ANNUAL REPORT 2019

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.

CONTENTS

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 and
Registered Public Interest Entity Auditor)

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 54, 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 Place: 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				
	2019	2018	2017	2016	2015
	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**262,279**	233,195	225,750	267,895	242,334
Cost of sales	**(178,085)**	(158,698)	(146,073)	(180,106)	(145,323)
Gross profit	**84,194**	74,497	79,677	87,789	97,021
Selling expenses	**(26,380)**	(31,784)	(22,532)	(17,397)	(16,486)
Administrative expenses	**(40,713)**	(32,600)	(27,424)	(27,121)	(26,849)
Other income	**1,912**	858	1,285	601	927
Other (losses)/gains, net	**(362)**	(700)	(339)	(488)	244
Listing expenses	**—**	(8,827)	(6,462)	(3,493)	—
Finance (expenses)/income, net	**(591)**	(190)	13	7	11
Profit before taxation	**18,060**	1,254	24,218	39,898	54,868
Taxation	**(5,441)**	(4,374)	(6,720)	(8,524)	(5,614)
Profit/(Loss) for the year	**12,619**	(3,120)	17,498	31,374	49,254

	As at 31 December				
	2019	2018	2017	2016	2015
	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**200,955**	217,447	162,188	145,420	157,663
Total liabilities	**37,864**	65,153	60,154	62,651	83,824
Net assets	**163,091**	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, I am pleased to present the annual report of the Group for the year ended 31 December 2019.

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 original equipment manufacturer (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 known as "Yo Yo Monkey (優優馬騮)".

The total revenue of the Group for the year ended 31 December 2019 achieved an annual growth in revenue of approximately 12.5%, primarily attributable to the annual increase in revenue from the OEM Business of the Group of approximately 25.7%, which was mainly attributable to the sales orders received from the existing customers. The Group also turned around from recording a net loss attributable to Shareholders of approximately HK$3.1 million for the year ended 31 December 2018 to achieving a net profit attributable to Shareholders of approximately HK$12.6 million for the year ended 31 December 2019, mainly due to (i) the aforesaid improvement in revenue of the Group; and (ii) the Group not having incurred any listing expenses for the year ended 31 December 2019, whereas the Group incurred listing expenses of approximately HK$8.8 million for the year ended 31 December 2018.

The OEM Business continued to be the main revenue and profit contributor to the Group for the year ended 31 December 2019. The overall production output of the OEM Business increased in 2019 due to the increase in sales performance of the OEM Business, as compared to that of 2018. Such increase was mainly attributable to the increased sales orders received from the existing customers. Furthermore, along with the increase in sales orders, the profitability of the OEM Business was slightly enhanced by the economies of scale.

On the other hand, the Yo Yo Monkey Business faced challenges and recorded a decline in sales in 2019 as compared to that of 2018, mainly due to the worsening economic and industry environment in the PRC market. As at 31 December 2019, the number of third party retail stores in the PRC which sold the products of the Group maintained at 397 (2018: 393). Apart from the flagship product logo "Yo Yo Monkey (優優馬騮)" which carries a monkey character cartoon, the Group had extended 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.

OUTLOOK AND STRATEGIC PLAN

Despite the annual increase in total revenue for the year ended 31 December 2019, both of the OEM Business and the Yo Yo Monkey Business are expected to continue to face challenges, including but not limited to (i) the outbreak of COVID-19 in the PRC since the beginning of 2020, which may have the risks of interfering the supply chain of the Group given the production base of the Group is situated in the PRC, possibly causing delays in delivery, and may also slow down general economic growth, leading to lower consumption, thereby resulting in a decline in the sales of the products of the Group; and (ii) the ongoing trade war between the PRC and the United States, which may also reduce the demand of the products of the Group, particularly for the customers of the OEM Business based in the United States.

In response to the ever changing industry environment, the management team of the Group has formulated strategic plans for the development of both the OEM Business and Yo Yo Monkey Business. For the OEM Business, on top of continuing to enhance the bonding with existing customers, the Group will be more active in identifying new customers to diverse its customer base on a worldwide basis. For the Yo Yo Monkey Business, on top of continuing to enhance product diversities, the Group will be more active in identifying possible opportunities for (i) third party licenses collaboration (such as crossover or adopting famous cartoon logos on the Yo Yo Monkey Business products) with a view to enrich product profile; and (ii) expanding the geographical markets of own-brand products to the overseas (through the "Yo Yo Monkey (優優馬騮)" brand or other own-brand to be developed to cope with the culture and trend of the local market) by leveraging on the networks established through the OEM Business.

In respect of the general operations of the Group, a key focus is to drive down costs and expenses, in order to achieve a higher profit margin. The Group has been making and will continue to make efforts in areas such as (i) automising and streamlining production cycles to minimise labour force and wasted resources; and (ii) closely monitoring the selling and other expenses to minimise unnecessary expenditure.

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 2019. 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

Management Discussion and Analysis

FINANCIAL REVIEW

REVENUE

Revenue of the Group amounted to approximately HK$262.3 million for the year ended 31 December 2019 (2018: approximately HK$233.2 million), representing an annual increase of approximately 12.5%. The increase was mainly attributable to the growth of the OEM Business.

- OEM Business

  For the year ended 31 December 2019, revenue generated from the OEM Business amounted to approximately HK$214.0 million, representing an increase of approximately 25.7%, as compared to that of approximately HK$170.2 million for the preceding year. For the year ended 31 December 2019, 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 amounted to approximately HK$110.6 million (2018: approximately HK$83.2 million), representing an annual increase of approximately 32.9%; and (ii) the revenue generated from the second largest customer of the Group amounted to approximately HK$89.3 million (2018: approximately HK$61.9 million), representing an annual increase of approximately 44.3%. The trade war between the PRC and the United States was yet to have any material direct impact (such as tariffs) on the operations of the Group for the year ended 31 December 2019.

- Yo Yo Monkey Business

  For the year ended 31 December 2019, the Yo Yo Monkey Business recorded revenue of approximately HK$48.3 million, representing an annual decline of approximately 23.3% as compared to that of approximately HK$63.0 million for the preceding year. Such decline was mainly due to the worsening industry environment in the PRC market, where the annual growth of the gross domestic product of the PRC in 2019 slowed down to its weakest pace in nearly 30 years. Such slow down in economic growth might have weakened consumption and led to the decrease in overall demand of the products of the Yo Yo Monkey Business in the PRC.

Gross profit

The overall gross profit of the Group for the year ended 31 December 2019 was approximately HK$84.2 million, representing an overall gross profit margin of approximately 32.1%, as compared to that of approximately HK$74.5 million, representing a gross profit margin of approximately 31.9% for the year ended 31 December 2018. For the year ended 31 December 2019, the gross profit margin of the OEM Business was approximately 30.0% (2018: approximately 27.6%) and the gross profit margin of the Yo Yo Monkey Business was approximately 41.2% (2018: approximately 43.6%). The gross profit margins of the Group remained stable in general for the year ended 31 December 2019 as compared to that of the preceding year.

Selling expenses

The Group incurred selling expenses of approximately HK$26.4 million for the year ended 31 December 2019, representing a decrease of approximately 17.0% as compared to that of approximately HK$31.8 million for the year ended 31 December 2018. Such decrease was mainly attributable to the reduction of promotions related to the Yo Yo Monkey Business. The amount of spending of the Group on promotions depends on product cycles and opportunities in the market from time to time.

Administrative expenses

The administrative expenses of the Group amounted to approximately HK$40.7 million for the year ended 31 December 2019, representing an increase of approximately 24.8% as compared to that of approximately HK$32.6 million for the year ended 31 December 2018. Such annual increase was mainly attributable to (i) the increase in compensation related to the layoff of workers by approximately HK$2.6 million along with the streamlining of the production flow at the production plant of the Group situated in Wengyuan County, Shaoguan City, Guangdong Province in the PRC (the "**Production Base**") for the long term benefit of the Group; (ii) the increase in professional fees after its listing of Shares on the Stock Exchange (the "**Listing**") by approximately HK$2.1 million for among other matters, the ongoing compliance and enhancement of administration of the Group; and (iii) the increase in payroll expenses by approximately HK$2 million to retain and reward staff for the sustainment and the development of the businesses of the Group. Administrative expenses accounted for approximately 15.5% of the total revenue for the year ended 31 December 2019, representing a slight increase as compared to that of approximately 14.0% of total revenue for the year ended 31 December 2018.

Other income and gains

The Group recorded net other income and gains of approximately HK$1.6 million for the year ended 31 December 2019, as compared to that of approximately HK$158,000 for the year ended 31 December 2018. The net other income and gains were mainly derived from government grant and sundry income.

Listing expenses

No listing expense was incurred for the year ended 31 December 2019, as compared to that of approximately HK$8.8 million for the year ended 31 December 2018.

Finance expenses

The Group incurred net finance expenses of approximately HK$591,000 for the year ended 31 December 2019, as compared to that of approximately HK$190,000 net finance expenses for the year ended 31 December 2018. The finance expenses were mainly interest expenses for the utilisation of bill facilities, interests for shareholders' borrowings and interests for the lease liabilities pursuant to the adoption of HKFRS 16, while the finance income was mainly derived from bank depository interest.

Net profit/loss

The Group turned around from recording a net loss attributable to Shareholders of approximately HK$3.1 million for the year ended 31 December 2018 to achieving a net profit attributable to Shareholders of approximately HK$12.6 million for the year ended 31 December 2019, mainly due to (i) an annual increase in revenue from the OEM Business of the Group for the year ended 31 December 2019 of approximately 25.7%, which was mainly attributable to sales orders received from the existing customers; and (ii) the Group not having incurred any listing expenses for the year ended 31 December 2019, whereas the Group incurred listing expenses of approximately HK$8.8 million for the year ended 31 December 2018.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2019, the cash and cash equivalents of the Group amounted to approximately HK$82.3 million (2018: approximately HK$83.3 million). The cash and cash equivalents of the Group as at 31 December 2019 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 generated from operating activities of approximately HK$27.5 million for the year ended 31 December 2019, as compared to that of the net cash used in operating activities of approximately HK$23.8 million for the year ended 31 December 2018, where such difference was mainly attributable to (i) the Group recorded profit before taxation of approximately HK$18.1 million for the year ended 31 December 2019 as compared to the profit before taxation of approximately HK$1.3 million for the year ended 31 December 2018; and (ii) the net settlement amount with related companies of HK$Nil for the year ended 31 December 2019 as compared to that of approximately HK$13.9 million for the year ended 31 December 2018.

As at 31 December 2019, the Group maintained banking facilities of approximately HK$30.0 million (2018: approximately HK$10.0 million), which were partly utilised as bills facilities to settle payments to suppliers from time to time. As at 31 December 2019, such banking facilities were not utilised.

Pursuant to the loan agreements with Mr. Chau and Mr. Chung (both are executive Directors and controlling Shareholders) entered into in December 2018, the Group had amounts due to Shareholders of approximately HK$24.0 million, which were unsecured fixed interest rate Hong Kong dollar borrowings repayable before 31 December 2019. The Group had fully repaid the said Shareholders' borrowings in June 2019.

As at 31 December 2019, the gearing ratio of the Group (being total interest-bearing borrowings divided by total equity) was nil (2018: approximately 15.8%).

CAPITAL COMMITMENT AND CAPITAL EXPENDITURE

As at 31 December, 2019, the Group had no capital commitment (2018: Nil).

For the year ended 31 December 2019, the capital expenditure of the Group (being gross addition of property, plant and equipment) was approximately HK$11.0 million (2018: approximately HK$10.0 million). Such capital expenditure was primarily for the acquisition of new machineries, tools and equipment.

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 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 2019. 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 2019, the Group recorded a HK$95,000 loss on foreign exchange (2018: loss on foreign exchange HK$689,000).

The Group had not used any derivatives to hedge its exposure to foreign exchange risk during the year ended 31 December 2019. 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

None of the assets of the Group were pledged as at 31 December 2019. As at 31 December 2018, a deposit of HK$10.0 million was pledged to secure certain banking facilities for the Group.

MATERIAL ACQUISITION, DISPOSAL AND INVESTMENT

The Group did not perform any material acquisition or disposal of subsidiaries, associates or joint ventures or investments during the year ended 31 December 2019. The Group did not hold any significant investment as at 31 December 2019.

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 2019 and up to the date of this annual report.

CONTINGENT LIABILITIES

As at 31 December 2019, 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

Except for the subsequent event disclosed in this annual report (including Note 32 of the consolidated financial statements), there was no other material change or major event occurred after 31 December 2019 which was required to be disclosed by the Company.

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.

During the period up to the year ended 31 December 2019, a portion of the net proceeds from the Listing had been utilised with reference to the "Future plans and use of proceeds" in the Prospectus as follows:

Use of net proceeds	**Net proceeds from the Listing** HK$ million	**Actual utilisation up to 31 December 2019** HK$ million	**Unutilised amounts as at 31 December 2019** HK$ million
Expansion of production capabilities	17.7	7.8	9.9
Development of the Yo Yo Monkey Business	13.0	10.0	3.0
Strengthening the client base of the OEM Business	5.3	0.9	4.4
Improve product development capabilities	8.8	0.8	8.0
Working capital and administrative expenses	3.8	2.9	0.9
Total	48.6	22.4	26.2

As shown in the above table, the total unutilised amount of the net proceeds was approximately HK$26.2 million as at 31 December 2019 and such unutilised amount was deposited in short-term demand deposits with authorised financial institutions and/or licensed banks in Hong Kong. The unutilised amount of approximately HK$17.9 million was mainly related to the production capabilities and product development capabilities of the OEM Business. The principal reason for the slow down in the utilisation of the proceeds was the uncertainties brought forward by the outbreak of the trade war between the United States and the PRC, which had previously caused the under-performance of the OEM Business for the year ended 31 December 2018 and might continue to impact the OEM Business. The Group therefore remained conservative on its spending and investments, rather than hastily expanding at a rapid pace.

Despite the slow down in utilisation for the year ended 31 December 2019, the Group has been utilising the net proceeds and will continue to utilise the net proceeds in the manner consistent with that mentioned in the Prospectus. In view of the need to replace the existing aged machineries and the need to strengthen product development capabilities to enhance market competitiveness, the Group has been (i) liaising with machinery suppliers to shop for new machineries at favourable prices and, in particular, the Group is currently targeting to procure several brand new injection moulding machines and robotic automation equipment in the second half of 2020; and (ii) liaising with industrial designers about their engagement terms and scope of services to cope with the upcoming business development plan of the Group. The Directors currently expect the net proceeds to be fully utilised during the year ending 31 December 2020 in accordance with the following:

	Expected utilisation amount for the six months ending 30 June 2020 HK$ million	**Expected utilisation amount for the six months ending 31 December 2020** HK$ million	**Expected total utilisation amount for the year ending 31 December 2020** HK$ million
Expansion of production capabilities	3.3	6.6	9.9
Development of the Yo Yo Monkey Business	1.5	1.5	3.0
Strengthening the client base of the OEM Business	2.0	2.4	4.4
Improve product development capabilities	3.0	5.0	8.0
Working capital and administrative expenses	0.9	—	0.9
Total	10.7	15.5	26.2

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 2019, the Group had 643 full-time employees (2018: 793). The reduction of employees as at 31 December 2019 as compared to that of 31 December 2018 was mainly due to the continued automation of the Production Base and the continued streamlining of production processes of the Production Base to minimise labour demand and costs, for the enhancement of the profitability 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 work 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 2019 was approximately HK$73.7 million (2018: approximately HK$65.2 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 Company 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

While the Group achieved annual growth in both revenue and profit for the year ended 31 December 2019, which were mainly driven by the OEM Business, the performance of the overall business of the Group for the upcoming year is difficult to estimate, primarily due to the uncertainties brought by the recent outbreak of the COVID-19 and the ongoing trade war between the PRC and the United States.

The OEM Business is currently dependent on the United States market as a significant portion of revenue is derived from customers based in the United States. If relevant trade policies (such as tariffs) are further enacted between the PRC and the United States along with the ongoing trade war, the performance of the OEM Business might be adversely affected. Nevertheless, the Group will continue to enhance its product development and manufacturing capabilities and, at the same time, liaise with both existing and potential customers to secure more sales orders on a worldwide basis, with an aim to gradually diversify the present focus on the United States market.

In respect of the Yo Yo Monkey Business, the Group has been working on capturing opportunities through offering quality infant and toddler products in the market, especially since the relaxation of the one-child policy in the PRC in 2016. Given the "Yo Yo Monkey (優優馬騮)" brand of the Group is one of the few quality baby brand products originated from Hong Kong, it is well positioned to capture the growing potential in the infant and toddler products market. However, the Yo Yo Monkey Business is still under an uneasy environment to secure its market position in the PRC given the fierce competition and the slowing down of economic growth. The recent outbreak of the COVID-19 has worsened the business conditions in the PRC. If such outbreak continues and becomes more severe, apart from the overall economy and consumption being impaired, the operations of the Group may also be adversely affected, such as possible postponement of local delivery of raw materials and products. Nonetheless, the Group will continue to put efforts and devote resources to develop this business segment by way of enhancing product design and diversity and, in addition, the Group will preliminarily explore the expansion of the geographical markets of its own-brand products to the overseas by leveraging on its existing networks established through the OEM Business, with a view to broaden the Group's revenue stream.

The Group will continue to utilise its net proceeds from the Listing on areas including but not limited to upgrading existing production facilities and equipment and improving product development capabilities in the upcoming year. These are expected to uplift the overall business performance of the Group.

Apart from the ongoing efforts on organic growth, the Group has been preliminarily seeking and investigating opportunities, including horizontal acquisition and third party licenses collaboration with synergy effects to further drive the businesses of the Group.

Overall, the principal fundamental products of the Group, which include plastic bottles and infant and toddler products, are necessity goods which the Directors believe the market has a stable demand, despite the turbulences prevailing in the overall economic and business environment. The Directors are of the view that the core competitiveness of the Group lies in its long term strategic relationships established with business partners and its reputation and experience accumulated in the industry throughout the years. Therefore, looking ahead, even though a more prudent approach may be necessary in the near future to cautiously overcome the upcoming challenging times, the management team of the Group is confident to tackle obstacles, capture opportunities and bring value to the Shareholders in the long run.

EXECUTIVE DIRECTORS

Mr. Chau Ching (周青), aged 66, was appointed as a Director 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 66, was appointed as a Director 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 29 years of experience in the manufacturing industry. He co-founded Racing Champions Limited in 1989, which focused on manufacturing die-cast race car miniatures under the National Association for Stock Car Auto Racing (NASCAR) brand license, and served as its 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 to 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, the PRC.

He served as an independent non-executive director of StarGlory Holdings Company Limited (formerly known as New Wisdom Holding Company Limited and Epicurean and Company, Limited) (stock code: 8213), a company listed on GEM 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 32, was appointed as a Director 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 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 32, was appointed as a Director 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 71, 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.

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 71, 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), Hop Hing Group Holdings Limited (stock code: 0047) and, since 1 July 2019, Pokfulam Development Company Limited (stock code: 0225). Mr. Seto is also the chairman of the board of directors of Hop Hing Group Holdings Limited (stock code: 0047). Mr. Seto served as an independent non-executive director of China Everbright Limited (stock code: 0165) for the period from 23 April 2003 to 17 May 2018 and an executive director of Pacific Eagle Asset Management Limited for the period from January 2006 to December 2019.

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 75, 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), a company 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 StarGlory Holdings Company Limited (formerly known as New Wisdom Holding and Epicurean and Company, Limited) (stock code: 8213), a company listed on GEM.

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 53, 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 40, 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 the Company. He is also the chief financial officer of the Group. Please refer to the above paragraph for details of his biographical information.

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 year ended 31 December 2019, the Company had applied the principles and complied with the code provisions in the CG Code.

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 despatched 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. If Directors or committee members are unable to attend a meeting, we will ensure that 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 committees meetings are recorded in sufficient detail the matters considered by the Board and the committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meetings, and committees meetings are sent to the relevant Directors for comments within a reasonable time after the date on which the meeting is held.

During the year ended 31 December 2019, the Board discussed and reviewed the audited annual results and report for the year ended 31 December 2018 and the unaudited interim results and report for the six months ended 30 June 2019, the business and financial performance of the Company, 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 of the Company, 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 delegated power and authorities are periodically reviewed by the Board. 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) other significant financial and operational matters and 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 had complied with the required standards as set out in the Model Code for the year ended 31 December 2019.

All Directors and certain relevant employees (who are likely to be in possession of unpublished inside information of the Company) 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 will receive 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 2019, 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 seminars and training session conducted by the Company's legal advisor and reading materials on topics related to the Group's business, corporate governance, continuing obligations of listed companies and directors, and/or updates 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 of the Company. 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 will take reasonable precautions in preserving the confidentiality of inside information before publication of the relevant announcement (if applicable).

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 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 2019.

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. 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 its 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 year ended 31 December 2019, the Audit Committee reviewed the audited annual results and report for the year ended 31 December 2018, the unaudited interim results and report for the six months ended 30 June 2019, 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. 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 Board 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 was managed by the Nomination Committee.

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

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

- The Nomination Committee will then nominate suitable candidates to the Board (i) for it to consider and make recommendations to the Shareholders for election as Directors at general meetings or (ii) for appointment as Directors to fill casual vacancies.

During the year ended 31 December 2019, the Nomination Committee reviewed the structure, size, composition and diversity of the Board, the independence of independent non-executive Directors, re-election of Directors, the Company's board diversity policy and 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 3.25 of the Listing Rules and the CG Code. 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 year ended 31 December 2019, the Remuneration Committee had reviewed the remuneration of Directors and senior management and the Company's remuneration policy. Details of the amount of emoluments of Directors for the year ended 31 December 2019 are set out in Note 11 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 2019 is set out below:

	Number of senior management	
	2019	2018
Remuneration band		
Nil – HK$1,000,000	**—**	1
HK$1,000,001 – HK$1,500,000	**2**	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 2019, at the aforesaid meetings held for the year ended 31 December 2019 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	AGM[7]
Executive Directors					
Mr. Chau [4]	5/5	N/A	1/1	N/A	1/1
Mr. Chung	5/5	N/A	N/A	N/A	1/1
Mr. Chau Wai	5/5	N/A	N/A	N/A	1/1
Mr. Chung Leonard Shing Chun	5/5	N/A	N/A	N/A	1/1
Independent Non-Executive Directors					
Mr. Seto John Gin Chung [2, 3, 5]	5/5	2/2	1/1	2/2	1/1
Mr. Asvaintra Bhanusak [1, 5]	5/5	2/2	N/A	2/2	1/1
Mr. Yu Hon To David [1, 3, 6]	5/5	2/2	1/1	2/2	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. AGM was held on 27 May 2019

COMPANY SECRETARY

Mr. Ko Kam On, the company secretary of the Company, is a full time employee and the chief financial officer of the Group. During the year ended 31 December 2019, 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

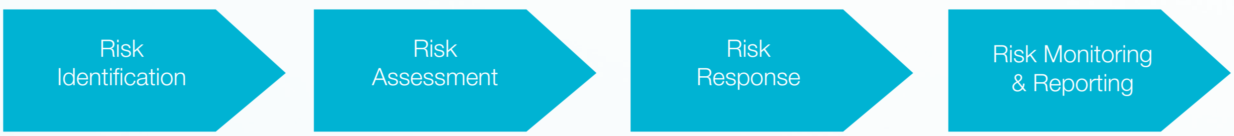
The Board has the overall responsibility for maintaining an adequate system on risk management and internal controls of the Group and, on an annual basis, reviewing the effectiveness of it. The Board is committed to implement an effective risk management and internal control system to safeguard the interests 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 and 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 control systems is based on those set by the Committee of Sponsoring Organisations of the Treadway Commission, a globally recognised 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 organisation 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 methodology of the Group's internal controls system for its risk assessment comprises four core stages as shown below. The process is performed on an annual basis to address changes in the Group's business environment.



Ongoing communication, monitoring and review

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 2019. 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 2019 were generally effective and adequate.

The Audit Committee also reviewed 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 43 to 47 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 2019, fees paid or payable to the external auditor are set out as follows:

Nature of services	HK$'000
Audit services	980
Non-audit services	720
Total	1,700

Non-audit services 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 meeting 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 year ended 31 December 2019, there was no amendment to the Company's constitutional document, and such 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 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 2019 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 2019 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 2019 are set out in the consolidated income statement on page 48 of this annual report.

The key financial information of the Group for the last five 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 2019 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 2019, a portion of the products of the Group were sold and/or delivered to certain Countries subject to International Sanctions, namely Lebanon and Russia 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 2019 amounted to approximately HK$0.6 million (2018: approximately HK$0.7 million), representing approximately 0.2% of the total revenue of the Group (2018: approximately 0.3%).

The Group had not been notified of any International Sanctions that would be imposed on the Group for sales and/or deliveries to the Countries subject to International Sanctions for the year ended 31 December 2019. 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 that 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 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 creating value for its employees and customers, and foster good relationship with its suppliers.

The Group understands that employees are its valuable assets and the realisation 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 2019, the Group had committed to maintain the relationship with its employees 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 to 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 21 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 2019 are set out in Note 30 to the consolidated financial statements and in the consolidated statement of changes in equity on page 52 of this annual report.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2019, the reserve available for distributions to the Shareholders was approximately HK$12,878,000 (2018: approximately HK$16,638,000). Details of movements in the distributable reserves of the Company are set out in Note 30 to the consolidated financial statements of the Group under this annual report.

DONATIONS

The Group did not make any donations during the year ended 31 December 2019 (2018: HK$1,000).

EQUITY-LINKED AGREEMENTS

No equity-linked agreement was entered into by the Company during the year or subsisted as at 31 December 2019.

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 did not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: Nil).

CLOSURES OF REGISTER OF MEMBERS

The Company will hold the AGM on Monday, 1 June 2020. The register of members of the Company will be closed from Wednesday, 27 May 2020 to Monday, 1 June 2020 (both days inclusive), during which period no transfer of Shares will be registered. In order to qualify for attendance and voting at the forthcoming AGM, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 26 May 2020.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group are set out in Note 15 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 for the year ended 31 December 2019.

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 2019 are set out in Note 11 to the consolidated financial statements under this annual report. 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 2019 and up to the date of this annual report.

Each of the controlling Shareholders 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 had provided written confirmation and made an annual declaration on their compliance with the Deed of Non-Competition for the year ended 31 December 2019. Based on the information and confirmation provided by or obtained from the controlling Shareholders, 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 2019.

DIRECTORS' INTEREST IN TRANSACTION, ARRANGEMENT AND CONTRACTS

Save for the related party transactions disclosed in Note 28 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 2019 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 or any of their subsidiaries during the year ended 31 December 2019.

DIRECTORS

The Directors during the year ended 31 December 2019 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. Chung Kwok Keung Peter, Mr. Asvaintra Bhanusak and Mr. Seto John Gin Chung, 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 the Directors and its officers in respect of potential legal actions that may occur 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 terms 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' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

As at 31 December 2019, the interests and short positions of the Directors and chief executives of the Company 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

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 2019, 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 2019.

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

As at 31 December 2019, 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 therefore 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 therefore deemed to be interested in the Shares held by Mr. Chung under the SFO.

Save as disclosed above, as at 31 December 2019, 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 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 of the Company 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 (the "**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 a full force and effect. The principal terms of the Share Option Scheme were summarised in the paragraphs headed "Statutory and general information — (D) Share Option Scheme" in Appendix IV to the Prospectus. No option had been granted, exercised, cancelled or lapsed under the Share Option Scheme during the year ended 31 December 2019 and up to the date of this annual report.

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 2019 with regard to Section 543 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

CONNECTED TRANSACTIONS

The related party transactions set out in Note 28 to the consolidated financial statements of the Group constituted connected transactions or continuing connected transactions of the Company under Chapter 14A of the Listing Rules. For the year ended 31 December 2019, only the following continuing connected transactions (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 *(indirect 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**"). Pursuant to 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**"). Pursuant to the PRC Lease B, the parties thereto 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 2019.

		For the year ended 31 December 2019	
		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$22.2 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 2019 and the year ending 31 December 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 2019 and the year ending 31 December 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 2019 and the year ending 31 December 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 2019, the letter stated that nothing has come to the attention of the auditor that causes the auditor to believe that the Continuing Connected Transactions:

- had not been approved by the Board;
- were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and
- had exceeded the annual caps.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors had reviewed the Continuing Connected Transactions and confirmed that the transactions had 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 were fair and reasonable and in the interests of the Company and 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 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 2019 were as follows:

	% of total revenue	**% of total purchase**
The largest customer/supplier	42.2%	9.3%
Five largest customers/suppliers	79.4%	39.3%

None of the Directors or any of their close associates or any Shareholders (which to the best knowledge of the Directors owned more than 5% of the Company's issued share capital) had a material interest in the five largest suppliers or customers of the Group.

Report of the Directors

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 to 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 27 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 during the year ended 31 December 2019 and as at the date of this annual report.

AUDITOR

The financial statements of the Company for the year ended 31 December 2019 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 2020.

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

Hong Kong, 20 March 2020

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 48 to 95, which comprise:

- the consolidated statement of financial position as at 31 December 2019;
- 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 2019, 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.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

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 17 "Inventories" to the consolidated financial statements. At 31 December 2019, the Group held inventories of HK$35,986,000 and a provision of HK$261,000 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, 20 March 2020

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
Revenue	5	**262,279**	233,195
Cost of sales	10	**(178,085)**	(158,698)
Gross profit		**84,194**	74,497
Selling expenses	10	**(26,380)**	(31,784)
Administrative expenses	10	**(40,713)**	(32,600)
Other income	7	**1,912**	858
Other losses, net	8	**(362)**	(700)
Listing expenses	10	**—**	(8,827)
Operating profit		**18,651**	1,444
Finance income	9	**712**	163
Finance expenses	9	**(1,303)**	(353)
Finance expenses, net		**(591)**	(190)
Profit before taxation		**18,060**	1,254
Taxation	12	**(5,441)**	(4,374)
Profit/(Loss) for the year		**12,619**	(3,120)
Attributable to:			
— Equity holders of the Company		**12,619**	(3,120)
		HK cents	HK cents
Profit/(Loss) per share attributable to equity holders of the Company during the year			
Basic and diluted	13	**6.31**	(1.74)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
Profit/(Loss) for the year	**12,619**	(3,120)
Items that may be reclassified to consolidated income statement:		
Exchange translation differences	**(1,440)**	(3,234)
Total comprehensive income/(loss) for the year attributable to:		
— Equity holders of the Company	**11,179**	(6,354)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	15	36,424	34,707
Right-of-use assets	16	6,646	—
		43,070	34,707
Current assets			
Inventories	17	35,986	40,578
Trade and other receivables	18	33,822	34,678
Deposits and prepayments	19	5,808	14,067
Tax recoverable		—	147
Pledged time deposits	20	—	10,000
Cash and cash equivalents	20	82,269	83,270
		157,885	182,740
Total assets		200,955	217,447
EQUITY			
Equity attributable to the Company's equity holders			
Share capital	21	20,000	20,000
Share premium		36,614	36,614
Other reserves	22	(1,496)	(56)
Retained earnings		107,973	95,736
Total equity		163,091	152,294

Consolidated Statement of Financial Position

As at 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
LIABILITIES			
Non-current liabilities			
Lease liabilities	16	4,136	—
Deferred income tax liabilities	23	80	87
		4,216	87
Current liabilities			
Trade and other payables	24	27,164	33,550
Bills payables	25	—	6,086
Lease liabilities	16	2,941	—
Amounts due to shareholders	29	—	24,020
Tax payable		3,543	1,410
		33,648	65,066
Total liabilities		37,864	65,153
Total equity and liabilities		200,955	217,447

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 2019

	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 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
Balance at 31 December 2018	20,000	36,614	131	(187)	95,736	152,294
Balance at 1 January 2019	**20,000**	**36,614**	**131**	**(187)**	**95,736**	**152,294**
Change in accounting policy	**—**	**—**	**—**	**—**	**(382)**	**(382)**
Restated total equity at 1 January 2019	**20,000**	**36,614**	**131**	**(187)**	**95,354**	**151,912**
Comprehensive income:						
Profit for the year	**—**	**—**	**—**	**—**	**12,619**	**12,619**
Other comprehensive income:						
Exchange translation differences	**—**	**—**	**—**	**(1,440)**	**—**	**(1,440)**
Total comprehensive income for the year	**—**	**—**	**—**	**(1,440)**	**12,619**	**11,179**
Balance at 31 December 2019	**20,000**	**36,614**	**131**	**(1,627)**	**107,973**	**163,091**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
Cash flows from operating activities			
Cash generated from/(used in) operations	27a	**30,802**	(17,940)
Tax paid		**(3,312)**	(5,812)
Net cash generated from/(used in) operating activities		**27,490**	(23,752)
Cash flows from investing activities			
Purchases of property, plant and equipment		**(10,950)**	(9,982)
Proceeds from disposal of property, plant and equipment		**62**	—
Decrease in pledged time deposits for banking facilities		**10,000**	—
Interest received		**712**	163
Net cash used in investing activities		**(176)**	(9,819)
Cash flows from financing activities			
Interest paid		**(1,323)**	(333)
(Decrease)/increase in amounts due to shareholders		**(24,000)**	24,000
Payment of principal element of lease liabilities		**(2,992)**	—
Proceeds from issuance of ordinary shares under IPO		**—**	67,000
Professional expenses paid in connection with IPO		**—**	(10,386)
Net cash (used in)/generated from financing activities		**(28,315)**	80,281
Net (decrease)/increase in cash and cash equivalents		**(1,001)**	46,710
Cash and cash equivalents at 1 January		**83,270**	36,560
Cash and cash equivalents at 31 December		**82,269**	83,270

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 20 March 2020.

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) New standards and amendments to standards

A number of new standards and amendments to standards became applicable for the current reporting period. The Group has changed its accounting policies as a result of adopting HKFRS 16 Leases. The impact of the adoption of the standard and the new accounting policies are disclosed in note 2.2 below. The adoption of other new standards and amendments to standards does not have a significant impact on the Group's accounting.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

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

The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2019 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
Amendments to HKAS I and HKAS 8	Definition of Material	1 January 2020
Amendments to HKFRS 3	Definition of a Business	1 January 2020
Revised Conceptual Framework	Revised Conceptual Framework for Financial Reporting	1 January 2020
HKFRS 17	Insurance contracts	1 January 2021

These new standards, new interpretations and amendments to standards and interpretations are not expected to have a material impact on the entity in the current reporting periods and on foreseeable future transactions.

2.2 Changes in accounting policies

HKFRS 16 Leases

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's financial statements.

The Group has adopted HKFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

The Group leases various offices and warehouses. Rental contracts are typically made for fixed periods but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the financial year of 2018, payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance expense. The finance expense is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies (Continued)

HKFRS 16 Leases (Continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments).

The lease payments are discounted using incremental borrowing rate of the Group which the Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability; and
- any lease payments made at or before the commencement date.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Extension options are included in an office lease across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension options held are exercisable only by the Group and not by the respective lessor.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was ranged from 4.75% to 5.65%.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies (Continued)

HKFRS 16 Leases (Continued)

	HK$'000
Operating lease commitments disclosed as at 31 December 2018	7,112
Discounted using the lessee's incremental borrowings rate at the date of initial application	6,273
Add: Lease liabilities recognised on extension options estimates	3,896
Discounted using the lessee's incremental borrowings rate at the date of initial application, lease liabilities recognised as at 1 January 2019	10,169

The change in accounting policy affected the following items in the consolidated statement of financial position on 1 January 2019:

- Right-of-use assets — increase by HK$9,787,000
- Lease liabilities (current portion) — increase by HK$3,001,000
- Lease liabilities (non-current portion) — increase by HK$7,168,000
- Retained earnings — decrease by HK$382,000

Consolidated statement of financial position (extract)

	31 December 2019 HK$'000	1 January 2019 HK$'000
Right-of-use assets	6,646	9,787
Current lease liabilities	2,941	3,001
Non-current lease liabilities	4,136	7,168
Total lease liabilities	7,077	10,169

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies (Continued)

HKFRS 16 Leases (Continued)

	Year ended 31 December 2019 without adoption of HKFRS 16 HK$'000	Impact on adoption HKFRS 16 HK$'000	Year ended 31 December 2019 HK$'000
Consolidated income statement (extract)			
Cost of sales	178,246	(161)	178,085
Administrative expenses	40,924	(211)	40,713
Finance expenses	876	427	1,303
Consolidated statement of cash flow (extract)			
Net cash from operating activities	24,071	3,419	27,490
Net cash used in financing activities	(24,896)	(3,419)	(28,315)

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Consolidation (Continued)

(i) Subsidiaries and business combination (Continued)

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.

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 consolidated financial statements 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 the amount of consideration that is unconditional, unless they contain significant financing components when they are recognised at fair value. The Group holds the receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Details about the Group's impairment policies and the calculation of the loss allowance are provided in note 2.10.

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. Cash and cash equivalents are assessed for expected credit losses in accordance with the policy set out in note 2.10.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Credit losses and impairment of assets

(i) Credit losses from financial assets

The Group has two types of financial assets that are subject to the expected credit loss model:

— Trade receivables for sales of inventory, and

— Other financial assets at amortised cost.

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

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date. The Group has identified the gross domestic product ("GDP") and the birth rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Other financial assets at amortised cost include other receivables. The Group recognises a loss allowance equal to 12-month expected credit losses unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime expected credit losses.

Receivables are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 365 days past due.

Impairment losses on receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

(ii) 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 expenditure 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 consolidated financial statements.

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

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 consolidated financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 operates and generates 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 consolidated financial statements. 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) 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) As the lessee

The Group is the lessee under various lease agreements for offices and warehouses. Rental contracts are typically for fixed periods of 2 to 5 years during which the Group pays a fixed monthly rental payment.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the lease liability and interest on lease liability. The interest on lease liability is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the lease liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments). Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms, security and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- lease payments made at or before the commencement date less any lease incentives received; and
- initial direct costs and restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Until 2018, leases in which a significant portion of the risks and rewards of ownership were retained by the lessor were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to the consolidated income statement on a straight-line basis over the period of the lease.

(ii) As the lessor

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 consolidated 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 consolidated 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.

(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.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(i) Foreign exchange risk (Continued)

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 2019, if RMB had weakened/strengthened by 5% against HK$ with all other variables held constant, the consolidated profit before taxation would have been 0.3% lower/higher (2018: 3.2% lower/higher), the equity would have been approximately 2.5% lower/higher (2018: 1.9% 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 and trade and other receivables.

Risk management

The Group monitors the credit rating of its bank. As at 31 December 2019 and 2018, the Group has approximately 72% and 82% 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 2019 and 2018, the top two debtors accounted for approximately 50% and 58% 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 2019 was determined approximately HK$731,000 for trade receivables.

Management consider other receivables as low credit risk as counterparty have a strong capacity to meet its contractual cash flow obligations in the near term. The Group has assessed the expected credit losses for these receivables are immaterial under 12-month expected credit losses method.

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.

	Within 1 year HK$'000	After 1 year but within 2 years HK$'000	After 2 years but within 5 years HK$'000	Total HK$'000
The Group				
At 31 December 2019				
Trade and other payables	22,721	—	—	22,721
Lease liabilities	3,219	2,894	1,424	7,537
	25,940	2,894	1,424	30,258
At 31 December 2018				
Trade and other payables	28,089	—	—	28,089
Bills payables	6,086	—	—	6,086
Amount due to shareholders	24,020	—	—	24,020
	58,195	—	—	58,195

3.2 Fair value estimation

The carrying amounts of the Group's current financial assets and liabilities approximate their fair values due to the short-term maturities of these assets and liabilities. The fair value of long-term financial liabilities for disclosure purpose is estimated by discounting the future contractual cash flows at the current market rate that is available to the Group for similar financial instruments.

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. A provision of HK$261,000 was made for the year ended 31 December 2019.

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:

	2019 HK$'000	2018 HK$'000
Revenue from OEM Business customer products	214,009	170,171
Revenue from own brand products	48,270	63,024
	262,279	233,195

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 2019 and 2018 is as follows:

	2019			2018		
	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	214,009	48,270	262,279	170,171	63,024	233,195
Cost of sales	(149,710)	(28,375)	(178,085)	(123,182)	(35,516)	(158,698)
Gross profit	64,299	19,895	84,194	46,989	27,508	74,497
Selling expenses			(26,380)			(31,784)
Administrative expenses			(40,713)			(32,600)
Listing expenses			—			(8,827)
Other income			1,912			858
Other losses, net			(362)			(700)
Finance expenses, net			(591)			(190)
Profit before taxation			18,060			1,254
Taxation			(5,441)			(4,374)
Profit/(Loss) for the year			12,619			(3,120)

For the year ended 31 December 2019 and 2018, the Group recognised all revenue from contracts with customers on a point in time basis.

Geographical information

The Group's revenue is mainly derived from customers located in the United States of America ("USA"), the Netherlands and the People's Republic of China ("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:

	2019 HK$'000	2018 HK$'000
USA	188,883	148,535
Netherlands	1,827	3,178
PRC	68,270	78,752
Other countries	3,299	2,730
	262,279	233,195

6 SEGMENT INFORMATION (Continued)

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:

	2019 HK$'000	2018 HK$'000
The largest customer	**110,634**	83,175
The second largest customer	**89,284**	61,888

Segment assets and liabilities

As at 31 December 2019 and 2018, non-current assets amounted to HK$2,515,000 and HK$813,000 were located in Hong Kong and HK$40,555,000 and HK$33,894,000 were located in PRC.

7 OTHER INCOME

	2019 HK$'000	2018 HK$'000
Government grant	**1,825**	498
Sundries	**87**	360
	1,912	858

8 OTHER LOSSES, NET

	2019 HK$'000	2018 HK$'000
Net foreign exchange losses	**(95)**	(689)
Loss on disposal of property, plant and equipment	**(267)**	(11)
	(362)	(700)

9 FINANCE EXPENSES, NET

	2019 HK$'000	2018 HK$'000
Finance income		
Bank interest income	712	163
Finance expenses		
Interest on lease liabilities (Note 27b)	427	—
Interest on short-term borrowings	—	100
Interest on bills payables	528	233
Interest on loan from shareholders	348	20
	1,303	353
Finance expenses, net	(591)	(190)

10 EXPENSES BY NATURE

	2019 HK$'000	2018 HK$'000
Cost of inventory (Note 17)	108,954	95,723
Provision for the obsolete inventory (Note 17)	261	—
Employee benefit expenses (Note 11)	73,731	65,221
Rental expenses	—	3,554
Legal and professional fee	3,749	1,751
Management fee expenses	2,436	2,480
Transportation expenses	8,026	8,247
Depreciation of property, plant and equipment (Note 15)	8,562	6,670
Depreciation of right-of-use assets (Note 16)	3,047	—
Listing expenses	—	8,827
Tooling expenses	6,563	3,735
Travelling expenses	4,456	6,229
Promotion expenses	8,245	9,085
Repair and maintenance expenses	1,388	942
Auditor's remuneration — Audit services	1,009	1,310
Utility expenses	5,451	4,736
Entertainment expenses	900	2,466
Impairment losses recognised on trade receivables (Note 18)	405	326
Research and development costs	542	—
Others	7,453	10,607
Total cost of sales, selling expenses, administrative expenses and listing expenses	245,178	231,909

11 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2019 HK$'000	2018 HK$'000
Salaries, wages and bonuses	64,201	58,448
Contributions to defined contribution schemes	7,629	5,663
Other benefits	1,901	1,110
	73,731	65,221

(a) Directors' emoluments

(i) The remuneration of each director for the year ended 31 December 2019 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	—	1	—	—	—	1
Mr. Chau Wai	—	1,380	—	60	18	1,458
Mr. Chung Kwok Keung Peter	—	1	—	—	—	1
Mr. Chung Leonard Shing Chun	—	780	—	20	18	818
Independent non-executive directors:						
Mr. Asvaintra Bhanusak	180	—	—	—	—	180
Mr. Seto John Gin Chung	180	—	—	—	—	180
Mr. Yu Hon To David	180	—	—	—	—	180
Total emoluments	540	2,162	—	80	36	2,818

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

(a) Directors' emoluments (Continued)

(ii) 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

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 2019 and 2018.

There was no arrangement under which a director waived or agreed to waive any emoluments during the years ended 31 December 2019 and 2018.

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.

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

(b) Directors' retirement benefits and termination benefits

Save as disclosed in Note 11(a), the directors did not receive any other retirement benefits or termination benefits during the years ended 31 December 2019 and 2018.

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

During the years ended 31 December 2019 and 2018, 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 28, as at 31 December 2019 and 2018, 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 28, 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 2019 and 2018 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 2019 and 2018 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:

	2019 HK$'000	2018 HK$'000
Salaries and wages	3,548	2,728
Bonus	140	—
Contributions to defined contribution schemes	54	45
	3,742	2,773

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

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

The emoluments fell within the following bands:

	2019 No. of Individuals	2018 No. of individuals
Nil to HK$1,000,000	—	2
HK$1,000,001 to HK$1,500,000	3	1

During the years ended 31 December 2019 and 2018, 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.

12 TAXATION

	2019 HK$'000	2018 HK$'000
Current income tax		
Hong Kong Profits Tax	2,846	2,781
PRC enterprise income tax	2,602	1,545
	5,448	4,326
Deferred income tax (Note 23)	(7)	48
Income tax expenses for the year	5,441	4,374

For each of the years ended 31 December 2019 and 2018, 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.

12 TAXATION (Continued)

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

	2019 HK$'000	2018 HK$'000
Profit before taxation	18,060	1,254
Calculated at a tax rate of 16.5% (2018: 16.5%)	2,980	207
Effect of different tax rates in other jurisdictions	832	225
Tax effect of expenses not deductible for tax purpose	1,905	3,969
Tax effect of income not taxable for tax purpose	(276)	(27)
Income tax expenses	5,441	4,374

13 EARNINGS PER SHARE

(a) Basic earnings/(loss) 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:

	2019	2018
Profit/(loss) attributable to owners of the Company (HK$'000)	12,619	(3,120)
Weighted average number of ordinary shares in issue (thousands)	200,000	179,167
Basic earnings/(loss) per share (Hong Kong cents)	6.31	(1.74)

(b) Diluted earnings/(loss) 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 2018 and 2019.

14 DIVIDEND

No dividend has been paid or declared by the Company during the years ended 31 December 2019 and 2018.

15 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 2018	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 and 1 January 2019	11,317	1,544	4,202	61,353	12,048	4,705	95,169
Additions	3,296	16	626	2,489	4,523	—	10,950
Disposals	—	(128)	(194)	(2,975)	(20)	(368)	(3,685)
Exchange difference	(103)	—	(63)	(347)	—	(18)	(531)
At 31 December 2019	14,510	1,432	4,571	60,520	16,551	4,319	101,903
Accumulated depreciation							
At 1 January 2018	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	(40)	—	(42)	(327)	—	(28)	(437)
At 31 December 2018 and 1 January 2019	3,868	1,518	1,728	42,099	7,237	4,012	60,462
Charge for the year	588	10	689	4,177	2,845	253	8,562
Disposal for the year	—	(128)	(163)	(2,703)	(20)	(342)	(3,356)
Exchange difference	(18)	—	(25)	(137)	—	(9)	(189)
At 31 December 2019	4,438	1,400	2,229	43,436	10,062	3,914	65,479
Net book value							
At 31 December 2019	10,072	32	2,342	17,084	6,489	405	36,424
At 31 December 2018	7,449	26	2,474	19,254	4,811	693	34,707

16 LEASE

(i) Amounts recognised in the consolidated statement of financial position

	31 December 2019 HK$'000	1 January 2019 HK$'000
Right-of-use assets		
Buildings	6,646	9,787

	31 December 2019 HK$'000	1 January 2019 HK$'000
Lease liabilities		
Current	2,941	3,001
Non-current	4,136	7,168
	7,077	10,169

(ii) Amounts recognised in the consolidated income statement

	2019 HK$'000	2018 HK$'000
Depreciation of right-of-use assets		
Buildings	3,047	—

The total cash outflow for lease in 2019 was HK$3,419,000. Lease term are negotiated on an individual basis and contain a wide range of different terms and conditions in lease agreement do not impose any covenant.

17 INVENTORIES

	2019 HK$'000	2018 HK$'000
Raw materials	**13,513**	14,002
Work in progress	**5,986**	8,202
Finished goods	**16,487**	18,374
	35,986	40,578

The cost of inventories recognised as expense and include in "cost of sales" amounted to HK$108,954,000 and HK$95,723,000 for the years ended 31 December 2019 and 2018 respectively. A provision of HK$261,000 was made for the year ended 31 December 2019.

18 TRADE AND OTHER RECEIVABLES

	2019 HK$'000	2018 HK$'000
Trade receivables	**33,907**	34,222
Loss allowance	**(731)**	(326)
	33,176	33,896
Other receivables	**646**	782
	33,822	34,678

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:

	2019 HK$'000	2018 HK$'000
0–30 days	**19,516**	20,122
31–60 days	**5,574**	6,727
61–90 days	**2,619**	2,893
Over 90 days	**5,467**	4,154
	33,176	33,896

18 TRADE AND OTHER RECEIVABLES (Continued)

As at 31 December 2019 and 2018, trade receivables of HK$13,681,000 and HK$13,498,000 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:

	2019 HK$'000	2018 HK$'000
1–30 days	5,338	5,517
31–60 days	2,157	3,858
61–90 days	1,822	2,479
Over 90 days	4,364	1,644
	13,681	13,498

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

	2019 HK$'000	2018 HK$'000
At 1 January	326	—
Impairment losses recognised on trade receivables	405	326
At 31 December	731	326

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

	2019 HK$'000	2018 HK$'000
USD	18,806	18,783
HK$	90	28
RMB	14,926	15,867
	33,822	34,678

19 DEPOSITS AND PREPAYMENTS

	2019 HK$'000	2018 HK$'000
Utilities and other deposits	**297**	192
Prepayments		
— Inventories	**1,356**	8,964
— Others	**4,155**	4,911
	5,808	14,067

20 CASH AND BANK BALANCES

	2019 HK$'000	2018 HK$'000
Cash on hand	**49**	33
Cash at banks	**82,220**	93,237
Less: Pledged time deposits for banking facilities	**—**	(10,000)
	82,269	83,270

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

	2019 HK$'000	2018 HK$'000
USD	**47,796**	21,161
HK$	**11,877**	55,941
RMB	**22,596**	16,168
	82,269	93,270

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.

21 SHARE CAPITAL

	Number of shares	Amount HK$'000
Ordinary shares of HK$0.1 each, authorised:		
At 31 December 2019 and 2018	3,800,000,000	380,000
Ordinary shares of HK$0.1 each, issued and fully paid:		
At 31 December 2019 and 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.

22 OTHER RESERVES

	Capital reserve HK$'000	Exchange reserve HK$'000	Total HK$'000
At 1 January 2018	131	3,047	3,178
Currency translation differences	—	(3,234)	(3,234)
At 31 December 2018	131	(187)	(56)
At 1 January 2019	**131**	**(187)**	**(56)**
Currency translation differences	**—**	**(1,440)**	**(1,440)**
At 31 December 2019	**131**	**(1,627)**	**(1,496)**

23 DEFERRED INCOME TAX LIABILITIES

	Accelerated tax depreciation HK$'000
At 1 January 2018	39
Charged to the income statement (Note 12)	48
At 31 December 2018 and 1 January 2019	87
Credited to the income statement (Note 12)	(7)
At 31 December 2019	80

The Group has undistributed earnings of HK$17,558,000 (2018: HK$6,634,000) 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.

24 TRADE AND OTHER PAYABLES

	2019 HK$'000	2018 HK$'000
Trade payables		
— Third parties	11,071	16,644
— Related parties	—	577
	11,071	17,221
Accruals and other payables	11,650	10,868
Contract liabilities	4,443	5,461
	27,164	33,550

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

	2019 HK$'000	2018 HK$'000
0–30 days	7,443	8,509
31–60 days	2,357	6,935
61–90 days	—	127
Over 90 days	1,271	1,650
	11,071	17,221

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

	2019 HK$'000	2018 HK$'000
USD	7,073	5,206
HK$	2,640	5,839
RMB	17,451	22,505
	27,164	33,550

24 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.

Contract liabilities of HK$5,461,000 included in the balance as at 1 January 2019 were recognised as revenue during the year ended 31 December 2019.

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.

25 BILLS PAYABLES

Bill payables of the Group are mainly repayable within three months and secured by the pledged time deposits of HK$Nil (2018: HK$10,000,000). In March 2019, the pledged time deposits were released and the bills payables, have since become unsecured.

26 COMMITMENTS

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

	2019 HK$'000	2018 HK$'000
No later than one year	—	3,682
Later than one year and no later than five years	—	3,430
	—	7,112

27 NOTES TO CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Reconciliation of operating profit to cash generated from operations:

	2019 HK$'000	2018 HK$'000
Profit before income tax	**18,060**	1,254
Adjustments for:		
Finance income (Note 9)	**(712)**	(163)
Finance expenses (Note 9)	**1,303**	353
Depreciation of property, plant and equipment (Note 10)	**8,562**	6,670
Depreciation of right-of-use assets (Note 10)	**3,047**	—
Provision for impairment of inventory (Note 10)	**261**	—
Impairment losses recognised on trade receivable (Note 10)	**405**	—
Loss on disposal of property, plant and equipment (Note 8)	**267**	11
Operating cash flows before changes in working capital	**31,193**	8,125
Change in working capital:		
— Inventories	**4,331**	2,149
— Trade and other receivables	**451**	(7,049)
— Deposits and prepayments	**8,259**	(1,104)
— Trade and other payables	**(6,386)**	(7,075)
— Bills payables	**(6,086)**	3,205
— Amounts with related companies	**—**	(13,861)
— Effect of foreign exchange rate changes	**(960)**	(2,330)
Cash generated from/(used in) operations	**30,802**	(17,940)

27 NOTES TO CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(b) Reconciliation of liabilities arising from financing activities is as follows:

	Lease liabilities HK$'000	Amounts due to shareholders HK$'000	Total HK$'000
At 1 January 2018	—	—	—
Changes from financing cash flow:			
Increase in amount due to shareholders	—	24,000	24,000
Other change:			
Interest on loan from shareholders	—	20	20
At 31 December 2018	—	24,020	24,020
Impact on initial application of HKFRS 16 (Note 2.2)	10,169	—	10,169
At 1 January 2019	10,169	24,020	34,189
Changes from financing cash flow:			
Decrease in amount due to shareholders	—	(24,000)	(24,000)
Capital element of lease rentals paid	(2,992)	—	(2,992)
Interest element of lease rentals paid	(427)	—	(427)
Interest paid	—	(368)	(368)
Other changes:			
Interest expense on lease liabilities	427	—	427
Interest on loan from shareholders	—	348	348
Translation differences	(100)	—	(100)
At 31 December 2019	7,077	—	7,077

28 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.

In addition to those disclosed elsewhere in the financial statements, the Group had the following significant transactions with related parties during the years ended 31 December 2019 and 2018:

Name of related party	**Relationship with the Group**
Mr. Chau Ching	Controlling Shareholder and director of the Company
Mr. Chung Kwok Keung Peter	Controlling Shareholder and director of the Company
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
Penghui Qiye (Wengyuan) Company Limited* (鵬輝企業(翁源)有限公司)	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.

28 RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with related parties

	2019 HK$'000	2018 HK$'000
Kwong Fai Trading Limited ("Kwong Fai")		
— Rental expenses	—	600
— Depreciation of right-of-use assets	513	—
— Interest expenses on lease liabilities	117	—
Penghui Qiye (Wengyuan) Company Limited ("Penghui")		
— Management fee expenses	2,314	2,417
— Rental expenses	—	2,673
— Depreciation of right-of-use assets	2,072	—
— Interest expenses on lease liabilities	282	—
Tat Fung Industrial Company and its owned entities*		
— Purchase of raw materials	—	8,305
Mr. Chau Ching		
— Interest expenses	174	10
Mr. Chung Kwok Keung Peter		
— Interest expenses	174	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.

The Group leased certain premises with the aggregate carrying amount of right-of-use assets of HK$6,349,000 and lease liabilities of HK$6,758,000 as at 31 December 2019 from Kwong Fai and Penghui. During the year ended 31 December 2019, the lease payments paid to Kwong Fai and Penghui were HK$600,000 and HK$2,326,000 respectively.

(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 11 for key management compensation.

29 AMOUNTS DUE TO SHAREHOLDERS

The balances were due to Mr. Chau Ching and Mr. Chung Kwok Keung Peter, controlling shareholders and they were non-trade in nature, unsecured and interest bearing of 3% per annum and repayable on demand. The balances were fully repaid on 25 June 2019.

30 COMPANY STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT

	At 31 December	
	2019	2018
	HK$'000	HK$'000
ASSETS		
Non-current asset		
Interests in subsidiaries	**2**	2
Current assets		
Deposits and prepayments	**516**	412
Amount due from a subsidiary	**22,124**	14,934
Cash and cash equivalents	**10,801**	21,290
	33,441	36,636
Total assets	**33,443**	36,638
EQUITY		
Equity attributable to the Company's equity holders		
Share capital	**20,000**	20,000
Share premium	**36,614**	36,614
Accumulated losses	**(23,736)**	(19,976)
Total equity	**32,878**	36,638
LIABILITIES		
Current liabilities		
Accruals	**565**	—
	565	—
Total liabilities	**565**	—
Total equity and liabilities	**33,443**	36,638

On behalf of the Board

Chau Ching
Director

Chung Kwok Keung Peter
Director

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

	Share capital HK$'000	Share premium HK$'000	Accumulated losses HK$'000	Total equity/ (deficits) HK$'000
Balance at 1 January 2018	—	—	(6,874)	(6,874)
Loss for the year	—	—	(13,102)	(13,102)
Issuance of ordinary shares under initial public offering (the "IPO")	20,000	36,614	—	56,614
Balance at 31 December 2018	20,000	36,614	(19,976)	36,638
Balance at 1 January 2019	**20,000**	**36,614**	**(19,976)**	**36,638**
Loss for the year	**—**	**—**	**(3,760)**	**(3,760)**
Balance at 31 December 2019	**20,000**	**36,614**	**(23,736)**	**32,878**

31 PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 December 2019 and 2018 are as follows:

Name of subsidiary	Place of incorporation/ operations	Issued and fully paid up share/ registered capital	Attributable equity interest held 2019 %	Attributable equity interest held 2018 %	Principal activities
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)	PRC	RMB22,383,065	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$35,000,636	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.

32 SUBSEQUENT EVENT

The COVID-19 outbreak since early 2020 has led to substantial travel bans and lockdowns across PRC. It may have certain impacts on the Group's business operations, including the Group's OEM and own brand products business. The Group will keep continuous attention on the situation, assess and react actively to its impacts on the financial position and operating results of the Group. Up to the date of the report, the assessment is still in progress and the related impact on the Group's consolidated results of operations, cash flows and financial position could not be reasonably estimated at this stage.

GLOSSARY

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

"AGM"	annual general meeting of the Company previously held on 27 May 2019
"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
"CG Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"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
"GDP"	gross domestic product
"GEM"	Growth Enterprise Market of the Stock Exchange
"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 Ms. Lee
"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 and an executive Director
"Mr. Chung"	Mr. Chung Kwok Keung Peter (鍾國強), one of the controlling Shareholders 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

Glossary

"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
"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 known as "Yo Yo Monkey (優優馬騮)", principally for the PRC market

* for identification purpose only