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Q P GROUP HOLDINGS LIMITED

雋思集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1412)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

2020 RESULTS HIGHLIGHTS

- For the year ended 31 December 2020 (“**FY2020**”), Q P Group Holdings Limited (the “**Company**”) and its subsidiaries’ (collectively, the “**Group**”) profit attributable to equity holders of the Company was approximately HK\$129.3 million, representing an increase of approximately 53.5% as compared with that of the year ended 31 December 2019 (“**FY2019**”). The Group achieved an adjusted net profit (excluding the non-recurring listing expenses) attributable to equity holders of the Company of approximately HK\$130.5 million for FY2020, representing an increase of approximately 42.1% as compared with that of FY2019.
- The Group’s total revenue for FY2020 was approximately HK\$1,232.6 million, representing an increase of approximately 3.3% as compared with that of FY2019. For FY2020, revenue generated from original equipment manufacturer (“**OEM**”) sales and web sales contributed 87.2% and 12.8% of the total revenue, respectively.
- Basic earnings per share of the Company for FY2020 was approximately HK24.57 cents (FY2019: HK21.12 cents).
- The board (the “**Board**”) of directors (the “**Directors**”) recommends the payment of final dividend of HK12.0 cents per share for FY2020.

The Board of the Company announces the audited consolidated results of the Group for FY2020, together with comparative figures for FY2019, as follows:

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

FOR THE YEAR ENDED 31 DECEMBER 2020

	<i>Note</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Revenue	3	1,232,631	1,193,641
Cost of sales	6	<u>(795,765)</u>	<u>(828,083)</u>
Gross profit		436,866	365,558
Other (losses)/gains, net	4	(18,623)	10,131
Other income, net	5	18,187	15,594
Selling and distribution expenses	6	(108,827)	(99,181)
Administrative expenses	6	<u>(165,236)</u>	<u>(183,139)</u>
Operating profit		162,367	108,963
Finance income	7	1,925	101
Finance costs	7	<u>(4,815)</u>	<u>(7,618)</u>
Finance costs, net	7	(2,890)	(7,517)
Profit before income tax		159,477	101,446
Income tax expense	8	<u>(30,129)</u>	<u>(17,158)</u>
Profit for the year		<u>129,348</u>	<u>84,288</u>
Earnings per share for profit attributable to equity holders of the Company			
— Basic and diluted earnings per share (expressed in HK cents per share)	9	<u>24.57</u>	<u>21.12</u>
Other comprehensive income/(loss), net of tax			
<i>Items that may be subsequently reclassified to profit or loss</i>			
Currency translation differences		<u>37,892</u>	<u>(9,257)</u>
Total comprehensive income for the year attributable to equity holders of the Company		<u>167,240</u>	<u>75,031</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

	<i>Note</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment	11	383,082	343,985
Investment property		2,135	2,135
Right of use assets		122,130	120,759
Intangible assets		28,407	25,814
Deposits		33,842	18,917
Deferred income tax assets		8,390	9,023
		<u>577,986</u>	<u>520,633</u>
Current assets			
Inventories		93,680	85,706
Trade receivables	12	233,248	167,007
Prepayments, deposits and other receivables		35,089	58,650
Derivative financial instruments		3,866	—
Income tax recoverable		124	19,108
Pledged deposits		—	381
Cash and cash equivalents		236,670	104,775
		<u>602,677</u>	<u>435,627</u>
Total assets		<u>1,180,663</u>	<u>956,260</u>
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	15	5,320	1
Share premium		139,593	3,762
Reserves		639,454	530,734
		<u>784,367</u>	<u>534,497</u>
Total equity		<u>784,367</u>	<u>534,497</u>

	<i>Note</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
LIABILITIES			
Non-current liabilities			
Borrowings	13	7,456	83,002
Deferred income tax liabilities		16,598	15,843
Lease liabilities		2,031	1,841
		<u>26,085</u>	<u>100,686</u>
Current liabilities			
Trade payables	14	122,423	92,095
Accruals, provisions and other payables		135,451	104,136
Current income tax liabilities		28,881	17,069
Borrowings	13	80,080	105,285
Lease liabilities		3,376	2,492
		<u>370,211</u>	<u>321,077</u>
Total liabilities		<u>396,296</u>	<u>421,763</u>
Total equity and liabilities		<u>1,180,663</u>	<u>956,260</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

The Company is an investment holding company and its subsidiaries are principally engaged in manufacturing and trading of paper products.

The Company was incorporated in the Cayman Islands on 19 April 2018 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 PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands.

Pursuant to a written resolution of the shareholders of the Company, a total of 398,845,200 shares of HK\$0.01 each were allotted and issued at par value to the shareholders immediately before 16 January 2020 (the "**Listing Date**") by way of capitalisation of HK\$3,988,452 (the "**Capitalisation Issue**") from the Company's share premium account on that day.

On the Listing Date, 133,000,000 new shares were issued at a price of HK\$1.18 per share in connection with the Company's listing on the Main Board of The Stock Exchange of Hong Kong Limited. The net proceeds from the global offering, after deducting the underwriting commission and related expenses payable by the Company in the global offering was approximately HK\$111.9 million.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied throughout the years presented, unless otherwise stated.

Basis of preparation

The principal accounting policies applied in the preparation of the consolidated financial statements which are in accordance with the Hong Kong Financial Reporting Standards (“**HKFRS**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) are set out below. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment property and derivative financial instruments, which is carried at fair value. In addition, the Group has consistently applied HKFRS 16 “Leases” throughout the years ended 31 December 2020 and 2019.

The preparation of the consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements.

(i) New standards and amendments to existing standards adopted by the Group

The Group has applied the following amendments for the first time for their reporting commencing 1 January 2020:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting

The new and amended standards and interpretations did not have any impact on the current period or any prior period and is not likely to affect future periods.

(ii) *New standards and amendments to existing standards not yet adopted by the Group*

		Effective for annual periods beginning on or after
Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2	1 January 2021
HKFRS 16	Covid-19-Related Rent Concessions	1 June 2020
Annual Improvements Project	Annual Improvements to HKFRSs 2018-2020	1 January 2022
Amendments to HKFRS 3, HKAS 16 and HKAS 37	Narrow-scope amendments	1 January 2022
HKAS 1	Classification of Liabilities as Current or Non-current (amendments)	1 January 2023
HKFRS 17	Insurance contracts	1 January 2023
HK Int 5 (2020)	Hong Kong Interpretation 5 (2020)	1 January 2023
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Asset between an Investor and its Associate or Joint Venture	To be determined

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

3 REVENUE AND SEGMENT INFORMATION

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue		
Sales of paper and other products	<u>1,232,631</u>	<u>1,193,641</u>

Sales of goods are recognised at the point in time when a group entity has delivered products to customers and fulfilled all the performance obligations as stipulated in the sales contracts.

As at 31 December 2020 and 2019, all performance obligations not yet satisfied by the Group were from contracts with original expected duration of less than one year. Therefore, as permitted by the relevant practical expedient under HKFRS 15, the transaction price allocated to these unsatisfied performance obligations were not disclosed.

Management has determined the operating segments based on the reports reviewed by the chief operating decision-maker that are used for making strategic decisions. The chief operating decision-maker is identified as the executive directors of the Group. The executive directors consider the business from a service perspective and assess the performance of the operating segments based on a measure of gross profit for the purposes of allocating resources and assessing performance. These reports are prepared on the same basis as the consolidated financial statements.

The management has identified two reportable segments based on sales channels, namely (i) web sales and (ii) OEM sales.

The segment information provided to the executive directors for the years ended 31 December 2020 and 2019 are as follows:

	Year ended 31 December 2020		
	Web sales	OEM sales	Total
	HK\$'000	HK\$'000	HK\$'000
Segment revenue from external customers	157,988	1,074,643	1,232,631
Cost of sales	(40,677)	(755,088)	(795,765)
Gross profit	117,311	319,555	436,866
Other losses, net			(18,623)
Other income, net			18,187
Selling and distribution expenses			(108,827)
Administrative expenses			(165,236)
Finance costs, net			(2,890)
Profit before income tax			159,477
Income tax expense			(30,129)
Profit for the year			129,348

	Year ended 31 December 2019		
	Web sales <i>HK\$'000</i>	OEM sales <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue from external customers	103,512	1,090,129	1,193,641
Cost of sales	<u>(28,767)</u>	<u>(799,316)</u>	<u>(828,083)</u>
Gross profit	74,745	290,813	365,558
Other gains, net			10,131
Other income, net			15,594
Selling and distribution expenses			(99,181)
Administrative expenses			(183,139)
Finance costs, net			<u>(7,517)</u>
Profit before income tax			101,446
Income tax expense			<u>(17,158)</u>
Profit for the year			<u><u>84,288</u></u>

Revenue from major customers who have individually contributed to 10% or more of the total revenue of the Group.

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Customer A	299,625	504,150
Customer B	304,285	208,366

Revenue from external customers by location, based on the destination of delivery:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
The United States of America	852,848	898,883
Europe	197,261	138,419
The PRC (including Hong Kong)	97,059	95,511
Others	85,463	60,828
	<u>1,232,631</u>	<u>1,193,641</u>

Non-current assets, other than deferred income tax assets, are located as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
The PRC (including Hong Kong)	569,596	510,889
The United States of America	—	721
	<u>569,596</u>	<u>511,610</u>

4 OTHER (LOSSES)/GAINS, NET

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Other (losses)/gains, net		
Foreign exchange (loss)/gain	(22,005)	6,360
Fair value loss on investment property	—	(140)
Fair value gain on derivative financial instruments	3,866	—
(Loss)/gain on disposal of property, plant and equipment	(484)	3,911
	<u>(18,623)</u>	<u>10,131</u>

5 OTHER INCOME, NET

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Other income, net		
Rental income	49	48
Sale of scrap materials	11,373	11,501
Insurance claims	—	391
Government grants (<i>Note</i>)	6,206	3,176
Others	559	478
	<u>18,187</u>	<u>15,594</u>

Note:

This mainly represents government grants received from certain PRC government authorities in relation to export credit insurance, research and development expenses for the years ended 31 December 2020 and 2019 and the receipt of subsidy under the Employment Support Scheme of the Hong Kong Special Administrative Region Government for the year ended 31 December 2020.

6 EXPENSES BY NATURE

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Raw materials and consumables used	427,320	405,581
Changes in inventories of finished goods and work in progress	2,002	(226)
Sub-contracting charges	123,246	146,949
Electricity expenses	17,280	19,315
Repair and maintenance	13,617	16,244
Transportation expenses	56,171	48,282
Employee benefits expenses (including directors' emoluments)	300,018	320,422
Lease expenses	484	1,007
Technical maintenance support	4,401	9,030
Provision of inventory obsolescence	1,248	3,406
Amortisation of right-of-use assets	6,805	7,413
Amortisation of intangible assets	400	184
Depreciation of property, plant and equipment	44,637	48,599
Legal and professional fee	6,262	4,510
Auditor's remuneration		
— Audit services	1,850	1,650
— Non-audit services	513	—
Listing expenses	1,166	7,573
Others	62,408	70,464
	<hr/>	<hr/>
Total cost of sales, selling and distribution expenses and administrative expenses	<u>1,069,828</u>	<u>1,110,403</u>

The research and development expenses charged for the years ended 31 December 2020 and 2019 were approximately HK\$23,285,000 and HK\$26,898,000 respectively.

7 FINANCE COSTS, NET

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Finance income		
Bank interest income	<u>1,925</u>	<u>101</u>
Finance costs		
Interest expense on bank borrowings	(4,671)	(7,477)
Interest expense on lease liabilities	<u>(144)</u>	<u>(141)</u>
	<u>(4,815)</u>	<u>(7,618)</u>
Finance costs, net	<u><u>(2,890)</u></u>	<u><u>(7,517)</u></u>

8 INCOME TAX EXPENSE

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Current income tax	29,270	16,478
Deferred income tax	<u>859</u>	<u>680</u>
	<u><u>30,129</u></u>	<u><u>17,158</u></u>

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for each of the years ended 31 December 2020 and 2019.

The subsidiaries established and operated in the PRC are subject to the PRC Corporate Income Tax at the rate of 25% during the years ended 31 December 2020 and 2019.

Pursuant to the relevant laws and regulation in the PRC, the Group's subsidiary, Dongguan Zensee Printing Limited (東莞雋思印刷有限公司), was accredited as a high-tech enterprise, and is entitled to the preferential tax rate of 15% for three years since 2017. The Company has renewed the identification of high-tech enterprise for three years since 2020.

Pursuant to the relevant laws and regulation in the PRC, certain entities of the Group qualified as small-scale and marginal profit enterprises. As a result, they were entitled to a preferential tax rate of 20% and a reduction in tax base of between 50% and 75% during the years ended 31 December 2020 and 2019.

The subsidiary established and operated in Vietnam is subject to Vietnam Corporate Income Tax at the rate of 20% during the year ended 31 December 2020.

No provision for the United States of America profits tax has been made as the Group did not generate any assessable profits arising in the United States of America during the years ended 31 December 2020 and 2019.

Pursuant to the laws and regulations of the British Virgin Islands and Cayman Islands, the Group is not subject to any income tax in the British Virgin Islands and Cayman Islands during the years ended 31 December 2020 and 2019.

9 EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 526,549,180 (2019: 399,000,000), as if the 399,000,000 new shares issued pursuant to the Capitalisation Issue (as defined in note 1) had been issued on 1 January 2019.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2020 and 2019.

The calculations of basic and diluted earnings per share are based on:

Earnings

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Profit attributable to equity holders of the Company, used in the basic and diluted earnings per share calculations	129,348	84,288

Shares

	Number of shares	
	2020 <i>'000</i>	2019 <i>'000</i>
Weighted average number of ordinary shares used in the basic and diluted earnings per share calculations	526,549	399,000

10 DIVIDENDS

During the year ended 31 December 2019, the Company declared and paid an interim dividend of HK\$10,000,000 to its then shareholders of the Company prior to the Listing in January 2020.

During the year ended 31 December 2020, the Company declared and paid a final dividend in respect of the year ended 31 December 2019 of HK9.0 cents per ordinary share for an aggregate amount of HK\$47,880,000.

During the year ended 31 December 2020, the Company declared and paid an interim dividend of HK2.0 cents per ordinary share, amounting to a total dividend of HK\$10,640,000.

A final dividend in respect of the year ended 31 December 2020 of HK12.0 cents per ordinary share, amounting to a total dividend of HK\$63,840,000 is to be proposed at the forthcoming annual general meeting of the Company to be held on 18 May 2021.

11 PROPERTY, PLANT AND EQUIPMENT

During the year ended 31 December 2020, the additions to property, plant and equipment amounted to approximately HK\$66.1 million (2019: approximately HK\$56.2 million).

During the year ended 31 December 2020, the disposals of property, plant and equipment amounted to approximately HK\$0.6 million (2019: approximately HK\$11.9 million).

12 TRADE RECEIVABLES

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	<u>233,248</u>	<u>167,007</u>

Trade receivables represent goods sold to third parties. The credit terms granted by the Group are generally 30 to 90 days.

As at 31 December 2020 and 2019, the aging analysis of the trade receivables, based on invoice date, were as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Less than 30 days	99,497	74,297
31–60 days	74,064	52,396
61–90 days	32,854	20,045
Over 90 days	26,833	20,269
	233,248	167,007

The maximum exposure to credit risk at the reporting date is the carrying value of the trade receivables. The Group does not hold any collateral as security.

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The Group considers the credit risk characteristics and the days past due to measure the expected credit losses. During the years ended 31 December 2020 and 2019, the expected losses for customers of sales of goods is minimal, given there is no history of significant defaults from customers and no adverse change is anticipated in the future business environment. No provision for impairment of trade receivables has been made throughout the years ended 31 December 2020 and 2019.

The carrying amounts of trade receivables approximate their fair values as at 31 December 2020 and 2019.

The Group's trade receivables were denominated in the following currencies:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
US\$	139,042	103,796
HK\$	88,844	58,245
RMB	5,156	4,085
EUR	175	167
Others	31	714
	233,248	167,007

13 BORROWINGS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Bank borrowings	87,536	188,287
Less: amounts due on demand or within one year shown under current liabilities	<u>(80,080)</u>	<u>(105,285)</u>
Non-current portion	<u>7,456</u>	<u>83,002</u>

As at 31 December 2020 and 2019, borrowings of approximately HK\$24,773,000 and HK\$53,655,000 are subject to repayable on demand clause.

As at 31 December 2020 and 31 December 2019, the Group's borrowings were repayable as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within 1 year	58,545	80,719
Between 1 and 2 years	10,700	54,429
Between 2 and 5 years	9,773	35,632
Over 5 years	<u>8,518</u>	<u>17,507</u>
	<u>87,536</u>	<u>188,287</u>

The above amounts due are based on the respective scheduled repayment dates set out in the loan agreements and ignore the effect of any repayment on demand clause.

The effective interest rates of the above loans (per annum) as at 31 December 2020 and 2019 are as follows:

	2020	2019
Bank borrowings	1-month/ 3-month HIBOR plus 1%–2%	1-month HIBOR plus 1%–2%

As at 31 December 2020 and 2019, the borrowings are pledged by certain assets with carrying values shown below:

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Right-of-use assets	59,112	60,379
Property, plant and equipment	35,020	36,636
Bank deposits	<u>—</u>	<u>381</u>
	<u>94,132</u>	<u>97,396</u>

The Group's borrowings of approximately HK\$188,287,000 as at 31 December 2019 were guaranteed by the directors, namely Mr. Cheng Wan Wai and Mr. Yeung Keng Wu Kenneth. The above guarantees were released during the year ended 31 December 2020.

The carrying amounts of borrowings of the Group approximate their fair values as at 31 December 2020 and 2019.

The Group's borrowings were denominated in HKD.

14 TRADE PAYABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade payables	<u>122,423</u>	<u>92,095</u>

As at 31 December 2020 and 2019, the aging analysis of the trade payables, based on invoice date, were as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Less than 30 days	63,335	45,256
31–60 days	33,086	25,951
61–90 days	17,288	15,427
Over 90 days	8,714	5,461
	<u>122,423</u>	<u>92,095</u>

The carrying amounts of trade payables approximate their fair values as at 31 December 2020 and 2019.

The Group's trade payables were denominated in the following currencies:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
HK\$	21,380	16,255
US\$	6,684	8,162
RMB	94,131	67,678
Others	228	—
	<u>122,423</u>	<u>92,095</u>

15 SHARE CAPITAL

	As at 31 December 2020 <i>Number of shares</i>	As at 31 December 2019 <i>Number of shares</i>	As at 31 December 2020 <i>HK\$'000</i>	As at 31 December 2019 <i>HK\$'000</i>
Authorised:				
At beginning of the year	2,000,000,000	39,000,000	20,000	390
Increase in share capital (<i>note a</i>)	—	1,961,000,000	—	19,610
	<u>2,000,000,000</u>	<u>2,000,000,000</u>	<u>20,000</u>	<u>20,000</u>
	<u>2,000,000,000</u>	<u>2,000,000,000</u>	<u>20,000</u>	<u>20,000</u>
Issued and fully paid:				
At beginning of the year	77,400	1	1	—
Issue of shares pursuant to the Reorganisation	—	77,399	—	1
Paid up of capital	77,400	—	1	—
Capitalisation issue (<i>note b</i>)	398,845,200	—	3,988	—
New issue of shares from Global Offering (<i>note c</i>)	133,000,000	—	1,330	—
	<u>532,000,000</u>	<u>77,400</u>	<u>5,320</u>	<u>1</u>

Notes:

- a. On 20 December 2019, the authorised share capital of the Company was increased from 39,000,000 shares of HK\$0.01 each to 2,000,000,000 shares of HK\$0.01.
- b. Pursuant to a written resolution of the then Shareholders, a total of 398,845,200 shares of HK\$0.01 each were allotted and issued at par value to the Shareholders immediately before the listing of the Company's shares on 16 January 2020 by way of capitalisation of HK\$3,988,452 from the Company's share premium account on the Listing Date.
- c. On 16 January 2020, 133,000,000 new shares were issued at a price of HK\$1.18 per share in connection with the Company's listing on the Main Board of The Stock Exchange of Hong Kong Limited.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Corporate Profile

The Group is a long-established paper product manufacturing and printing services provider. Headquartered in Hong Kong, we operate two key production plants at Dongguan and Heshan in Guangdong Province of the People's Republic of China (the "PRC"), with the capability to offer value-adding and customised product engineering services and printing solutions to our customers for a wide spectrum of products. We have over 30 years of operating history, and have established stable business relationships with our major customers in the United States of America (the "U.S.") and countries in Europe.

Our principal product categories are tabletop games, greeting cards, educational items and premium packaging. Our products are sold to (i) OEM customers who generally order mass quantities for direct sales and distribution through their own sales network; and (ii) individual and corporate customers who generally order smaller quantities through online sales channels. Our major OEM customers include an international greeting cards publisher, and multinational children educational products and toys brands.

Business Overview

The financial year of 2020 under review was certainly a challenging and unprecedented time as the outbreak of coronavirus disease 2019 ("COVID-19") severely affected the global economy. Coupled with the uncertainties caused by the ongoing trade tensions between the PRC and the U.S. as well as the U.S. presidential election, the Group remained alert to the difficult environments and became more cautious regarding the application of its resources during the year under review.

With the continuing uncertainties of the global economy, the Group imposed various cost control measures such as the streamlining of work processes through the use of advanced technology and other possible approaches for production planning and control, and lowering operating costs through the introduction of new suppliers and negotiations with service providers for better prices. In addition, the Group continued to relocate part of the end-to-end production of our Group's products for the U.S. market to Vietnam through cooperation with a subcontractor. On the other hand, the Group has been continuing to improve its operational efficiencies and actively pursue Industry 4.0 while staying focused on its long-term opportunities.

Despite the unfavourable market conditions, our revenue increased moderately by approximately 3.3% from approximately HK\$1,193.6 million for FY2019 to approximately HK\$1,232.6 million for FY2020.

At the beginning of 2020, the outbreak of COVID-19 adversely affected the OEM sales of the Group. The business operations of several customers located in the U.S. and Europe suffered from the widespread disruption to economic activities due to COVID-19. In view of such challenges, the Group closely communicated with its customers and provided different solutions to accommodate their situation and overcome this crisis. As a result of our efforts, our export orders have been restored to a normal level since the second half of 2020. Overall, the revenue derived from OEM sales recorded a slight decrease of approximately HK\$15.5 million or 1.4% from approximately HK\$1,090.1 million for FY2019 to approximately HK\$1,074.6 million for FY2020.

While the outbreak of COVID-19 has significantly impacted the business trading environment, it has also pushed e-commerce and online shopping to become one of the fastest growing channels under various travel bans and social distancing policies worldwide. During the year under review, the Group was able to capture such opportunities and achieved a considerable growth in the web sales business. Amid lockdowns and tightening of preventive measures, consumers have changed their behaviours accordingly. Under the trend of the stay-at-home economy, customers have been shifting to online and digital solutions as well as other contact-minimising channels to purchase goods. During FY2020, our web sales business yielded a remarkable increase in revenue of approximately HK\$54.5 million or 52.6% from approximately HK\$103.5 million for FY2019 to approximately HK\$158.0 million for FY2020. In particular, the Group recognised a significant growth of approximately 397.2% in the total sales amount mainly derived from jigsaw puzzle products through www.createjigsawpuzzles.com for FY2020 compared with that of FY2019, which was the result of the increased time spent on those products by people in the U.S., and hence the rising demand, due to the COVID-19 related social distancing policies which encouraged indoor activities within household. Meanwhile, the number of active registered user accounts, which refers to the number of registered user accounts with order(s) placed in our five major websites namely www.makeplayingcards.com, www.boardgamesmaker.com, www.createjigsawpuzzles.com, www.printerstudio.com and www.gifthing.com, also increased by approximately 37.2% from approximately 34,900 as at 31 December 2019 to approximately 47,900 as at 31 December 2020.

In spite of huge fluctuations in the world economy during the year under review, the Group achieved the highest profit level for FY2020 in its operating history. During the year under review, the Group recorded a considerable growth in adjusted net profit of HK\$38.6 million or 42.1% from approximately HK\$91.9 million for FY2019 to approximately HK\$130.5 million for FY2020, with an increase in adjusted net profit margin from approximately 7.7% for FY2019 to approximately 10.6% for FY2020. Such increase was mainly attributable to:

- (i) the increase in the proportion of our web sales which has a relatively higher gross profit margin compared to our OEM sales;
- (ii) the decrease in the production costs of our factories located in the PRC due to the cost control measures imposed by the Group;
- (iii) the absence of consultancy fees and taxation charges in relation to the transfer of the land parcels and the application of real estate ownership certificates for certain building blocks in the Dongguan factory recorded during FY2019; and
- (iv) the reduction and exemption of corporate social insurance premiums in the PRC according to the notice jointly released by the Ministry of Human Resources and Social Security, the Ministry of Finance, and the State Taxation Administrative of the PRC in February 2020, as well as the receipt of subsidy under the Employment Support Scheme of the Hong Kong Special Administrative Region Government.

Future Outlook

The COVID-19 pandemic and the trade tensions between the PRC and the U.S. are expected to subsist for a foreseeable period of time. The increasing labour and material costs within the PRC will also pose major challenges in the coming years. The Group will continue to closely assess and monitor the development of these risks and uncertainties and will take appropriate actions to mitigate their impacts.

Adhering to our long-term business development strategies, we have been striving to continuously expand our web sales business and diversify our sales in different markets. We are pleased to have witnessed some desirable outcomes including the encouraging performance of our web sales business and the increases in both volume and proportion of our sales in European markets in FY2020. Thus, we expect to continue devoting efforts and resources to such strategies in order to further expand our customer base and increase our revenue.

The expansion of manufacturing capacities outside the PRC remains a key strategy of the Group. As disclosed in the Company's prospectus dated 31 December 2019 (the "**Prospectus**"), the Group intends to set up a production site in Vietnam and acquire machines for use in such production site. The Group entered into a non-legally binding memorandum of understanding ("**MOU**") with a vendor in June 2020 pursuant to which it intends to acquire certain land, factories, machines and assets located at Hai Duong Province, Vietnam. The Board believes that such an acquisition will allow the Group to set up its own production site in order to tackle the impacts arising from the trade tensions between the PRC and the U.S. and perform end-to-end production of the Group's principal products for its customers in the U.S. as well as to diversify the operational risks. Details of the MOU in relation to such proposed acquisition were disclosed in the announcements of the Company dated 30 June 2020 and 29 December 2020.

In the current rapidly changing business environment, the management is continuing to develop and procure more orders to maintain a continuous business growth for the Group. In the long run, the Group remains confident in the growth of the overseas tabletop games market especially through online sales channels. The Group will continue to employ additional staff and reinforce the resources of the web sales business segment in order to enhance our competitive advantage and further expand our business.

As the COVID-19 pandemic is not yet completely under control as at the date of this announcement, the Group expects that the economic development and business activities in the U.S. and Europe may still be affected in the foreseeable future. As a major part of the Group's revenue is generated from the U.S. and European markets, the Group expects that its future financial performance will continue to be largely dependent on the economic states of these markets. The Group is pleased to see that its financial performance remained strong in FY2020 despite the COVID-19 outbreak as it was able to capture opportunities to expand its e-commerce and online shopping business and therefore achieved a considerable growth in the web sales business. Despite the potential risks brought by the COVID-19 pandemic, the Group expects that its web sales business will continue to grow in the future. Meanwhile, any unfavourable developments of the trade tensions between the PRC and the U.S. such as the imposition of tariffs is out of the Group's control and may significantly affect its business operations and financial results. The Group will continue to (i) pay close attention to the development of the COVID-19 pandemic and the trade tensions between the PRC and the U.S.; (ii) evaluate their impact on the financial position, cash flows and operating results of the Group; and (iii) impose appropriate measures accordingly.

FINANCIAL REVIEW

Revenue

The Group achieved a revenue of approximately HK\$1,232.6 million for FY2020, representing an increase of approximately 3.3% as compared with approximately HK\$1,193.6 million for FY2019. The increase in the Group's revenue for FY2020 was driven by the increase in web sales.

The following table sets forth a breakdown of total revenue for the periods indicated by business segment:

	Year ended 31 December			
	2020		2019	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
OEM sales	1,074,643	87.2	1,090,129	91.3
Web sales	157,988	12.8	103,512	8.7
Total	<u>1,232,631</u>	<u>100.0</u>	<u>1,193,641</u>	<u>100.0</u>

OEM sales decreased slightly from approximately HK\$1,090.1 million for FY2019 to approximately HK\$1,074.6 million for FY2020, representing a decrease of approximately 1.4%. The decrease was due to the outbreak of COVID-19 which seriously affected the global retail market at the beginning of 2020. Since the second half of 2020, OEM export orders have been restored to a normal level and offset part of the unfavourable impact on our business during the early phase of the COVID-19 outbreak at the beginning of 2020.

Web sales increased significantly from approximately HK\$103.5 million for FY2019 to approximately HK\$158.0 million for FY2020, representing an increase of approximately 52.6%. The increase was primarily due to the surging orders of jigsaw puzzles and the organic growth of playing cards sales during the year under review.

The table below summarises the geographical revenue based on the destination of delivery for the periods indicated:

	Year ended 31 December			
	2020		2019	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
The United States of America	852,848	69.2	898,883	75.3
Europe	197,261	16.0	138,419	11.6
The PRC (including Hong Kong)	97,059	7.9	95,511	8.0
Others	85,463	6.9	60,828	5.1
Total	<u>1,232,631</u>	<u>100.0</u>	<u>1,193,641</u>	<u>100.0</u>

The U.S. and Europe were the two largest overseas markets of the Group which in aggregate accounted for 85.2% and 86.9% of the total revenue for FY2020 and FY2019, respectively. The decrease in sales of the U.S. market was mainly attributable to one of our major customers, which is headquartered in the U.S. and principally engages in the sales of greeting cards, gift wrap and related products, suffering from the decrease in demand for greeting card products during the outbreak of COVID-19. The increase in sales of the European market was mainly due to the increase in demand for tabletop games in Europe during the year under review.

Cost of sales

Our Group's cost of sales mainly consists of costs of raw materials, staff costs in relation to production, sub-contracting charges, depreciation, utilities and factory overhead. The Group recorded a decrease in cost of sales of approximately 3.9% from approximately HK\$828.1 million for FY2019 to approximately HK\$795.8 million for FY2020. The decrease in cost of sales was primarily attributable to (i) the decrease in staff costs incurred in cost of sales as a result of the decrease in the number of production staff and the reduction and exemption of corporate social insurance premiums for enterprises in the PRC during the year under review; and (ii) the decrease in sub-contracting charges as a result of the decrease in sales of greeting card products during FY2020 for which we generally engage our subcontractors for greeting card assembly works.

Gross profit and gross profit margin

For FY2020, the gross profit of the Group was approximately HK\$436.9 million, representing an increase of approximately HK\$71.3 million or approximately 19.5% as compared to approximately HK\$365.6 million for FY2019. The gross profit margin increased from approximately 30.6% for FY2019 to approximately 35.4% for FY2020 and such increment was primarily attributable to (i) the increase in the proportion of our web sales which has a relatively higher gross profit margin comparing to our OEM sales; (ii) the decrease in production cost of our factories located in the PRC due to cost control measures imposed by the Group; and (iii) the reduction and exemption of several corporate social insurance premiums for enterprises in the PRC during the year under review.

Other (losses)/gains, net

The Group's other (losses)/gains, net mainly consist of foreign exchange gain/loss, fair value gain on derivative financial instruments and gain/loss on disposal of property, plant and equipment. The fluctuations of other (losses)/gains, net was primarily due to the fluctuation of the exchange rate of the RMB against the HKD during FY2020.

Other income, net

The Group's other income, net mainly consists of sales of scrap materials and government grants. The increase in other income, net was mainly due to the receipt of subsidy under the Employment Support Schedule of the Hong Kong Special Administrative Region Government during FY2020.

Selling and distribution expenses

Our selling and distribution expenses primarily consist of transportation expenses, staff costs of our sales personnel, commission paid to our sales representatives and service charges of payment gateways. The selling and distribution expenses amounted to approximately HK\$99.2 million for FY2019, increased by approximately HK\$9.6 million or 9.7%, to approximately HK\$108.8 million for FY2020, which was mainly due to (i) the increase in transportation expenses, which mainly represent expenses incurred in relation to the delivery of finished goods; (ii) the increase in service charges of payment gateways; and (iii) the increase in commission paid during the year under review.

Administrative expenses

Our administrative expenses mainly comprise staff costs, listing expenses, depreciation and amortisation, legal and professional fees and travelling expenses. The Group's administrative expenses decreased by approximately HK\$17.9 million or 9.8% from approximately HK\$183.1 million for FY2019 to approximately HK\$165.2 million for FY2020. The decrease was primarily attributable to (i) the absence of consultancy fees and taxation charges in relation to the transfer of the land parcels and the application of real estate ownership certificates for certain building blocks in our Dongguan factory during FY2019; (ii) the decrease in the number of staff during FY2020 as compared with FY2019 as a result of cost control measures imposed by the Group during the year under review; and (iii) the decrease in listing expenses.

Finance costs, net

Our finance costs, net decreased by approximately HK\$4.6 million or 61.6% from approximately HK\$7.5 million for FY2019 to approximately HK\$2.9 million for FY2020, mainly due to the decrease in average bank borrowings balance for FY2020 compared with that of FY2019.

Income tax expense

Our income tax expense increased by approximately HK\$12.9 million, or 75.6% from approximately HK\$17.2 million for FY2019 to approximately HK\$30.1 million for FY2020. The increment was primarily due to higher portion of profit generated by our Heshan Factory which had a relatively higher effective tax rate during the year under review.

Profit for the year

The Group's profit increased by approximately HK\$45.0 million or 53.5% from approximately HK\$84.3 million for FY2019 to approximately HK\$129.3 million for FY2020. The net profit margin also increased from approximately 7.1% in FY2019 to approximately 10.5% in FY2020. Before taking into account the listing expenses, the adjusted net profit attributable to equity holders of the Company increased by approximately 42.1% from approximately HK\$91.9 million in FY2019 to approximately HK\$130.5 million in FY2020. The adjusted net profit margin also increased from approximately 7.7% in FY2019 to approximately 10.6% in FY2020.

LIQUIDITY AND FINANCIAL RESOURCES

During FY2020, the Group maintained a healthy liquidity position, with working capital financed mainly by internal resources. The Group adopts a prudent cash and financial management policy.

As at 31 December 2020, the Group reported net current assets of approximately HK\$232.5 million, as compared with approximately HK\$114.6 million as at 31 December 2019. As at 31 December 2020, the Group's cash and cash equivalents was approximately HK\$236.7 million, representing an increase of approximately HK\$131.9 million as compared with approximately HK\$104.8 million as at 31 December 2019. The cash and cash equivalents mainly consisted majority of Hong Kong dollars, Renminbi and United States dollars.

As at 31 December 2020, total borrowings and lease liabilities for the Group amounted to approximately HK\$92.9 million (31 December 2019: approximately HK\$192.6 million). The borrowings were denominated in HKD and lease liabilities were denominated in HKD and RMB. All bank borrowings are at floating rates and lease liabilities are at fixed rates.

For FY2020, the net cash generated from operating activities was approximately HK\$193.6 million (FY2019: approximately HK\$152.6 million). The net cash generated from operating activities was mainly derived from the profits recorded during the period. The net cash used in investing activities was approximately HK\$47.7 million (FY2019: approximately HK\$42.3 million). The net cash used in financing activities was approximately HK\$17.9 million (FY2019: approximately HK\$65.9 million). For FY2020, the net cash used in investing activities was mainly attributable to payment in relation to the purchase of property, plant and equipment and the net cash used in financing activities was mainly attributable to the net repayment of borrowings and the dividend payment, and partially offset by the proceeds from the Listing during the year under review.

CONTINGENT LIABILITIES

As at 31 December 2020, the Group had no significant contingent liabilities (31 December 2019: nil).

CAPITAL COMMITMENTS

As at 31 December 2020, the Group had approximately HK\$6.4 million (31 December 2019: approximately HK\$11.5 million) capital commitments in relation to the purchase of property, plant and equipment.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

As the Group is headquartered in Hong Kong and our production facilities are primarily located in the PRC, most of our production cost and operating expenses are primarily denominated in HKD and RMB, while our revenue is mainly denominated in U.S. Dollars and HKD, we are exposed to foreign currency risks primarily as a result of revenue, production costs and operating expenses that are denominated in foreign currencies other than HKD. The Group's foreign currency exposure also comprises assets and liabilities denominated in currencies other than the subsidiaries' functional currencies.

The Group has set up a policy to manage its foreign currency risk by closely monitoring the movement of the foreign currency rates and employing financial instruments for hedging should the need arise. The Group does not adopt a formal hedge accounting policy. During FY2020, the Group entered into certain forward foreign currency contracts based on actual demand to sell USD and purchase RMB with a licensed bank in Hong Kong. The Group categorises these contracts as being entered into for hedging purpose.

As at 31 December 2020, the notional principal amounts of the outstanding forward foreign exchange contracts were approximately HK\$117.0 million (31 December 2019: nil). For FY2020, fair value gain on derivative financial instruments of approximately HK\$3.9 million (FY2019: nil) was recognised in the consolidated statement of profit or loss and other comprehensive income.

MATERIAL ACQUISITIONS OR DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

On 30 June 2020, the Group entered into the non-legally binding MOU with a vendor, an independent third party, to acquire certain land, factories, machines and assets in Vietnam. Subsequently, the Group and the vendor have agreed to enter into the supplemental MOU on 29 December 2020 to extend the exclusivity period and the long stop date of the proposed acquisition. Details of the MOU and the supplemental MOU in relation to such proposed acquisition were disclosed in the announcements of the Company dated 30 June 2020 and 29 December 2020. As at the date of this announcement, no binding agreement in relation to the proposed acquisition has been entered into. In the event that a binding agreement is entered into by the parties, the Group will make further announcement as and when appropriate.

On 11 February 2021, the Group entered into a non-legally binding offer letter with two independent third parties as sellers, to acquire the entire issued share capital of four companies incorporated in Hong Kong with limited liability. The principal assets of the companies are a group of properties located on the same floor of the existing head office of the Group in Hong Kong. The properties are intended to be acquired and held by the Group for its own use. To cope with the business development and expansion of the Group, the Directors consider that it is beneficial for the Group to expand its office in Hong Kong. Details of the proposed acquisition were disclosed in the announcement of the Company dated 11 February 2021. As at the date of this announcement, no binding agreement in relation to the proposed acquisition has been entered into. In the event that a binding agreement is entered into by the parties, the Group will make further announcement as and when appropriate.

Save as disclosed above, the Group did not have any material acquisitions or disposals of subsidiaries, associates and joint ventures during FY2020 (FY2019: nil).

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as those disclosed in the Prospectus or otherwise in this announcement, there were no other plans for material investments or capital assets during the year under review.

PLEDGE OF ASSETS

As at 31 December 2020, right-of-use assets amounted to approximately HK\$59.1 million and property, plant and equipment amounted to approximately HK\$35.0 million have been charged as security for bank borrowings of the Group.

As at 31 December 2019, right-of-use assets amounted to approximately HK\$60.4 million, property, plant and equipment amounted to approximately HK\$36.6 million and bank deposit amounted to HK\$0.4 million have been charged as security for bank borrowings of the Group.

GEARING RATIO

Gearing ratio is calculated by the total debt (being borrowings and lease liabilities) less cash and cash equivalents and divided by the total equity as at the end of the respective reporting periods and multiplied by 100%. The Group had a net cash position as at 31 December 2020 and gearing ratio of approximately 16.4% as at 31 December 2019. The Group reported a net cash position as at 31 December 2020 primarily because of the decrease in its level of bank borrowings and the increase in cash and cash equivalents during FY2020.

We will closely monitor our gearing ratio. We analyse the maturity profiles of our borrowings and manage our liquidity level to ensure a sufficient cash flow to service our indebtedness and meet cash requirements arising from our business. We will explore various financing opportunities to improve our capital structure and reduce our cost of capital.

SHARE OPTION SCHEME

On 20 December 2019, the Company adopted the Share Option Scheme (the “**Share Option Scheme**”) for the purpose of providing incentives or rewards to selected eligible persons for their contributions to the Group. The terms of the Share Option Scheme are in compliance with the provisions of Chapter 17 of the Listing Rules. The details of the Share Option Scheme are set out in the section headed “Statutory and General Information — D. Share Option Scheme” in Appendix V of the Prospectus.

Since the Listing Date and up to 31 December 2020, no options were granted to any of the Directors, eligible employees and other third parties under the Share Option Scheme.

USE OF PROCEEDS

The Shares of the Company were listed on the Main Board of the Stock Exchange on 16 January 2020 of which 133,000,000 ordinary shares (comprising 13,300,000 Hong Kong offer shares and 119,700,000 international placing shares) had been allotted and issued under the global offering, at an offer price of HK\$1.18 per Share. The actual net proceeds from the Listing were approximately HK\$111.9 million (after deduction of the listing expenses).

As at the date of this announcement, the Company intends to continue to apply the net proceeds in the manner consistent with that described in the section headed “Future Plans and Use of Proceeds” in the Prospectus. However, the Directors will continue to evaluate the Group’s business objectives and will change or modify the plans according to the changing market condition to create greater value for the Shareholders. Should there be any material change in the intended use of the net proceeds, the Company will make appropriate announcement(s) in due course.

The table below sets out an adjusted allocation as adjusted in the same manner and same proportions as shown in the Prospectus and the actual use of the net proceeds as at 31 December 2020:

Intended use of proceeds as stated in the Prospectus	Actual net proceeds HK\$'000	Actual use of net proceeds up to 31 December 2020 HK\$'000	Unutilised net proceeds as at 31 December 2020 HK\$'000	Expected timeline for utilising the remaining net proceeds (Note) HK\$'000
(i) Enhance the Group's production capacity and operational flexibility	58,726	27,699	31,027	By 31 December 2021
(ii) Optimise the Group's product mix and production specialisation by, among others, reallocating the Group's production capacity to Heshan and enhancing the Group's operational efficiency	27,964	2,963	25,001	By 31 December 2021
(iii) Enhance the Group's technological capability and upgrading the Group's IT infrastructure	13,087	3,626	9,461	By 31 December 2021
(iv) Working capital and other general corporate purposes	12,081	12,081	—	N/A
	<u>111,858</u>	<u>46,369</u>	<u>65,489</u>	

Note: The expected timeline for utilising the remaining net proceeds is based on the best estimation of the future market conditions made by the Group and is consistent with that as described in the Prospectus. It might be subject to changes based on the current and future development of the market conditions.

The unutilised net proceeds have been placed as bank deposits with licensed banks in Hong Kong.

SIGNIFICANT INVESTMENTS

As at 31 December 2020, the Group did not hold any significant investments (31 December 2019: nil).

EMPLOYEES AND REMUNERATION POLICY

The Group had a total of 2,333 (31 December 2019: 2,554) full time employees as at 31 December 2020. The Group's employee benefit expenses mainly included salaries, over time payments and discretionary bonuses, other staff benefits and contributions to retirement schemes. For FY2020, the total staff costs of the Group (including the Directors' remuneration) were approximately HK\$300.0 million (FY2019: approximately HK\$320.4 million).

The remuneration policy of the Company is reviewed regularly, making reference primarily to the market conditions and performance of the Company and individual staff members (including the Directors). Remuneration packages include, as the case may be, a basic salary, Director's remuneration, contribution to pension schemes, discretionary bonus relating to financial performance of our Group and individual performance. During the financial year, the remuneration policy and remuneration packages of the Directors and senior management are reviewed by the remuneration committee of the Company, with consideration given in regard to experience, duties and responsibilities, performance and achievement of the individuals, with reference to the market condition in relation to the Group's performance and profitability.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

CORPORATE GOVERNANCE PRACTICES

The Board is committed to high level of corporate governance to safeguard the interests of Shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability. The Company has adopted the principles and code provisions of the Corporate Governance Code ("**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as its own code of corporate governance.

Since 16 January 2020 (the “**Listing Date**”) and up to 31 December 2020, the Company has applied and complied with the CG Code in each case as set out in Appendix 14 to the Listing Rules, except for the deviation from the CG Code of code provision A.2.1. Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separated and should not be performed by the same individual and the division of responsibilities between the chairman and chief executive should be clearly established and set out in writing. Mr. Cheng Wan Wai currently holds both positions of the chairman of the Board and the chief executive officer of the Company, being responsible for the effective functioning of the Board in accordance with good corporate governance practice and implementing objectives, policies and strategies approved by members of the Board from time to time. Mr. Cheng has been the key leadership figure of the Group who has been primarily involved in the formulation of business strategies and, more importantly, the determination of the overall direction of the Group since 1985. The Board considers that having Mr. Cheng acting as both our chairman and chief executive officer provides strong and consistent leadership to our Group and facilitate the efficient execution of our business strategies. Also, the Board considers there are adequate safeguards in place to ensure sufficient balance of powers within the Board, such as major issues affecting the operations of the Company are made in consultation with experienced and high caliber Directors in regular Board meetings, the delegation of authorities to the management and the supervision of the management by the members of the Board and the relevant Board committees. Having considered the factors mentioned above, the Board considers Mr. Cheng is the best candidate for both positions and the present arrangements are beneficial and in the interest of the Group and the Shareholders as a whole. The Board will continue to review and consider segregating the roles of the chairman and chief executive officer at an appropriate time, taking into account the circumstances of the Group as a whole.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors’ securities transactions on terms no less exacting than the required standard indicated by the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules.

All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code adopted by the Company since the Listing Date and up to the date of this result announcement.

AUDIT COMMITTEE

The audit committee of the Company (“**Audit Committee**”), which consists of three independent non-executive Directors, namely Mr. Ng Shung, Mr. Chan Hiu Fung Nicholas and Prof. Cheng Man Chung Daniel, has reviewed, together with the participation of the management, the accounting principles and practices adopted by the Group and discussed auditing and financial reporting matters including the review of the audited financial statements of the Group for the year ended 31 December 2020.

REVIEW OF PRELIMINARY RESULTS ANNOUNCEMENT BY THE INDEPENDENT AUDITOR

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in the preliminary announcement have been agreed by the Group’s auditor, PricewaterhouseCoopers, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Board, the Board confirms that the Company has maintained the public float as required by the Listing Rules as at the latest practicable date prior to the issue of this announcement.

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the “**AGM**”) will be held on Tuesday, 18 May 2021. A notice convening the AGM will be issued and dispatched to the Shareholders in the manner as required by the Listing Rules in due course.

DIVIDEND

The Directors recommended the declaration of a final dividend at the rate of HK12.0 cents per share amounting to approximately HK\$63.8 million for the year ended 31 December 2020, which is expected to be paid on or around Thursday, 3 June 2021 to all persons registered as holders of shares of the Company on Thursday, 27 May 2021, subject to the approval of the Shareholders at the AGM.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the qualification as Shareholders of the Company to attend and vote at the AGM, the register of members of the Company will be closed from Thursday, 13 May 2021 to Tuesday, 18 May 2021, both days inclusive, during which period no transfer of shares will be effected. In order to be eligible to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Wednesday, 12 May 2021, being the last share registration date.

For the purpose of determining the entitlement to the proposed final dividend (subject to the approval of the Shareholders at the AGM), the register of members of the Company will be closed from Tuesday, 25 May 2021 to Thursday, 27 May 2021, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the entitlement to the proposed final dividend, unregistered holders of shares of the Company are required to lodge all transfer documents accompanied by the relevant share certificates with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 24 May 2021.

PUBLICATION OF INFORMATION ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This annual result announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.qpp.com) and the annual report for the year ended 31 December 2020 containing all information required by the Listing Rules will be despatched to the Shareholders and published on the aforesaid websites on or before 30 April 2021.

By order of the Board
Q P Group Holdings Limited
Cheng Wan Wai
Chairman

Hong Kong, 30 March 2021

As at the date of this announcement, the board of directors of the Company comprises Mr. CHENG Wan Wai, Mr. YEUNG Keng Wu Kenneth, Ms. LIU Shuk Yu Sanny, Mr. CHAN Wang Tao Thomas, Ms. HUI Li Kwan and Mr. MAK Chin Pang as executive Directors, Mr. CHAN Hiu Fung Nicholas, Prof. CHENG Man Chung Daniel and Mr. NG Shung as independent non-executive Directors.