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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)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

The board (the “**Board**”) of directors (the “**Directors**”) of MS Group Holdings Limited (the “**Company**”) is pleased to present the audited annual consolidated financial results of the Company and its subsidiaries (together the “**Group**”) for the year ended 31 December 2020, together with the comparative figures for the corresponding period of 2019, as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2020

	<i>Note</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Revenue	2	248,510	262,279
Cost of sales		<u>(166,646)</u>	<u>(178,085)</u>
Gross profit		81,864	84,194
Selling expenses		(17,405)	(26,380)
Administrative expenses		(43,121)	(40,713)
Other income	4	2,473	1,912
Other losses, net	5	<u>(1,766)</u>	<u>(362)</u>
Operating profit		22,045	18,651
Finance income		508	712
Finance expenses		<u>(576)</u>	<u>(1,303)</u>
Finance expenses, net		<u>(68)</u>	<u>(591)</u>
Profit before taxation		21,977	18,060
Taxation	6	<u>(7,976)</u>	<u>(5,441)</u>

	<i>Note</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Profit for the year		<u>14,001</u>	<u>12,619</u>
Attributable to:			
— Equity holders of the Company		<u>14,001</u>	<u>12,619</u>
		<i>HK cents</i>	<i>HK cents</i>
Profit per share attributable to equity holders of the Company during the year			
Basic and diluted	7	<u>7.00</u>	<u>6.31</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the year	14,001	12,619
Items that may be reclassified to consolidated income statement:		
Exchange translation differences	<u>5,988</u>	<u>(1,440)</u>
Total comprehensive income for the year attributable to:		
— Equity holders of the Company	<u>19,989</u>	<u>11,179</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	<i>Note</i>	2020 HK\$'000	2019 <i>HK\$'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment		36,780	36,424
Right-of-use assets		<u>5,645</u>	<u>6,646</u>
		<u>42,425</u>	<u>43,070</u>
Current assets			
Inventories		33,293	35,986
Trade and other receivables	9	34,085	33,822
Deposits and prepayments		7,150	5,808
Cash and cash equivalents		<u>121,903</u>	<u>82,269</u>
		<u>196,431</u>	<u>157,885</u>
Total assets		<u>238,856</u>	<u>200,955</u>
EQUITY			
Equity attributable to the Company's equity holders			
Share capital		20,000	20,000
Share premium		36,614	36,614
Other reserves		4,492	(1,496)
Retained earnings		<u>121,974</u>	<u>107,973</u>
Total equity		<u>183,080</u>	<u>163,091</u>

	<i>Note</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
LIABILITIES			
Non-current liabilities			
Lease liabilities		1,811	4,136
Deferred income tax liabilities		<u>2,015</u>	<u>80</u>
		<u>3,826</u>	<u>4,216</u>
Current liabilities			
Trade and other payables	<i>10</i>	43,988	27,164
Lease liabilities		4,204	2,941
Tax payable		<u>3,758</u>	<u>3,543</u>
		<u>51,950</u>	<u>33,648</u>
Total liabilities		<u>55,776</u>	<u>37,864</u>
Total equity and liabilities		<u>238,856</u>	<u>200,955</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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.

(a) New standards and amendments to standards

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

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

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

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

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
Amendments to HKFRS 16	Covid-19-related Rent Concessions	1 June 2020
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before intended use	1 January 2022
Amendments to HKFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract	1 January 2022
HKFRS Standards 2018–2020	Annual Improvements	1 January 2022
HKFRS 17	Insurance Contracts	1 January 2023
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

These standards are not expected to have a material impact on the Group in the future reporting periods and on foreseeable future transactions.

2 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:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Revenue from OEM Business customer products	217,843	214,009
Revenue from own brand products	30,667	48,270
	<u>248,510</u>	<u>262,279</u>

3 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 Executive Directors of the Company. The chief operating decision-maker considers 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.

The segment information provided to the chief operating decision-maker for the year ended 31 December 2020 and 2019 is as follows:

	2020			2019		
	OEM Business customer products <i>HK\$'000</i>	Own brand products <i>HK\$'000</i>	Total <i>HK\$'000</i>	OEM Business customer products <i>HK\$'000</i>	Own brand products <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue from external customers	217,843	30,667	248,510	214,009	48,270	262,279
Cost of sales	(148,607)	(18,039)	(166,646)	(149,710)	(28,375)	(178,085)
Gross profit	69,236	12,628	81,864	64,299	19,895	84,194
Selling expenses			(17,405)			(26,380)
Administrative expenses			(43,121)			(40,713)
Other income			2,473			1,912
Other losses, net			(1,766)			(362)
Finance expenses, net			(68)			(591)
Profit before taxation			21,977			18,060
Taxation			(7,976)			(5,441)
Profit for the year			<u>14,001</u>			<u>12,619</u>

For the years ended 31 December 2020 and 2019, 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 ("US"), 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:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
US	201,054	188,883
Netherlands	619	1,827
PRC	45,560	68,270
Other countries	<u>1,277</u>	<u>3,299</u>
	<u><u>248,510</u></u>	<u><u>262,279</u></u>

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:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
The largest customer	103,665	110,634
The second largest customer	<u>90,461</u>	<u>89,284</u>

Non-current assets information

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Hong Kong	1,492	2,515
PRC	<u>40,933</u>	<u>40,555</u>
	<u><u>42,425</u></u>	<u><u>43,070</u></u>

4 OTHER INCOME

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Government grant	2,448	1,825
Sundries	<u>25</u>	<u>87</u>
	<u><u>2,473</u></u>	<u><u>1,912</u></u>

5 OTHER LOSSES, NET

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Net foreign exchange losses	(1,394)	(95)
Loss on disposal of property, plant and equipment	<u>(372)</u>	<u>(267)</u>
	<u>(1,766)</u>	<u>(362)</u>

6 TAXATION

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Current income tax		
Hong Kong Profits Tax	2,084	2,846
PRC enterprise income tax	<u>3,957</u>	<u>2,602</u>
	6,041	5,448
Deferred income tax	<u>1,935</u>	<u>(7)</u>
Income tax expenses for the year	<u>7,976</u>	<u>5,441</u>

For each of the years ended 31 December 2020 and 2019, 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.

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:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Profit before taxation	<u>21,977</u>	<u>18,060</u>
Calculated at a tax rate of 16.5% (2019: 16.5%)	3,626	2,980
Effect of different tax rates in other jurisdictions	1,668	832
Tax effect of expenses not deductible for tax purpose	2,982	1,905
Tax effect of income not taxable for tax purpose	<u>(300)</u>	<u>(276)</u>
Income tax expenses	<u>7,976</u>	<u>5,441</u>

7 EARNINGS PER SHARE

(a) Basic earnings per share

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

	2020	2019
Profit attributable to owners of the Company (HK\$'000)	14,001	12,619
Weighted average number of ordinary shares in issue (thousands)	200,000	200,000
Basic earnings per share (Hong Kong cents)	<u>7.00</u>	<u>6.31</u>

(b) Diluted earnings per share

Diluted earnings per share is of the same amount as the basic earnings per share as there were no potentially dilutive ordinary shares outstanding as at 31 December 2019 and 2020.

8 DIVIDEND

No dividend has been paid or declared by the Company during the years ended 31 December 2020 and 2019.

9 TRADE AND OTHER RECEIVABLES

	2020 HK\$'000	2019 HK\$'000
Trade receivables	36,236	33,907
Loss allowance	<u>(2,721)</u>	<u>(731)</u>
	33,515	33,176
Other receivables	<u>570</u>	<u>646</u>
	<u>34,085</u>	<u>33,822</u>

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:

	2020 HK\$'000	2019 HK\$'000
0–30 days	22,722	19,516
31–60 days	3,517	5,574
61–90 days	1,948	2,619
Over 90 days	<u>5,328</u>	<u>5,467</u>
	<u>33,515</u>	<u>33,176</u>

10 TRADE AND OTHER PAYABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade payables	17,786	11,071
Accruals and other payables	21,939	11,650
Contract liabilities	<u>4,263</u>	<u>4,443</u>
	<u><u>43,988</u></u>	<u><u>27,164</u></u>

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
0–30 days	12,117	7,443
31–60 days	3,859	2,357
61–90 days	50	—
Over 90 days	<u>1,760</u>	<u>1,271</u>
	<u><u>17,786</u></u>	<u><u>11,071</u></u>

11 SUBSEQUENT EVENT

On 20 January 2021, the Group completed its investment to obtain 40% of the share capital of BRH2 Plastics, LLC. BRH2 Plastics, LLC and its subsidiaries (“Target Group”) is principally engaged in the manufacturing and sale of custom-designed plastic product in North America. The total investment consideration was US\$3 million. Management preliminarily assessed that the Target Group will be treated as an associate whose financial statements will be equity accounted for in the Group’s consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

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 outbreak of the COVID-19 pandemic undermined the general economy and many industries on a global scale in year 2020. Although the outbreak did not cause any direct material impact on the overall operations (such as procurement and manufacturing) of the Group, the outbreak had (i) caused consumers to become more reluctant to shop at retailers; (ii) driven the close down of retail shops; and (iii) worsened the general economies on a worldwide scale.

The total revenue of the Group for the year ended 31 December 2020 suffered a decrease of approximately 5.2%, which was primarily attributable to the decrease in revenue from the Yo Yo Monkey Business, caused by the adverse impacts of the COVID-19 on the PRC retail market. Nonetheless, the Group achieved a growth in net profit attributable to shareholders of the Company (the “**Shareholders**”), from approximately HK\$12.6 million for the year ended 31 December 2019 to approximately HK\$14.0 million for the year ended 31 December 2020, mainly due to (i) the reduction of selling expenses, particularly the promotional expenses of the Yo Yo Monkey Business; and (ii) the maintenance of performance of the OEM Business.

The OEM Business continued to be the main revenue and profit contributor to the Group for the year ended 31 December 2020. The overall production output of the OEM Business slightly increased in year 2020, which was mainly attributable to the increased sales orders received from the existing customers. In addition, the profitability of the OEM Business in terms of its gross profit margin for year 2020 also enhanced as compared to the preceding year in light of (i) the decrease in raw material costs; (ii) the reduced labour costs in the PRC following staff restructuring; and (iii) the partial exemption of the payment of social insurance in PRC during year 2020 as part of the COVID-19 relief measures.

However, the Yo Yo Monkey Business faced severe challenges and recorded a decline in sales in year 2020 as compared to that of year 2019. As at 31 December 2020, the number of third party retail stores in the PRC selling products of the Group was 292 (2019: 397). The deterioration of the performance of the Yo Yo Monkey Business was mainly due to the worsening economic and industry environment in the PRC market because of the outbreak of the COVID-19.

As disclosed in the announcements of the Company dated 19 January 2021 and 28 January 2021, the Group had entered into a membership interest purchase agreement to obtain 40% interest in BRH2 Plastics, LLC. BRH2 Plastics, LLC, together with its subsidiaries, has established production lines and business networks in North America and is principally engaged in the manufacturing and sale of custom-designed plastic products using injection molding machines for consumer goods, automotive and healthcare industries. The investment was completed on 20 January 2021 and is expected to generate synergies in areas including production techniques and business connections.

OUTLOOK AND STRATEGIC PLAN

The total revenue of the Group recorded a slight decline in the year ended 31 December 2020, which was mainly attributable to the underperformance of the Yo Yo Monkey Business. Both of the OEM Business and the Yo Yo Monkey Business are expected to continue to face challenges in the upcoming future in view of factors including (i) the outbreak of COVID-19 which brought the global economy to a drastic setback, possibly leading to lower spending power, thereby resulting in a decline in the sales of the products of the Group; (ii) the ongoing trade war between the PRC and the United States, which may reduce the demand of the products of the Group, particularly for the customers of the OEM Business based in the United States; and (iii) the PRC recorded the lowest birthrate in decades in year 2020, where such decline trend may affect the demand of products for the Yo Yo Monkey Business.

Nevertheless, the Group has begun to take strategic actions to prepare itself to confront the business challenges. For the OEM Business, on top of continuing to enhance the bonding with existing customers, the Group has become more active in identifying new customers with a view to diversify its customer base on a worldwide basis. For the Yo Yo Monkey Business, on top of continuing to enhance product diversities, the Group is attempting to expand 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 addition, the Group has always been exploring means to drive down its overall operating costs and expenses in order to maintain or enhance its profitability, such as by way of (i) further automatising and streamlining production cycles to minimise labour force and wasted resources; and (ii) closely monitoring the effectiveness of its selling and related expenses to minimise unnecessary expenditures.

FINANCIAL REVIEW

Revenue

Revenue of the Group amounted to approximately HK\$248.5 million for the year ended 31 December 2020 (2019: approximately HK\$262.3 million), representing a decrease of approximately 5.2%. The decrease was mainly attributable to the deterioration of the Yo Yo Monkey Business.

- ***OEM Business***

For the year ended 31 December 2020, revenue generated from the OEM Business amounted to approximately HK\$217.8 million, representing an increase of approximately 1.8%, as compared to that of approximately HK\$214.0 million for the preceding year. For the year ended 31 December 2020, 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\$103.7 million (2019: approximately HK\$110.6 million), representing a decrease of approximately 6.3%; and (ii) the revenue generated from the second largest customer of the Group amounted to approximately HK\$90.5 million (2019: approximately HK\$89.3 million), representing an increase of approximately 1.3%. 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 2020.

- ***Yo Yo Monkey Business***

For the year ended 31 December 2020, the Yo Yo Monkey Business recorded revenue of approximately HK\$30.7 million, representing a decline of approximately 36.5% as compared to that of approximately HK\$48.3 million for the preceding year. Such substantial decrease in sales in the year of 2020 was mainly attributable to the unfavorable industry environment in view of decrease in birth rate in year 2020 and the slow down of the growth of the economy in the PRC attributable to the outbreak of the COVID-19. For instance, COVID-19 had driven retail shops to close and consumers to stay at home in the PRC, which had brought material adverse impacts to the ultimate retail sales of the products of the Group, leading to a reduction in product orders from the direct customers of the Yo Yo Monkey Business, such as retailers and distributors.

Gross profit

The overall gross profit of the Group for the year ended 31 December 2020 was approximately HK\$81.9 million, representing an overall gross profit margin of approximately 32.9%, as compared to that of approximately HK\$84.2 million, representing a gross profit margin of approximately 32.1% for the year ended 31 December 2019. For the year ended 31 December 2020, the gross profit margin of the OEM Business was approximately 31.8% (2019: approximately 30.0%) and the gross profit margin of the Yo Yo Monkey Business was approximately 41.2% (2019: approximately 41.2%). The improvement in gross profit margin of the OEM Business for the year ended 31 December 2020 as

compared to that of the preceding year was mainly attributable to (i) the decrease in raw material costs; (ii) the reduced labour costs in the PRC following staff restructuring; and (iii) the partial exemption of the payment of social insurance in the PRC during year 2020 as part of the COVID-19 relief measures.

Selling expenses

The Group incurred selling expenses of approximately HK\$17.4 million for the year ended 31 December 2020, representing a decrease of approximately 34.0% as compared to that of approximately HK\$26.4 million for the year ended 31 December 2019. Such decrease was mainly attributable to the Group's adoption of a less aggressive marketing approach and engaged in fewer marketing and promotional events and activities for its Yo Yo Monkey Business in the PRC due to the outbreak of the COVID-19 and as part of the cost control measures of the Group to minimise ineffective selling expenses. Moreover, the travelling expenses and salaries paid to selling staff also decreased in year 2020. 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\$43.1 million for the year ended 31 December 2020, representing an increase of approximately 5.9% as compared to that of approximately HK\$40.7 million for the year ended 31 December 2019. Such increase was mainly attributable to the increment in legal and professional fees by approximately HK\$2.5 million mainly due to the investment in BRH2 Plastics, LLC as described in the section headed "Events after the year" below. Administrative expenses accounted for approximately 17.4% of the total revenue for the year ended 31 December 2020, representing a slight increase as compared to that of approximately 15.5% of the total revenue for the year ended 31 December 2019.

Other income and gains

The Group recorded net other income and gains of approximately HK\$707,000 for the year ended 31 December 2020, as compared to that of approximately HK\$1.6 million for the year ended 31 December 2019. The net other income and gains were mainly derived from government grant and net foreign exchange losses. The decline in net other income and gains in year 2020 was mainly due to the increase in net foreign exchange losses.

Finance expenses

The Group incurred net finance expenses of approximately HK\$68,000 for the year ended 31 December 2020, as compared to that of approximately HK\$591,000 net finance expenses for the year ended 31 December 2019. The finance expenses were mainly interest expenses for the utilisation of bill facilities 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

The Group recorded an increase in net profit attributable to Shareholders from approximately HK\$12.6 million for the year ended 31 December 2019 to approximately HK\$14.0 million for the year ended 31 December 2020, which was mainly attributable to (i) the decrease in selling expenses from the Yo Yo Monkey Business as a less aggressive marketing approach was adopted; and (ii) the maintenance of performance of the OEM Business.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2020, the cash and cash equivalents of the Group amounted to approximately HK\$121.9 million (2019: approximately HK\$82.3 million). The cash and cash equivalents of the Group as at 31 December 2020 were primarily denominated in Hong Kong dollars, Renminbi and United States dollars. The net increase in cash and cash equivalents from 31 December 2019 to 31 December 2020 by approximately HK\$39.6 million was mainly attributable to (i) the profit before taxation recorded for the year ended 31 December 2020 of approximately HK\$22.0 million; and (ii) the annual increase in cash inflow from changes in working capital for the year ended 31 December 2020 by approximately HK\$19.4 million, particularly due to the increase in the amount of trade and other payables. Trade and other payables increased from approximately HK\$27.2 million as at 31 December 2019 to approximately HK\$44.0 million as at 31 December 2020 mainly because of (i) the increase in purchase of raw materials in the month of December 2020, as compared to that of the month of December 2019, to prepare for upcoming manufacturing needs; and (ii) the increase in accruals during year 2020 as compared to that of year 2019.

As at 31 December 2020, the Group maintained banking facilities of approximately HK\$30.0 million (2019: approximately HK\$30.0 million), which were partly utilised as bills facilities to settle payments to suppliers from time to time. As at 31 December 2020, such banking facilities were not utilised.

As at 31 December 2020, the gearing ratio of the Group (being total interest-bearing borrowings divided by total equity) was nil (2019: Nil).

CAPITAL COMMITMENT AND CAPITAL EXPENDITURE

As at 31 December 2020, the Group had no capital commitment (2019: Nil).

For the year ended 31 December 2020, the capital expenditure of the Group (being gross addition of property, plant and equipment) was approximately HK\$7.8 million (2019: approximately HK\$11.0 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 of the Company dated 21 May 2018 (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 2020. 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 2020, the Group recorded a HK\$1.4 million loss on foreign exchange (2019: loss on foreign exchange HK\$95,000).

The Group had not used any derivatives to hedge its exposure to foreign exchange risk during the year ended 31 December 2020. 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 2020 (2019: nil).

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 2020. The Group did not hold any significant investment as at 31 December 2020.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in this announcement, the Group did not have other plans for material investments and capital assets during the year ended 31 December 2020 and up to the date of this announcement.

CONTINGENT LIABILITIES

As at 31 December 2020, the Group had no material contingent liabilities, nor was aware of any pending or potential material legal proceedings involving the Group.

EVENTS AFTER THE YEAR

As disclosed in the announcements of the Company dated 19 January 2021 and 28 January 2021, the Group had entered into a membership interest purchase agreement to obtain 40% interest in BRH2 Plastics, LLC at an aggregate consideration of US\$3,000,000. BRH2 Plastics, LLC, together with its subsidiaries, has established production lines and business networks in North America and is principally engaged in the manufacturing and sale of custom-designed plastic products using injection molding machines for consumer goods, automotive and healthcare industries. The investment was completed on 20 January 2021. For further details of the investment, please refer to the aforementioned announcements and note 11 to the consolidated financial statements of the Company in this announcement. Save for the aforesaid, there was no other material change or major event occurred after 31 December 2020 which was required to be disclosed by the Company.

USE OF PROCEEDS FROM THE LISTING

The aggregate net proceeds to the Company from its listing of shares (the “**Shares**”) on the Stock Exchange (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.

Up to 31 December 2020, a majority 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:

	Actual utilisation up to 31 December 2020	Unutilised amounts as at 31 December 2020
Use of net proceeds	Net proceeds from the Listing	
	<i>HK\$ million</i>	<i>HK\$ million</i>
Expansion of production capabilities	17.7	—
Development of the Yo Yo Monkey Business	13.0	—
Strengthening the client base of the OEM Business	5.3	3.7
Improve product development capabilities	8.8	7.6
Working capital and administrative expenses	<u>3.8</u>	<u>—</u>
Total	<u>48.6</u>	<u>11.3</u>

As shown in the above table, the total unutilised amount of the net proceeds was approximately HK\$11.3 million as at 31 December 2020 and such unutilised amount was deposited in short-term demand deposits with authorised financial institutions and/or licensed banks in Hong Kong. Such unutilised amount was related to the strengthening of client base (such as participating in tradeshow) and product development capabilities (such as engaging industrial engineers) of the OEM Business. The principal reason for the slow down in the utilisation of the proceeds was the uncertainties brought

forward by (i) the outbreak of the trade war between the United States and the PRC; and (ii) the adverse impacts of the COVID-19 on a worldwide scale. The Group therefore remained conservative on its marketing expenses and product development spending, rather than hastily expanding at a rapid pace.

Despite the slow down in utilisation of the net proceeds, the Group has been utilising the net proceeds and will continue to utilise the net proceeds in a manner consistent with that mentioned in the Prospectus. In view of the need to enhance market competitiveness, the Group has been (i) formulating marketing plans to showcase its manufacturing capabilities and strengthen communication with existing and potential customers; 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 2021 in accordance with the following:

	Expected total utilisation amount for the year ending 31 December 2021 <i>HK\$ million</i>
Strengthening the client base of the OEM Business	3.7
Improve product development capabilities	<u>7.6</u>
Total	<u><u>11.3</u></u>

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

EMPLOYEES AND EMOLUMENT POLICY

As at 31 December 2020, the Group had 740 full-time employees (2019: 643). The increase in employees as at 31 December 2020 as compared to that of 31 December 2019 was mainly attributable to the recruitment of more direct labour to cope with the increased demand for the OEM Business during the second half of 2020.

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 2020 was approximately HK\$62.6 million (2019: approximately HK\$73.7 million).

The emoluments of the Directors were decided by the Board after recommendation from the remuneration committee of the Company, having considered 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

In view of the ongoing pandemic, the unresolved trade war between the PRC and the United States and the industry environment in the PRC, the outlook of the businesses of the Group for the coming year is expected to continue to be clouded by uncertainties.

The OEM Business targets the overseas markets and a majority of its revenue is derived from customers based in the United States. The economy of the United States is adversely affected by the pandemic, which may lead to a decrease in spending power and an adverse impact on the demand for the products of the Group. Moreover, the trade war between the PRC and the United States remains unresolved. While the recent changes in trade policies between the United States and the PRC (including Hong Kong) have not yet caused any direct material impact on the businesses of the Group, but if relevant trade policies (such as tariffs) are further enacted, the performance of the OEM Business may be adversely affected. Amidst the aforesaid, the Group constantly devotes resources to sharpen its competitiveness, such as through the strengthening of its product development and manufacturing capabilities, to stand out from its competitors 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.

The Yo Yo Monkey Business focuses on offering quality infant and toddler products in the PRC, targeting the mid-to-high-end market. 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 performance of the Yo Yo Monkey Business deteriorated in year 2020 as compared to the preceding year as the business is still under an uneasy environment to secure its market position given the outbreak of the COVID-19, the fierce local competition, the slowing down of economic growth and the low birth rate in the PRC. Nonetheless, the Group will continue to formulate plans to tackle the challenges. For instance, in view of the current shift in market landscape brought by the industry trend and COVID-19, the Group will place further efforts on developing its online sales platforms. Furthermore, the Group is attempting to expand the geographical markets of its own-brand products to the overseas by leveraging on its existing networks established through the OEM Business to expand revenue stream.

The Group will continue to utilise its net proceeds from the Listing to strengthen the client base of the OEM Business and improve the product development capabilities of the Group in year 2021. These are expected to broaden the income source and enhance the competitive strengths of the Group.

In addition, apart from the ongoing efforts on organic growth, the Group has been proactively identifying acquisition targets on a global basis that have attractive valuation at the present moment and are able to bring production synergies to the Group. As disclosed in the announcements of the Company dated 19 January 2021 and 28 January 2021, the Group had entered into a membership interest purchase agreement with independent third parties to obtain 40% interest in BRH2 Plastics, LLC. BRH2 Plastics, LLC, together with its subsidiaries, has established production lines and business networks in North America and is principally engaged in the manufacturing and sale of custom-designed plastic products using injection molding machines for consumer goods, automotive and healthcare industries. The investment in BRH2 Plastics, LLC was completed on 20 January 2021 and is mutually beneficial to the Group and BRH2 Plastics, LLC through the sharing of production techniques in the plastic products manufacturing industry, such as the injection molding for certain plastic products. Furthermore, the investment is expected to bring commercial synergies to the existing principal businesses of the Group in terms of, among other things, client base because BRH2 Plastics, LLC has already established business connections with certain plastic product customers in the United States, which the Group may leverage on and expand its existing client base.

Over the years, the Group had overcome numerous challenges and continuously transformed to achieve its current market position. The primary products of the Group, which include plastic bottles and infant and toddler products, are necessity goods which has a stable demand, despite the turbulences prevailing in the overall economic and business environment. 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. Looking ahead, the Group will continue to cautiously carry out business review and promptly make appropriate business adjustments to get through this unprecedented time. While the vaccines are on the way to curb the pandemic, the Group will also continue to identify, explore and capture business and investment opportunities to drive growth. The primary missions of the Group are to safeguard its ongoing businesses, employees' health and Shareholders' value at all times and the Directors are optimistic that the businesses of the Group will flourish in the long run.

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 2020.

DIVIDENDS

The Board did not recommend the payment of a final dividend for the year ended 31 December 2020.

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the “**AGM**”) will be held on Monday, 7 June 2021. The notice of the AGM will be published and distributed to the Shareholders in the manner as required by the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) in due course.

CLOSURES OF REGISTER OF MEMBERS

The Company will hold the AGM on Monday, 7 June 2021. The register of members of the Company will be closed from Wednesday, 2 June 2021 to Monday, 7 June 2021 (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, 1 June 2021.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the code of conduct regarding Directors’ securities transactions as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) in Appendix 10 to the Listing Rules. The Company had made specific enquiries to all Directors and they had confirmed in writing their compliance with the required standard set out in the Model Code throughout the year ended 31 December 2020.

CORPORATE GOVERNANCE

The Company is committed to achieving and maintaining high standards of corporate governance. The Company has adopted the principles and code provisions set out in the Corporate Governance Code and Corporate Governance Report (the “**CG Code**”) under Appendix 14 to the Listing Rules. During the year ended 31 December 2020, the Company had complied with all applicable code provisions set out in the CG Code.

REVIEW OF FINANCIAL INFORMATION

The financial information has been reviewed by the audit committee of the Company, approved by the Board and agreed by the Group’s external auditor, PricewaterhouseCoopers, to the amounts set out in the audited financial statements.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement of the Company is published on the website of the Stock Exchange (www.hkexnews.hk) and on the website of the Company (www.mainsuccess.cn). The annual report of the Company for the financial year ended 31 December 2020 containing all the relevant information required by the Listing Rules will be despatched to the Shareholders on the websites of the Stock Exchange and the Company in due course.

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

Hong Kong, 19 March 2021

As of the date of this announcement, the executive Directors are Mr. Chau Ching, Mr. Chung Kwok Keung Peter, Mr. Chung Leonard Shing Chun and Mr. Chau Wai; and the independent non-executive Directors are Mr. Yu Hon To David, Mr. Seto John Gin Chung and Mr. Asvaintra Bhanusak.