**(22,608)**	(23,342)
	447,998	399,824

17 TRADE AND OTHER RECEIVABLES

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Trade receivables	**729,834**	769,153
Less: allowance for impairment	**(3,366)**	(571)
Trade receivables, net	**726,468**	768,582
Bills receivable	**1,186**	7,028
Prepayments	**15,115**	9,827
Deposits	**12,405**	4,558
Advances to employees	**7,191**	6,177
Value added tax allowance	**–**	14,155
Others	**9,247**	9,151
	771,612	819,478

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 2018 (Unaudited)	31 December 2017 (Audited)
Less than 3 months	**673,570**	719,105
More than 3 months but not exceeding 1 year	**53,570**	50,048
More than 1 year	**2,694**	–
	729,834	769,153

The Group's sales are made to various customers. While there is concentration of credit risk within a few major customers, these customers are reputable with good track record.

As at 30 June 2018, the Group's bank borrowings were secured over trade and other receivables with the carrying amounts of HK$345,937,000 (31 December 2017: HK$359,904,000) (Note 22(a)).

18 DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Derivative financial assets – Non-current	**73**	12
Derivative financial liabilities – Current	**–**	5

	Amount	**Notional amount**
As at 30 June 2018 (unaudited)		
Derivative financial assets – Non-current		
Types of contracts		
Interest rate swap contracts	**73**	20,405
As at 31 December 2017 (audited)		
Derivative financial liabilities – Current		
Types of contracts		
Interest rate swap contracts	**5**	10,422
Derivative financial assets – Non-current		
Types of contracts		
Interest rate swap contracts	**12**	15,243

Changes in fair values of derivative financial instruments are recorded in 'Other losses – net' in the interim condensed consolidated statement of profit or loss.

19 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – NON CURRENT

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Fair value of insurance contract for a member of key management	**2,947**	2,901

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

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

As at 30 June 2018, the Group's bank borrowings were secured over financial assets at fair value through profit or loss with the carrying amounts of HK$2,947,000 (31 December 2017: HK$2,901,000) (Note 22(a)).

20 RESTRICTED BANK DEPOSITS

As at 30 June 2018, bank deposits amounting to HK$17,103,000 (31 December 2017: HK$27,429,000) are deposits held by the bank in a segregated account as security for borrowings from the bank (Note 22(a)). The remaining bank deposits amounting to HK$6,816,000 are deposits held by the bank in a segregated accounts as security for notes payable (Note 25).

As at 30 June 2018, the weighted average interest rate was 2.05% (31 December 2017: 2.01%).

21 SHARE CAPITAL AND SHARE PREMIUM

Ordinary shares, issued and fully paid:

	Number of ordinary shares *(thousands)*	**Share capital** *(HK$'000)*	**Share premium** *(HK$'000)*
As at 30 June 2018 and 31 December 2017	1,000,456	10,005	125,788

Detailed movement of issued shares are analysed as follows:

	Number of shares *(thousands)*	**Share capital** *HK$'000*	**Share premium** *HK$'000*	**Total** *HK$'000*
At 1 January 2017 (audited) and 30 June 2017 (unaudited)	1,000,000	10,000	125,064	135,064
Proceeds from shares issued upon exercise of share options (i)	456	5	592	597
Transfer from other reserve upon exercise of share options (ii)	–	–	132	132
At 1 January 2018 (audited) and 30 June 2018 (unaudited)	1,000,456	10,005	125,788	135,793

(i) Employee share option scheme: share options exercised during the year ended 31 December 2017 resulted in 456,000 shares being issued, with exercise proceeds of HK$597,000.

(ii) Upon exercise of the share options, share options reserve amounting to HK$132,000 was transferred to share premium.

22 BORROWINGS

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Non-current		
Bank borrowings		
– secured (a)	**142,798**	114,214
Less: current portion of non-current borrowings	**(55,392)**	(46,314)
	87,406	67,900
Current		
Bank borrowings		
– secured (a)	**191,790**	66,616
– unsecured	**6,182**	6,974
Total short-term bank borrowings	**197,972**	73,590
Current portion of non-current borrowings	**55,392**	46,314
	253,364	119,904
Total borrowings	**340,770**	187,804

Movement in borrowings is as follows:

	Six months ended 30 June 2018	2017
Opening balance as at 1 January	**187,804**	179,257
Proceeds from borrowings	**699,765**	567,679
Repayments of borrowings	**(547,055)**	(539,104)
Currency translation differences	**256**	1,141
Closing balance as at 30 June	**340,770**	208,973

(a) As at 30 June 2018, bank borrowings amounting to HK$334,588,000 (31 December 2017: HK$180,830,000) are secured over the following assets:

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Restricted bank deposits *(Note 20)*	**17,103**	27,429
Financial assets at fair value through profit or loss-non current *(Note 19)*	**2,947**	2,901
Investment properties *(Note 15)*	**6,150**	5,700
Trade and other receivables *(Note 17)*	**345,937**	359,904
Property, plant and equipment	**–**	14,517
	372,137	410,451

22 BORROWINGS (CONTINUED)

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

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
HK$	**228,904**	126,589
RMB	**76,034**	35,889
USD	**35,832**	25,319
Others	**–**	7
	340,770	187,804

23 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME – NON CURRENT

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Unlisted equity investment in the PRC	**11,861**	–

The following table presents the changes in financial assets at fair value through other comprehensive income for the six months ended 30 June 2018:

Opening balance as at 31 December 2017	**–**
Addition	**11,861**
Closing balance as at 30 June 2018	**11,861**

As at 30 June 2018, the management of the Group has assessed the fair value of financial assets at fair value through other comprehensive income and held the view of no significant changes between investment cost and fair value.

24 DEFERRED GOVERNMENT GRANTS

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Opening net book amount	**9,909**	9,932
Credited to statement of profit or loss	**(370)**	(699)
Currency translation differences	**(72)**	676
Closing net book amount	**9,467**	9,909

For the Period, the amount represented the subsidy granted by a local government authority in the PRC relating to the construction of solar photovoltaic. This government grant is used for the construction of the roof photovoltaic power generation demonstration projects, which is deferred for amortisation as other gains on a straight-line basis over the useful lives of the related assets.

The deferred government grants will be amortised to 'Other losses – net' from the point at which the relevant assets are ready for use on a straight-line basis over the assets' useful lives.

25 TRADE AND OTHER PAYABLES

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Trade payables	**751,579**	807,070
Advance	**1,706**	9,995
Notes payable	**6,816**	7,996
Wages and staff welfare benefits payable	**115,236**	127,795
Accrual for expenses and other payables	**38,639**	36,640
Other taxes payable	**14,013**	18,675
	927,989	1,008,171

The ageing analysis of trade payables is as follows:

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Less than 3 months	**551,292**	619,779
More than 3 months but not exceeding 1 year	**199,912**	187,088
More than 1 year	**375**	203
	751,579	807,070

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	
	2018 (Unaudited)	2017 (Unaudited)
Deferred income tax assets		
Opening balance as at 1 January	**19,712**	17,250
Recognised/(written back) in the profit or loss	**7,088**	(1,242)
Currency translation differences	**(403)**	462
Closing balance as at 30 June	**26,397**	16,470

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Deferred income tax liabilities		
Opening balance as at 1 January	**53,589**	40,500
(Written back)/recognised in the profit or loss	**(1,514)**	6,528
Currency translation differences	**(404)**	1,375
Closing balance as at 30 June	**51,671**	48,403

26 DEFERRED INCOME TAX ASSETS AND LIABILITIES (CONTINUED)

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 2018, the Group recognised deferred income tax asset of HK$7,689,000 (31 December 2017: Nil) in respect of the tax losses amounting to HK$45,267,000 (31 December 2017: Nil), as the Group expects the future taxable profits could realise the related tax benefits.

As at 30 June 2018, the Group did not recognise deferred income tax asset of HK$383,000 (31 December 2017: HK$378,000) in respect of the tax losses amounting to HK$2,640,000 (31 December 2017: HK$3,562,000), as their recoverability is uncertain.

As of 30 June 2018, the Group had tax loss carryforwards of HK$54,275,000 (31 December 2017: HK$6,368,000) 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 2018 *HK$* **(Unaudited)**	31 December 2017 *HK$* (Audited)
2021	**3,142,000**	3,142,000
2022	**3,226,000**	3,226,000
2023	**47,907,000**	–
	54,275,000	6,368,000

27 COMMITMENTS

(a) Operating lease commitments

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

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

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Not later than one year	**4,261**	8,075
Later than one year and not later than five years	**–**	57
	4,261	8,132

(b) Capital commitments

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
In respect of the acquisitions of plant and equipment, contracted but not provided for	**14,022**	15,299

28 RELATED PARTY TRANSACTIONS

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

(a) Transactions with related parties during the Period

(i) Purchases of goods and services

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Purchase of goods		
Golden Ocean Copper Manufacturer Co., Limited	**32,695**	32,199
Huizhou Xinyang Cables Co., Limited	**2,715**	2,300
	35,410	34,499

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

(ii) Operating lease expenses

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Huizhou Tiannengyuan Charging Technology Co., Ltd.	**2,216**	1,936
Huizhou Golden Ocean Magnet Wire Factory	**1,093**	890
Sky Fortune Enterprise Limited	**270**	240
Golden Lake (HK) Company Limited	**90**	–
	3,669	3,066

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

(iii) Operating lease income

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Huizhou Tiannengyuan Technology Co., Ltd.	**–**	61

The amount represents rental income for land and buildings for factory and office purposes in accordance with the lease agreements.

28 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Balances due from related parties

	30 June 2018		31 December 2017	
	Maximum balance outstanding during the Period		*Maximum balance outstanding during the year*	
		(Unaudited)		(Audited)
Golden Ocean Copper Manufacturer Co., Limited	**–**	**–**	17,796	–
Huizhou Xinyang Cables Co., Limited	**–**	**–**	2,950	–
Huizhou Tiannengyuan Charging Technology Co., Ltd.	**1,067**	**712**	2,390	1,077
Huizhou Golden Ocean Magnet Wire Factory	**424**	**105**	695	115
Huizhou Tiannengyuan Technology Co., Ltd.	**–**	**–**	127	–
Sky Fortune Enterprise Limited	**90**	**5**	–	–
Golden Lake (HK) Company Limited	**30**	**30**	26	–
	1,611	**852**	23,984	1,192

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 approximate their carrying amounts at 30 June 2018.

(c) Balances due to related parties

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Golden Ocean Copper Manufacturer Co., Limited	**13,260**	13,215
Huizhou Xinyang Cables Co., Limited	**2,285**	2,347
Sky Fortune Enterprise Limited	**–**	5
	15,545	15,567

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 approximate their carrying amounts at 30 June 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

Ten Pao is a leading one-stop smart power supply solutions provider in Hong Kong and a player of nearly 40 years in the switching power supply unit industry. The Group prides itself on its strong research and development ("**R&D**") capabilities and a one-stop production model, enabling it to develop technologically advanced products and serve as a major supplier of leading and fast-growing international brands.

For the six months ended 30 June 2018, overall revenue of the Group was HK$1,470.3 million, which has been increased by 6.9% when compared with the same period last year. However, the appreciation of Renminbi ("**RMB**") exchange rate during the period under review has adversely affected the results of the Group whose major revenue are denominated in US dollars with expenses are mainly denominated in RMB. The booming development in the electric vehicle and smartphone industries had intensified the shortage in the supply of certain electronic components and led to an increase in their prices. In addition, the increasing minimum wage in the PRC inevitably posed cost challenges on Ten Pao. The Group's gross profit declined to HK$157.9 million, or by 41.3% when compared with the same period last year and gross profit margin was 10.7%. Loss before income tax was HK$17.7 million as compared to a profit before income tax of HK$118.5 million for the six months ended 30 June 2017. Loss attributable to owners of the Company amounted to HK$11.6 million as compared to a profit attributable to owners of the Company of HK$92.7 million for the six months ended 30 June 2017. Basic loss per share was HK1 cent as compared to a basic earning of HK9 cents per share for the six months ended 30 June 2017. The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2018.

Market and Business Review

During the period under review, market supply of raw materials remained tight, mainly due to the consistently thriving electric vehicle and smartphone markets since last year, which led to a supply gap of electronic components and in turn a substantial increase in the price of certain electronic components essential for producing consumer electronic products. Furthermore, with the government of the PRC strictly implementing the "Plan of Supervision and Inspection of Environmental Protection", manufacturers who were unable to meet the latest environmental protection requirement had to have their operations overhauled or productions suspended. Meanwhile, as the government of the PRC tightened standards for recycling plastic scrap materials, plastics supply was tense and price shot up. Hence, since the beginning of 2018, the supply lead time of some key raw materials, particularly passive components, has gradually prolonged and the related costs of these raw materials also increased. The shortage in supply and the rising price of such raw materials also posed impediment to the Group in its delivery of products to its customers. To counter the impacts of external uncertainties, the Group has been actively adjusting its business strategy to mitigate the adverse impact of the recent unfavorable business environment.

The Group's switching power supply units for consumer products are well-accepted in various industries, including telecommunication equipment, media and entertainment equipment, electrical home appliances, lighting equipment and other products (such as healthcare products). Most of the Group's products are incorporated into and/or applied in the customers' own-brand end products. Revenue from switching power supply units for consumer products decreased by 4.0% to HK$982.4 million as compared to that of the six months ended 30 June 2017, making up 66.8% of the total revenue of the Group. Gross profit and gross profit margin were HK$98.2 million and 10.0% respectively. Affected by the longer raw material supply lead time, the telecommunication segment is going through transition. Revenue of the telecommunication segment continued to constitute the major part of the Group's total revenue with a sum of HK$550.9 million, representing a slight increase of 3.8% as compared to that of the six months ended 30 June 2017. However, according to International Data Corporation's Worldwide Mobile Phone Tracker[1] report for the first quarter of 2018, consumers around the world are expected to rely more and more on smartphones. As such, the demand for smartphones will keep increasing, and in turn, the demand for ultra-fast charging and flash charging as well as relevant technologies will continue to grow. The telecommunication market is expected to see continuous growth in the coming few years. To gain a larger share in the market, the Group will actively strengthen its core competitiveness, direct more resources onto R&D, and enhance its product quality. At the same time, it will strive to maintain steady growth of its different business segments.

The smart chargers and industrial power tool use controller products continued to perform outstandingly, with revenue increased by 38.4% to HK$487.9 million as compared to that of the six months ended 30 June 2017. Gross profit and gross profit margin were HK$59.7 million and 12.2%. With its plant in Hungary in operation, the Group is closer to its overseas customers and able to expand business with its core customers, as well as enhance cooperation with new customers. Furthermore, policies of the Hungarian government, including cash subsidies and tax relief, are favourable to the development of Ten Pao's Hungarian plant and the Group is encouraged to make further investment there. Giving full play to the advantages of its overseas facility, the Group will exert its best in expanding the segment's customer base.

During the period under review, many provinces and cities in the PRC have raised the minimum wage. The Group has therefore adjusted its workers' wages accordingly. To trim labor costs and boost production capacity, the Group has been building more flexible automated production lines. These automated production lines, however, require in depth evaluation and adjustments to make sure that the products will meet the Group's quality standards and that production capacity can in fact be enhanced. The Group believes when the automated production lines start to operate, they will contribute to the Group's business performance.

Business Outlook

In the second half of 2018, although it is expected that the global economy will remain volatile, the Group will actively respond to the market trends, particularly in devising strategies to cope with tight raw material supply and rising labour costs.

[1] https://www.idc.com/getdoc.jsp?containerId=prUS43773018

While there are uncertainties in the global economy, the weakening of RMB in recent months is considered positive for the Group. Even though the trade war between the United States (the "**US**") and the PRC has escalated recently and the market felt the blow when the US published the proposed list of tariffs on Chinese goods, the Group believes that as it is armed with a diverse product mix of switching power supply units, an extensive clientele and steady source of customers from Europe, plus the geographical advantage and production capacity support from its factory in Hungary, it will be able to effectively mitigate potential risks. The Group will closely monitor the market and flexibly deploy measures to secure a balanced customer mix and rally customers from different regions.

Regarding raw materials and related costs, with supply expected to continue to lag behind market demand, the Group will strive to enhance the bargaining power of its products and look for other solutions including adjusting product prices and optimizing product designs to lower material consumption. The Group will consider using alternative materials from stable sources and with price advantage, without sacrificing product quality, to reduce its reliance on a particular material and maintain a stable supply of raw materials for the Group. During the period under review, certain PRC brands of electronic components had been used to replace the overseas brands of electronic components.

On top of keeping close ties with existing customers, the Group has kept exploring new markets and customers. In the second half of 2018, the Group will start working with other leading smartphone manufacturers in the PRC, which will enhance the performance of the telecommunication segment. Moreover, with the "One Belt, One Road" initiative moving ahead in solid strides, Chinese enterprises are opened to more markets with growth potential. The Group has started business discussion with a number of European customers, in its bid to bring in more profits.

At the advent of "Industrie 4.0", the manufacturing industry is looking at a market with higher demand in terms of product structure and customer experience. The Group will thus continue to invest in R&D so that it will be capable of providing ultra-fast charging and flash charging technology to smartphone customers. It will also pursue R&D in scopes such as high-power electric supply technologies, wireless charging and power supply for Smart Home application. The direction of the Group is to develop more high-tech embedded solutions that can meet customers' constantly changing needs. As for production capacity, construction of phase two of the Group's Hungarian factory will start in the second half of 2018 and it will be equipped with Automatic Insertion (AI) and Surface Mount Technology (SMT) equipment. The Group is looking forward to boost its production capacity for taking orders from new European customers. The Group's manufacturing base in Huizhou of the PRC will also build additional floor areas for its production to cope with the increasing demand from our customers. By pooling together internal and external resources, the Group will be able to strengthen its overall profitability and have a firm foundation to achieve long-term development.

Looking ahead, Ten Pao remains cautiously optimistic about the growth prospect of its business in the future. As always, the Group will be prudent and pragmatic in implementing its business strategies and countering market challenges to the ultimate end of growing its business. The Group will seize opportunities in the industry to enhance operational and financial performance, thereby solidify its leadership position in the switching power supply industry.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintains a strong and healthy balance sheet. As of 30 June 2018, net current assets was HK$211.7 million as compared with HK$272.7 million of 31 December 2017. As of 30 June 2018, current ratio was 1.18 times (31 December 2017: 1.24 times) (current ratio is calculated by using the following formula: current assets/current liabilities), which is mainly attributable to the payment of income tax and creditors with the operating cash flow generated during the six months ended 30 June 2018.

Gearing ratio was 62.1% as at 30 June 2018 (31 December 2017: 31.7%) (gearing ratio is calculated by using the following formula: total borrowings/total equity).

Net cash used in operating activities was HK$60.9 million for the six months ended 30 June 2018 (six months ended 30 June 2017: HK$70.9 million generated from operating activities) and the decrease was mainly attributable to the building of strategic inventory of certain electronic components and the earlier settlement to suppliers to get the raw materials necessary for the production in time.

Net cash used in investing activities for the six months ended 30 June 2018 was HK$80.0 million (six months ended 30 June 2017: HK$66.3 million) as the Group has acquired additional plant and machineries to cope with the increasing orders from customers.

During the six months ended 30 June 2018, net cash generated from financing activities was HK$131.2 million (six months ended 30 June 2017: HK$6.5 million used in financing activities).

DEBT MATURITY PROFILE

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

	30 June 2018	31 December 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 1 year	**253,364**	119,904
Between 1 and 2 years	**52,926**	36,496
Between 2 and 5 years	**34,480**	31,404
	340,770	187,804

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$, while its cost of sales is primarily denominated in RMB. For the six months ended 30 June 2018, its revenue denominated in USD and HK$ amounted to approximately 65.3% of its total revenue (six months ended 30 June 2017: 71.5%).

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 2018, 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. As at 30 June 2018, the Group had no outstanding forward contract (31 December 2017: Nil).

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 2018, the Group had bank borrowings of HK$340.8 million (31 December 2017: HK$187.8 million) which was primarily denominated in HK$, 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 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 of 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 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 losses from non-performance by these banks and financial institutions. As at 30 June 2018 and 31 December 2017, the Group held cash and bank balances and restricted bank deposits totalling HK$193.6 million and HK$208.2 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 2018, the Group did not have any significant contingent liabilities (31 December 2017: 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 2018.

HUMAN RESOURCES

The Group employed a total of approximately 6,500 full-time employees as of 30 June 2018. The Group believes the 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 2018 was HK$282.9 million, as compared to HK$231.0 million for the same period last year.

CORPORATE GOVERNANCE PRACTICES

The Board and 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 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 Corporate Governance Code contained in Appendix 14 to the Listing Rules throughout the six months ended 30 June 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 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 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 six months ended 30 June 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 six months ended 30 June 2018 and up to the date of this announcement.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2018 (30 June 2017: HK2.5 cents per share) to the Company's shareholders.

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 Company's unaudited interim condensed consolidated financial statements for the six months ended 30 June 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 considers the risk management and internal control systems to be effective and adequate.

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) and the interim report for the six months ended 30 June 2018 containing all the information required by the Listing Rules will be despatched to the Company's shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

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

Hong Kong, 10 August 2018

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.