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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

KEY FINANCIAL INFORMATION AND RATIOS (UNAUDITED)

		Six months ended 30 June	
		2020	2019
Revenue	<i>HK\$'000</i>	94,084	120,478
Gross profit	<i>HK\$'000</i>	31,114	33,788
Gross profit margin	<i>%</i>	33.1 %	28.0%
Operating profit	<i>HK\$'000</i>	7,730	5,692
Profit attributable to equity holders	<i>HK\$'000</i>	5,329	3,699
Basic earnings per Share	<i>HK cents</i>	2.66	1.85
Interim dividend per Share	<i>HK cents</i>	Nil	Nil

The board (the “**Board**”) of directors (“**Directors**”) of MS Group Holdings Limited (the “**Company**”) is pleased to present the unaudited interim results of the Company and its subsidiaries (together the “**Group**”) for the six months ended 30 June 2020, together with the comparative figures for the corresponding period of 2019, as follows:

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2020

		Unaudited	
		Six months ended 30 June	
		2020	2019
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	6	94,084	120,478
Cost of sales		<u>(62,970)</u>	<u>(86,690)</u>
Gross profit		31,114	33,788
Selling expenses		(8,030)	(12,415)
Administrative expenses		(16,222)	(17,020)
Other income		1,173	1,630
Other losses, net		<u>(305)</u>	<u>(291)</u>
Operating profit		7,730	5,692
Finance income		329	292
Finance expenses		<u>(269)</u>	<u>(794)</u>
Finance income/(expenses), net	7	<u>60</u>	<u>(502)</u>
Profit before taxation	8	7,790	5,190
Taxation	9	<u>(2,461)</u>	<u>(1,491)</u>
Profit for the period		<u>5,329</u>	<u>3,699</u>
Attributable to:			
— Equity holders of the Company		<u>5,329</u>	<u>3,699</u>
		<i>HK Cents</i>	<i>HK Cents</i>
Profit per share attributable to equity holders of the Company during the period			
Basic and diluted	11	<u>2.66</u>	<u>1.85</u>

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Unaudited	
	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Profit for the period	5,329	3,699
Item that may be subsequently reclassified to income statement:		
Exchange translation differences	<u>(1,761)</u>	<u>(152)</u>
Other comprehensive loss for the period, net of tax	<u>(1,761)</u>	<u>(152)</u>
Total comprehensive income for the period	<u>3,568</u>	<u>3,547</u>
Total comprehensive income for the period attributable to:		
— Equity holders of the Company	<u>3,568</u>	<u>3,547</u>

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

		Unaudited 30 June 2020 HK\$'000	Audited 31 December 2019 HK\$'000
	Note		
ASSETS			
Non-current assets			
Property, plant and equipment	12	31,997	36,424
Right-of-use assets		<u>7,218</u>	<u>6,646</u>
		<u>39,215</u>	<u>43,070</u>
Current assets			
Inventories		32,603	35,986
Trade and other receivables	13	24,790	33,822
Deposits and prepayments		6,025	5,808
Cash and cash equivalents		<u>103,199</u>	<u>82,269</u>
		<u>166,617</u>	<u>157,885</u>
Total assets		<u><u>205,832</u></u>	<u><u>200,955</u></u>
EQUITY			
Equity attributable to the Company's equity holders			
Share capital	15	20,000	20,000
Share premium		36,614	36,614
Other reserves		(3,257)	(1,496)
Retained earnings		<u>113,302</u>	<u>107,973</u>
Total equity		<u><u>166,659</u></u>	<u><u>163,091</u></u>
LIABILITIES			
Non-current liabilities			
Lease liabilities		3,689	4,136
Deferred income tax liabilities		<u>75</u>	<u>80</u>
		<u>3,764</u>	<u>4,216</u>

		Unaudited 30 June 2020 <i>HK\$'000</i>	Audited 31 December 2019 <i>HK\$'000</i>
	<i>Note</i>		
Current liabilities			
Trade and other payables	14	27,229	27,164
Lease liabilities		3,918	2,941
Tax payable		<u>4,262</u>	<u>3,543</u>
		<u>35,409</u>	<u>33,648</u>
Total liabilities		<u>39,173</u>	<u>37,864</u>
Total equity and liabilities		<u>205,832</u>	<u>200,955</u>

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Unaudited Capital reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total equity <i>HK\$'000</i>
Balance at 1 January 2019	<u>20,000</u>	<u>36,614</u>	<u>131</u>	<u>(187)</u>	<u>95,354</u>	<u>151,912</u>
Comprehensive income:						
Profit for the period	—	—	—	—	3,699	3,699
Other comprehensive loss:						
Exchange translation differences	<u>—</u>	<u>—</u>	<u>—</u>	<u>(152)</u>	<u>—</u>	<u>(152)</u>
Total comprehensive income for the period ended 30 June 2019	<u>—</u>	<u>—</u>	<u>—</u>	<u>(152)</u>	<u>3,699</u>	<u>3,547</u>
Balance at 30 June 2019	<u><u>20,000</u></u>	<u><u>36,614</u></u>	<u><u>131</u></u>	<u><u>(339)</u></u>	<u><u>99,053</u></u>	<u><u>155,459</u></u>
Balance at 1 January 2020	20,000	36,614	131	(1,627)	107,973	163,091
Comprehensive income:						
Profit for the period	—	—	—	—	5,329	5,329
Other comprehensive loss:						
Exchange translation differences	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1,761)</u>	<u>—</u>	<u>(1,761)</u>
Total comprehensive income for the period ended 30 June 2020	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1,761)</u>	<u>5,329</u>	<u>3,568</u>
Balance at 30 June 2020	<u><u>20,000</u></u>	<u><u>36,614</u></u>	<u><u>131</u></u>	<u><u>(3,388)</u></u>	<u><u>113,302</u></u>	<u><u>166,659</u></u>

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Unaudited	
	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Cash flows from operating activities		
Cash generated from operations	24,397	17,172
Tax paid	<u>(1,720)</u>	<u>(1,596)</u>
Net cash generated from operating activities	<u>22,677</u>	<u>15,576</u>
Cash flows from investing activities		
Purchases of property, plant and equipment	(178)	(7,510)
Proceeds from the disposal of property, plant and equipment	—	7
Decrease in pledged time deposits	—	10,000
Interest received	<u>329</u>	<u>292</u>
Net cash generated from investing activities	<u>151</u>	<u>2,789</u>
Cash flows from financing activities		
Interest paid	(269)	(814)
Payments of principal element of lease liabilities	(1,629)	(1,497)
Repayment of amounts due to shareholders	<u>—</u>	<u>(24,000)</u>
Net cash used in financing activities	<u>(1,898)</u>	<u>(26,311)</u>
Net increase/(decrease) in cash and cash equivalents	20,930	(7,946)
Cash and cash equivalents at 1 January	<u>82,269</u>	<u>83,270</u>
Cash and cash equivalents at 30 June	<u>103,199</u>	<u>75,324</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 CORPORATE INFORMATION AND BASIS OF PRESENTATION

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

This condensed consolidated interim financial information is presented in thousands of Hong Kong dollars (“**HK\$000**”), unless otherwise stated.

2 BASIS OF PREPARATION AND PRESENTATION

This unaudited condensed consolidated interim financial information for the six months ended 30 June 2020 has been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and applicable disclosure requirements of the Listing Rules.

The condensed consolidated interim financial information should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA dated 20 March 2020.

3 ACCOUNTING POLICIES

The accounting policies and methods of computation used in the preparation of this unaudited condensed consolidated interim financial information are consistent with those used in the Group’s consolidated financial statements for the year ended 31 December 2019, except for taxes on income in the interim periods that are accrued using the tax rate that would be applicable to expected total annual earnings. A number of new or amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of this condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2019.

5 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk and liquidity risk.

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the consolidated financial statements for the year ended 31 December 2019.

There have been no changes in the risk management policies since the year ended 31 December 2019.

(b) Fair value estimation

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

6 SEGMENT INFORMATION

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

	Unaudited	
	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Revenue		
OEM Business customer products	79,646	96,474
Own brand products	14,438	24,004
	94,084	120,478

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 an executive director of the Company. The chief operating decision-maker considers the business from a product perspective and assesses the performance of the operating segments based on a measure of gross profit for the purpose 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 infants products to OEM Business customers; and (ii) design, manufacture and sale of own brand infant products.

The segment information provided to the chief operating decision-maker for the six months ended 30 June 2020 (unaudited) is as follows:

	OEM Business customer products HK\$'000	Own brand products HK\$'000	Total HK\$'000
Segment revenue from external customers			
Timing of revenue recognition — at a point in time	79,646	14,438	94,084
Cost of sales	<u>(55,125)</u>	<u>(7,845)</u>	<u>(62,970)</u>
Gross profit	24,521	6,593	31,114
Selling expenses			(8,030)
Administrative expenses			(16,222)
Other income			1,173
Other losses, net			(305)
Finance income, net			<u>60</u>
Profit before taxation			7,790
Taxation			<u>(2,461)</u>
Profit for the period			<u>5,329</u>

The segment information provided to the chief operating decision-maker for the six months ended 30 June 2019 (unaudited) is as follows:

	OEM Business customer products HK\$'000	Own brand products HK\$'000	Total HK\$'000
Segment revenue from external customers			
Timing of revenue recognition — at a point in time	96,474	24,004	120,478
Cost of sales	<u>(72,572)</u>	<u>(14,118)</u>	<u>(86,690)</u>
Gross profit	23,902	9,886	33,788
Selling expenses			(12,415)
Administrative expenses			(17,020)
Other income			1,630
Other losses, net			(291)
Finance expenses, net			<u>(502)</u>
Profit before taxation			5,190
Taxation			<u>(1,491)</u>
Profit for the period			<u>3,699</u>

7

Unaudited
Six months ended 30 June

Interest and borrowing costs on bank bills	(112)	(213)
Interest on shareholders' borrowings	—	(346)
Interest expenses on lease liabilities	(157)	(235)
Bank interest income	329	292

8

Profit before taxation is arrived at after charging/(crediting):

Unaudited
Six months ended 30 June

Raw materials and consumables used	34,288	52,663
Provision for the impairment loss on inventory	1,222	—
Employee benefit expenses	26,691	33,432
Management fee expenses	1,196	1,219
Depreciation of property, plant and equipment (<i>Note 12</i>)	4,228	4,242
Depreciation of right-of-use assets	1,592	1,547
Provision for the impairment loss on trade receivables	675	97
Loss on disposal/write-off of property, plant and equipment	—	185
Government grants	(1,159)	(1,629)

9 TAXATION

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits for the period. The People's Republic of China ("PRC") enterprise income tax has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the PRC.

The amount of taxation charged to the condensed consolidated interim income statement represents:

	Unaudited	
	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Current — Hong Kong		
Provision for the period	122	746
Current — PRC		
Provision for the period	2,293	739
Under-provision in respect of prior years	51	—
Deferred — Hong Kong		
Provision for the period	(5)	6
Taxation charge	<u>2,461</u>	<u>1,491</u>

10 DIVIDENDS

No dividends had been paid or declared by the Company for the six months ended 30 June 2020 (2019: Nil).

11 EARNINGS PER SHARE — BASIC AND DILUTED

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the respective periods.

	Unaudited	
	Six months ended 30 June	
	2020	2019
Profit attributable to owners of the Company (HK\$'000)	5,329	3,699
Weighted average number of ordinary shares in issue (thousands)	<u>200,000</u>	<u>200,000</u>
Basic earnings per share (Hong Kong cents)	<u>2.66</u>	<u>1.85</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 30 June 2019 and 2020.

12 PROPERTY, PLANT AND EQUIPMENT

	Decoration <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Office equipment <i>HK\$'000</i>	Plants and machinery <i>HK\$'000</i>	Tools and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 31 December 2019 (audited)							
Cost	14,510	1,432	4,571	60,520	16,551	4,319	101,903
Accumulated depreciation	(4,438)	(1,400)	(2,229)	(43,436)	(10,062)	(3,914)	(65,479)
Net book amount	<u>10,072</u>	<u>32</u>	<u>2,342</u>	<u>17,084</u>	<u>6,489</u>	<u>405</u>	<u>36,424</u>
Period ended 30 June 2020 (unaudited)							
Opening net book amount	10,072	32	2,342	17,084	6,489	405	36,424
Exchange differences	(108)	—	(39)	(226)	—	(4)	(377)
Additions	112	—	26	40	—	—	178
Depreciation charge	(297)	(4)	(383)	(1,951)	(1,470)	(123)	(4,228)
Closing net book amount	<u>9,779</u>	<u>28</u>	<u>1,946</u>	<u>14,947</u>	<u>5,019</u>	<u>278</u>	<u>31,997</u>
At 30 June 2020 (unaudited)							
Cost	14,495	1,432	4,529	60,170	16,551	4,305	101,482
Accumulated depreciation	(4,716)	(1,404)	(2,583)	(45,223)	(11,532)	(4,027)	(69,485)
Net book amount	<u>9,779</u>	<u>28</u>	<u>1,946</u>	<u>14,947</u>	<u>5,019</u>	<u>278</u>	<u>31,997</u>

13 TRADE AND OTHER RECEIVABLES

	Unaudited 30 June 2020 HK\$'000	Audited 31 December 2019 HK\$'000
Trade receivables	24,123	33,907
Loss allowance	<u>(1,406)</u>	<u>(731)</u>
	22,717	33,176
Other receivables	<u>2,073</u>	<u>646</u>
	<u>24,790</u>	<u>33,822</u>

The Group has established credit policies for customers in each of its businesses. The average credit period granted for trade receivables ranges from 30 to 90 days. The carrying values of trade and other receivables approximate their fair values.

The ageing analyses of the Group's trade receivables by invoice dates are as follows:

	Unaudited 30 June 2020 HK\$'000	Audited 31 December 2019 HK\$'000
0–30 days	10,733	19,516
31–60 days	3,722	5,574
61–90 days	1,786	2,619
Over 90 days	<u>6,476</u>	<u>5,467</u>
	<u>22,717</u>	<u>33,176</u>

14 TRADE AND OTHER PAYABLES

	Unaudited 30 June 2020 HK\$'000	Audited 31 December 2019 HK\$'000
Trade payables	10,383	11,071
Accruals and other payables	12,745	11,650
Contract liabilities (<i>Note</i>)	<u>4,101</u>	<u>4,443</u>
	<u>27,229</u>	<u>27,164</u>

The carrying values of trade and other payables approximate their fair values.

Note: Contract liabilities of HK\$4,443,000 included in the balance as at 1 January 2020 were recognised as revenue during the period ended 30 June 2020.

The ageing analyses of the Group's trade payables by invoice dates are as follows:

	Unaudited 30 June 2020 HK\$'000	Audited 31 December 2019 HK\$'000
0–30 days	6,570	7,443
31–60 days	2,162	2,357
61–90 days	197	—
Over 90 days	<u>1,454</u>	<u>1,271</u>
	<u>10,383</u>	<u>11,071</u>

The credit period for the trade payables for the Group's business generally ranges from 30 to 90 days.

15 SHARE CAPITAL

	No. of shares	Amount HK\$'000
Ordinary shares of HK\$0.1 each, authorised:		
At 31 December 2019 and 30 June 2020 (unaudited)	<u>3,800,000,000</u>	<u>380,000</u>
Ordinary shares of HK\$0.1 each, issued and fully paid:		
At 31 December 2019 and 30 June 2020 (unaudited)	<u>200,000,000</u>	<u>20,000</u>

16 CONTINGENT LIABILITIES

As at 30 June 2020, the Group had no significant contingent liabilities.

17 RELATED PARTY TRANSACTIONS

A summary of significant related party transactions is set out below:

Name of related party	Relationship with the Group
Kwong Fai Trading Limited	Jointly controlled by Mr. Chung and his spouse
Penghui Qiye (Wengyuan) Company Limited	Controlled by Controlling Shareholders

(a) Discontinued transactions

	Unaudited Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Mr. Chau		
— Interest expenses	—	173
Mr. Chung		
— Interest expenses	<u>—</u>	<u>173</u>

(b) Continuing transactions

	Unaudited	
	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Kwong Fai Trading Limited (“Kwong Fai”)		
— Depreciation of right-of-use assets	269	256
— Interest expenses on lease liabilities	41	62
Penghui Qiye (Wengyuan) Company Limited (“Penghui”)		
— Management fee expenses	1,126	1,179
— Depreciation of right-of-use assets	1,098	1,056
— Interest expenses on lease liabilities	<u>112</u>	<u>156</u>

The above transactions with related parties were calculated in the ordinary course of 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\$7,152,000 and lease liabilities of HK\$7,535,000 as at 30 June 2020 from Kwong Fai and Penghui. During the period ended 30 June 2020, the lease payments paid to Kwong Fai and Penghui were HK\$313,000 (2019: HK\$300,000) and HK\$1,225,000 (2019: HK\$1,304,000), respectively.

On 1 June 2020, the Group has entered into the 2020 Lease Agreements with Kwong Fai and Penghui to renew the 2017 Lease Agreements for a term of two years commencing from 1 June 2020 and ending on 31 May 2022 (both days inclusive) for the ongoing business operations and development of the Group.

The terms of the 2020 Lease Agreements have been agreed by the parties after arm’s length negotiations and are on normal commercial terms. The monthly rental for each of the 2020 Lease Agreements was determined based on the fair rent value assessed by an independent valuer, which is in line with the prevailing market rent of other premises with conditions comparable to those under the 2020 Lease Agreements.

The aggregate value of the rental payable by the Group under the 2020 Lease Agreements for the two-year period is approximately HK\$8,182,000, which is expected to be financed by the internal resources of the Group. The aggregated value of the right-of-use assets to be recognised by the Group is approximately HK\$7,406,000.

(c) Key management compensation

During the period ended 30 June 2020, no transactions have been entered into with the directors of the Company (being the key management personnel) other than the emoluments paid to them (being key management personnel compensation) (2019: Nil).

18 IMPACTS OF COVID-19 PANDEMIC

The COVID-19 pandemic since early 2020 has brought about additional uncertainties in the Group's operating environment and has impacted the Group's operations and financial position.

The Group has been closely monitoring the impact of the developments on the Group's business and has put in place contingency measures. The Group will keep the contingency measures under review as the situation evolves.

The financial impact of the COVID-19 pandemic, if any, including the risk associated with the Group's operations, and the adequacy of provision for impairment of receivables and the obsolete inventory, have be reflected in the financial statement for the period.

19 APPROVAL OF INTERIM FINANCIAL INFORMATION

The unaudited condensed consolidated interim financial information for the six months ended 30 June 2020 was approved by the Board on 24 August 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

For the six months ended 30 June 2020, the Group continued to engage in (i) the OEM Business, being the production and sales of plastic bottles and cups for infants and toddlers and plastic sports bottles on an original equipment manufacturing basis, predominately targeting the overseas markets; and (ii) the Yo Yo Monkey Business, being the production and sales of infant and toddler products under the “Yo Yo Monkey (優優馬騮)” brand primarily in the PRC market. The Group operates its production base situated in Guangdong Province, the PRC.

In respect of business performance for the six months ended 30 June 2020 as compared with the corresponding period in 2019, the Group recorded a year-on-year decline in total revenue, where the Group faced an overall challenging business environment for both of the OEM Business and the Yo Yo Monkey Business in view of, among other matters, the economies in both the United States and the PRC took huge hits from the outbreak of COVID-19, affecting consumer spending and product demand. For instance, COVID-19 had driven retail shops to close and consumers to stay at home in both the United States and 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 both of the OEM Business and the Yo Yo Monkey Business of the Group. Nonetheless, the Group achieved year-on-year improvement in net profit due to (i) the cost control measures of the Group; and (ii) the reduction in raw material costs.

Financial review

The following table sets out the key financial figures of the Group for the six months ended 30 June 2020, with comparative figures for the six months ended 30 June 2019.

	Unaudited	
	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Revenue	94,084	120,478
Gross profit	31,114	33,788
Profit before income tax	7,790	5,190
Net profit attributable to equity holders	5,329	3,699

Revenue

OEM Business

For the six months ended 30 June 2020, revenue generated from the OEM Business amounted to approximately HK\$79.6 million, representing a year-on-year decline of approximately 17.4%, as compared to approximately HK\$96.5 million for the corresponding period in 2019. Such decline was

primarily due to the significant decrease in sales orders from a major OEM Business customer based in the United States, where its demand for the products of the Group lowered as a result of the outbreak of COVID-19. For the first half of 2020, the two largest customers continued to be the major contributors of revenue for the OEM Business, where they respectively produced revenue of approximately HK\$44.2 million (first half of 2019: approximately HK\$40.1 million) and HK\$28.3 million (first half of 2019: approximately HK\$49.5 million), respectively. For the first half of 2020, the revenue of the OEM Business generated from the PRC market amounted to approximately HK\$4.1 million (first half of 2019: approximately HK\$3.0 million).

Yo Yo Monkey Business

For the six months ended 30 June 2020, the Yo Yo Monkey Business achieved revenue of approximately HK\$14.4 million, representing a year-on-year decline of approximately 39.9% as compared to approximately HK\$24.0 million for the corresponding period in 2019. Such substantial decrease in sales in the first half of 2020 was mainly attributable to the unfavourable industry environment in view of the slow down of the growth of the economy in the PRC attributable to the outbreak of 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 Business, such as retailers and wholesalers and distributors.

Gross profit

The gross profit of the Group was approximately HK\$31.1 million, representing a gross profit margin of approximately 33.1%, for the six months ended 30 June 2020, as compared to the gross profit of approximately HK\$33.8 million, representing a gross profit margin of approximately 28.0%, for the six months ended 30 June 2019. For the six months ended 30 June 2020, the gross profit margin of the OEM Business was approximately 30.8% (first half of 2019: approximately 24.8%) and the gross profit margin of the Yo Yo Monkey Business was approximately 45.7% (first half of 2019: approximately 41.2%). The improvement in the gross profit margin of both of the OEM Business and the Yo Yo Monkey Business was mainly attributable to (i) the implementation of the cost control measures of the Group, such as automatising and streamlining production cycles to minimise labour force and wasted resources; and (ii) the reduction in the procurement cost of raw material, such as plastic resin.

Selling expenses

The selling expenses of the Group was approximately HK\$8.0 million for the six months ended 30 June 2020, representing a decrease of approximately HK\$4.4 million or 35.3% as compared to approximately HK\$12.4 million for the six months ended 30 June 2019. Such decrease was mainly due to the Group's engagement in fewer marketing and promotional events and activities for its Yo Yo Monkey Business in the PRC due to the outbreak of COVID-19 and as part of the cost control measures of the Group to minimise ineffective selling expenses.

Administrative expenses

The administrative expenses of the Group amounted to approximately HK\$16.2 million for the six months ended 30 June 2020, representing a year-on-year decrease of approximately 4.7%, which was mainly due to the cost control measures of the Group, such as minimising labour force. The administrative expenses of the Group accounted for approximately 17.2% of the total revenue for the six months ended 30 June 2020, representing a slight increase as compared to approximately 14.1% of the total revenue for the six months ended 30 June 2019.

Other income and gains

The Group recorded other net income and gains of approximately HK\$868,000 for the six months ended 30 June 2020, as compared to approximately HK\$1.3 million for the six months ended 30 June 2019. The other net income and gains were mainly derived from sundry income and government grants.

Finance income/expenses

The Group incurred net finance income of approximately HK\$60,000 for the six months ended 30 June 2020, as compared to the net finance expenses of approximately HK\$502,000 for the six months ended 30 June 2019. The finance expenses were mainly interest expenses for the utilisation of bill facilities, lease liabilities and Shareholders' borrowings, whilst the finance income was mainly derived from bank depository interest.

Net profit

The Group recorded a net profit of approximately HK\$5.3 million for the six months ended 30 June 2020, as compared to a net profit of approximately HK\$3.7 million for the six months ended 30 June 2019. The improvement in net profit was mainly attributable to (i) the improvement in gross profit margin; and (ii) the reduction in selling expenses and administrative expenses as aforementioned.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2020, the cash and cash equivalents of the Group amounted to approximately HK\$103.2 million (31 December 2019: approximately HK\$82.3 million). The cash and cash equivalents of the Group as at 30 June 2020 were primarily denominated in Hong Kong dollars, Renminbi and US dollars and were mainly contributed by the net proceeds from the listing (the “**Listing**”) of the shares of the Company (the “**Share(s)**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) in 2018 and the cash generated from operating activities of the Group. The Group had net cash generated from operating activities of approximately HK\$22.7 million for the six months ended 30 June 2020, as compared to that of approximately HK\$15.6 million for the six months ended 30 June 2019, where such increase was driven by (i) the increase in operating cash inflow before changes in working capital by approximately HK\$4.0 million, which was primarily attributable to the increase in profit before income tax; and (ii) the increase in cash inflow from changes in working capital by approximately HK\$3.5 million, particularly due to the settlement of trade and other receivables.

As at 30 June 2020, the Group maintained banking facilities of HK\$30.0 million (31 December 2019: HK\$30.0 million), which were partly utilised as bills facilities to settle payments to suppliers.

As at 30 June 2020, the gearing ratio of the Group (being total interest-bearing liabilities divided by total equity) was Nil (31 December 2019: Nil).

CAPITAL COMMITMENT AND CAPITAL EXPENDITURE

As at 30 June 2020, the Group had no capital commitment (31 December 2019: Nil).

For the first half of 2020, the capital expenditure of the Group (being gross addition of property, plant and equipment) was approximately HK\$178,000 (first half of 2019: approximately HK\$7.5 million). This capital expenditure was primarily for the acquisition of new machineries, tools and equipments.

TREASURY POLICY

The Group had a sufficient level of cash and banking facilities for the conduct of its trade in the normal course of business during the six months ended 30 June 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 are primarily denominated in US dollars, Renminbi and Hong Kong dollars. In particular, sales are primarily made in US dollars whereas payments of staff wages and salaries are in Renminbi and Hong Kong dollars. The Group is exposed to exchange rate risk, especially from the fluctuation of the value of Renminbi.

For the six months ended 30 June 2020, the depreciation of Renminbi against Hong Kong dollars decreased the operating costs of the Group in the PRC, which in turn had a favourable impact on the profitability of the Group, as compared to that of the six months ended 30 June 2019.

The Group had not used any derivatives to hedge its exposure to foreign exchange risk during the six months ended 30 June 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 30 June 2020 (31 December 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 six months ended 30 June 2020. The Group did not hold any significant investment as at 30 June 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 six months ended 30 June 2020 and up to the date of this announcement.

CONTINGENT LIABILITIES

As at 30 June 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 REPORTING PERIOD

As at the date of this announcement, there is no other material change or major event required to be disclosed by the Company after 30 June 2020.

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 Shares at the offer price of HK\$1.34 per Share), after deducting related underwriting fees and other expenses in connection with the Listing, was approximately HK\$48.6 million.

As at 30 June 2020, the majority of the net proceeds from the Listing had been utilised with reference to the “Future plans and use of proceeds” in the prospectus of the Company dated 21 May 2018 (the “**Prospectus**”) as illustrated below:

	Net proceed from the Listing HK\$ million	Actual utilisation up to 30 June 2020 HK\$ million	Unutilised amounts as at 30 June 2020 HK\$ million
Expansion of production capabilities	17.7	8.6	9.1
Development of the Yo Yo Monkey Business	13.0	11.5	1.5
Strengthening the client base of the OEM Business	5.3	1.0	4.3
Improve product development capabilities	8.8	1.0	7.8
Working capital and administrative expenses	<u>3.8</u>	<u>3.8</u>	<u>0</u>
Total	<u>48.6</u>	<u>25.9</u>	<u>22.7</u>

As shown in the above table, as at 30 June 2020, the total utilised amount was approximately HK\$25.9 million and the total unutilised amount was approximately HK\$22.7 million. The 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\$16.9 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 (i)

the outbreak of the trade war between the United States and the PRC; and (ii) the adverse impact of COVID-19 on a worldwide scale. The Group therefore remained conservative on its spending and investments, rather than hastily expanding at a rapid pace.

Despite the slow down in the utilisation of the net proceeds, 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 the first half of 2021; 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 within the upcoming 12 months in accordance with the following:

	Unutilised amounts as at 30 June 2020 <i>HK\$ million</i>	Expected total utilisation amount for the year ending 30 June 2021 <i>HK\$ million</i>
Expansion of production capabilities	9.1	9.1
Development of the Yo Yo Monkey Business	1.5	1.5
Strengthening the client base of the OEM Business	4.3	4.3
Improve product development capabilities	<u>7.8</u>	<u>7.8</u>
Total	<u><u>22.7</u></u>	<u><u>22.7</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 REMUNERATION POLICIES

As at 30 June 2020, the Group had 676 full-time employees (30 June 2019: 829). The reduction of employees as at 30 June 2020 as compared to that of 30 June 2019 was mainly due to the continued automation of the production plant of the Group situated in Wengyuan County, Shaoguan City, Guangdong Province, the PRC (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.

The Group places strong emphasis on the development and training of employees so as to equip them with the requisite skills and safety knowledge in performing their duties and to enhance the competitiveness of the Group.

Employees are remunerated and granted bonus based on their performance, work experience and prevailing market conditions. In compliance with the statutory requirements in the PRC, the Group participates in a social insurance scheme and a housing provident fund. The social insurance scheme includes pension insurance, medical insurance, maternity insurance, unemployment insurance and injury insurance. For the Hong Kong employees, the Group contributes to the Mandatory Provident Fund scheme as applicable. Employee benefit expenses of the Group for the first half of 2020 was approximately HK\$26.7 million (first half of 2019: approximately HK\$33.4 million).

The Group has adopted a share option scheme under which employees of the Group may be granted an opportunity to acquire equity interests in the Company in recognition of their contributions to the Group.

PROSPECTS

The Group achieved a year-on-year growth in profit for the six months ended 30 June 2020 due to (i) the cost control measures of the Group; and (ii) the reduction in raw material costs. However, the revenue of both the OEM Business and the Yo Yo Monkey Business recorded decline due to, among other factors, both of the United States and the PRC markets took huge hits from the outbreak of COVID-19. Although the outbreak did not cause any direct material impact on the overall operations of the Group (such as procurement, production and delivery), the outbreak has (i) caused consumers to become more reluctant to shop outdoor at retailers; (ii) the close down of retail shops; and (iii) worsened the general economies on a worldwide scale, leading to a reduction in consumer spending and the demand for the products of the Group for both of the OEM Business and the Yo Yo Monkey Business. The duration and the magnitude of the adverse impacts of COVID-19 and the trade war on the businesses of the Group are highly uncertain for the upcoming period.

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. The OEM Business is expected to continue to face challenges and may be materially and adversely impacted in the United States market in the near term due to the aforementioned impacts of COVID-19 and the ongoing trade-war between the United States and the PRC. 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 the relevant trade policies (such as tariffs) are further enacted, the performance of the OEM Business might be adversely affected. Nevertheless, the Group will continue to develop this business segment, including (i) liaising with existing customers to obtain sales orders for both existing product lines and new product lines; (ii) liaising with potential customers on a worldwide basis to expand revenue stream, with an aim to gradually diversify the present focus on the United States market; (iii) enhancing production capabilities to better fulfill the diverse needs of customers; and (iv) further exploring the PRC market by leveraging the experiences accumulated with overseas customers and the connections obtained through the Yo Yo Monkey Business.

The Yo Yo Monkey Business focuses on the PRC market and the current under-performance of the business is caused by, among other factors, the aforementioned outbreak of COVID-19 and local competition. The Yo Yo Monkey Business is also expected to continue to face challenges and may also

be materially and adversely impacted in the PRC market in the near term due to the aforementioned impacts of COVID-19. However, as “Yo Yo Monkey (優優馬騮)” is one of the few quality baby brand products originated from Hong Kong, the Group believes that the Yo Yo Monkey Business is well positioned to capture the growing potential in the PRC market, especially since the relaxation of the one-child policy in the PRC in 2016. Despite the fact that the local market may continue to be challenging in the near term, the Group believes that the Yo Yo Monkey Business has a positive outlook in the long run. 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. Moreover, apart from developing products carrying the “Yo Yo Monkey (優優馬騮)” own brand character logos, the Group is liaising to incorporate certain renowned cartoon character, such as via a crossover, on the products of the Yo Yo Monkey Business in the PRC. Furthermore, the Group is exploring the possibility of expanding the geographical markets of its own-brand products to the overseas by leveraging on its existing networks established through the OEM Business to broaden revenue stream.

The utilisation of the net proceeds from the Listing, including but not limited to upgrading existing facilities and production machineries, engaging in promotional activities and improving product development capabilities, is expected to improve the overall business performance of the Group.

In addition, 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.

Challenging times give rise to opportunities. The Group will continue to cautiously carry out review of its existing businesses and stay alert on available chances that the Group can capture and develop. Leveraging on the core competitiveness of the Group, including the nature of principal products, the long term strategic relationships established with business partners and the accumulated industry reputation and experience, the Directors are optimistic that the businesses of the Group will gradually recover and achieve success in the long run. Regardless of the harshness of the current situation and the obstacles ahead, the primary missions of the Group are to safeguard its ongoing businesses, employees’ health and shareholders’ value at all times.

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**”) contained in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”). Having made specific enquiry to all the Directors, they have all confirmed that they have complied with the required standard as set out in the Model Code for the six months ended 30 June 2020.

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 listed securities of the Company for the six months ended 30 June 2020.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2020 (for the six months ended 30 June 2019: Nil).

CORPORATE GOVERNANCE CODE

The Company is committed to achieving and maintaining high standards of corporate governance. For the six months ended 30 June 2020, the Company had adopted and complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

REVIEW OF FINANCIAL INFORMATION

The audit committee of the Company has discussed with the management of the Company the internal control and financial reporting matters relating to the preparation of the unaudited condensed consolidated interim financial information for the six months ended 30 June 2020. It has also reviewed the unaudited condensed consolidated interim financial information for the six months ended 30 June 2020 with the management and the auditor of the Company and recommended them to the Board for approval.

The Company's independent auditor, PricewaterhouseCoopers, has also reviewed the unaudited condensed consolidated interim financial information for the six months ended 30 June 2020 in accordance with the Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.mainsuccess.cn). The interim report for the six months ended 30 June 2020 of the Company containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and will be published on the respective websites of the Stock Exchange and the Company in due course.

On behalf of the Board
MS Group Holdings Limited
Chau Ching
Chairman

Hong Kong, 24 August 2020

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.