ANNUAL REPORT 2018

MS GROUP HOLDINGS LIMITED
萬 成 集 團 股 份 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)
Stock code: 1451

PRINCIPAL BUSINESSES

The Group is principally engaged in the production and sales of plastic bottles and baby feeding accessories. The two business segments of the Group are:

(i) the OEM Business, which primarily comprises the production and sales of plastic bottles and cups for infants and toddlers and plastic sports bottles on an OEM basis predominately for the overseas markets; and

(ii) the Yo Yo Monkey Business, which primarily comprises the production and sales of infant and toddler products, particularly plastic bottles and cups, under the brand developed by the Group and known as "Yo Yo Monkey (優優馬騮)", principally for the PRC market.

Shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 1 June 2018.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Chau Ching *(Chairman)*
Mr. Chung Kwok Keung Peter *(Chief Executive Officer)*
Mr. Chau Wai
Mr. Chung Leonard Shing Chun

Independent non-executive Directors

Mr. Asvaintra Bhanusak
Mr. Seto John Gin Chung
Mr. Yu Hon To David

BOARD COMMITTEES

Audit Committee

Mr. Yu Hon To David *(Chairman)*
Mr. Asvaintra Bhanusak
Mr. Seto John Gin Chung

Remuneration Committee

Mr. Seto John Gin Ching *(Chairman)*
Mr. Asvaintra Bhanusak
Mr. Yu Hon To David

Nomination Committee

Mr. Chau Ching *(Chairman)*
Mr. Seto John Gin Chung
Mr. Yu Hon To David

COMPANY SECRETARY

Mr. Ko Kam On

AUTHORISED REPRESENTATIVES

Mr. Chung Kwok Keung Peter
Mr. Chung Leonard Shing Chun

AUDITORS

PricewaterhouseCoopers *(Certified Public Accountants)*

LEGAL ADVISOR

David Fong & Co.

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 907, 9/F., Enterprise Square Tower 1
9 Sheung Yuet Road, Kowloon Bay
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKER

Bank of China (Hong Kong) Limited

COMPLIANCE ADVISOR

First Shanghai Capital Limited

INVESTOR RELATIONS CONTACT

ir@sharpsuccess.cn

SHARE INFORMATION

Listing:	Main Board
Board Lot:	2,000 Shares
Stock Code:	1451

COMPANY WEBSITE

www.mainsuccess.cn

FINANCIAL HIGHLIGHTS

KEY FINANCIAL INFORMATION FOR THE RECENT FINANCIAL YEARS

	For the year ended 31 December			
	2018	2017	2016	2015
	(Audited)	(Audited)	(Audited)	(Audited)
	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**233,195**	225,750	267,895	242,344
Cost of sales	**(158,698)**	(146,073)	(180,106)	(145,323)
Gross profit	**74,497**	79,677	87,789	97,021
Selling expenses	**(31,784)**	(22,532)	(17,397)	(16,486)
Administrative expenses	**(32,600)**	(27,424)	(27,121)	(26,849)
Other income	**858**	1,285	601	927
Other (losses)/gains, net	**(700)**	(339)	(488)	244
Listing expenses	**(8,827)**	(6,462)	(3,493)	—
Finance (expenses)/income, net	**(190)**	13	7	11
Profit before taxation	**1,254**	24,218	39,898	54,868
Taxation	**(4,374)**	(6,720)	(8,524)	(5,614)
(Loss)/Profit for the year	**(3,120)**	17,498	31,374	49,254

	As at 31 December			
	2018	2017	2016	2015
	(Audited)	(Audited)	(Audited)	(Audited)
	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**217,447**	162,188	145,420	157,663
Total liabilities	**65,153**	60,154	62,651	83,824
Net assets	**152,294**	102,034	82,769	73,839

MANAGEMENT DISCUSSION AND ANALYSIS

CHAIRMAN'S STATEMENT AND BUSINESS REVIEW

Dear Shareholders,

On behalf of the Board of the Company, I am pleased to present the annual report of the Company and its subsidiaries for the year ended 31 December 2018.

The Group was listed on the Main Board (the "**Main Board**") of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 1 June 2018, making 2018 the year of milestone. However, 2018 was a challenging year for the Group. The Group had a slight annual growth in revenue in 2018 but faced an overall challenging business environment due to (i) the increase in unit procurement costs of raw materials, including plastic resin and packing materials; (ii) the concerns of the customers of the Group on the outlook of the industry economic environment in the United States due to the outbreak of trade war between the PRC and the United States; and (iii) the increase in selling expenses and administrative expenses along with the expansion of the Group. The Group recorded an overall revenue of HK$233.2 million for the year ended 31 December 2018 (2017: HK$225.8 million), representing an increase of approximately 3.3%, as compared to the preceding year.

In view of the growing consumerism and improving living standards in the PRC, the Group accelerated its pace to increase distribution in retail stores in the PRC and promotion through online channels. By the end of 2018, the number of third party retail stores in the PRC which sold the products of the Group increased to 393. (2017: 136)

The overall production output of the OEM Business dropped in 2018 due to the decrease in sales performance of the OEM Business, which was the main profit contributor to the Group, as compared to that of 2017. Although the trade war between the PRC and the United States did not have any material direct impact (such as tariffs) on the operations of the Group, the outbreak of trade war had led to concerns of the customers of the Group on the outlook of the industry economic environment in the United States, and therefore led to a decrease in demand of products from the OEM Business customers for the year ended 31 December 2018. Furthermore, along with the decline in sales orders, the profitability of the Group was negatively affected by the reduction in economies of scale. In view of the business uncertainty and the decline in the revenue of OEM Business, particularly in May and June 2018, the Group had increased efforts in developing OEM relationships in the PRC by leveraging its Yo Yo Monkey Business contacts and network.

The Yo Yo Monkey Business achieved substantial growth in sales in 2018 as compared to that of 2017, mainly due to the increased efforts placed on marketing, promotional and other sales related activities in the PRC and the established relationship with certain retailers and distributors. The increased efforts were necessary to expand the brand's distribution footprint and were expected to be beneficial for the long-term development of the Yo Yo Monkey Business. In addition, apart from the flagship product logo "Yo Yo Monkey (優優馬騮)" which carries a monkey character cartoon, the Group had also started to develop other animal character cartoon logos to provide consumers with a wider variety of choices and to assist in the market penetration of this business segment.

STRATEGIC PLAN

In response to the declining performance of the OEM Business in 2018, the management team of the Company has formulated a strategic plan to tackle key challenges of the OEM Business in the forthcoming years. For the upcoming years, the Group will be more active in identifying possible opportunities for licenses collaboration, with a view to enhance product development capabilities, expand product varieties, enrich product profile and build brand image, thereby increasing market share.

In light of the inflating product costs, another key focus is to drive down manufacturing costs and selling expenses on one hand and improve gross margin the other. The Group is undergoing a re-evaluation of the stock keeping unit and fading out unpopular items to avoid hoarding of stock and to keep a faster pace of stock turnover. The management team is also revaluating the business environment and adapting feasible strategies to avoid risky business relationships.

OUTLOOK

Despite the concerns of the customers of the Group on the outlook of the industry economic environment in the United States due to the outbreak of trade war between the PRC and the United States, which resulted in the under-performance of the OEM Business in 2018, the Group has confidence in stabilizing its overall manufacturing operation and sales. The Group has a strategic plan and has measures in place to strengthen sales orders and to expand product diversities and retail/distribution network so as to meet market demands, as well as lowering and better control manufacturing costs.

Looking at the consumer behavior in the PRC, the Group expects solid demand for high-quality/branded products in view of the rising disposable income and growing trend for high quality/branded products. The strategies of the Group will therefore be to expand its retail network and work closely with collaborated licenses/brand owner to strengthen the product design and develop the brand images of the Group.

ACKNOWLEDGEMENT

On behalf of the Group, I would like to thank all of the dedicated employees of the Group for their unwavering loyalty, diligence, professionalism and invaluable contributions throughout the year of 2018. I wish to take this opportunity to express my sincere appreciation and gratitude to all of the customers and shareholders of the Company for their continuous support and recognition of the aspirations and strategies of the Group.

Chau Ching
Chairman

FINANCIAL REVIEW

REVENUE

Revenue of the Group amounted to approximately HK$233.2 million for the year ended 31 December 2018 (2017: HK$225.8 million), representing an annual increase of approximately 3.3%. The increase was mainly attributable to the growth of the Yo Yo Monkey Business.

- OEM Business
  For the year ended 31 December 2018, revenue generated from the OEM Business amounted to approximately HK$170.2 million, representing an approximately 11.1% annual decline, as compared to that of approximately HK$191.4 million for the preceding year. The trade war between the PRC and the United States did not have any material direct impact (such as tariffs) on the operations of the Group but the outbreak of the trade war had led to concerns of the customers of the Group on the outlook of the industry economic environment in the United States. For the year ended 31 December 2018, the Group recorded an overall decrease in demand of products from the OEM Business customers (particularly customers with a smaller scale of business with the Group). For the year ended 31 December 2018, the two largest customers continued to be the major contributors of revenue for the OEM Business, where (i) the revenue generated from the largest customer of the Group did not recover as the Group had expected and amounted to approximately HK$83.2 million (2017: HK$89.3 million), representing an annual decline of approximately 6.8%, and was significantly less than that anticipated by the Group during 2018; and (ii) the revenue generated from the second largest customer of the Group amounted to approximately HK$61.9 million (2017: HK$66.0 million), representing an annual decline of approximately 6.2%.

- Yo Yo Monkey Business
  For the year ended 31 December 2018, the Yo Yo Monkey Business achieved revenue of approximately HK$63.0 million, representing an annual increase of approximately 83.1% as compared to that of approximately HK$34.4 million for the preceding year. Such substantial growth in sales in the year of 2018 was mainly attributable to the increased efforts placed on marketing and promotional activities in the PRC.

Gross profit

The gross profit of the Group for the year ended 31 December 2018 was approximately HK$74.5 million, representing a gross profit margin of approximately 31.9%, as compared to that of approximately HK$79.7 million, representing a gross profit margin of approximately 35.3% for the year ended 31 December 2017. For the year ended 31 December 2018, the gross profit margin of the OEM Business was approximately 27.6% (2017: 34.3%) and the gross profit margin of the Yo Yo Monkey Business was approximately 43.6% (2017: 41.1%). The decline in gross profit margin of the Group was mainly attributable to (i) the increase in operating costs of the Group in the PRC; (ii) the increase in unit procurement costs of raw materials, including plastic resin and packaging materials; and (iii) the lowered revenue for the OEM Business while factory fixed overhead costs remained roughly the same.

Selling expenses

The Group incurred selling expenses of approximately HK$31.8 million for the year ended 31 December 2018, representing an increase of approximately 41.3% as compared to that of approximately HK$22.5 million for the year ended 31 December 2017. The significant increase in selling, distribution and promotion expenses was mainly attributable to the efforts made to develop and promote the "Yo Yo Monkey (優優馬騮)" brand, being a growing business segment of the Group in the PRC.

Administrative expenses

The administrative expenses of the Group amounted to approximately HK$32.6 million for the year ended 31 December 2018, representing an increase of approximately 19.0% as compared to that of approximately HK$27.4 million for the year ended 31 December 2017, to support the business growth of the Group. Administrative expenses accounted for approximately 14.0% of the total revenue for the year ended 31 December 2018, representing a slight increase as compared to that of approximately 12.1% of total revenue for the year ended 31 December 2017, due to the increase in payroll expenses on additional headcounts and the increased professional fees after the Listing, along with the development of the businesses of the Group.

Other income and gains

The Group recorded net other income and gains of approximately HK$158,000 for the year ended 31 December 2018, as compared to that of approximately HK$946,000 for the year ended 31 December 2017. The net other income and gains were mainly derived from government grant and sundry income.

Listing expenses

The Group incurred listing expenses of approximately HK$8.8 million for the year ended 31 December 2018, as compared to that of approximately HK$6.5 million for the year ended 31 December 2017.

Finance expense/income

The Group incurred net finance expenses of approximately HK$190,000 for the year ended 31 December 2018, as compared to that of approximately HK$13,000 net finance income for the year ended 31 December 2017. The finance expenses were mainly interest expenses for the utilisation of bill facilities, while the finance income was mainly derived from bank depository interest.

Net loss/profit

As mentioned above, the revenue of the Group recorded an annual increase of approximately 3.3% for the year ended 31 December 2018, which was driven by the growth of the Yo Yo Monkey Business. However, due to the reduction in gross profit margin of the OEM Business, the increase in selling expenses for business development and the incurrence of Listing expenses, the Group recorded a net loss of approximately HK$3.1 million for the year ended 31 December 2018, as compared to that of a net profit of approximately HK$17.5 million for the year ended 31 December 2017. For illustrative purposes, the net profit before Listing expenses of the Group for the year ended 31 December 2018 was approximately HK$5.7 million (2017: HK$24.0 million).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2018, the cash and cash equivalents of the Group amounted to approximately HK$83.3 million (2017: HK$36.6 million). The cash and cash equivalents of the Group as at 31 December 2018 were primarily denominated in Hong Kong dollars and United States dollars and were mainly contributed by the net proceeds from the Listing. The Group had net cash used in operating activities of approximately HK$23.8 million for the year ended 31 December 2018, as compared to that of the net cash generated from operating activities of approximately HK$9.6 million for the year ended 31 December 2017, where such difference was mainly attributable to (i) the Group recorded profit before taxation of approximately HK$1.3 million for the year ended 31 December 2018 as compared to the profit before taxation of approximately HK$24.2 million for the year ended 31 December 2017; and (ii) the net settlement amount with related companies of approximately HK$13.9 million for the year ended 31 December 2018 as compared to that of approximately HK$7.8 million for the year ended 31 December 2017.

As at 31 December 2018, the Group maintained banking facilities of approximately HK$10.0 million (2017: HK$10.0 million), which were partly utilised as bills facilities to settle payments to suppliers.

As mentioned in the Prospectus, on 11 May 2018, the Group entered into a loan agreement with an independent third party and was granted with an unsecured interest-bearing loan amounted to HK$12.0 million carrying a fixed interest rate of 5% per annum due on 9 July 2018 for short term financing. This loan was fully repaid on 9 July 2018 in accordance with the terms of the loan agreement.

As at 31 December 2018, the Group had amounts due to its Shareholders of approximately HK$24.0 million, which were unsecured fixed interest rate Hong Kong dollar borrowings repayable before 31 December 2019 to Mr. Chau Ching and Mr. Chung Kwok Keung Peter pursuant to loan agreements entered into in December 2018.

As at 31 December 2018, the gearing ratio of the Group (being total interest-bearing borrowings divided by total equity) was approximately 15.8% (2017: nil).

CAPITAL COMMITMENT AND CAPITAL EXPENDITURE

As at 31 December, 2018, the Group had no capital commitment (2017: nil).

For the year ended 31 December 2018, the capital expenditure of the Group (being gross addition of property, plant and equipment) was approximately HK$10.0 million (2017: HK$5.5 million). This capital expenditure was primarily for the acquisition of new machineries, tools and equipments.

For further information on future capital expenditure, please refer to the section headed "Future plans and use of proceeds" in the Prospectus.

TREASURY POLICY

The Group had a sufficient level of cash and banking facilities for the conduct of its trade in the normal course of business during the year ended 31 December 2018. The management will continue to follow a prudent policy in managing the Group's cash balances and maintain a strong and healthy liquidity to ensure that the Group is well placed to take advantage of any future growth opportunities.

EXCHANGE RATE RISK

The transactions of the Group were primarily denominated in United States dollars, Renminbi and Hong Kong dollars. In particular, sales were primarily made in United States dollars whereas payments of staff wages and salaries were in Renminbi and Hong Kong dollars. The Group was exposed to exchange rate risk, especially from the fluctuation of the value of Renminbi.

For the year ended 31 December 2018, the Group recorded a HK$689,000 loss on foreign exchange.

The Group had not used any derivatives to hedge its exposure to foreign exchange risk during the year ended 31 December 2018. The management of the Company will continue to monitor the Group's foreign currency risk exposure and to ensure that it is kept at an acceptable level.

CHARGE ON ASSETS

Save for a deposit of HK$10.0 million pledged to secure the banking facilities for the Group, none of the assets of the Group were pledged as at 31 December 2018.

MATERIAL ACQUISITION, DISPOSAL AND INVESTMENT

Apart from the reorganisation in relation to the Listing as detailed in the section headed "History, reorganisation and corporate structure" in the Prospectus, the Group did not perform any material acquisition or disposal of subsidiaries, associates or joint ventures or investments during the year ended 31 December 2018. The Group did not hold any significant investment as at 31 December 2018.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in this annual report, the Group did not have other plans for material investments and capital assets during the year ended 31 December 2018 and up to the date of this annual report.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group had no material contingent liabilities, nor was aware of any pending or potential material legal proceedings involving the Group.

EVENTS AFTER THE YEAR

As at the date of this annual report, there is no other material change or major event required to be disclosed by the Company after 31 December 2018.

USE OF PROCEEDS FROM THE LISTING

The aggregate net proceeds to the Company from the Listing (involving the issue of a total of 50,000,000 ordinary Shares at the offer price of HK$1.34 per Share), after deducting related underwriting fees and other expenses in connection with the Listing, was approximately HK$48.6 million.

As at 31 December 2018, a portion of the net proceeds from the Listing had been utilised in the second half of 2018 with reference to the "Future plans and use of proceeds" in the Prospectus as follows:

Use of net proceeds	**Net proceeds from the Listing**	**Actual utilisation up to 31 December 2018**	**Unutilised amounts as at 31 December 2018**
	HK$ million	HK$ million	HK$ million
Expansion of production capabilities	17.7	3.0	14.7
Development of the Yo Yo Monkey Business	13.0	4.6	8.4
Strengthening the client base of the OEM Business	5.3	0.1	5.2
Improve product development capabilities	8.8	0.3	8.5
Working capital and administrative expenses	3.8	1.0	2.8
Total	48.6	9.0	39.6

The unutilised amounts of the net proceeds will be applied in the manner consistent with that mentioned in the Prospectus. In particular, (i) regarding the expansion of production capabilities, the Group will acquire injection machines and other machineries as planned; and (ii) regarding strengthening the client base of the OEM Business, the Group will increase its efforts to participate in trade shows and marketing activities and hire additional personnel as planned. As at 31 December 2018, the unutilised net proceeds was deposited in short-term demand deposits with authorised financial institutions and/or licensed banks in Hong Kong.

The Directors expect to improve the overall performance of the Group through the upcoming utilisation of the net proceeds from the Listing.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, the Group had 793 full-time employees (2017: 849). The Group placed strong emphasis on the development and training of employees so as to equip them with the requisite skills and safety knowledge in performing their duties and to enhance the competitiveness of the Group.

Employees were remunerated and granted bonus based on their performance, work experience and prevailing market conditions. In compliance with statutory requirements in the PRC, the Group participated in a social insurance scheme and a housing provident fund. The social insurance scheme included pension insurance, medical insurance, maternity insurance, unemployment insurance and injury insurance. For the Hong Kong employees, the Group contributed to the mandatory provident fund scheme as applicable. Employee benefit expenses of the Group for the year ended 31 December 2018 was approximately HK$65.2 million (2017: HK$ 56.6 million).

The emoluments of the Directors were decided by the Board after recommendation from the remuneration committee of the Company, having considered the factors such as the Group's financial performance and the individual performance of the Directors, etc.

The Group had adopted a share option scheme pursuant to a written resolution of the Shareholders passed on 15 May 2018 (the "**Share Option Scheme**"). No share option had been granted by the Company under the Share Option Scheme since its adoption.

PROSPECTS

The OEM Business, which is a significant income contributor of the Group, will continue to face uncertainties in the United States market. The revenue from the major customers of the OEM Business may not be as favorable as expected. If relevant trade policies or legislation are further enacted between the PRC and the United States, the performance of the OEM Business might accordingly be adversely affected. Nevertheless, the Group will continue to develop this business segment, including liaising with both existing and potential customers to obtain more sales orders and further exploring the PRC market by leveraging the experiences accumulated with overseas customers and the connections obtained from the Yo Yo Monkey Business.

The Yo Yo Monkey Business is still in the growing stage. The Group endeavors to ride on the industry growth potential created by the relaxation of the one-child policy in the PRC since 2016 and also by the increasing demand for innovative, high-quality infant and toddler products along with the improving economy in the PRC. However, at the same time, brand building requires enormous costs and the Group will continue incurring selling and marketing expenses for both offline and online marketing and other related activities in the upcoming period for the long-term development of the Yo Yo Monkey Business.

The utilisation of the net proceeds from the Listing, including but not limited to upgrading existing production facilities and equipments, engaging in promotional activities and improving product development capabilities, will improve the overall business performance of the Group. The Group aims to uphold its manufacturing production utilisation level of existing facilities, maintain existing customers' relationship to achieve organic sales growth, develop new product types from internal resources and through collaboration with different business partners, and further expand customer portfolio.

The OEM Business has established long term strategic relationships with the major customers and has also accumulated reputation and experience in the industry. On the other hand, in respect of the Yo Yo Monkey Business, the Group focuses on building a solid image of "Yo Yo Monkey (優優馬騮)" as a quality Hong Kong brand. As the "Yo Yo Monkey (優優馬騮)" brand of the Group is one of the several baby brand products originated from Hong Kong, it is well positioned to capture the growing potential in the infant and toddler products market in the PRC. In respect of business growth drivers, apart from the ongoing efforts on the procurement of new customers, the Group will be more active in seeking and investigating opportunities including horizontal acquisition and licenses collaboration with synergy effects, such as those being able to equip the Group with technologies, licenses and facilities to produce a wider variety of infant and toddler's products. Last but not least, online shopping has become increasingly popular among consumers over the past several years. This trend is now accounting for a greater share of total retail sales in the PRC. The Group will therefore continue to develop its e-commerce channel to tap this fast-growing market.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Chau Ching (周青), aged 65, was appointed as a director of the Company on 9 March 2017 and was re-designated as executive Director on 31 August 2017 and is the chairman of the Board, the chairman of the nomination committee of the Company and the founder of the Group. He is responsible for overseeing and implementing the Group's strategy and managing the OEM Business. In 2007, Mr. Chau founded Main Success and had since served as its director till now. Mr. Chau is one of the controlling shareholders of the Company. For Mr. Chau's interest in the Shares within the meaning of Part XV of the SFO, please refer to the section headed "Report of the Directors" in this annual report. Mr. Chau is the father of Mr. Chau Wai, the cousin-in-law of Mr. Chung and uncle of Mr. Chung Leonard Shing Chun.

Mr. Chau has more than 20 years of experience in the manufacturing industry. Mr. Chau founded Sharp Success Enterprises Limited in 1995 which was principally engaged in the toy manufacturing business. Subsequently, Sharp Success Enterprises Limited left the toy manufacturing business and in 2011 became a property holding company.

Mr. Chung Kwok Keung Peter (鍾國強), aged 65, was appointed as a director of the Company on 9 March 2017 and was re-designated as executive Director on 31 August 2017 and is the Chief Executive Officer of the Group. He is primarily responsible for directing the overall management and strategic planning and supervision of operations of the Group. He joined the Group in August 2012.

Mr. Chung is a director of Main Success and On Gain Development Limited, both are indirect wholly-owned subsidiaries of the Company. Mr. Chung is one of the controlling shareholders of the Company. For Mr. Chung's interest in the Shares within the meaning of Part XV of the SFO, please refer to the section headed "Report of the Directors" in this annual report. Mr. Chung is the father of Mr. Chung Leonard Shing Chun, cousin-in-law of Mr. Chau and uncle of Mr. Chau Wai.

Mr. Chung has accumulated more than 28 years of experience in the manufacturing industry. He co-founded Racing Champions Limited, which focused on manufacturing die-cast race car miniatures under the National Association for Stock Car Auto Racing (NASCAR) brand license, in 1989 and served as a director. Racing Champions Limited sold its business assets to Banerjan Company Limited (now known as TOMY (Hong Kong) Limited, a major customer of the Group), which was then wholly-owned by Racing Champions Corporation, in 1996. Racing Champions Corporation was renamed as RC2 Corporation in 2003, the shares of which were listed on the Nasdaq Global Select Market and was acquired by Tomy Company, Ltd in 2011. He served as a director of Racing Champions Corporation from 1996–2008 and joined Baird Capital and worked as an operating partner from 2003 to 2014. He was also the chairman of Baird Asia Limited from 2004 to 2010. During the time, he was also instrumental in starting and overseeing Baird's regional office in Hong Kong and Shanghai.

He served as an independent non-executive director of New Wisdom Holding Company Limited (formerly known as Epicurean and Company, Limited) (Stock code: 8213), a company listed on GEM of the Stock Exchange for the period from 18 February 2010 to 8 November 2016.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Chung Leonard Shing Chun (鍾丞晉), (with former name Chung Wai Hang Leonard) aged 31, was appointed as a director of the Company on 9 March 2017 and was re-designated as executive Director on 31 August 2017. Mr. Leonard Chung is responsible for managing the corporate development and investor relations functions of the Group. He is the director of strategy and development of Main Success. Mr. Leonard Chung is the son of Mr. Chung, nephew of Mr. Chau and cousin of Mr. Chau Wai.

Prior to joining the Group in 2016, Mr. Leonard Chung worked in Baird Asia Limited as a financial analyst from 2010 to 2012. He has held positions until present as the director of investments in Racing Champions Limited (a company wholly-owned by Mr. Chung and his spouse) since 2012, and the managing partner in Enclave Audio Limited since 2014. He obtained a bachelor's degree of science in business administration from the Washington University in St. Louis in 2009.

Mr. Chau Wai (周瑋), (with former Chinese name 周煒) aged 31, was appointed as a director of the Company on 9 March 2017 and was re-designated as executive Director on 31 August 2017. He is responsible for formulating development strategies, overseeing the administration, sales and marketing functions of the "Yo Yo Monkey" brand of the Group. Mr. Chau Wai is the son of Mr. Chau, nephew of Mr. Chung and cousin of Mr. Chung Leonard Shing Chun.

Since Mr. Chau Wai joined the Group, he has worked as the manager of sales and marketing in Main Success in which he was responsible for expanding the customer base and the advertising functions of the Group from 2009 to 2012. He then worked as the director of sales and marketing in Main Success and the general manager of Anyu Baby, which is an indirectly wholly owned subsidiary of the Company, from 2012 until now. As a general manager in Anyu Baby, he is primarily responsible for the operation management, administration and sales of the business. He obtained a bachelor's degree of science in hotel administration from the University of Nevada in 2008 prior to joining the Group.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yu Hon To David (俞漢度), aged 70, was appointed as an independent non-executive Director on 15 May 2018. He is also the chairman of the audit committee and a member of the remuneration committee and the nomination committee of the Company. Mr. Yu currently serves as an independent non-executive director of several companies listed on the Main Board including China Renewable Energy Investment Limited (stock code: 987), China Resources Gas Group Limited (stock code: 1193), Haier Electronics Group Co. Ltd. (stock code: 1169), Keck Seng Investments (Hong Kong) Limited (stock code: 184), Media Chinese International Limited (stock code: 685), One Media Group Limited (stock code: 426), Playmates Holdings Limited (stock code: 635) and New Century Asset Management Limited (the manager of New Century Real Estate Investment Trust) (stock code: 1275). Mr. Yu previously served as an independent non-executive director of Synergis Holdings Limited (stock code: 2340) from 27 September 2008 to 1 January 2018, Bracell Limited (stock code: 1768) from 1 October 2010 to 24 October 2016 and Great China Holdings Limited (stock code: 141) from 7 January 1999 to 13 July 2016.

Mr. Yu obtained a bachelor's degree in social science from The Chinese University of Hong Kong in 1971. He was a partner of an international accounting firm. He has extensive experience in the fields of corporate finance, auditing and corporate management. Mr. Yu is a fellow member of the Institute of Chartered Accountants in England and Wales and an associate member of the Hong Kong Institute of Certified Public Accountants.

Mr. Seto John Gin Chung (司徒振中), aged 70, was appointed as an independent non-executive Director on 15 May 2018. He is also the chairman of the remuneration committee and a member of the audit committee and the nomination committee of the Company. Mr. Seto obtained a master's degree in business administration from the New York University in 1973.

Mr. Seto currently serves as an independent non-executive director of several companies listed on the Main Board including Kowloon Development Company Limited (stock code: 0034) and Hop Hing Group Holdings Limited (stock code: 0047). Mr. Seto is also the chairman of the board of directors of Hop Hing Group Holdings Limited and an executive director of Pacific Eagle Asset Management Limited. For the period from 23 April 2003 to 17 May 2018, Mr. Seto served as an independent non-executive director of China Everbright Limited (stock code: 0165), a company listed on the Main Board.

Mr. Seto has over 40 years of experience in the securities and futures industry which includes his services as the chief executive officer in HSBC Broking Services (Asia) Limited, a non-executive director of Hong Kong Exchanges and Clearing Limited, a council member of the Stock Exchange and the first vice chairman of the Stock Exchange.

Mr. Asvaintra Bhanusak (馬清源), aged 74, was appointed as an independent non-executive Director on 15 May 2018. He is also a member of the audit committee and the remuneration committee of the Company. He is currently an independent non-executive director of Dickson Concepts (International) Limited (stock code: 0113), whose shares are listed on the Main Board. For the period from 18 February 2010 to 8 November 2016, Mr. Asvaintra served as an independent non-executive director of New Wisdom Holding Company Limited (formerly known as Epicurean and Company, Limited) (stock code: 8213), a company listed on GEM of the Stock Exchange.

Mr. Asvaintra held various senior executive positions in the banking industry with the Chase Manhattan Bank group in New York, Hong Kong and Singapore in the 1970s. In 1980, Mr. Asvaintra joined the Charoen Pokphand group of companies and retired as the chief executive officer in 1998.

Mr. Asvaintra received his bachelor's degree in science from the Wharton Business School, University of Pennsylvania in May 1968 and a master's degree in business administration from the University of Chicago in June 1970.

SENIOR MANAGEMENT

Mr. Cheung Chor Yin (張楚然), aged 52, was appointed as the chief operating officer of the Group in June 2017. Mr. Cheung is primarily responsible for product engineering development and supervising the sales and marketing and quality assurance functions of the Group. He joined the Group in August 2010. Mr. Cheung has experience of over 20 years in the design, engineering and manufacturing business. Mr. Cheung worked as the engineering director in Sunrise Industrial Limited from 2008 to 2009. In the years between 1993 and 2007, he worked at Funrise Toy Limited. He was the vice president in research and design from 1998 to 2007, the engineer director from 1997 to 1998, the engineering manager from 1996 to 1997 and the project engineer from 1993 to 1995. Mr. Cheung obtained his higher certificate in manufacturing engineering from the Hong Kong Polytechnic (now known as The Hong Kong Polytechnic University) in November 1993 and his diploma in mechanical engineering in July 1988 from Kwai Chung Technical Institute (now known as Hong Kong Institute of Vocational Education (Kwai Chung)).

Biographical Details of Directors and Senior Management

Mr. Ko Kam On (高錦安), aged 39, was appointed as the chief financial officer and the company secretary of the Group on 3 January 2017. Mr. Ko graduated from The Hong Kong Polytechnic University with a bachelor degree in accountancy and is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. He has over 10 years of professional experience in financial management and administration. He is also an associate and registered tax adviser of the Taxation Institute of Hong Kong, Registered Financial Planner and the initial HKRFP of the Society of Registered Financial Planners, Diploma in commercial fraud from the Society of Business Practitioners, Certified Merger and Acquisition Specialist from the Institute of Financial Consultants in Canada and the US and a certified risk planner from the institute of Crisis and Risk Management. He also obtained a master's degree in business administration from Holmes Institute in 2014.

COMPANY SECRETARY

Mr. Ko Kam On is the company secretary of Company. He is also the chief financial officer of the Group. Please refer to the above paragraph for details of his biographical information.

CORPORATE GOVERNANCE REPORT

The Board recognises the importance of incorporating elements of good corporate governance into the management structure and the risk management and internal control procedures of the Group so as to ensure that all business activities of the Group and the decision making process are properly regulated.

For the period from 1 June 2018 (being the Listing Date) to 31 December 2018 (both dates inclusive), the Company had applied the principles and complied with the code provisions in the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules.

BOARD OF DIRECTORS

The Board is responsible for governing the Group and managing assets entrusted by the Shareholders. Its principal responsibilities include formulating the Group's business strategies and management objectives, monitoring and overseeing the performance of the Group, setting the Group's values and standards and ensuring that a prudent and effective framework of risk management and internal control is in place.

COMPOSITION

The Board currently comprises four executive Directors and three independent non-executive Directors, whose biographical details and relationships among the Directors are set out in the section headed "Biographical Details of Directors and Senior Management" on pages 13 to 16 of this annual report . The composition of the Board is as follows:

Executive Directors

Mr. Chau Ching *(Chairman)*
Mr. Chung Kwok Keung Peter *(Chief Executive Officer)*
Mr. Chau Wai
Mr. Chung Leonard Shing Chun

Independent Non-Executive Directors

Mr. Asvaintra Bhanusak
Mr. Seto John Gin Chung
Mr. Yu Hon To David

The composition of the Board is well balanced with each Director having sound knowledge, experience and expertise relevant to the business operation and development of the Group.

All Directors are aware of their collective and individual responsibilities to the Shareholders and have exercised their duties with care, skill and diligence, contributing to the successful performance of the Group.

BOARD MEETINGS

The Company adopts the practice of holding board meetings regularly, at least four times a year, and at approximately quarterly intervals. Notices of not less than fourteen days are given for all regular board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting. For other Board and committee meetings, reasonable notice have been given to the Directors in general. The agenda and accompanying board papers are dispatched to the Directors or committee members at least three days before the meetings to ensure that they have sufficient time to review the papers and be adequately prepared for the meetings. When Directors or committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting. Minutes of the Board meetings and Board Committees meetings are recorded in sufficient detail the matters considered by the Board and the Board Committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and Board Committees meetings are sent to the Directors for comments within a reasonable time after the date on which the meeting is held.

During the period from 1 June 2018 (being the Listing Date) to 31 December 2018, the Board discussed and reviewed the unaudited interim results and report for the six months ended 30 June 2018, the business and financial performance of the Company, adoption of relevant policies and revision of terms of reference of relevant board committees in compliance with the revised Listing rules, as well as the engagement of external professional service providers to review the Group's risk management and internal control systems.

All Directors have full and timely access to all relevant information as well as the advice and services of the company secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. Each Director is entitled to seek independent professional advice in appropriate circumstances at the Company's expense.

RELATIONSHIP BETWEEN THE MEMBERS OF THE BOARD

Save as disclosed in the section headed "Biographical Details of Directors and Senior Management" of this annual report, none of the members of the Board has any relationship (including financial, business, family or other material/relevant relationship) among each other.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

To ensure a balance of power and authority, the roles of the chairman of the Board and the chief executive officer of the Company are clearly segregated.

The chairman of the Board is Mr. Chau Ching and his principal role is to provide leadership for the Board on the Group's strategic planning, ensure proper proceedings of the Board and encourage all Directors to have active contributions to the Board's affairs.

The chief executive officer of the Company is Mr. Chung Kwok Keung Peter, supported by other executive Directors and the management. His principal role is to direct the overall management and strategic planning and supervision of operations of the Group.

RESPONSIBILITIES, ACCOUNTABILITY AND CONTRIBUTION OF THE BOARD AND THE MANAGEMENT

The management of the Company is led by the executive Directors and has been delegated power and authorities to carry out the day-to-day operations of the Group; formulate business policies and make decision on key business issues; and exercise power and authority delegated by the Board from time to time. The management assumes full accountability to the Board for the operations of the Group.

The Board had given clear directions to the management, while certain matters (including but not limited to the following) must be reserved to the Board for its approval:

(i) publication of final and interim results of the Company;

(ii) decisions on whether or not to declare, recommend and pay dividend;

(iii) changes to major group structure or Board composition;

(iv) notifiable or connected transactions within the meaning of Chapters 14 and 14A of the Listing Rules; and

(v) matters specifically set out in the Listing Rules which require approval at a full Board meeting.

MODEL CODE

The Company has adopted the code of conduct regarding directors' securities transactions as set out in the Model Code in Appendix 10 to the Listing Rules. Having made specific enquiries to all Directors, they have all confirmed that they have complied with the required standards as set out in the Model Code for the period from 1 June 2018 (being the Listing Date) to 31 December 2018 (both dates inclusive).

All Directors are also reminded not to deal in the securities of the Company within 30 days and 60 days before the publication of the interim and annual results announcements, respectively and they are prohibited to make use of any inside information to deal in the securities of the Company.

CONTINUOUS PROFESSIONAL DEVELOPMENT

Each newly appointed Director has received comprehensive, formal and tailored induction on the first occasion of his appointment, so as to ensure that he has appropriate understanding of the business and operations of the Group and that he is fully aware of his responsibilities and obligations as a director under the Listing Rules and relevant regulatory requirements.

Directors are continually updated on the developments in the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities.

During the year ended 31 December 2018, all Directors (Mr. Chau Ching, Mr. Chau Wai, Mr. Chung Kwok Keung Peter, Mr. Chung Leonard Shing Chun, Mr. Seto John Gin Chung, Mr. Asvaintra Bhanusak and Mr. Yu Hon To David) have participated in continuous professional development by attending a training session conducted by the Company's legal advisor and/or reading materials on topics related to the group's business, corporate governance, continuing obligations of listed companies and directors, and/or update on rules and regulations.

DIVIDEND POLICY

The Company has adopted a dividend policy, pursuant to which the Board and the Company may declare dividends subject to the Cayman Islands Companies Law and the Articles of Association. The amount of dividends to be declared and paid are based upon, among other things, the Group's general business conditions, financial results, capital requirements and liquidity position, interests of the Shareholders, statutory and regulatory restrictions and any other factors which the Board may deem relevant.

INSIDE INFORMATION POLICY

The Board had adopted an inside information policy in 2018 which contains guidelines to the Directors, officers and certain relevant employees of the Group to ensure that inside information of the Group can be promptly identified, assessed and disseminated to the public in equal and timely manner in accordance with the applicable laws and regulations. The Company must disclose inside information to the public as soon as reasonably practicable, unless the "safe harbour" provisions under the SFO apply. The Board shall take reasonable precautions in preserving the confidentiality of inside information and the relevant announcement (if applicable) before publication.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Independent non-executive Directors serve the function of bringing independent judgement to the development, performance and risk management of the Group. Each of the independent non-executive Directors has been appointed for a term of three years and subject to retirement by rotation at least once every three years.

Mr. Yu Hon To David, Mr. Seto John Gin Chung and Mr. Asvaintra Bhanusak have been the independent non-executive Directors of the Company since 2018. All of them are not involved in the daily management of the Company nor in any relationships which would interfere with the exercise of their independent judgement.

The Board has received from each of them a confirmation of independence according to Rule 3.13 of the Listing Rules and considers that the independent non-executive Directors to be independent for the year ended 31 December 2018.

COMMITTEES OF THE BOARD

Certain committees have been set up under the Board to supervise the management and administrative functions of the Group. They include:

Audit Committee

The Company established its audit committee on 15 May 2018 (the "**Audit Committee**") with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the CG Code as set out in Appendix 14 to the Listing Rules. The main duties of the Audit Committee include, inter alia, (1) reviewing the relationship of the external auditor and the Group and making recommendations to the Board on the appointment, re-appointment and removal of external auditor and their remuneration and terms of engagement; (2) reviewing the financial statements and reports and considering any significant or unusual items raised by the external auditor; (3) reviewing the adequacy and effectiveness of the Company's financial reporting system, internal control and risk management system, etc.; and (4) overseeing the corporate governance function.

During the period from 1 June 2018 (being the Listing Date) to 31 December 2018, the Audit Committee reviewed the unaudited interim results and report for the six months ended 30 June 2018 and the Group's financial and accounting policies and practices, discussed the engagement of external professional service providers to review the risk management and internal control systems and the environmental, social and governance report of the Group.

Members of the Audit Committee comprise Mr. Yu Hon To David (Chairman), Mr. Seto John Gin Chung and Mr. Asvaintra Bhanusak, all of whom are independent non-executive Directors.

Nomination Committee

The Company established its nomination committee on 15 May 2018 (the "**Nomination Committee**") with written terms of reference in compliance with the CG Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Nomination Committee include, *inter alia*, the following:

(a) to review the structure, size, composition and diversity of the Board and make recommendations on any proposed changes;

(b) to identify individuals suitably qualified to become Board members;

(c) to assess the independence of independent non-executive Directors; and

(d) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors.

The Board adopted a board diversity policy which sets out its approach to achieve diversity on the Board. Board diversity has been considered from a number of perspectives, including skills regional and industry experience, background, race, gender and other qualities. All Board appointments will be based on meritocracy and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

The Company has also adopted a nomination policy on 17 December 2018 (the "**Nomination Policy**") which sets out the nomination procedures for selecting candidates for election as Directors. Such policy is adopted by the Board and managed by the nomination committee (the "**Nomination Committee**").

A summary of the Nomination Policy is set out as follows:

- The Nomination Committee shall nominate suitable candidates to the Board for it to consider and make recommendations to the shareholders of the Company for election as Directors at general meetings or appoint as Directors to fill casual vacancies.

- The Nomination Committee will assess the suitability of a proposed candidate by considering the factors such as the reputation for integrity, the accomplishment and experience in the company businesses, the commitment in respect of available time and relevant interest of the candidate and diversity, etc.

During the period from 1 June 2018 (being the Listing Date) to 31 December 2018, the Nomination Committee reviewed the structure, size, composition and diversity of the Board, and discussed and considered the Nomination Policy.

Members of the Nomination Committee comprise Mr. Chau (Chairman), who is an executive Director, and Mr. Yu Hon To David and Mr. Seto John Gin Chung, both of whom are independent non-executive Directors.

Remuneration Committee

The Company established its remuneration committee on 15 May 2018 (the "**Remuneration Committee**") with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the CG Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Remuneration Committee include, inter alia, reviewing the management's remuneration proposals, making recommendations to the Board on the remuneration package of the Directors and senior management and ensuring none of the Directors determines his own remuneration.

During the period from 1 June 2018 (being the Listing Date) to 31 December 2018, the Remuneration Committee had assessed performance of the executive Directors and reviewed their remuneration packages. Details of the amount of emoluments of Directors for the year ended 31 December 2018 are set out in Note 10 to the consolidated financial statements in this annual report.

Members of the Remuneration Committee comprise Mr. Seto John Gin Chung (Chairman), Mr. Yu Hon To David and Mr. Asvaintra Bhanusak, all of whom are independent non-executive Directors.

The remuneration by band of the members of the senior management for the year ended 31 December 2018 is set out below:

	Number of individuals	
	2018	2017
Remuneration band		
Nil – HK$1,000,000	**1**	2
HK$1,000,001 – HK$1,500,000	**1**	—

ATTENDANCE OF MEETINGS

The Board held regular Board meetings, Remuneration Committee meetings, Nomination Committee meetings and Audit Committee meetings to discuss the Group's businesses, operations, development and conduct. All important issues were discussed in a timely manner. The attendance record of each Director, who held office in 2018, at the aforesaid meetings held for the period between 1 June 2018 (being the Listing Date) and 31 December 2018 is set out below:

Number of meetings attended/eligible to attend

Name of Director	**Board meeting**	**Remuneration Committee meeting**	**Nomination Committee meeting**	**Audit Committee meeting**
Executive Directors				
Mr. Chau (4)	3/3	N/A	1/1	N/A
Mr. Chung	3/3	N/A	N/A	N/A
Mr. Chau Wai	3/3	N/A	N/A	N/A
Mr. Chung Leonard Shing Chun	3/3	N/A	N/A	N/A
Independent Non-Executive Directors				
Mr. Seto John Gin Chung (2, 3, 5)	3/3	1/1	1/1	1/1
Mr. Asvaintra Bhanusak (1, 5)	3/3	1/1	N/A	0/1
Mr. Yu Hon To David (1, 3, 6)	3/3	1/1	1/1	1/1

Notes:

1. Members of the Remuneration Committee

2. Chairman of the Remuneration Committee

3. Members of the Nomination Committee

4. Chairman of the Nomination Committee

5. Members of the Audit Committee

6. Chairman of the Audit Committee

7. No general meeting was held during the year ended 31 December 2018.

COMPANY SECRETARY

Mr. Ko Kam On, the company secretary of the Company, is a full time employee of the Group and the chief financial officer of the Group. During the year ended 31 December 2018, Mr. Ko confirmed that he had complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules. His biographical details are set out in the section headed "Biographical Details of Directors and Senior Management" of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has the overall responsibility for maintaining an adequate system on risk management and internal controls of the Group and, on an annual basis, reviewing the effectiveness of it. The Board is committed to implement an effective risk management and internal control system to safeguard the interests of the Shareholders and the Company's assets. To achieve this, the Board engaged a third-party consultant to perform the internal audit function of the Group and review the Group's risk management internal control systems.

The Group's internal control is designed to provide reasonable and not absolute assurance against material misstatement or loss and to mitigate rather than eliminate risks of failure in operational systems and fulfilment of business objectives. The Group has established internal control to help the business operations to achieve the Group's business objectives, to safeguard the Group's assets, to ensure business operations complying with applicable laws and regulations, and to ensure the maintenance of proper accounting records and the reliability of financial information reported by the business operations.

The internal control process is accomplished by the Board, the management team and other designated staff, and is designed to provide reasonable assurance regarding the achievement of objectives.

The approach adopted in assessing the internal controls systems is based on those set by the Committee of Sponsoring Organisations of the Treadway Commission, a globally recognized framework which categorises internal controls into five components as the basis of reviewing its effectiveness, namely (i) control environment, (ii) risk assessment, (iii) information and communication, (iv) control activities and (v) monitoring. In assessing the internal control system based on the above principles, the Group has taken into consideration of the nature of business as well as the organization structure. The system is designed to manage the risk rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss. The system is designed further to safeguard the Group's assets, maintain appropriate accounting records and financial reporting, maintain efficiency of operations and ensure compliance with applicable laws and regulations.

The Board as supported by the Audit Committee, assessed the effectiveness of the risk management and internal control systems by engaging an independent professional consultant (the "**Consultant**") to review the effectiveness and adequacy of the risk management and internal control systems for the year ended 31 December 2018. All audit findings were reported and communicated to the Audit Committee, Directors and respective management. Appropriate recommendations for further enhancing the internal control systems were proposed to management and had been adopted as management thought fit. Audit issues were tracked and followed up for proper implementation, with progress reported to the Audit Committee, Directors and senior management on a regular basis. The Directors considered that the risk management and internal control system for the year ended 31 December 2018 was generally effective and adequate.

The Audit Committee reviewed also the adequacy of resources, qualifications, experience and training programme of the Group's accounting and financial reporting staff and considered they were adequate in carrying out their roles and responsibilities.

Inside information dissemination and control measures

The Company has maintained internal guidelines for ensuring that inside information is disseminated to the public in an equal and timely manner in accordance with the applicable laws and regulations. Access to inside information is at all times confined to relevant employees of the Group (mainly Directors and senior management). Relevant employees and other professional parties involved are reminded to preserve confidentiality of the inside information until it is publicly disclosed. Before the information is fully disclosed to the public, the Group ensures the information is kept strictly confidential.

FINANCIAL REPORTING

Responsibilities in respect of financial statements

The Board acknowledges its responsibility for preparing the financial statements of the Group. In preparing the financial statements, the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants have been adopted. The principal accounting policies, adopted for the preparation of financial statements of the Group are set out in Note 2 to the consolidated financial statements of the Group in this annual report. The reporting responsibility of the Company's external auditor on the financial statements of the Group is set out in the independent auditor's report on pages 42 to 46 of this annual report.

Auditor's remuneration

In addition to audit services, the Company engaged it's external auditor, PricewaterhouseCoopers, for non-audit services, under which the external auditor is required to comply with the independence requirements under the Code of Ethics for Professional Accountants issued by the HKICPA.

During the year ended 31 December 2018, fees paid or payable to the external auditor are set out as follows:

Nature of services	HK$'000
Audit services	1,120
Non-audit services	770
Total	1,890

Non audit service include internal control review and review of the interim report, continuing connected transactions and annual results announcement.

COMMUNICATION WITH SHAREHOLDERS AND SHAREHOLDERS' RIGHTS

Communication with Shareholders

The Company had established a shareholders' communication policy in 2018 and shall review it on a regular basis to ensure its effectiveness. The Company communicates with the Shareholders mainly in the following ways:

(a) the holding of annual general meetings and extraordinary general meetings, if any which may be convened for specific purposes, which provide opportunities for the Shareholders to communicate directly to the Board;

(b) the publication of announcements, annual reports, interim reports and circulars on the websites of the Company and the Stock Exchange;

(c) the publication of press releases of the Company providing updated information of the Group;

(d) the availability of latest information of the Group on the Company's website;

(e) the holding of investor/analyst briefings and media conference from time to time; and

(f) meeting with investors and analysts on a regular basis.

Procedures for Shareholders to convene an extraordinary general meeting ("EGM")

Pursuant to article 58 of the articles of association of the Company, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by depositing at the headquarter of the Company in Hong Kong written requisition to the Board or the company secretary of the Company, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene an EGM, the requisitionist(s) himself/herself/themselves may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed by the Company.

Voting by poll

The articles of association of the Company set out the procedures and requirements for voting by poll. Pursuant to Rule 13.39 of the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands.

The poll results will be published on the websites of the Company and the Stock Exchange as soon as possible after conclusion of the relevant general meeting.

Enquiries and proposals from Shareholders

Shareholders are welcomed to send their enquiries and concerns or put forward proposals at general meetings by writing to the Board addressing to the company secretary of the Company through the following channels:

(a) by mail to the Company's headquarter at Room 907, 9/F, Enterprise Square, Tower 1, 9 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong;

(b) by email at ir@sharpsuccess.cn; or

(c) by fax at +852 23051528

Changes to constitutional document

During the period between 1 June 2018 (being the Listing Date) and 31 December 2018, there was no amendment to the Company's constitutional document, and this document was published on the websites of the Company and the Stock Exchange.

REPORT OF THE DIRECTORS

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The Group is principally engaged in the production and sales of plastic bottles and baby feeding accessories. The two business segments of the Group are (i) the OEM Business, which primarily comprises the production and sales of plastic bottles and cups for infants and toddlers and plastic sports bottles on an OEM basis predominately for the overseas markets; and (ii) the Yo Yo Monkey Business, which primarily comprises the production and sales of infant and toddler products, particularly plastic bottles and cups, under the brand developed by the Group and known as "Yo Yo Monkey (優優馬騮)", principally for the PRC market.

An analysis of the Group's performance for the year ended 31 December 2018 by business and geographical segments is set out in Note 6 to the consolidated financial statements under this annual report.

BUSINESS REVIEW

General

A review of the business of the Group in 2018 and a discussion on the Group's future business development are set out in the sections headed "Management discussion and analysis" on pages 4 to 12 of this annual report.

Principal risks and uncertainties

A number of factors affecting the results and business operations of the Group are set out in the sections headed "Management discussion and analysis" on pages 4 to 12 of this annual report.

Financial results and analysis of key financial performance indicators

The results of the Group for the year ended 31 December 2018 are set out in the consolidated income statement on page 47 of this annual report.

The key financial information of the Group for the last four financial years and the key financial performance indicators of the Group are set out on pages 3 to 12 of this annual report.

Environmental policies

The Group is committed to building an environmental-friendly corporation that pays close attention to conserving natural resources. The Group strives to minimise environmental impact by saving electricity and encouraging recycle of office supplies and other materials. The Group also requires its production facilities under the OEM Business to operate in strict compliance with the relevant environmental regulations and rules.

Compliance with laws and regulations

The Group's production and operation are mainly carried out by the Company's subsidiaries in the PRC. The head office in Hong Kong is mainly handling brand design and management and administration work of the Group. The Company itself is listed on the Stock Exchange. The establishment and operations of the Group accordingly shall comply with relevant local laws and regulations. During the year ended 31 December 2018 and up to the date of this annual report, the Group had complied with relevant local laws and regulations applicable to it in all material respects.

Business activities in Countries subject to International Sanctions

During the year ended 31 December 2018, a portion of the products of the Group were sold and/or delivered to certain Countries subject to International Sanctions, namely Lebanon, Myanmar/Burma, Russia and Ukraine on free on board (FOB) or free carrier (FCA) basis. The revenue derived from products sold and/or delivered to Countries subject to International Sanctions for the year ended 31 December 2018 amounted to approximately HK$0.7 million (2017: HK$1.4 million), representing approximately 0.3% of the total revenue of the Group (2017: 0.6%).

The Group has not been notified of that any International Sanctions will be imposed on the Group for sales and/or deliveries to the Countries subject to International Sanctions for the year ended 31 December 2018. The Group expects to continue to sell and/or deliver products to Countries subject to International Sanctions, although the Directors do not expect any material increase in the sales or deliveries of the Group to these countries.

The Group would not enter into any transaction to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, the Countries subject to International Sanctions or Sanctioned Persons where this would be in breach of the International Sanctions.

The Directors believe the Group has a reasonably adequate and effective internal control framework to continue to assist the Group in identifying and monitoring any material risk relating to International Sanctions laws so as to protect the interests of the Company and the Shareholders.

Key relationships

The Group endeavours to maintain sustainable development in the long term, continuously create value for its employees and customers, and foster good relationship with its suppliers.

The Group understands that employees are its valuable assets and the realization and enhancement of employees' value will facilitate the achievement of the Group's overall goals. A comprehensive range of fringe benefits is offered to attract, retain and motivate employees.

The Group also understands the importance of maintaining good relationships with its suppliers and customers to the overall development of the Group and to ensure that they can share their commitment to product quality. Suppliers are carefully selected and they are required to satisfy certain criteria including track record, experience, reputation, ability to produce high-quality products and quality control effectiveness. To maintain the competitiveness of its products and brands, the Group commits itself to consistently provide quality products to its customers.

During the year ended 31 December 2018, the Group considered the relationship with employees was well and the turnover rate was acceptable and there was no significant and material dispute with its suppliers and customers.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The environmental, social and governance report of the Company prepared in accordance with Appendix 27 of the Listing Rules will be published within three months after the publication of this annual report.

SHARE CAPITAL

Details of movements in the share capital of the Company are set out in Note 19 to the consolidated financial statements of the Group under this annual report.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year ended 31 December 2018 are set out in Note 20 to the consolidated financial statements and in the consolidated statement of changes in equity on pages 49 to 51 of this annual report.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2018, approximately HK$16,638,000 was available for distributions to the Shareholders (2017: Nil). Details of movements in the reserves of the Company are set out in Note 20 to the consolidated financial statements of the Group under this annual report.

DONATIONS

The amount of charitable and other donations made by the Group was HK$1,000 during the year ended 31 December 2018 (2017: nil).

EQUITY-LINKED AGREEMENTS

No equity-linked agreement was entered into by the Company during the year or subsisted as at 31 December 2018.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the articles of association of the Company and there is no restriction against such rights under the laws of the Cayman Islands where the Company was incorporated, which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

DIVIDENDS

The Board does not recommend a final dividend for the year ended 31 December 2018.

CLOSURES OF REGISTER OF MEMBERS

The Company will hold the annual general meeting on Monday, 27 May 2019. The register of members of the Company will be closed from Wednesday, 22 May 2019 to Monday, 27 May 2019 (both days inclusive), during which period no transfer of Shares will be registered. In order to qualify for attendance and vote at the forthcoming annual general meeting of the Company, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Hong Kong share registrar and transfer office of the Company, Tricor Investor Services Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 21 May 2019.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group are set out in Note 14 to the consolidated financial statements under this annual report.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Company's securities.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities since the listing of the Company on 1 June 2018 up to the date of this annual report.

DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the remuneration of the Directors and those of the five highest paid individuals of the Group for the year ended 31 December 2018 are set out in Note 10 to the consolidated financial statements under this annual report. The monthly salary of each of Mr. Chau and Mr. Chung was decreased to HK$100 upon their requests with effect from 1 August 2018. Save as disclosed above, there has been no arrangement under which any Director has waived or agreed to waive any emoluments.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTEREST IN COMPETING BUSINESS

The Directors are not aware of any business or interest of the Directors nor the controlling shareholders of the Company nor any of their respective close associates (as defined in the Listing Rules) that compete or is likely to compete, either directly or indirectly, with the business of the Group and any other conflicts of interest which any such person has or may have with the Group during the year ended 31 December 2018 and up to the date of this annual report.

Each of the controlling shareholders of the Company had entered into the deed of non-competition with the Company as detailed in the section headed "Relationship with our controlling shareholders" in the Prospectus (the "**Deed of Non-Competition**"). Each of the controlling shareholders of the Company had provided written confirmation and made an annual declaration on their compliance with the Deed of Non-Competition for the year ended 31 December 2018. Based on the information and confirmation provided by or obtained from the controlling shareholders of the Company, the independent non-executive Directors have reviewed the compliance and enforcement of the Deed of Non-Competition and were satisfied that the Deed of Non-Competition was duly complied with and enforced for the year ended 31 December 2018.

DIRECTORS' INTEREST IN TRANSACTION, ARRANGEMENT AND CONTRACTS

Save for the related party transactions disclosed in Note 26 to the consolidated financial statements of the Group and the connected transactions described in the section headed "Connected transactions" below in this annual report, (i) no transaction, arrangement or contract of significance in relation to the Group's business to which the Company, its controlling shareholders or any of their respective subsidiaries was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted as at the end of 31 December 2018 or at any time during such financial year; and (ii) no contract of significance had been entered into among the Company or any of its subsidiaries and the controlling shareholders of the Company or any of their subsidiaries during the year ended 31 December 2018.

DIRECTORS

The Directors during the year and up to the date of this annual report were:

Executive Directors

Mr. Chau Ching *(Chairman)*
Mr. Chung Kwok Keung Peter *(Chief Executive Officer)*
Mr. Chau Wai
Mr. Chung Leonard Shing Chun

Independent non-executive Directors

Mr. Asvaintra Bhanusak
Mr. Seto John Gin Chung
Mr. Yu Hon To David

According to articles 84(1) and 84(2) of the articles of association of the Company, Mr. Chau Ching, Mr. Chau Wai and Mr. Chung Leonard Shing Chun, shall retire at the forthcoming annual general meeting of the Company by rotation and be eligible to offer themselves for re-election.

Each of the independent non-executive Directors had made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

PERMITTED INDEMNITY PROVISION

According to article 164 of the articles of association of the Company, the Directors shall be indemnified out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses for any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices or trusts, provided that the indemnity shall not extend to any fraud or dishonesty which may attach to them.

The Company has maintained appropriate insurance cover for its Directors and officers in respect of potential legal actions that may be incurred in the course of performing their duties.

DIRECTORS' AND SENIOR MANAGEMENT BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 13 to 16 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has a service contract with the Company for a term of three years which may be terminated by either party in accordance with the respective terms of the service contract. Under the service contracts, each of the executive Directors is entitled to an annual discretionary management bonus in respect of each completed financial year as the Board may approve.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company with a fixed term of office for three years which may be terminated by either party in accordance with the respective term of the letter of appointment.

None of the Directors has a service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' DISCLOSURE OF INTERESTS

As at 31 December 2018, the interests and short positions of the Directors and chief executive(s) of the Company (if any) in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such director or chief executive has taken or deemed to have under such provisions of the SFO) and were recorded in the register maintained by the Company pursuant to section 352 of the SFO, or which were notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long positions in the Shares/underlying Shares

Name of Directors	Capacity/Nature of Interest	Number of Shares held/ interested	Approximate percentage of shareholding in the Company
Mr. Chung	Interest of a controlled corporation (Note 1)	75,000,000	37.5%
Mr. Chau	Interest of a controlled corporation (Note 2)	75,000,000	37.5%

Note 1: L.V.E.P Holdings is 100% legally and beneficially owned by Mr. Chung. Accordingly, Mr. Chung is deemed to be interested in the Shares held by L.V.E.P. Holdings under the SFO.

Note 2: Ching Wai Holdings is 100% legally and beneficially owned by Mr. Chau. Accordingly, Mr. Chau is deemed to be interested in the Shares held by Ching Wai Holdings under the SFO.

Save as disclosed above, as at 31 December 2018, none of the Directors and chief executives of the Company held any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this annual report, no rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company were granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate for the year ended 31 December 2018.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITION IN THE SHARES AND UNDERLYING SHARES

As at 31 December 2018, as far as was known to the Directors or chief executives of the Company, the following persons or corporations (other than the Directors and chief executives of the Company) had or were deemed or taken to have interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept under Section 336 of the SFO or as otherwise notified to the Company:

Long position in the Shares

Name of Shareholder	Capacity/Nature of interest	Number of Shares held/ interested	Approximate percentage of shareholding in the Company
L.V.E.P. Holdings	Beneficial owner	75,000,000	37.5%
Ching Wai Holdings	Beneficial owner	75,000,000	37.5%
Ms. Cheung	Interest of spouse (Note 1)	75,000,000	37.5%
Ms. Lee	Interest of spouse (Note 2)	75,000,000	37.5%

Note 1: Ms. Cheung is the spouse of Mr. Chau and is deemed to be interested in the Shares held by Mr. Chau under the SFO.

Note 2: Ms. Lee is the spouse of Mr. Chung and is deemed to be interested in the Shares held by Mr. Chung under the SFO.

Save as disclosed above, as at 31 December 2018, so far as the Directors were aware, none of the persons (other than the Directors or chief executives of the Company) had, or was deemed to have interests or short positions in the Shares and underlying Shares which were required to be recorded in the register of interests kept by the Company pursuant to Section 336 of the SFO, and which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTION SCHEME

The Company had adopted a share option scheme pursuant to a written resolution of the Shareholders passed on 15 May 2018 (the "**Share Option Scheme**"). The Share Option Scheme is an incentive scheme and is established to recognise the contributions that eligible participants have made or may make to the Group. The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and any other schemes shall not, in aggregate, exceed 20,000,000 Shares (representing 10% of the Shares in issue as at the date of this annual report), unless otherwise approved by the Shareholders. The Board may at its discretion grant options to the following eligible participants:

(i) any director, employee, consultant, professional, customer, supplier, agent, partner or adviser of or contractor to the Group or a company in which the Group holds an interest or a subsidiary of such company ("**Affiliate**");

(ii) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any director, employee, consultant, professional, customer, supplier, agent, partner, adviser or contractor to the Group or an Affiliate; and

(iii) a company beneficially owned by any director, employee, consultant, professional, customer, supplier, agent, partner, adviser or contractor to the Group or an Affiliate.

Options may also be granted to any company wholly owned by one or more eligible participants. No option shall be granted to any eligible participant which, if exercised in full would result in the total number of the Shares issued and to be issued upon exercise of the options already granted and to be granted to such eligible participant under the Share Option Scheme (including exercised, cancelled and outstanding share options) in any 12-month period up to and including the date of such grant exceeding 1% in aggregate of the Shares in issue. The exercise price for any Share under the Share Option Scheme shall be a price determined by the Board and notified to each grantee and shall not be less than the highest of (i) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the date of grant of the relevant option, which must be a trading day; (ii) an amount equivalent to the average closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant of the relevant option; and (iii) the nominal value of a Share on the offer date.

Subject to the terms of the Share Option Scheme, the Share Option Scheme shall be valid and effective for a period of 10 years, after which no further options may be issued but the provisions of the Share Option Scheme shall remain full force and effect. The principal terms of the Share Option Scheme were summarized in the paragraphs headed "Statutory and general information — (D) Share Option Scheme" in Appendix IV to the Prospectus. As at the date of this annual report, no option had been granted by the Company under the Share Option Scheme.

RETIREMENT SCHEMES

The Group participates in several defined contribution retirement plans which cover the Group's eligible employees in the PRC and certain Mandatory Provident Fund Schemes for the employees in Hong Kong. Particulars of these retirement plans are set out in Note 2.16(iii) to the consolidated financial statements of this annual report.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year ended 31 December 2018 with regard to section 543 of the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

CONNECTED TRANSACTIONS

The related party transactions set out in Note 26 to the consolidated financial statements constituted connected transactions or continuing connected transactions of the Company under Chapter 14A of the Listing Rules. In respect of the aforesaid, for the year ended 31 December 2018, only the following continuing connected transactions as set out below (the "**Continuing Connected Transactions**") were required to comply with any of the reporting, announcement or independent shareholders' approval requirements under the Listing Rules:

I. Nature of the Continuing Connected Transactions

1. Lease agreements

(A) Hong Kong Lease Agreement

Parties: (i) Kwong Fai *(indirectly wholly-owned by Mr. Chung and his spouse)*

(ii) Main Success *(indirect wholly-owned subsidiary of the Company)*

Principal terms:

On 1 June 2017, Main Success entered into a tenancy agreement (the "**Hong Kong Lease Agreement**") with Kwong Fai, pursuant to which Kwong Fai as landlord agreed to lease to Main Success as tenant the premises situated at Room 907, 9/F., Enterprise Square Tower 1, 9 Sheung Yuet Road, Kowloon Bay, Hong Kong for use as office in Hong Kong for a term of three years (with an option to renew for a further term of three years by Main Success) commencing from 1 June 2017 to 31 May 2020 at an agreed monthly rent of HK$50,000 (excluding government rates and management fees).

(B) PRC Lease A

Parties: (i) Penghui *(owned as to 50% by Mr. Chung and as to 50% by Mr. Chau)*

(ii) Wancheng Plastic *(indirect wholly-owned subsidiary of the Company)*

Principal terms:

On 1 April 2017, Penghui as lessor and Wancheng Plastic as lessee entered into a lease agreement (the "**PRC Lease Agreement A**") for the leasing of part of the Production Base with actual gross floor area of 34,450.51 sq.m. for a term of five years commencing from 1 April 2017 to 31 March 2022. On 6 March 2018, Penghui and Wancheng Plastic entered into a supplemental agreement (the "**PRC Supplemental Lease Agreement A**", together with PRC Lease Agreement A, the "**PRC Lease A**"). In respect of the PRC Lease A, the parties agreed to fix the monthly rent at RMB172,252.55 for the period between 1 April 2017 and 31 December 2020 and, for the period between 1 January 2021 and 31 March 2022, the monthly rent shall be calculated in accordance with the then prevailing market rate and to be confirmed in writing. If Penghui terminates the PRC Lease A before the expiration of the term for reasons other than Wancheng Plastic's breach or force majeure, Penghui will have to compensate Wancheng Plastic for all its economic losses suffered. The Production Base has been used mainly as the production facilities of the Group.

(C) PRC Lease B

Parties: (i) Penghui *(owned as to 50% by Mr. Chung and as to 50% by Mr. Chau)*

(ii) Anyu Baby *(indirect wholly-owned subsidiary of the Company)*

Principal terms:

On 1 April 2017, Penghui as lessor and Anyu Baby as lessee entered into a lease agreement (the "**PRC Lease Agreement B**") for the leasing of part of the Production Base with a total of 3,149.79 sq.m. for a term of five years commencing from 1 April 2017 to 31 March 2022. On 6 March 2018, Penghui and Anyu Baby entered into a supplemental agreement (the "**PRC Supplemental Lease Agreement B**", together with PRC Lease Agreement B, the "**PRC Lease B**"). In respect of the PRC Lease B, the parties agreed to fix the monthly rent at RMB15,748.95 for the period between 1 April 2017 and 31 December 2020 and, for the period between 1 January 2021 and 31 March 2022, the monthly rent shall be calculated in accordance with the then prevailing market rate and to be confirmed in writing.

2. Master Supply Agreement

Parties: (i) Tat Fung Industrial *(partnership established by Ms. Cheung and her brother)*

(ii) the Company

Principal terms:

On 31 August 2017, the Company entered into a master supply agreement (the "**Master Supply Agreement**") with Tat Fung Industrial, pursuant to which Tat Fung Industrial (or through entities controlled by it) agreed to supply and the Group agreed to purchase printing and packaging materials, which are processed, fabricated or manufactured by Tat Fung Industrial in accordance with the specifications provided by the Group at the purchase price pursuant to such purchase order as may from time to time be given by the Group. The purchase price for each individual purchase order shall be taken as having included (i) the cost of the raw materials procured by Tat Fung Industrial; and (ii) the fees for the processing, fabricating or manufacturing of the printing and packaging materials in accordance with the specifications provided by the Group. The purchase price for each individual purchase order shall be determined after arm's length negotiation between Tat Fung Industrial and the Group from time to time with reference to the then prevailing market price of similar product in the market. The terms of the Master Supply Agreement commenced on the date of the Listing and will expire three years thereafter.

II. Transaction amount of the Continuing Connected Transactions

The following table sets out the transaction amount of the Continuing Connected Transactions in respect of their annual caps and the actual amounts for the year ended 31 December 2018.

			For the year ended 31 December 2018	
			Annual cap	Actual transaction amount
1.	Lease agreements			
	(A)	Hong Kong Lease Agreement	HK$600,000	HK$600,000
	(B)	PRC Lease A	RMB2,068,000	RMB2,067,000
	(C)	PRC Lease B	RMB189,000	RMB189,000
2.	Master Supply Agreement		HK$20.2 million	HK$8.3 million

III. Listing Rules related matters in relation to the Continuing Connected Transactions

The Hong Kong Lease Agreement is of a duration longer than three years as otherwise permitted for the connected transactions under the Listing Rules. As mentioned in the Prospectus, the Directors consider that the duration of the Hong Kong Lease Agreement being longer than three years can secure long-term property use rights for the Group, thus avoiding unnecessary disruptions to its business caused by relocation.

Each of the PRC Lease A and the PRC Lease B is of a duration longer than three years as otherwise permitted for the connected transactions under the Listing Rules. As mentioned in the Prospectus, the Directors consider that the duration of each of the PRC Lease A and the PRC Lease B being longer than three years can secure long-term property use rights for the Group, thus avoiding unnecessary disruptions to its business caused by relocation and enabling the Group to ensure long term development and continuity of its operations. Such arrangement is in the commercial interest of the Company as it also enables the Group to save initial set-up costs such as interior decoration and lease renewal expenses in the case of short-term leases.

In respect of the Hong Kong Lease Agreement, the PRC Lease A and the PRC Lease B, the Company had applied to the Stock Exchange for, and the Stock Exchange had granted to the Company, being exempted from strict compliance with the relevant announcement and reporting requirements during the subsistence of each of the Hong Kong Lease Agreement, the PRC Lease A and the PRC Lease B pursuant to Rule 14A.105 of the Listing Rules, subject to the following conditions:

(i) the respective annual caps for the continuing connected transactions under the subject agreements has not been exceeded;

(ii) if any of the material terms of such continuing connected transactions are altered and/or if the Group enters into any new continuing connected transaction with Kwong Fai and/or Penghui in the future resulting in the aggregate annual amount paid or payable by the Group to Kwong Fai and/or Penghui during the subsistence of the subject agreements exceeds the proposed annual caps, the Company will comply with the relevant requirements under Chapter 14A of the Listing Rules;

(iii) upon expiry of the waiver granted to the relevant agreements, the Company will comply with the relevant requirements under Chapter 14A of the Listing Rules; and

(iv) in the event of any further amendments to the Listing Rules which impose more stringent requirements on the continuing connected transactions, the Company will take appropriate steps to ensure compliance with such requirements within a reasonable time.

In respect of the Master Supply Agreement, the Company had applied to the Stock Exchange for, and the Stock Exchange had granted, a wavier under Rule 14A.105 of the Listing Rules from strict compliance with the relevant announcement and independent shareholders' approval requirements for the year ended 31 December 2018 and the years ending 31 December 2019 and 2020, subject to the following conditions:

(i) the respective annual caps for the continuing connected transactions under the Master Supply Agreement for the year ended 31 December 2018 and the years ending 31 December 2019 and 2020 has not been exceeded;

(ii) if any of the material terms of such continuing connected transactions are altered and/or if the Group enters into any new continuing connected transaction with Tat Fung Industrial and/or entities controlled by it in the future resulting in the aggregate annual amount paid or payable by the Group to Tat Fung Industrial and/or entities controlled by it in the year ended 31 December 2018 and the years ending 2019 and 2020 exceeding the proposed annual caps set out above, the Company will comply with the relevant requirements under Chapter 14A of the Listing Rules;

(iii) upon expiry of the waiver granted for the period ending 31 December 2020 for the Master Supply Agreement, the Company will comply with the relevant requirements under Chapter 14A of the Listing Rules; and

(iv) in the event of any further amendments to the Listing Rules which impose more stringent requirements on the continuing connected transactions, the Company will take appropriate steps to ensure compliance with such requirements within a reasonable time.

IV. Internal control and annual review of the Continuing Connected Transactions

The Company has sufficient internal control measures in place in respect of the Continuing Connected Transactions. In respect of the Mater Supply Agreement, the purchase price for each individual purchase order shall be determined after arm's length negotiation between Tat Fung Industrial and the Group from time to time with reference to the then prevailing market price of similar product in the market which is to be ascertained by, among others, the internal control measure of reviewing at least two price quotations for comparable products provided by independent third parties to the Group within one month in order to ensure the principal terms of the transactions under the Master Supply Agreement are no less favourable to the Group as compared to the terms offered by the independent third parties.

Pursuant to Rule 14A.56 of the Listing Rules, the Board engaged the auditor of the Company to report on the Continuing Connected Transactions not falling under Rule 14A.76(1) of the Listing Rules. The Company's auditor was engaged to report on such Continuing Connected Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing its findings and conclusions in respect of such Continuing Connected Transactions in accordance with Rule 14A.56 of the Listing Rules. The auditor has reported its findings and conclusions to the Board. A copy of the auditors' letter has been provided by the Company to the Stock Exchange. In respect of the year ended 31 December 2018, the letter stated that nothing has come to the attention of the auditor that causes the auditor to believe that the Continuing Connected Transactions:

- have not been approved by the Board;
- were not, in all material respects, in accordance with the pricing policies of the Group, for transactions involving the provision of goods or services by the Group;
- were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and
- have exceeded the annual caps.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed the Continuing Connected Transactions and confirmed that the transactions have been entered into:

- in the ordinary and usual course of business of the Group;
- on normal commercial terms or better; and
- in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

For further details of the aforesaid continuing connected transactions, please refer to the section headed "Connected transactions" in the Prospectus.

MAJOR CUSTOMERS AND SUPPLIERS

Sales and purchases of the Group attributable to its major customers and suppliers, respectively for the year ended 31 December 2018 were as follows:

	% of total revenue	**% of total purchase**
The largest customer/supplier	35.7%	7.5%
Five largest customers/suppliers	69.8%	31.5%

Wengyuanxian Dafeng Printing and Packaging Product Company Limited ("**Wengyuan Dafeng**") was one of the five largest suppliers of the Group for the year ended 31 December 2018. Wengyuan Dafeng is a wholly owned subsidiary of Tat Fung Industrial, which is in turn a partnership established by Ms. Cheung and her brother. The transactions between the Group and Wengyuan Dafeng were conducted under the Master Supply Agreement as mentioned in the section headed "Connected transactions" above. Save for the aforesaid, to the best knowledge and belief of the Directors, none of the Directors, their close associates or any Shareholders owning more than 5% of the issued share capital of the Company, had any interest in any of the Group's five largest customers or suppliers for the year ended 31 December 2018.

CORPORATE GOVERNANCE CODE AND CORPORATE GOVERNANCE REPORT

The Company had applied the principles and complied with the code provisions in the Corporate Governance Code as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by this annual report. Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 17 to 26 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company had maintained a sufficient public float as required under the Listing Rules as at the date of this annual report.

AUDITOR

The financial statements of the Company for the year ended 31 December 2018 had been audited by PricewaterhouseCoopers who will retire at the forthcoming annual general meeting of the Company. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint PricewaterhouseCoopers as the auditor of the Company for the year ending 31 December 2019.

By order of the Board
MS Group Holdings Limited
Chau Ching
Chairman

Hong Kong, 15 March 2019

INDEPENDENT AUDITOR'S REPORT

pwc 羅兵咸永道

To the Shareholders of MS Group Holdings Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of MS Group Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 47 to 91, which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Key audit matter identified in our audit is net realisable value of inventories.

Key Audit Matter	How our audit addressed the Key Audit Matter
Net realisable value of inventories Refer to Note 4.2 "Net realisable value of inventories" and Note 15 "Inventories" to the consolidated financial statements. At 31 December 2018, the Group held inventories of HK$40,578,000 and no provision was made for obsolete or slow moving inventories. Inventories are stated at the lower of cost and net realisable value in the consolidated financial statements. Management assesses net realisable value of inventories at each period end based on the current market condition and the historical experience of selling products of similar nature. The determination of net realisable value requires the use of significant judgement and estimates, including the consideration of condition of products, latest selling price, expectation of future sales orders and market trends and customer demands. We focused on this area due to the significance of the balance of inventories, significant management judgement and estimates involved in determining the net realisable value of inventories.	Our key procedures in relation to management's assessment of the net realisable value of inventories included: • Understanding, evaluating and validating the key control procedures implemented by management in (i) estimating the net realisable value of the inventories and (ii) conducting periodic reviews on inventory obsolescence; • Testing, on a sample basis, the net realisable value of inventory items, by comparing the carrying amount of the inventory items against their selling price subsequent to the year end; and • Testing, on a sample basis, the accuracy of the ageing profile of individual inventory items by checking to the underlying procurement correspondence and invoices. We found that management's assessment of net realisable value of inventories was supported by the available audit evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Pong Fei Ho.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 15 March 2019

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Revenue	5	**233,195**	225,750
Cost of sales	9	**(158,698)**	(146,073)
Gross profit		**74,497**	79,677
Selling expenses	9	**(31,784)**	(22,532)
Administrative expenses	9	**(32,600)**	(27,424)
Other income	7	**858**	1,285
Other losses, net	8	**(700)**	(339)
Listing expenses	9	**(8,827)**	(6,462)
Operating profit		**1,444**	24,205
Finance income		**163**	48
Finance expenses		**(353)**	(35)
Finance (expenses)/income, net		**(190)**	13
Profit before taxation		**1,254**	24,218
Taxation	11	**(4,374)**	(6,720)
(Loss)/Profit for the year		**(3,120)**	17,498
Attributable to:			
— Equity holders of the Company		**(3,120)**	17,498
		HK cents	HK cents
(Loss)/Profit per share attributable to equity holders of the Company during the year			
Basic and diluted	12	**(1.74)**	11.67

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
(Loss)/Profit for the year	**(3,120)**	17,498
Items that may be reclassified to consolidated income statement:		
Exchange translation differences	**(3,234)**	1,767
Total comprehensive (loss)/income for the year attributable to:		
— Equity holders of the Company	**(6,354)**	19,265

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
ASSETS			
Non-current asset			
Property, plant and equipment	14	**34,707**	32,309
Current assets			
Inventories	15	**40,578**	42,727
Trade and other receivables	16	**34,678**	27,629
Deposits and prepayments	17	**14,067**	12,963
Tax recoverable		**147**	—
Pledged time deposits	18	**10,000**	10,000
Cash and cash equivalents	18	**83,270**	36,560
		182,740	129,879
Total assets		**217,447**	162,188
EQUITY			
Equity attributable to the Company's equity holders			
Share capital	19	**20,000**	—
Share premium		**36,614**	—
Other reserves	20	**(56)**	3,178
Retained earnings		**95,736**	98,856
Total equity		**152,294**	102,034

Consolidated Statement of Financial Position

As at 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
LIABILITIES			
Non-current liability			
Deferred income tax liabilities	21	**87**	39
Current liabilities			
Trade and other payables	22	**33,550**	40,294
Bills payables	23	**6,086**	2,881
Amounts due to related companies	27	**—**	13,861
Amounts due to shareholders	28	**24,020**	—
Tax payable		**1,410**	3,079
		65,066	60,115
Total liabilities		**65,153**	60,154
Total equity and liabilities		**217,447**	162,188

On behalf of the Board

Chau Ching
Director

Chung Kwok Keung Peter
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Total equity HK$'000
Balance at 1 January 2017	—	—	131	1,280	81,358	82,769
Comprehensive income:						
Profit for the year	—	—	—	—	17,498	17,498
Other comprehensive income:						
Exchange translation differences	—	—	—	1,767	—	1,767
Total comprehensive income for the year	—	—	—	1,767	17,498	19,265
Balance at 31 December 2017	—	—	131	3,047	98,856	102,034
Balance at 1 January 2018	**—**	**—**	**131**	**3,047**	**98,856**	**102,034**
Comprehensive income:						
Loss for the year	**—**	**—**	**—**	**—**	**(3,120)**	**(3,120)**
Other comprehensive income:						
Exchange translation differences	**—**	**—**	**—**	**(3,234)**	**—**	**(3,234)**
Total comprehensive loss for the year	**—**	**—**	**—**	**(3,234)**	**(3,120)**	**(6,354)**
Transaction with equity holders:						
Issuance of ordinary shares under initial public offering (the "IPO")	**20,000**	**36,614**	**—**	**—**	**—**	**56,614**
Transaction with equity holders	**20,000**	**36,614**	**—**	**—**	**—**	**56,614**
At 31 December 2018	**20,000**	**36,614**	**131**	**(187)**	**95,736**	**152,294**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Cash flows from operating activities			
Cash (used in)/generated from operations	25	**(17,940)**	17,665
Tax paid		**(5,812)**	(8,096)
Net cash (used in)/generated from operating activities		**(23,752)**	9,569
Cash flows from investing activities			
Decrease in amounts due from shareholders		**—**	10,092
Purchases of property, plant and equipment		**(9,982)**	(5,471)
Proceeds from disposal of property, plant and equipment		**—**	3
Increase in pledged time deposits for banking facilities		**—**	(10,000)
Interest received		**163**	48
Net cash used in investing activities		**(9,819)**	(5,328)
Cash flows from financing activities			
Interest paid		**(333)**	—
Increase in amounts due to shareholders		**24,000**	—
Decrease in amounts due to a related company		**—**	(9,000)
Proceeds from issuance of ordinary shares under IPO		**67,000**	—
Professional expenses paid in connection with IPO		**(10,386)**	—
Net cash generated from/(used in) financing activities		**80,281**	(9,000)
Net increase/(decrease) in cash and cash equivalents		**46,710**	(4,759)
Cash and cash equivalents at 1 January		**36,560**	41,319
Cash and cash equivalents at 31 December		**83,270**	36,560

1 GENERAL INFORMATION

MS Group Holdings Limited (the "Company") is a limited liability company incorporated in the Cayman Islands on 9 March 2017. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company is an investment holding company and its subsidiaries (together, the "Group") are principally engaged in the manufacture and sales of plastic bottles and cups for infants and toddlers and plastic sports bottles (the "Listing Business").

The controlling shareholders of the Company are Mr. Chung Kwok Keung Peter ("Mr. Chung") and Mr. Chau Ching ("Mr. Chau") (together, the "Controlling Shareholders").

The consolidated financial statements are presented in thousands of Hong Kong dollars ("HK$000"), unless otherwise stated. The consolidated financial statements have been approved for issue by the Board of Directors on 15 March 2019.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared on a historical cost basis.

Pursuant to the group reorganisation as set out in the prospectus of the Company dated 21 May 2018 (the "Prospectus"), which was completed on 15 May 2018 (the "Reorganisation"), the Company became the holding company of its subsidiaries now comprising the Group. The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 1 June 2018. The consolidated financial statements of the Group have been prepared as if the Group had always been in existence throughout both years presented, or since the respective dates of incorporation or establishment of the group companies, rather than from the date when the Company became the holding company pursuant to the Reorganisation.

(a) The adoption of new amendments and improvements to existing standards

In the current year, the Group has applied the following new amendments and improvements to existing Hong Kong Accounting Standards ("HKAS(s)"), HKFRS (hereinafter collectively referenced to as the "new HKFRSs") issued by the HKICPA.

Amendments to HKAS 40	Transfers of Investment Property
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transaction
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKFRS 15	Clarifications to HKFRS 15, Revenue from Contracts with Customers
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HK (IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Annual Improvements 2014–2016 Cycle	Amendments to HKFRS 1 and HKAS 28

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(a) The adoption of new amendments and improvements to existing standards (Continued)

The application of the above new standards, amendments and improvements to existing standards and interpretation in the current year has had no material impact on the Group's results and financial position, except HKFRS 9 "Financial Instruments" and HKFRS 15 "Revenue from Contracts with Customers". As a result of adopting the standards, the Group had to change its accounting policies. The impact of adoption are disclosed in note 2.2.

(b) New standards, amendments and improvements to existing standards not yet effective

The Group has not early adopted the following new standards, amendments and improvements to existing standards that have been issued but are not yet effective.

Amendments to HKAS 1 and HKAS 8	Definition of material[2]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK (IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Annual Improvements 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting[2]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 The mandatory effective date will be determined

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(b) New standards, amendments and improvements to existing standards not yet effective (Continued)

The Group will adopt the above standards and amendments to existing standards as and when they become effective. None of the above is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

HKFRS 16 "Leases"

The adoption of HKFRS 16 is mandatory for annual reporting periods commencing on or after 1 January 2019. It will result most 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 31 December 2018, the Group has non-cancellable operating lease commitments of HK$7.1 million. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

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 Group has not early adopted the standard in current financial year.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 9 and HKFRS 15 on the Group's consolidated financial statements.

(a) HKFRS 9 "Financial Instruments"

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

The adoption of HKFRS 9 from 1 January 2018 resulted in changes in accounting policies. In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated.

(i) Classification and measurement

The application of HKFRS 9 does not have material impact on the classification, recognition and measurement of the financial assets held by the Group at 31 December 2018, all financial assets of the Group categorised as loans and receivables under HKAS 39 were classified as financial assets at amortised cost under HKFRS 9. The application of HKFRS 9 does not affect the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss ("FVPL") and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 and have not been changed.

(ii) Impairment of financial assets

The Group assesses on a forward looking basis the expected credit losses associated with its debt securities assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. The adjustment of expected credit losses to the opening retained earnings at 1 January 2018 is quantified immaterial to take be accounted for. At 31 December 2018, management has reassessed and recognised expected credit loss of HK$326,000 in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies (Continued)

(b) HKFRS 15 "Revenue from Contracts with Customers"

The Group has adopted HKFRS 15 "Revenue from Contracts with Customers" from 1 January 2018 which resulted in changes in accounting policies. In accordance with the modified retrospective approach in HKFRS 15, comparative figures have not been restated.

The accounting policies were changed to comply with HKFRS 15, which replaces both the provisions of HKAS 18 Revenue and the related interpretations that relate to the recognition, classification and measurement of revenue and costs.

Apart from having an impact on the presentations and disclosures of certain items of the financial statements, the adoption of HKFRS 15 has no material impact to the consolidated income statement and has no impact to the net cash flow from operating, investing and financing activities on the consolidated statement of cash flows.

2.3 Consolidation

(i) Subsidiaries and business combination

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Other than the Reorganisation, the Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRSs.

Acquisition-related costs are expensed as incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Consolidation (Continued)

(i) Subsidiaries and business combination (Continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised in the consolidated income statement.

(ii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions — that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in the consolidated income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to consolidated income statement.

(iv) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of the subsidiaries are accounted for by the Company on the basis of dividend and receivable. Impairment testing of the investments in the subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the year the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the Financial Information of the investee's net assets including goodwill.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Controlling Shareholders that make strategic decisions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Historical Financial Information is presented in Hong Kong dollars, which is the Company's functional and the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

(iii) Group companies

The results and financial position of all the Group's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(1) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(2) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(3) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

2.6 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Property, plant and equipment (Continued)

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. The principal annual rates used for this purpose are:

Decoration	5%
Furniture and fixtures	20%
Office equipment	20%
Plant and machinery	10%
Tools and equipment	30%
Motor vehicles	30%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other losses, net' in the consolidated income statement.

2.7 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined based on the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

2.8 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment, which is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivable.

Significant financial difficulties of a debtor, probability that the debtor will enter bankruptcy and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the carrying amount of the asset and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the provision is recognised in the consolidated income statement. When a receivable is uncollectible, it is written off against the allowance account for receivable. Subsequent recoveries of amounts previously written off are combined in the consolidated income statement.

If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

2.9 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Impairment of non-financial assets

Assets that have an indefinite useful life — for example, goodwill or intangible assets not ready to use — are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the consolidated income statement for the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.11 Other payables

Other payables are recognised initially at fair value and subsequently measured at amortised cost using effective interest method. They are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

2.12 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Restructuring provisions comprise employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.13 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the Historical Financial Information.

When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Contingent liabilities and contingent assets (Continued)

A contingent asset is a probable asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent asset is not recognised but is disclosed in the notes to the Historical Financial Information when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

2.14 Current and deferred income tax

The tax expense for the year comprises current and deferred income tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Group and joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

Inside basis differences

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Historical Financial Information. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(iii) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Revenue recognition

Revenue is measured at the fair value of the consideration received and receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is stated net of allowances for credit and other revenue reducing factors after eliminating sales within the Group.

Revenue is recognised when the amount can be reliably measured, it is probable that future economic benefits will flow to the Group and specific criteria for each of the activities have been met. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the activities have been resolved. Estimates are based on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

(i) Sales of goods

Revenue from the sales of goods is recognised at a point in time when goods are delivered and title has been passed.

(ii) Rental income

Rental income is recognised on a straight-line basis over the lease period.

(iii) Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

2.16 Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the statement of financial position date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Bonus plan

Provisions for bonus plans are recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(iii) Defined contribution schemes

Contributions to defined contribution schemes, including the Mandatory Provident Fund ("MPF") Scheme, and employee pension schemes established by municipal government in Mainland China are expensed as incurred. Except for the MPF Scheme, contributions are reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions.

Pursuant to the relevant regulations of the government in the People's Republic of China ("PRC"), the companies in the PRC participate in the municipal government contribution scheme whereby the companies are required to contribute to the scheme for the retirement benefit of eligible employees. The municipal government of the PRC is responsible for the entire benefit obligations payable to the retired employees. The only obligation of the Group with respect to the schemes is to pay the ongoing contributions required by the schemes. The Group's contributions to these schemes are expensed as incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Operating leases

(i) Group as the lessee to operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(ii) Group as the lessor to operating leases

Where assets are leased out under an operating lease, the asset is included in the consolidated statement of financial position based on the nature of the asset. Lease income is recognised over the term of the lease on a straight-line basis.

2.18 Government grant

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

2.19 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in financial statements in the period when the dividends are approved by the Company's shareholders/directors, where appropriate.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. It is the Group's policy not to enter into derivative transaction for speculative purposes.

The Group sets financial risk management policies in accordance with policies and procedures approved by the Board of Directors. The Board of Directors identifies and evaluates any financial risks in close co-operation with the Group's operating units and provides written principles for overall risk management.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(i) Foreign exchange risk

The Group's foreign currency transactions are mainly denominated in United States dollars ("USD") and Chinese Renminbi ("RMB"). The assets and liabilities denominated in foreign currencies are mainly denominated in USD and RMB, and there are no significant assets and liabilities denominated in other foreign currencies. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rates.

The foreign exchange risk exposure on USD is not significant to the Group as HK$ is pegged with USD under the existing Hong Kong economic environment.

The exchange rate of RMB to HK$ is subject to the rules and regulations of foreign exchange control promulgated by the PRC Government. At 31 December 2018, if RMB had weakened/strengthened by 5% against HK$ with all other variables held constant, the consolidated profit before taxation would have been 3.2% lower/higher (2017: 0.1% lower/higher), the equity would have been approximately 1.9% lower/higher (2017: 1.2% lower/higher), as a result of exchange translation losses/gains on exchange reserve.

For companies with RMB as their functional currency, their businesses are principally conducted in RMB. The fluctuation of the exchange rates of RMB against foreign currencies has a limited impact on these companies' results of operations.

(ii) Credit risk

The credit risk of the Group mainly arises from cash and bank balances, pledged time deposits, trade and other receivables and deposits and prepayment.

Risk management

The Group monitors the credit rating of its bank. As at 31 December 2018 and 2017, the Group help approximately 82% and 76% respectively of its cash in banks with credit rating of Aa3 (Moody's) or higher, meaning the banks have very strong or extremely strong capacities to meet financial commitments.

Impairment of financial assets

The Group has trade and other receivables that is subject to the expected credit loss model. Majority of the Group's trade receivables are from individual OEM Business customers and distributors of Yo Yo Monkey Business and are transacted in credit. As at 31 December 2018 and 2017, the top two debtors accounted for approximately 58% and 59% respectively of the Group's trade receivables balances. The Group has set up long-term cooperative relationship with these debtors. In view of the history of business dealing with the debtors and the sound collection history of the receivables due from them, management believes that there is no material credit risk inherent in the Group's outstanding receivable balances due from these debtors.

Management makes a periodic assessment on the recoverability of the trade and other receivables based on historical payment records, the length of overdue period, the financial strength of the debtors and whether they are any disputes with the debtors. On that basis, the Group applies HKFRS 9 simplified approach to measuring expected credit losses which uses lifetime expected loss allowance for all trade receivables. The loss allowance as at 31 December 2018 was determined approximately HK$326,000 for trade receivables. No loss allowance as at 1 January 2018 (on adoption of HKFRS 9) was taken up because the identified impairment loss was immaterial.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(iii) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. It is the policy of the Group to regularly monitor current and expected liquidity requirements and to ensure that adequate funding is available for operating, investing and financing activities.

The tables below analyse the Group's financial liabilities into relevant maturity groups based on the remaining period at the end of the reporting periods to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts, as the impact of discounting is not significant.

	Less than 1 year HK$'000
The Group	
At 31 December 2018	
Trade and other payables	28,089
Bills payables	6,086
Amount due to shareholders	24,020
	58,195
At 31 December 2017	
Trade and other payables	23,730
Bills payables	2,881
Amounts due to related companies	13,861
	40,472

3.2 Fair value estimation

The carrying amounts of the Group's financial assets and liabilities approximate their fair values due to the short-term maturities of these assets and liabilities.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Capital risk management

The Group's objectives when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for owners and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and enhance shareholder value in the long term. The capital structure consists of total equity as shown in the consolidated statements of financial position. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholder, return capital to owner, or issue new shares.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

4.1 Current taxation and deferred taxation

The Group is subject to income tax in Hong Kong and PRC. Significant judgement is required in determining the provision for taxation in this jurisdiction. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for potential tax exposures based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income taxation in the financial period in which such determination is made.

4.2 Net realisable value of inventories

Net realisable value of inventories is the estimated selling prices in the ordinary course of business less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of changes in economic conditions in places where the Group operates and changes in customer taste and competitor actions in response to changes in market conditions. Management reassesses these estimates at each reporting date.

5 REVENUE

The Group is principally engaged in manufacturing and sale of plastic bottles and cups for infants and toddlers and plastic sports bottles to OEM Business customer, and customers under its own brand. An analysis of the Group's revenue is as follows:

	2018 HK$'000	2017 HK$'000
Revenue from OEM business customer products	170,171	191,393
Revenue from own brand products	63,024	34,357
	233,195	225,750

6 SEGMENT INFORMATION

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 Controlling Shareholders of the Company. The chief operating decision-maker consider the business from a product perspective and assess the performance of the operating segments based on a measure of gross profit for the purposes of allocating resources. No analysis of segment assets or segment liabilities is regularly provided to the chief operating decision-maker.

The management has identified two operating segments based on the types of products, namely (i) manufacture and sale of plastic infant products to OEM Business customer and (ii) design, manufacture and sale of own brand infant products.

6 SEGMENT INFORMATION (Continued)

The segment information provided to the chief operating decision-maker for the year ended 31 December 2018 and 2017 is as follows:

	2018			2017		
	OEM business customer products HK$'000	Own brand products HK$'000	Total HK$'000	OEM business customer products HK$'000	Own brand products HK$'000	Total HK$'000
Segment revenue from external customers	170,171	63,024	233,195	191,393	34,357	225,750
Cost of sales	(123,182)	(35,516)	(158,698)	(125,837)	(20,236)	(146,073)
Gross profit	46,989	27,508	74,497	65,556	14,121	79,677
Selling expenses			(31,784)			(22,532)
Administrative expenses			(32,600)			(27,424)
Listing expenses			(8,827)			(6,462)
Other income			858			1,285
Other loss, net			(700)			(339)
Finance (expense)/income, net			(190)			13
Profit before taxation			1,254			24,218
Taxation			(4,374)			(6,720)
(Loss)/Profit for the year			(3,120)			17,498

For the year ended 31 December 2018, the Group recognised all revenue from contracts with customers on a point in time basis.

6 SEGMENT INFORMATION (Continued)

Geographical information

The Group's revenue is mainly derived from customers located in the United States of America ("USA"), the Netherlands and the PRC. The Group's revenue by the geographical location of the customers, determined based on the domicile countries of the customers, irrespective of the destinations of the goods, is detailed below:

	2018 HK$'000	2017 HK$'000
USA	**148,535**	166,548
Netherlands	**3,178**	8,090
PRC	**78,752**	47,280
Other countries	**2,730**	3,832
	233,195	225,750

Major customers' information

The analysis of the Group's major customers, which a single external customer has contributed 10% or more to the Group's revenue, is as follows:

	2018 HK$'000	2017 HK$'000
The largest customer	**83,175**	89,282
The second largest customer	**61,888**	65,977

Segment assets and liabilities

As at 31 December 2018 and 2017, non-current assets other than deferred income tax assets, amounted to HK$813,000 and HK$1,690,000 are located in Hong Kong and HK$33,894,000 and HK$30,619,000 are located in PRC. No other assets and liabilities are used by the chief operating decision-maker for performance assessment and resource allocation.

7 OTHER INCOME

	2018 HK$'000	2017 HK$'000
Rental income from leasing vehicles	**—**	99
Government grant	**498**	720
Sundries	**360**	466
	858	1,285

8 OTHER LOSSES, NET

	2018 HK$'000	2017 HK$'000
Net foreign exchange losses	**(689)**	(326)
Loss on disposal of property, plant and equipment	**(11)**	(13)
	(700)	(339)

9 EXPENSES BY NATURE

	2018 HK$'000	2017 HK$'000
Raw materials and consumables used	**98,801**	95,223
Changes in inventories of finished goods and work in progress	**(3,078)**	(12,162)
Employee benefit expenses (Note 10)	**65,221**	56,573
Rental expenses	**3,554**	3,085
Management fee expenses	**2,480**	2,375
Transportation expenses	**8,247**	6,884
Depreciation of property, plant and equipment (Note 14)	**6,670**	6,070
Listing expenses	**8,827**	6,462
Tooling expenses	**3,735**	4,895
Travelling expenses	**6,229**	5,101
Promotion expenses	**9,085**	4,912
Repair and maintenance expenses	**942**	1,791
Auditor's remuneration — Audit services	**1,310**	350
Utility expenses	**4,736**	5,236
Entertainment expenses	**2,466**	1,944
Impairment losses on trade receivables (Note 16)	**326**	—
Others	**12,358**	13,752
Total cost of sales, selling expenses, administrative expenses and listing expenses	**231,909**	202,491

10 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2018 HK$'000	2017 HK$'000
Salaries, wages and bonuses	58,448	49,660
Contributions to defined contribution schemes	5,663	6,238
Other benefits	1,110	675
	65,221	56,573

(a) Directors' emoluments

(i) The remuneration of each director for the year ended 31 December 2018 is set out below:

	Fee HK$'000	Salaries HK$'000	Other allowances HK$'000	Bonuses HK$'000	Defined contribution pension costs HK$'000	Total HK$'000
Executive directors:						
Mr. Chau Ching	—	504	—	—	10	514
Mr. Chau Wai	—	720	—	—	18	738
Mr. Chung Kwok Keung Peter	—	144	—	—	—	144
Mr. Chung Leonard Shing Chun	—	720	—	—	18	738
Independent non-executive directors:						
Mr. Asvaintra Bhanusak	105	—	—	—	—	105
Mr. Seto John Gin Chung	105	—	—	—	—	105
Mr. Yu Hon To David	105	—	—	—	—	105
Total emoluments	315	2,088	—	—	46	2,449

10 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) (Continued)

(a) Directors' emoluments (Continued)

(ii) The remuneration of each director for the year ended 31 December 2017 is set out below:

	Fee	Salaries	Other allowances	Bonuses	Defined contribution pension costs	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors:						
Mr. Chau Ching	—	936	—	—	18	954
Mr. Chau Wai	—	936	—	—	18	954
Mr. Chung Kwok Keung Peter	—	—	—	—	—	—
Mr. Chung Leonard Shing Chun	—	609	—	—	18	627
Total emoluments	—	2,481	—	—	54	2,535

The remuneration shown above represents remuneration received and receivable from the Group by these directors in their capacity as management and employee to the Group during the years ended 31 December 2018 and 2017.

There was no arrangement under which a director waived or agreed to waive any emoluments during the years ended 31 December 2018 and 2017.

Mr. Chau Ching, Mr. Chau Wai, Mr. Chung Kwok Keung Peter and Mr. Chung Leonard Shing Chun were appointed as executive directors of the Company on 9 March 2017.

10 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) (Continued)

(b) Directors' retirement benefits and termination benefits

Save as disclosed in Note 10(a), the directors did not receive any other retirement benefits or termination benefits during the years ended 31 December 2018 and 2017.

(c) Consideration provided to third parties for making available directors' services

During the years ended 31 December 2018 and 2017, no consideration was provided to or receivable by third parties for making available directors' services.

(d) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

Save as disclosed in Note 26, as at 31 December 2018 and 2017, no loans, quasi-loans and other dealing arrangements in favour of directors, their controlled bodies corporate and connected entities.

(e) Director's material interests in transactions, arrangements or contracts

Save as disclosed in Note 26, no significant transactions, arrangements and contracts in relation to the Group's business to which the Group was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of each of the years ended 31 December 2018 and 2017 or at any time during the years then ended.

(f) Five highest paid individuals' emoluments

The five individuals whose emoluments were the highest in the Group during the years ended 31 December 2018 and 2017 include two directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three individuals during the years are as follows:

	2018 HK$'000	2017 HK$'000
Salaries and wages	2,728	2,449
Bonus	—	—
Contributions to defined contribution schemes	45	54
	2,773	2,503

10 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) (Continued)

(f) Five highest paid individuals' emoluments (Continued)

The emoluments fell within the following bands:

	2018 No. of Individuals	2017 No. of individuals
Nil to HK$1,000,000	2	3
HK$1,000,001 to HK$1,500,000	1	—

During the years ended 31 December 2018 and 2017, no directors or any members of the five highest paid individuals received any emoluments from the Group as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office.

11 TAXATION

	2018 HK$'000	2017 HK$'000
Current income tax		
Hong Kong profits tax	2,781	4,063
PRC enterprise income tax	1,545	2,619
	4,326	6,682
Deferred income tax (Note 21)	48	38
Income tax expenses for the year	4,374	6,720

For each of the years ended 31 December 2018 and 2017, Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for the years. PRC enterprise income tax has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the PRC.

11 TAXATION (Continued)

The tax on the Group's profit before taxation of the Group differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2018 HK$'000	2017 HK$'000
Profit before taxation	**1,254**	24,218
Calculated at a tax rate of 16.5% (2017: 16.5%)	**207**	3,996
Effect of different tax rates in other jurisdictions	**225**	1,008
Tax effect of expenses not deductible for tax purpose	**3,969**	1,716
Tax effect of income not taxable for tax purpose	**(27)**	—
Income tax expenses	**4,374**	6,720

12 EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of the basic and diluted earnings per share attributable to the equity holders of the Company during the year is based on the following data:

	2018	2017
(Loss)/profit attributable to owners of the Company (HK$'000)	**(3,120)**	17,498
Weighted average number of ordinary shares in issue (thousands)	**179,167**	150,000
Basic (loss)/earnings per share (Hong Kong cents)	**(1.74)**	11.67

In determining the numbers of ordinary shares in issue, a total of 150,000,000 ordinary shares were deemed in issue since 1 January 2017.

(b) Diluted (loss)/earnings per share

Diluted earnings per share is of the same amount as the basic earnings per share as there were no potentially dilutive ordinary shares outstanding as at 31 December 2017 and 2018.

13 DIVIDEND

No dividend has been paid or declared by the Company during the years ended 31 December 2018 and 2017.

14 PROPERTY, PLANT AND EQUIPMENT

	Decoration HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Plants and machinery HK$'000	Tools and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost							
At 1 January 2017	10,828	1,519	1,385	55,343	6,743	3,993	79,811
Additions	220	1	2,612	2,273	—	365	5,471
Disposals	—	—	—	(7)	—	(136)	(143)
Exchange difference	221	—	147	994	—	41	1,403
At 31 December 2017	11,269	1,520	4,144	58,603	6,743	4,263	86,542
Additions	228	24	231	3,703	5,305	491	9,982
Disposals	—	—	—	(15)	—	—	(15)
Exchange difference	(180)	—	(173)	(938)	—	(49)	(1,340)
At 31 December 2018	11,317	1,544	4,202	61,353	12,048	4,705	95,169
Accumulated depreciation							
At 1 January 2017	3,011	1,480	855	32,552	6,456	3,541	47,895
Charge for the year	291	24	220	5,020	287	228	6,070
Disposal for the year	—	—	—	(5)	—	(122)	(127)
Exchange difference	43	—	18	301	—	33	395
At 31 December 2017	3,345	1,504	1,093	37,868	6,743	3,680	54,233
Charge for the year	563	14	677	4,562	494	360	6,670
Disposal for the year	—	—	—	(4)	—	—	(4)
Exchange difference	(41)	—	(42)	(327)	—	(28)	(437)
At 31 December 2018	3,867	1,518	1,728	42,099	7,237	4,012	60,462
Net book value							
At 31 December 2018	7,450	26	2,474	19,254	4,811	693	34,707
At 31 December 2017	7,924	16	3,051	20,735	—	583	32,309

15 INVENTORIES

	2018 HK$'000	2017 HK$'000
Raw materials	**14,002**	13,073
Work in progress	**8,202**	9,563
Finished goods	**18,374**	20,091
	40,578	42,727

The cost of inventories recognised as expense and include in "cost of sales" amounted to HK$95,723,000 and HK$83,061,000 for each of the years ended 31 December 2018 and 2017 respectively.

16 TRADE AND OTHER RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables		
— Third parties	**34,222**	27,278
— Related parties	**—**	16
Loss allowance	**(326)**	—
	33,896	27,294
Other receivables		
— Third parties	**782**	335
	34,678	27,629

The credit period for the trade receivables for the Group's business generally ranges from 30 to 90 days. The ageing analysis of trade receivables by invoice date is as follows:

	2018 HK$'000	2017 HK$'000
0–30 days	**20,122**	20,605
31–60 days	**6,727**	4,170
61–90 days	**2,893**	1,336
Over 90 days	**4,154**	1,183
	33,896	27,294

16 TRADE AND OTHER RECEIVABLES (Continued)

As at 31 December 2018 and 2017, trade receivables of HK$13,498,000 and HK$4,629,000 were considered past due but not impaired. These relate to customers for whom there are no significant financial difficulties and based on past experience, the overdue amounts can be recovered. The ageing analysis of these trade receivables based on past due date is as follows:

	2018 HK$'000	2017 HK$'000
1–30 days	5,517	3,128
31–60 days	3,858	1,139
61–90 days	2,479	105
Over 90 days	1,644	257
	13,498	4,629

The maximum exposure to credit risk is the carrying amounts of trade receivables and the Group does not hold any collateral as security.

Movement in the loss allowance

	2018 HK$'000	2017 HK$'000
At 1 January	—	—
Impairment losses recognised on trade receivables	326	—
At 31 December	326	—

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	2018 HK$'000	2017 HK$'000
USD	18,783	18,357
HK$	28	117
RMB	15,867	9,155
	34,678	27,629

The trade receivables due from related parties as at 31 December 2017 were unsecured, interest-free and had similar terms of repayment as third party receivables. There was no such balance as at 31 December 2018.

17 DEPOSITS AND PREPAYMENTS

	2018 HK$'000	2017 HK$'000
Utilities and other deposits	192	348
Prepayments		
— Inventories	8,964	8,035
— Listing expenses	—	3,048
— Others	4,911	1,532
	14,067	12,963

18 CASH AND BANK BALANCES

	2018 HK$'000	2017 HK$'000
Cash on hand	33	653
Cash at banks	93,237	45,907
Less: Pledged time deposits for banking facilities	(10,000)	(10,000)
	83,270	36,560

The carrying amounts of cash and bank balances of the Group approximate their fair values and are denominated in the following currencies:

	2018 HK$'000	2017 HK$'000
USD	21,161	20,181
HK$	55,941	21,794
RMB	16,168	4,585
	93,270	46,560

The cash and bank balances of the Group denominated in RMB is not freely convertible into other currencies. However, under "Mainland China's Foreign Exchange Control Regulations" and "Administration of Settlement, Sale and Payment of Foreign Exchange Provisions", the Group is permitted to exchange RMB for other currencies through authorised banks to conduct foreign exchange business.

19 SHARE CAPITAL

	Number of shares	Amount HK$'000
Ordinary shares of HK$0.1 each, authorised:		
At 9 March 2017 (date of incorporation) and 31 December 2017	3,800,000	380
Issuance of shares	3,796,200,000	379,620
At 31 December 2018	3,800,000,000	380,000
Ordinary shares of HK$0.1 each, issued and fully paid:		
At 9 March 2017 (date of incorporation) and 31 December 2017	—	—
Issuance of shares	200,000,000	20,000
At 31 December 2018	200,000,000	20,000

On 9 March 2017, the Company was incorporated and the authorised share capital was 3,800,000 shares, one share was allotted and issued nil-paid to the initial subscriber and was subsequently transferred to Mr. Chung. The one nil-paid share was credited as fully paid on 15 May 2018.

On 15 May 2018, the Company issued and allotted 50 and 49 shares, credited as fully paid, to Ching Wai Holdings Limited and L.V.E.P. Holdings Limited, respectively as directed by the Controlling Shareholders, as consideration of acquiring MS Industrial Limited and CH Development Limited.

On 1 June 2018, the Company issued 149,999,900 ordinary shares of HK$0.1 each under capitalisation issue.

On 1 June 2018, the Company was listed on the Stock Exchange with the offering of ordinary shares of HK$0.1 each of the Company, including, a public offering in Hong Kong of 5,000,000 shares and a placing of 45,000,000 shares at a price of HK$1.34 per share.

20 OTHER RESERVES

	Capital reserve HK$'000	Exchange reserve HK$'000	Total HK$'000
At 1 January 2017	131	1,280	1,411
Currency translation differences	—	1,767	1,767
At 31 December 2017	131	3,047	3,178
At 1 January 2018	**131**	**3,047**	**3,178**
Currency translation differences	**—**	**(3,234)**	**(3,234)**
At 31 December 2018	**131**	**(187)**	**(56)**

21 DEFERRED INCOME TAX LIABILITIES

	Accelerated tax depreciation HK$'000
At 1 January 2017	1
Charged to the income statement (Note 11)	38
At 31 December 2017	39
Charged to the income statement (Note 11)	48
At 31 December 2018	87

The Group has undistributed earnings of HK$6,634,000 (2017: HK$7,162,000) which, if paid out as dividends, would be subject to tax in the hands of the recipient. An assessable temporary difference exists, but no deferred tax liability has been recognised as the parent entity is able to control the timing of distributions from this subsidiary and is not expected to distribute these profits in the foreseeable future.

22 TRADE AND OTHER PAYABLES

	2018 HK$'000	2017 HK$'000
Trade payables		
— Third parties	**16,644**	18,737
— Related parties	**577**	—
	17,221	18,737
Accruals and other payables		
— Third parties	**10,868**	10,889
Receipts in advance		
— Third parties	**—**	10,668
Contract liabilities		
— Third parties	**5,461**	—
	33,550	40,294

The ageing analysis of trade payables based on invoice dates is as follows:

	2018 HK$'000	2017 HK$'000
0–30 days	**8,509**	11,833
31–60 days	**6,935**	2,549
61–90 days	**127**	331
Over 90 days	**1,650**	4,024
	17,221	18,737

The carrying amounts of trade and other payables approximated their fair values and were denominated in the following currencies:

	2018 HK$'000	2017 HK$'000
USD	**5,206**	5,402
HK$	**5,839**	10,486
RMB	**22,505**	24,406
	33,550	40,294

22 TRADE AND OTHER PAYABLES (Continued)

The trade payables due to related parties were unsecured, interest-free and had similar terms of settlement as third party payables.

The contract liabilities primarily relate to the advance consideration received from customers, or the Group has unconditional right to considerations before the goods or services are delivered.

Receipt in advance of HK$10,668,000 included in the balance as at 31 December 2017 were recognised as revenue during the year ended 31 December 2018.

As the contracts are for periods of one year or less or the Group has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the Group's performance completed to date, as permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

23 BILLS PAYABLES

Bill payables of the Group are mainly repayable within three months and secured by the pledged time deposits of HK$10,000,000 (2017: HK$10,000,000).

24 COMMITMENTS

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

	2018 HK$'000	2017 HK$'000
No later than one year	3,682	3,730
Later than one year and no later than five years	3,430	6,993
	7,112	10,723

25 NOTES TO CONSOLIDATED STATEMENTS OF CASH FLOWS

Reconciliation of operating profit to cash generated from operations:

	2018 HK$'000	2017 HK$'000
Profit before income tax	**1,254**	24,218
Adjustments for:		
Finance income	**(163)**	(48)
Finance expenses	**353**	—
Depreciation of property, plant and equipment (Note 14)	**6,670**	6,070
Loss on disposals of property, plant and equipment (Note 8)	**11**	13
Operating cash flows before changes in working capital	**8,125**	30,253
Change in working capital:		
— Inventories	**2,149**	(14,166)
— Trade and other receivables	**(7,049)**	3,595
— Deposits and prepayments	**(1,104)**	(10,655)
— Trade and other payables	**(7,075)**	12,804
— Bills payables	**3,205**	2,881
— Amounts with related companies	**(13,861)**	(7,805)
— Effect of foreign exchange rate changes	**(2,330)**	758
Cash (used in)/generated from operations	**(17,940)**	17,665

Reconciliation of liabilities arising from financing activities is as follows:

	Amounts due to shareholders HK$'000	**Total** HK$'000
At 1 January 2017	—	—
Cash flows	—	—
At 31 December 2017	—	—
Cash flows	24,000	24,000
Non-cash movements	20	20
At 31 December 2018	24,020	24,020

26 RELATED PARTY TRANSACTIONS

Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals. Parties are also considered to be related if they are subject to common control.

The directors are of the view that the following individuals and companies were related parties:

Name of related party	Relationship with the Group
Mr. Chau Ching	Controlling Shareholder and director of the Company
Mr. Chau Wai	Director of the Company
Mr. Chung Kwok Keung Peter	Controlling Shareholder and director of the Company
Mr. Chung Leonard Shing Chun	Director of the Company
Century Project Inc.	Jointly controlled by Mr. Chung and his spouse
Dongguan Humen Dafeng Printing and Packaging Products Factory* (東莞虎門達峰印刷包裝製品廠)	Controlled by Mr. Chau's spouse and his sibling
Wengyuanxian Dafeng Printing and Packaging Product Company Limited	Controlled by Mr. Chau's spouse and his sibling
Kwong Fai Trading Limited	Jointly controlled by Mr. Chung and his spouse
ReAlto Group Limited (deregistered on 7 December 2018)	Controlled by Controlling Shareholders
San Yie International Holdings Limited	Controlled by Mr. Chau's spouse
Sharp Success Enterprises Limited	Controlled by Controlling Shareholders
Penghui Qiye (Wengyuan) Company Limited* (鵬輝企業(翁源)有限公司)	Controlled by Controlling Shareholders
Tat Fung Industrial (Hong Kong) Limited	Controlled by Controlling Shareholders
Tat Fung Industrial Company	Controlled by Mr. Chau's spouse and his sibling

* The English translations of company or entity names in Chinese are for identification purpose only.

26 RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with related parties

In addition to those disclosed elsewhere in the financial statements, the Group had the following transactions with related parties during the years ended 31 December 2018 and 2017:

	2018 HK$'000	2017 HK$'000
Sharp Success Enterprise Limited		
— Motor vehicles expenses	—	60
Tat Fung Industrial (Hong Kong) Limited		
— Motor vehicles expenses	—	60
Kwong Fai Trading Limited		
— Rental expenses	600	600
Penghui Qiye (Wengyuan) Company Limited		
— Management fee expenses	2,417	2,352
— Rental expenses	2,673	2,601
San Yie International Holdings Limited		
— Sales of goods	—	82
Tat Fung Industrial Company and its owned entities*		
— Purchase of raw materials	8,305	18,328
Mr. Chau Ching		
— Interest expenses	10	—
Mr. Chung Kwok Keung Peter		
— Interest expenses	10	—

* The related parties include Tat Fung Industrial Company, Dongguan Humen Dafeng Printing and Packaging Products Factory and Wengyuanxian Dafeng Printing and Packaging Product Company Limited.

All of the above transactions with related parties were conducted in the ordinary course of the business of the Group based on the terms mutually agreed between the relevant parties.

(b) Key management compensation

Key management personnel are deemed to be the members of the Board of Directors of the Company who have responsibility for the planning directly and controlling the activities of the Group. The key management compensation is determined by the remuneration committee having regard to the performance of individuals and market trends. Please refer to note 10 for key management compensation.

27 AMOUNTS DUE TO RELATED COMPANIES

The balances were non-trade in nature, unsecured and interest-free. The balances were fully repaid in 2018.

28 AMOUNTS DUE TO SHAREHOLDERS

The balances are due to Mr. Chau Ching and Mr. Chung Kwok Keung Peter, controlling shareholders and they are non-trade in nature, unsecured and interest bearing of 3% per annum and repayable on demand.

29 COMPANY STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT

	At 31 December	
	2018	2017
	HK$'000	HK$'000
ASSETS		
Non-current asset		
Interests in subsidiaries	**2**	—
Current assets		
Deposits and prepayments	**412**	3,104
Amount due from a subsidiary	**14,934**	—
Cash and cash equivalents	**21,290**	—
	36,636	3,104
Total assets	**36,638**	3,104
EQUITY		
Equity attributable to the Company's equity holders		
Share capital	**20,000**	—
Share premium	**36,614**	—
Accumulated losses	**(19,976)**	(6,874)
Total equity/(deficits)	**36,638**	(6,874)

29 COMPANY STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT (Continued)

	At 31 December	
	2018	2017
	HK$'000	HK$'000
LIABILITIES		
Current liabilities		
Accruals	**—**	3,048
Amounts due to a related company	**—**	6,930
	—	9,978
Total liabilities	**—**	9,978
Total equity/(deficits) and liabilities	**36,638**	3,104

On behalf of the Board

Chau Ching
Director

Chung Kwok Keung Peter
Director

29 COMPANY STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT (Continued)

	Share capital HK$'000	Share premium HK$'000	Accumulated loss HK$'000	Total equity/ (deficits) HK$'000
Balance at 1 January 2017	—	—	—	—
Comprehensive income:				
Profit for the year	—	—	(6,874)	(6,874)
Other comprehensive income:				
Exchange translation differences	—	—	—	—
Total comprehensive income for the year	—	—	(6,874)	(6,874)
Transaction with owners in the capacity as owners	—	—	(6,874)	(6,874)
Balance at 31 December 2017	—	—	(6,874)	(6,874)
Balance at 1 January 2018	—	—	(6,874)	(6,874)
Comprehensive income:				
Loss for the year	—	—	(13,102)	(13,102)
Other comprehensive income:				
Exchange translation differences	—	—	—	—
Total comprehensive loss for the year	—	—	(13,102)	(13,102)
Transaction with equity holders:				
Issuance of ordinary shares under initial public offering (the "IPO")	20,000	36,614	—	56,614
Transaction with equity holders	—	—	—	—
At 31 December 2018	20,000	36,614	(19,976)	36,638

30 PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 December 2018 and 2017 are as follows:

Name of subsidiary	Place of incorporation/ operations	Issued and fully paid up share/ registered capital	Attributable equity interest held		Principal activities
			2018 %	2017 %	
Directly held by the Company:					
CH Development	BVI	US$100	100%	100%	Investment holding
MS Industrial	BVI	US$100	100%	100%	Investment holding
Indirectly held by the Company:					
Main Success Industrial Limited	Hong Kong	HK$100,000	100%	100%	Design, manufacture and sales of plastic infant and drinkware products
On Gain Development Limited	Hong Kong	HK$2	100%	100%	Sales of plastic infant products
Shaoguan Anyu Baby Products Company Ltd* (韶關安裕嬰童用品有限公司) (i)	The People's Republic of China (the "PRC")	RMB5,960,580	100%	100%	Design and sales of plastic infant products
Wengyuanxian Wancheng Plastic Products Company Limited* (翁源縣萬成塑膠制品有限公司) (i)	PRC	HK$20,000,000/ HK$19,690,236	100%	100%	Manufacture of plastic infant and drinkware products

* The English translations of company or entity names in Chinese are for identification purpose only.

(i) A limited liability company established in PRC.

None of the subsidiaries had any debt securities in issue at the end of the year.

GLOSSARY

In this annual report, unless the context states otherwise, the following expressions shall have the following meanings:

"Anyu Baby"	Shaoguan Anyu Baby Products Company Limited* (韶關安裕嬰童用品有限公司), a limited liability company established in the PRC on 17 June 2013 and an indirectly wholly owned subsidiary of the Company
"Board"	the board of Directors
"Ching Wai Holdings"	Ching Wai Holdings Limited, a limited liability company incorporated in the British Virgin Islands on 9 March 2017 and wholly owned by Mr. Chau
"Company"	MS Group Holdings Limited (萬成集團股份有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 9 March 2017
"Countries subject to International Sanctions"	countries regarding which governments such as the United States or Australia, or governmental organisations, such as the European Union or the United Nations, have, through executive order, passing of legislation or other governmental means, implemented measures that impose economic sanctions against such countries or against targeted industry sectors, groups of companies or persons, and/or organisations within such countries
"Director(s)"	the director(s) of the Company
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"International Sanctions"	sanction related laws, regulations and/or measures issued by the United States, the European Union, the United Nations and/or Australia
"Kwong Fai"	Kwong Fai Trading Limited, a limited liability company incorporated in Hong Kong on 26 March 1991, the shareholding interest of which was indirectly wholly owned by Mr. Chung and his spouse
"Listing"	the listing of the Shares on the Main Board
"Listing Date"	1 June 2018, the date on which the Shares were first listed on the Main Board
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange as amended, modified and supplemented from time to time
"L.V.E.P. Holdings"	L.V.E.P. Holdings Limited, a limited liability company incorporated in the British Virgin Islands on 9 March 2017 and wholly owned by Mr. Chung

"Main Board"	the stock market operated by the Stock Exchange prior to the establishment of GEM of the Stock Exchange (excluding the options market) and which stock market continues to be operated by the Stock Exchange in parallel with the GEM of the Stock Exchange
"Main Success"	Main Success Industrial Limited (萬成實業有限公司), a limited liability company incorporated in Hong Kong on 6 March 2007 and an indirectly wholly owned subsidiary of the Company
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"Mr. Chau"	Mr. Chau Ching (周青), one of the controlling shareholders of the Company and an executive Director
"Mr. Chung"	Mr. Chung Kwok Keung Peter (鍾國強), one of the controlling shareholders of the Company and an executive Director
"Ms. Cheung"	Ms. Cheung Hau Ling (張巧玲), the spouse of Mr. Chau
"Ms. Lee"	Ms. Lee Yiu Chee Eugenia (李耀芝), the spouse of Mr. Chung
"OEM"	original equipment manufacturing
"OEM Business"	the business segment principally comprising the production and sales of plastic bottles and cups for infants and toddlers and plastic sports bottles on an OEM basis
"OFAC"	the United States Department of Treasury's Office of Foreign Assets Control
"Penghui"	Penghui Qiye (Wengyuan) Company Limited* (鵬輝企業(翁源)有限公司), an entity established in the PRC on 1 August 2005, the equity interest of which is wholly owned by Sharp Success Enterprises Limited, which in turn is owned as to 50% by Mr. Chung and as to 50% by Mr. Chau
"PRC"	the People's Republic of China which for the purposes of this annual report, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Production Base"	the production plant of the Group situated in Wengyuan County, Shaoguan City, Guangdong Province, the PRC
"Prospectus"	the prospectus of the Company dated 21 May 2018 in respect of the Listing
"RMB"	Renminbi, the lawful currency of the PRC
"Sanctioned Persons"	person(s) and identity(ies) listed on OFAC's Specially Designated Nationals and Blocked Persons List or other restricted parties lists maintained by the United States, the European Union, the United Nations or Australia

Glossary

"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Share(s)"	the share(s) of HK$0.10 each in the share capital of the Company
"Shareholder(s)"	the shareholder(s) of the Company
"Sharp Success"	Sharp Success Industrial Limited (鵬輝企業有限公司), a limited liability company incorporated in Hong Kong, the shareholding interest of which is owned as to 50% by Mr. Chung and as to 50% by Mr. Chau
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Tat Fung Industrial"	Tat Fung Industrial Company (達峰實業公司), a partnership established in Hong Kong on 8 February 2003 by Ms. Cheung and her brother Mr. Zhang Liaodong (張遼東)
"US" or "United States"	the United States of America
"Wancheng Plastic"	Wengyuanxian Wancheng Plastic Product Company Limited* (翁源縣萬成塑膠制品有限公司), a limited liability company established in the PRC on 20 April 2007 and an indirectly wholly owned subsidiary of the Company
"Yo Yo Monkey Business"	the business segment principally comprising the production and sales of infant and toddler products, such as plastic bottles and cups for infants and toddlers, under the brand developed by the Group and known as "Yo Yo Monkey (優優馬騮)", principally for the PRC market