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## **Evergreen Products Group Limited**

### **訓修實業集團有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1962)**

#### **ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020**

##### **FINANCIAL HIGHLIGHTS**

- Revenue for the Period amounted to HK\$368.2 million, representing a decrease of 1.9% from HK\$375.3 million for the corresponding period in 2019.
- Gross profit for the Period amounted to HK\$87.5 million, representing a decrease of 30.3% from HK\$125.6 million for the corresponding period in 2019.
- Net profit for the Period amounted to HK\$6.5 million, representing a decrease of 86.4% from HK\$47.9 million for the corresponding period in 2019, primarily attributable to the significant negative impact from the outbreak of the COVID-19 disease, which resulted in:
  - (i) special discounts on sales of products having been offered to customers; and
  - (ii) a shift of product mix from less sales of human hair extension products with high margin to more sales of braid products with low margin when compared to the corresponding period in 2019 as a result of the adverse market conditions during the Period.
- The Board has resolved not to declare an interim dividend for the Period (30 June 2019: HK1.0 cent per Share).

## INTERIM RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Evergreen Products Group Limited (the “**Company**”) hereby announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2020 (the “**Period**”) together with comparative figures for the corresponding period in 2019 as set out below:

### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

		<b>Six months ended</b>	
		<b>30.6.2020</b>	30.6.2019
		<b>HK\$'000</b>	HK\$'000
	<i>Note</i>	<b>(Unaudited)</b>	(Unaudited)
Revenue	3	<b>368,203</b>	375,342
Cost of goods sold		<u><b>(280,655)</b></u>	<u>(249,720)</u>
Gross profit		<b>87,548</b>	125,622
Other income		<b>2,151</b>	1,245
Other gains and losses		<b>(7,564)</b>	2,565
Impairment losses under expected credit loss model		<b>(1,656)</b>	–
Distribution and selling expenses		<b>(5,221)</b>	(5,748)
Administrative expenses		<b>(57,868)</b>	(66,203)
Other expenses		<b>(227)</b>	(625)
Finance costs		<u><b>(10,063)</b></u>	<u>(9,290)</u>
Profit before tax		<b>7,100</b>	47,566
Income tax (expense) credit	4	<u><b>(555)</b></u>	<u>381</u>
Profit for the period	5	<u><b>6,545</b></u>	<u>47,947</u>
Other comprehensive (expense) income for the period:			
<b><i>Items that will not be reclassified to profit or loss:</i></b>			
Surplus on revaluation of land and buildings		–	10,229
Deferred tax arising from revaluation of land and buildings		<u>–</u>	<u>(877)</u>
		–	<u>9,352</u>
<b><i>Item that may be reclassified subsequently to profit or loss:</i></b>			
Exchange differences arising from translation of foreign operations		<u><b>(4,507)</b></u>	<u>(1,502)</u>
Other comprehensive (expense) income for the period, net of income tax		<u><b>(4,507)</b></u>	<u>7,850</u>
Total comprehensive income for the period		<u><b>2,038</b></u>	<u>55,797</u>

		<b>Six months ended</b>	
		<b>30.6.2020</b>	30.6.2019
		<b>HK\$'000</b>	<b>HK\$'000</b>
	<i>Note</i>	<b>(Unaudited)</b>	(Unaudited)
Profit (loss) for the period attributable to:			
Owners of the Company		<b>7,902</b>	49,301
Non-controlling interests		<b>(1,357)</b>	(1,354)
		<u><b>6,545</b></u>	<u>47,947</u>
Total comprehensive income (expense) attributable to:			
Owners of the Company		<b>3,414</b>	57,195
Non-controlling interests		<b>(1,376)</b>	(1,398)
		<u><b>2,038</b></u>	<u>55,797</u>
Earnings per share (HK\$)			
– basic	7	<u><b>0.01</b></u>	<u>0.08</u>
– diluted		<u><b>0.01</b></u>	<u>0.08</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

		<b>30.6.2020</b>	31.12.2019
		<b>HK\$'000</b>	<b>HK\$'000</b>
	<i>Notes</i>	<b>(Unaudited)</b>	(Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	8	<b>713,319</b>	721,680
Right-of-use assets	8	<b>27,321</b>	29,041
Non-current deposits	9	<b>16,859</b>	19,570
Financial assets at fair value through profit or loss		<b>15,860</b>	25,761
		<b>773,359</b>	796,052
<b>CURRENT ASSETS</b>			
Inventories		<b>456,045</b>	476,613
Trade and other receivables	9	<b>301,706</b>	319,159
Tax recoverable		<b>1,069</b>	950
Pledged bank deposits		<b>113,732</b>	93,097
Bank balances and cash		<b>44,164</b>	36,109
		<b>916,716</b>	925,928
<b>CURRENT LIABILITIES</b>			
Trade and other payables	10	<b>59,652</b>	60,643
Tax payable		<b>3,438</b>	3,172
Secured bank borrowings	11	<b>698,786</b>	672,444
Amount due to a related company		<b>4,050</b>	50,000
Amount due to a non-controlling shareholder of a subsidiary		<b>2,986</b>	2,700
Dividend payables		<b>13,222</b>	–
Derivative liabilities		<b>445</b>	345
Lease liabilities		<b>2,030</b>	3,024
Contract liabilities		<b>8,999</b>	3,391
Bank overdrafts	11	<b>27,312</b>	41,500
		<b>820,920</b>	837,219
<b>NET CURRENT ASSETS</b>		<b>95,796</b>	88,709
		<b>869,155</b>	884,761

	<b>30.6.2020</b>	31.12.2019
	<b>HK\$'000</b>	<b>HK\$'000</b>
<i>Note</i>	<b>(Unaudited)</b>	(Audited)
<b>CAPITAL AND RESERVES</b>		
Share capital	<b>51,432</b>	51,432
Reserves	<b>802,593</b>	811,827
	<hr/>	<hr/>
Equity attributable to owners of the Company	<b>854,025</b>	863,259
Non-controlling interests	<b>1,261</b>	2,637
	<hr/>	<hr/>
<b>TOTAL EQUITY</b>	<b>855,286</b>	865,896
	<hr/>	<hr/>
<b>NON-CURRENT LIABILITIES</b>		
Deferred tax liabilities	<b>5,471</b>	5,370
Lease Liabilities	<b>8,398</b>	8,594
Secured bank borrowings	<b>–</b>	4,901
	<hr/>	<hr/>
	<b>13,869</b>	18,865
	<hr/>	<hr/>
	<b>869,155</b>	884,761
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# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

## 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”, issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The condensed consolidated financial statements are presented in Hong Kong dollars (“HK\$”). The Company’s functional currency is United State dollars (“US\$”). The reason for selecting HK\$ as its presentation currency is because a majority of the Company’s shareholders are located in Hong Kong.

### 1A. SIGNIFICANT EVENTS AND TRANSACTIONS IN THE CURRENT INTERIM PERIOD

The outbreak of the novel coronavirus pneumonia (“COVID-19”) and the subsequent quarantine measures as well as the travel restrictions imposed by many countries in early 2020 had certain impact on the operations of the Group, as the Group’s operations are located in the People’s Republic of China (the “PRC”) and Bangladesh. The Group had to stop its manufacturing activities temporarily due to mandatory government quarantine measures in an effort to contain the spread of the epidemic and operation was resumed shortly. Net profit for the period is significantly impacted from the outbreak of the COVID-19 disease, which is primarily attributable to special discounts on sales of products offered to customers; and a shift of product mix from less sales of human hair extension products with high margin to more sales of braid products with low margin when compared to the corresponding period in 2019 as a result of the adverse market conditions during the current period.

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and properties which are measured at fair value or revalued amounts, as appropriate.

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) and application of certain accounting policies which became relevant to the Group, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2019.

### Application of amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatory effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

## Impacts of application on amendments to HKAS 1 and HKAS 8 “Definition of Material”

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current period had no impact on the condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements for the year ending 31 December 2020.

## Accounting policies newly applied by the Group

### *Government grants*

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognised as expenses the related costs for which the grants are intended to compensate.

Government grants relate to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under “Other income”.

## 3. REVENUE AND SEGMENT INFORMATION

The chief executive officer of the Company, being the chief operating decision maker (“CODM”), regularly reviews revenue analysis by types of products, including wigs, hair accessories and others, high-end human hair extensions and Halloween products when making decisions about allocating resources and assessing performance of the Group. Other than revenue analysis, the CODM reviews the profit for the period of the Group as a whole to make decisions about performance assessment and resources allocation. The operation of the Group constitutes one single operating segment under HKFRS 8 “Operating Segments” and accordingly, no separate segment information is prepared.

No analysis of segment assets and segment liabilities is presented as the Groups’ CODM does not regularly review such information.

### Disaggregation of revenue from contracts with customers

#### *Group revenue by products*

	Six months ended	
	30.6.2020	30.6.2019
	HK\$’000	HK\$’000
	(Unaudited)	(Unaudited)
Wigs, hair accessories and others	295,161	260,609
High-end human hair extensions	51,266	86,422
Halloween products	21,776	28,311
	<u>368,203</u>	<u>375,342</u>

**Group revenue by location of delivery to customers**

	Six months ended	
	30.06.2020 HK\$'000 (Unaudited)	30.06.2019 HK\$'000 (Unaudited)
United States of America (“USA”)	315,982	308,909
The PRC	13,238	6,625
United Kingdom	4,899	12,324
Others	34,084	47,484
	<u>368,203</u>	<u>375,342</u>

All revenue is recognised at a point of time.

**4. INCOME TAX EXPENSE (CREDIT)**

	Six months ended	
	30.6.2020 HK\$'000 (Unaudited)	30.6.2019 HK\$'000 (Unaudited)
The taxation charge (credit) comprises:		
Current tax:		
Hong Kong	20	–
Bangladesh	299	–
The PRC Enterprise Income Tax (“EIT”)	71	176
Other jurisdictions	64	183
	<u>454</u>	<u>359</u>
Overprovision in prior years:		
Hong Kong	–	(30)
	<u>454</u>	<u>329</u>
Deferred tax:		
Current period	101	(710)
	<u>555</u>	<u>(381)</u>

During the six months ended 30 June 2020 and 2019, Hong Kong Profits Tax is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits of the qualifying group entity and 16.5% on the estimated assessable profits above HK\$2 million. The profits of group entities not qualifying for the two-tiered profits tax rates regime are taxed at a flat rate of 16.5%.

Accordingly, the Hong Kong profits tax is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million.

No provision for Hong Kong Profits Tax has been made in prior period as the Group does not have assessable profits arising in Hong Kong for prior period.

The Group is engaged in manufacturing of hair products through several processing factories in the PRC under contract and import processing arrangement which is effective for both periods.

Accordingly, under such 50:50 onshore/offshore arrangement between the Group and the contract processing factories, certain profits of the Group are not taxable under Hong Kong Profits Tax for both periods.

Meanwhile, the profit derived under the import processing arrangement are treated as 100% taxable under Hong Kong Profits Tax for both periods. In addition, the processing factories of the Group are subject to PRC EIT at a rate of 25% on the actual profit generated in the PRC.

The subsidiaries operating in Bangladesh are subject to income tax rate of 35% on the assessable profit during the current period (2019: the subsidiaries operating in Bangladesh had no assessable profit or exempt from income tax). One of the subsidiaries in Bangladesh is exempted from income tax for 10 financial years from the date of the commencement of commercial operations (i.e. 10 May 2010) up to April 2020.

For subsidiaries operating in Japan, the applicable prevailing tax rate was 27% for both periods.

Taxation arising from other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

## 5. PROFIT FOR THE PERIOD

	<b>Six months ended</b>	
	<b>30.6.2020</b>	30.6.2019
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Profit for the period has been arrived at after charging (crediting) the following items:		
Depreciation of property, plant and equipment	22,399	17,865
Depreciation of right-of-use assets	2,112	429
	<u>24,511</u>	<u>18,294</u>
Total depreciation and amortisation		
Interest income	(180)	(186)
Government grants (included in other income)	(876)	–
Cost of inventories recognised as expense (included in cost of goods sold)	280,655	249,720
Written off of property, plant and equipment (included in other gains and losses) (Note)	626	–
Written off of inventories (included in other gains and losses) (Note)	5,560	–
Short-term lease payments	38	183
	<u><u>38</u></u>	<u><u>183</u></u>

*Note:* In June 2020, certain of the Group's machineries and inventories located in the Group's Bangladesh factory were damaged by fire. The event had no material impact to the Group's operation and production.

## 6. DIVIDENDS

During the current interim period, a final dividend of HK2.00 cents per share in respect of the year ended 31 December 2019 (2019: HK2.50 cents per share in respect of the year ended 31 December 2018) was declared to the owners of the Company. The aggregate amount of the final dividend declared in the interim period amounted to approximately HK\$13,222,000 (2019: declared and paid HK\$15,375,000).

No dividends were paid, declared or proposed for the interim period. The directors of the Company have determined that no dividend will be paid in respect of the interim period (2019: declared and paid HK1.00 cent per share amounting to HK\$6,150,000 in aggregate).

## 7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	<b>Six months ended</b>	
	<b>30.6.2020</b>	30.6.2019
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Earnings attributable to owners of the Company:		
Earnings for the purpose of calculating basic and diluted earnings per share	<b>7,902</b>	49,301

	<b>Six months ended</b>	
	<b>30.6.2020</b>	30.6.2019
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>658,816</b>	610,999
Effect of dilutive potential ordinary shares:		
Share awards scheme	<b>2,078</b>	2,621
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>660,894</b>	613,620

The weighted average number of ordinary shares for the purpose of basic earnings per share shown above has been arrived at after deducting the shares held by the trustee of the share award scheme of the Company.

## 8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

During the period ended 30 June 2020, the Group spent HK\$12,922,000 (for the six months ended 30 June 2019: HK\$47,441,000 (unaudited)) on property, plant and equipment.

The Group's leasehold land and buildings classified as property, plant and equipment were revalued by the third party qualified valuer engaged by the Company as the period ended 30 June 2019. The resulting revaluation surplus of HK\$10,229,000 has been credited to the properties revaluation reserve for the period ended 30 June 2019.

In view of the directors, there is no material difference between the carrying amount and fair value of the Group's leasehold land and buildings classified as property, plant and equipment as at the six months ended 30 June 2020.

During the period ended 30 June 2020, the Group entered into a new lease agreement for the use of motor vehicle (for the six months ended 30 June 2019: leasehold land and buildings) with lease term for 4.5 years (for the six months ended 30 June 2019: 2 to 30 years). The Group is required to make fixed monthly payments. On lease commencement, the Group recognised right-of-use assets of HK\$322,000 (for the six months ended 30 June 2019: HK\$5,606,000) and lease liabilities of HK\$322,000 (for the six months ended 30 June 2019: HK\$5,514,000).

## 9. TRADE AND OTHER RECEIVABLES

	<b>30.6.2020</b> <i>HK\$'000</i> (Unaudited)	31.12.2019 <i>HK\$'000</i> (Audited)
Trade receivables		
– contracts with customers	<b>159,388</b>	183,607
Less: allowance for credit loss	<b>(1,656)</b>	–
	<b>157,732</b>	183,607
Other receivables	<b>40,838</b>	26,111
Purchase rebate receivables	<b>22,560</b>	19,786
Other tax receivables	<b>1,199</b>	1,293
Prepayments	<b>8,171</b>	10,754
Deposits paid to suppliers	<b>71,206</b>	77,608
Deposits for acquisition of property, plant and equipment	<b>15,953</b>	18,664
Property rental deposits	<b>906</b>	906
	<b>318,565</b>	338,729
Analysis for reporting purpose as		
Non-current assets	<b>16,859</b>	19,570
Current assets	<b>301,706</b>	319,159
	<b>318,565</b>	338,729

The Group allows an average credit period of 90 days to its trade customers.

The following is an analysis of trade receivables (net of allowance for credit loss) by age, presented based on the invoice date, which approximates the respective revenue recognition dates.

	<b>30.6.2020</b> <i>HK\$'000</i> (Unaudited)	31.12.2019 <i>HK\$'000</i> (Audited)
0 – 60 days	<b>111,009</b>	137,770
61 – 90 days	<b>13,643</b>	34,233
91 – 120 days	<b>19,710</b>	5,234
Over 120 days	<b>13,370</b>	6,370
	<b>157,732</b>	183,607

## 10. TRADE AND OTHER PAYABLES

	<b>30.6.2020</b> <i>HK\$'000</i> (Unaudited)	31.12.2019 <i>HK\$'000</i> (Audited)
Trade payables	<b>33,452</b>	36,568
Accrued staff costs	<b>23,134</b>	19,721
Accruals and other payables	<b>3,066</b>	4,354
	<b>59,652</b>	60,643

The following is an aged analysis of trade payables presented based on invoice date.

	<b>30.6.2020</b> <b>HK\$'000</b> <b>(Unaudited)</b>	31.12.2019 <b>HK\$'000</b> <b>(Audited)</b>
0 – 60 days	31,286	36,568
61 – 90 days	926	–
91 – 120 days	3	–
Over 120 days	1,237	–
	<u>33,452</u>	<u>36,568</u>

#### 11. SECURED BANK BORROWINGS/BANK OVERDRAFTS

	<b>30.6.2020</b> <b>HK\$'000</b> <b>(Unaudited)</b>	31.12.2019 <b>HK\$'000</b> <b>(Audited)</b>
Bank overdrafts	27,312	41,500
Trust receipts loans and discounted bills	359,196	297,000
Mortgage and short term loan	339,590	380,345
	<u>726,098</u>	<u>718,845</u>

The carrying amounts of the borrowings are analysed as follows:

Original currency	<b>30.6.2020</b> <b>HK\$'000</b> <b>(Unaudited)</b>	31.12.2019 <b>HK\$'000</b> <b>(Audited)</b>	Interest rate
HK\$	<u>385,652</u>	<u>409,029</u>	Hong Kong Dollar Prime Rate minus 1.85% to Hong Kong Dollar Prime Rate plus 1% or Hong Kong Interbank Offered Rate (“ <b>HIBOR</b> ”) plus 1.2% to HIBOR plus 3.5% (31 December 2019: Hong Kong Dollar Prime Rate minus 1.85% to Hong Kong Dollar Prime Rate plus 5% or HIBOR plus 1.2% to HIBOR plus 3.5% or fixed interest rate at 5.65%)
US\$	<u>340,446</u>	<u>309,816</u>	London Interbank Offered Rate (“ <b>LIBOR</b> ”) plus 2.5% to LIBOR plus 4% (31 December 2019: LIBOR plus 2.5% to LIBOR plus 4%)

Bank borrowings with repayment-on-demand clause are classified as current liabilities on the condensed consolidated statement of financial position.

The Group's bank borrowings are payable as follows:

	<b>30.6.2020</b> <b>HK\$'000</b> <b>(Unaudited)</b>	31.12.2019 <b>HK\$'000</b> <b>(Audited)</b>
Bank overdrafts	<u>27,312</u>	<u>41,500</u>
Bank borrowings are repayable <i>(Note)</i>		
Within 1 year	<b>640,226</b>	617,084
After 1 year but within 2 years	<b>25,079</b>	26,232
After 2 years but within 5 years	<b>26,451</b>	22,123
After 5 years	<u><b>7,030</b></u>	<u>11,906</u>
Total bank borrowings	<u><b>698,786</b></u>	<u>677,345</u>
Total	<u><b>726,098</b></u>	<u>718,845</u>
Bank borrowings comprising:		
Amounts due within one year shown under current liabilities or containing a repayment on demand clause	<b>640,226</b>	617,084
Amounts that are not repayable within one year from the end of the reporting period but containing a repayment on demand clause (shown under current liabilities)	<u><b>58,560</b></u>	<u>55,360</u>
	<u><b>698,786</b></u>	<u>672,444</u>
Amounts due within one year shown under current liabilities		
Comprising:		
Bank overdrafts	<b>27,312</b>	41,500
Secured bank borrowings	<u><b>698,786</b></u>	<u>672,444</u>
	<b>726,098</b>	713,944
Amounts shown under non-current liabilities		
Comprising:		
Secured bank borrowings	<u>–</u>	<u>4,901</u>
Total	<u><b>726,098</b></u>	<u>718,845</u>

*Note:* The amounts due are based on the scheduled repayment dates set out in the bank borrowings.

Bank overdrafts carry interest at market rates which range from 5.50% to 5.75% and are repayable on demand (31 December 2019: 4.50% to 5.50%) per annum.

The bank borrowings arranged at floating rates are with average effective interest rates ranging from 1.75% to 6.20% (31 December 2019: 3.60% to 6.21%) per annum.

As at 30 June 2020 and 31 December 2019, the Group's banking facilities were secured by:

- (a) pledge of the Group's bank deposits of approximately HK\$113,732,080 (2019: HK\$93,097,000);
- (b) the Group's land and buildings and carparks in Hong Kong of approximately HK\$88,180,000 (2019: HK\$88,180,000);
- (c) negative pledge on the assets of certain subsidiaries in the PRC and Bangladesh; and
- (d) financial assets at fair value through profit or loss of the Group.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

The year of 2020 is definitely a difficult and challenging year to the Group. During the current Period, the Group maintained a similar level of revenue of approximately HK\$368.2 million but recorded a significant decrease in net profit to approximately HK\$6.5 million, representing a decrease of approximately 1.9% and approximately 86.4% as compared to the corresponding period ended 30 June 2019, respectively. The Period under review started on a good note from January to March 2020. In the first quarter of 2020, we enjoyed increasing production capacity in our expanded production facilities in Bangladesh (the “**Bangladesh Factory**”). We did not have any negative financial and production impact from the novel coronavirus pneumonia (“**COVID-19**”) even when it spread severely in China and some Asian Countries. Our main production is in Bangladesh and approximately 85.8% of our export is to the United States. We even recorded a sales increment of over 20% in the first quarter of 2020 when compared to the same period in 2019. However, the COVID-19 pandemic spread to the United States since the end of March 2020 which inflicted a serious blow to our business in April 2020. Fortunately, our high quality products which are a necessity in nature and our strong customer base have restored our market demands and their shipments in late May and June 2020. Hence, the Group’s revenue for the Period was able to catch up to the similar level as recorded in the corresponding period ended 30 June 2019.

Other than the above, the impact from the COVID-19 pandemic during the Period has deteriorated the Group’s gross profit margin and net profit margin. We offered special discounts on sales of products to customers during this tough Period. We also noticed a change in our product mix during the Period. The sales of human hair products with high margin decreased while sales of braid products with low margin increased. This was because major retail channels of our human hair products such as hair salons and retail shops selling hair products were forced to be closed as a result of the social distancing measures adopted during the COVID-19 outbreak and affected our sales of human hair products as a result. Our gross profit margin dropped to 23.8% when compared to 33.5% for the corresponding period ended 30 June 2019. Accordingly, net profit margin was also affected and dropped to 1.8% when compared to 12.8% for the corresponding period ended 30 June 2019.

### OUTLOOK

Facing the challenge of uncertainty in the coming year globally, the Group has made all efforts to reduce costs and overheads in an effort to reduce the impact on profitability and preserve working capital. The Group has continuously imposed staffing policy at its Bangladesh Factory and closely monitors the pricing policy towards customers with an aim to maintain the Group’s strength for its long-term development and enable the Group to get through this difficult time and recover its profitability soonest possible. Moreover, the Group plans to raise funds from the equity market by placing new shares to further improve the availability of its working capital to meet its current and potential business needs such as the plans of downstream integration by setting up more sales offices in other Asian countries and integration with some one-stop hair care centres. Besides, the Group intends to develop and operate a private economic zone in Bangladesh.

The Board believes that the effect from the COVID-19 pandemic on the Group is short-term and the market demand for high margin products will restore gradually towards the end of this year. The Group will continue to focus on its core business, closely monitor the latest development in the industry and adjust its pricing policy to prepare for any future opportunities, while maximizing our shareholders’ value.

## FINANCIAL REVIEW

During the Period, the Group's financial results deteriorated compared with the same period in 2019, primarily due to the net effect of sales increment as a result of expanded production capacity in the first quarter of 2020 and a drop in sales due to the COVID-19 pandemic in the second quarter of 2020.

### Revenue

Revenue of the Group is mainly generated from the manufacturing and sale of its products. Revenue represents the amount received by the Group and the receivables from the sale of its products, net of any discounts and returns. The Group derives revenue from three principal product segments: (i) wigs, hair accessories and others; (ii) high-end human hair extensions (that is, human hair goods used for adding hair length and/or hair volume with an average retail price of over US\$5 per gram); and (iii) Halloween products.

During the Period, the Group's revenue amounted to HK\$368.2 million, representing a slight decrease of HK\$7.1 million, or 1.9%, as compared to HK\$375.3 million for the corresponding period in 2019. During the first quarter of 2020, market demand for the Group's wig products continued to grow, and such demand was satisfied by the rapid increase in production capacity at the Bangladesh Factory. The Bangladesh Factory, which has consistent enhancement in its production capabilities and continued to steadily develop during the first quarter, remained as the main revenue source of the Group, facilitating its revenue growth. The Group recorded an increment in revenue of over 20% in the first quarter of 2020. However, during the second quarter of 2020, the effect from the COVID-19 pandemic intensified. Revenue dropped seriously in April and May 2020. Fortunately, revenue picked up again in June 2020 and as a result, the overall revenue for the whole Period was able to maintain as compared to the same period in 2019. During the Period, the revenue generated from hair goods made at the Bangladesh Factory accounted for 96.1% of the Group's total revenue as compared to 92.1% for the corresponding period in 2019.

The United States remained as the Group's principal market during the Period with revenue contribution accounting for 85.8% of the Group's total revenue during the Period as compared to 82.3% for the corresponding period in 2019. In terms of product segment, wigs, hair accessories and others remained as the Group's key product segment accounting for 80.1% of its total revenue during the Period as compared to 69.4% for the corresponding period in 2019.

*Wigs, hair accessories and others.* Revenue for wigs, hair accessories and others increased by HK\$34.6 million, or 13.3%, from HK\$260.6 million for the six months ended 30 June 2019 to HK\$295.2 million for the Period. The increase was primarily due to a significant increase in sales of braid items, which were one of the popular products.

*High-end human hair extensions.* Revenue for high-end human hair extensions decreased by HK\$35.1 million, or 40.6%, from HK\$86.4 million for the six months ended 30 June 2019 to HK\$51.3 million for the Period, primarily due to a shift from sales of human hair products with high margin to sales of braid products with low margin due to the economic effect of the COVID-19 pandemic.

*Halloween products.* Revenue for Halloween products decreased by HK\$6.5 million, or 23.0%, from HK\$28.3 million for the six months ended 30 June 2019 to HK\$21.8 million for the Period, primarily due to a decrease in sales volume as a result of the COVID-19 pandemic.

## Cost of Goods Sold

The Group's cost of goods sold increased by HK\$31.0 million, or 12.4%, from HK\$249.7 million for the six months ended 30 June 2019 to HK\$280.7 million for the Period, primarily due to an increase in costs in connection with an increase in sales of low-margin braid products during the Period.

*Wigs, hair accessories and others.* Cost of goods sold for wigs, hair accessories and others increased by HK\$51.0 million, or 27.9%, from HK\$182.9 million for the six months ended 30 June 2019 to HK\$233.9 million for the Period, corresponding with an increase in sales of low-margin braid products during the Period.

*High-end human hair extensions.* Cost of goods sold for high-end human hair extensions decreased by HK\$15.4 million, or 32.3%, from HK\$47.7 million for the six months ended 30 June 2019 to HK\$32.3 million for the Period. The decrease was in line with a decrease in revenue from this segment.

*Halloween products.* Cost of goods sold for Halloween products slightly decreased by HK\$4.6 million, or 24.1%, from HK\$19.1 million for the six months ended 30 June 2019 to HK\$14.5 million for the Period. The decrease was in line with the decreased sales volume of Halloween products during the Period.

## Gross Profit

During the Period, the Group's gross profit amounted to HK\$87.5 million, representing a decrease of HK\$38.1 million, or 30.3%, as compared to HK\$125.6 million for the corresponding period in 2019, primarily due to a significant increase in sales of braid products which generated a relatively low gross profit. During the Period, the Group's gross profit margin was 23.8%, representing a decrease of 9.7% from 33.5% for the corresponding period in 2019.

*Wigs, hair accessories and others.* Gross profit for wigs, hair accessories and others decreased by HK\$16.5 million, or 21.2%, from HK\$77.7 million for the six months ended 30 June 2019 to HK\$61.2 million for the Period. Gross profit margin for wigs, hair accessories and others decreased from 29.8% for the six months ended 30 June 2019 to 20.7% for the Period, primarily due to a significant increase in sales of braid products which have a relatively low margin.

*High-end human hair extensions.* Gross profit for high-end human hair extensions decreased by HK\$19.7 million, or 50.9%, from HK\$38.7 million for the six months ended 30 June 2019 to HK\$19.0 million for the Period. Gross profit margin for high-end human hair extensions decreased from 44.8% for the six months ended 30 June 2019 to 37.0% for the Period, as a result of a decrease in sales but at the same time there remained a similar level of production overheads as for the corresponding period ended 30 June 2019.

*Halloween products.* Gross profit for Halloween products decreased by HK\$1.9 million, or 20.7%, from HK\$9.2 million for the six months ended 30 June 2019 to HK\$7.3 million for the Period, which was in line with a decrease in revenue from the segment during the Period. Gross profit margin for Halloween products increased from 32.5% for the six months ended 30 June 2019 to 33.5% for the Period, primarily due to an increase in average selling prices of Halloween products during the Period.

## **Other Income**

Other income increased by HK\$1.0 million, or 83.3%, from HK\$1.2 million for the six months ended 30 June 2019 to HK\$2.2 million for the Period, primarily due to an increase in income from warehouse rentals during the Period.

## **Other Gains and Losses**

Other gains and losses decreased by HK\$10.2 million, or 392.3%, from gains of HK\$2.6 million for the six months ended 30 June 2019 to losses of HK\$7.6 million for the Period, primarily due to a loss amounting to HK\$6.2 million resulting from a fire at the Bangladesh Factory occurred during the Period destroying certain machineries and inventories and a loss amounting to HK\$1.3 million from disposal of certain key-man life insurance contracts for one of the Directors during the Period.

## **Impairment Losses under Expected Credit Loss Model**

During the Period, the Group provided impairment allowance of HK\$1.7 million in respect of trade receivables (2019: nil).

## **Distribution and Selling Expenses**

Distribution and selling expenses decreased by HK\$0.5 million, or 8.8%, from HK\$5.7 million for the six months ended 30 June 2019 to HK\$5.2 million for the Period, primarily due to a decrease in shipping expenses in respect of the sales conducted during the Period.

## **Administrative Expenses**

Administrative expenses decreased by HK\$8.3 million, or 12.5%, from HK\$66.2 million for the six months ended 30 June 2019 to HK\$57.9 million for the Period, primarily due to tightened control on such expenses under the current economic situation.

## **Other Expenses**

Other expenses decreased by HK\$0.4 million, or 66.7%, from HK\$0.6 million for the six months ended 30 June 2019 to HK\$0.2 million for the Period, primarily due to a decrease in donation made during the Period.

## **Finance Costs**

Finance costs increased by HK\$0.8 million, or 8.6%, from HK\$9.3 million for the six months ended 30 June 2019 to HK\$10.1 million for the Period. During the Period, the Group capitalised interest on bank borrowings of HK\$6.5 million as cost of qualifying assets (30 June 2019: HK\$7.4 million). Without such capitalisation, finance costs for the Period was maintained with a slight decrease by HK\$0.1 million, or 0.6%, as compared with the corresponding period in 2019.

## **Taxation**

Income tax expense of the Group increased by HK\$1.0 million, or 250.0%, from a reverse of taxation of HK\$0.4 million for the six months ended 30 June 2019 to a taxation of HK\$0.6 million for the Period, primarily due to the income tax provided for the operation in the PRC and Bangladesh.

## **Net Profit**

The Group's net profit for the Period was HK\$6.5 million, representing a decrease of HK\$41.4 million, or 86.4%, as compared to HK\$47.9 million for the corresponding period in 2019, primarily attributable to the significant negative impact from the outbreak of the COVID-19 disease, which resulted in: (i) special discounts on sales of products having been offered to customers; and (ii) a shift of product mix from less sales of human hair extension products with high margin to more sales of braid products with low margin when compared to the corresponding period in 2019 as a result of the adverse market conditions during the Period.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group's bank balances, pledged bank deposits and cash increased by 22.2% from HK\$129.2 million as at 31 December 2019 to HK\$157.9 million as at 30 June 2020. The increase in cash and bank balances for the Period was primarily due to the measures from banks for postponement on the repayment of bank loans and trade facilities during the Period.

The Group's trade and other receivables decreased by 5.5% from HK\$319.2 million as at 31 December 2019 to HK\$301.7 million as at 30 June 2020. The decrease was primarily due to a decrease in trade receivables as a result of the COVID-19 pandemic causing a drop in revenue in April and May 2020.

## **Borrowings and Gearing Ratio**

As at 30 June 2020, the Group's banking facilities amounted to HK\$726.1 million, of which HK\$48.3 million remained unutilised. As at 30 June 2020, the gearing ratio of the Group, which is equivalent to total interest-bearing debt (including secured bank borrowings and obligations under finance leases) divided by total equity, was 84.9% as compared to 83% as at 31 December 2019. The Group considered that it has sufficient financial resources to meet its commitments and working capital requirements.

## **Capital Expenditure and Capital Commitments**

During the Period, the Group spent approximately HK\$19.4 million (including interest on bank borrowings of HK\$6.5 million capitalised as the cost of qualifying assets) on additions to fixed assets as compared to HK\$68.8 million (including interest on bank borrowings of HK\$7.4 million capitalised as the cost of qualifying assets) for the corresponding period in 2019 mainly to tighten capital spending given the unpredictability associated with the COVID-19 global outbreak. As at 30 June 2020, the Group had capital commitments of HK\$0.4 million in respect of property, plant and equipment (31 December 2019: HK\$0.1 million).

## **Foreign Exchange Risk**

The Group has sales and purchases denominated in foreign currencies, such as U.S. dollars and Renminbi, which expose the Group to foreign currency risk. The Group mainly operates in the PRC and Bangladesh where its operating expenses are denominated in Renminbi and Bangladeshi Taka, respectively, while the majority of the Group's sales are settled in U.S. dollars. With increased production of the Group in Bangladesh (revenue contributed by the Bangladesh Factory having increased to 96.1% during the Period (30 June 2019: 92.1%)) and U.S. dollars being the main foreign currency used in the operations in Bangladesh and Hong Kong, the use of U.S. dollars by the Group has increased as a whole. However, the Board considers that the Group is exposed to minimal currency risk as Hong Kong dollars are pegged to U.S. dollars. The Group estimated that any 1% appreciation of Bangladeshi Taka or Renminbi is not expected to have a material impact on the Group's gross profit margin.

For the Period, the Group had certain outstanding foreign currency forward contracts to buy U.S. dollars to hedge against any fluctuation in the exchange rate of U.S. dollars.

### **Contingent Liabilities**

As at 30 June 2020, the Group did not have any material contingent liabilities.

### **Pledge of Assets**

As at 30 June 2020, the Group's banking facilities were secured by:

- (a) pledge of the Group's bank deposits of approximately HK\$113.7 million;
- (b) the Group's land, buildings and car parks in Hong Kong of approximately HK\$88.2 million;
- (c) negative pledge on the assets of certain subsidiaries of the Group in the PRC and Bangladesh; and
- (d) financial assets at fair value through profit or loss of the Group.

### **EMPLOYEES AND REMUNERATION POLICIES**

As at 30 June 2020, the Group employed a total of (i) 19,355 employees in Bangladesh, as compared to 18,513 as at 30 June 2019, (ii) 390 employees in the PRC, as compared to 431 as at 30 June 2019, (iii) 58 employees in Hong Kong, as compared to 64 as at 30 June 2019, and (iv) a total of 26 employees in Japan, the United States, Thailand and Ukraine, as compared to a total of 29 in Japan and the United States as at 30 June 2019.

Total employee expenditures during the Period amounted to HK\$132.1 million (including value of employee services of HK\$0.6 million in respect of the share awards granted under the share award scheme adopted by the Company on 11 December 2017 (the "**Share Award Scheme**")) as compared to HK\$153.0 million (including value of employee services of HK\$1.4 million in respect of the share awards granted under the Share Award Scheme) for the corresponding period in 2019. The Group operates a defined contribution retirement scheme under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for all qualified employees. Employees of the Group's factories in the PRC are members of a state-managed retirement benefit plan operated by the government of the PRC. For employees in Bangladesh, the Group is currently not subject to any compulsory social insurance contribution, but they are covered by a self-managed provident fund operated by respective subsidiaries of the Group in Bangladesh.

### **SHARE OPTION SCHEME**

On 19 June 2017, a share option scheme was adopted by the Company, whereby the Board may, at its absolute discretion and on such terms as it may think fit, grant any employee (full-time or part-time), director, consultant or adviser of the Group, or any substantial shareholder of the Group, or any distributor, contractor, supplier, agent, customer, business partner or service provider of the Group, options to subscribe for the ordinary shares of the Company (the "**Shares**").

As at 30 June 2020, no option has been granted or agreed to be granted under the share option scheme.

## **SHARE AWARD SCHEME**

On 11 December 2017, the Company adopted the Share Award Scheme in which employees of the Group are entitled to participate.

The specific objectives of the Share Award Scheme are (i) to recognise the contributions by certain employees of the Group and to provide them with incentives in order to retain them for the continual operation and development of the Group; and (ii) to attract suitable personnel for further development of the Group.

The Share Award Scheme does not constitute a share option scheme or an arrangement analogous to a share option scheme for the purpose of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

The Share Award Scheme will remain in force for a period of 10 years commencing on its adoption date. The maximum number of Shares issuable pursuant to the Share Award Scheme is 6,150,000 Shares, being 1% of the total issued Shares on its adoption date. Details of the Share Award Scheme are set out in the announcement of the Company dated 11 December 2017.

Since the adoption date and up to 30 June 2020, the Company had granted a total of 5,333,334 Shares under the Share Award Scheme, representing approximately 0.81% of the total issued Shares as at 30 June 2020.

As at 30 June 2020, the trustee of the Share Award Scheme held a total of 2,266,000 Shares, of which 2,160,667 Shares had been granted to certain Directors, senior management and employees of the Company and 105,333 Shares remained ungranted or lapsed. The ungranted or lapsed Shares remain as trust fund and will be used for grant of share awards in future.

On 13 July 2020, the trustee of the Share Award Scheme transferred a total of 1,910,667 Shares upon vesting of such Shares in certain grantees.

## **SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS, AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS**

Save as disclosed in this announcement, (i) there were no significant investments held, nor were there any material acquisitions or disposals during the Period; and (ii) no plans have been authorised by the Board for any material investments or additions of capital assets as at 30 June 2020.

## **IMPORTANT EVENTS AFTER THE END OF THE PERIOD**

The Group has the following important events after the end of the Period:

- (a) On 13 July 2020, 1,910,667 Shares out of the 2,160,667 Shares granted by the Company that remained outstanding under the Share Award Scheme vested in five Directors and certain senior management and employees.
- (b) On 7 August 2020, the Company entered into a placing agreement with a placing agent pursuant to which the placing agent conditionally agreed to procure not less than six places to purchase a maximum of 60,000,000 new Shares at the price of HK\$1.43 per Share. Details of the Share placement were disclosed in the announcements of the Company dated 7 August 2020, 21 August 2020 and 28 August 2020, respectively. The Share placement has not been completed as at the date of this announcement.

## **INTERIM DIVIDEND**

The Board has resolved not to declare an interim dividend for the Period (30 June 2019: HK1.0 cent per Share).

The dividend payout ratio was 12.9% for the six months ended 30 June 2019.

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

During the Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

## **COMPLIANCE WITH CORPORATE GOVERNANCE CODE**

The Company is committed to maintaining high standard of corporate governance practices. The Board believes that good corporate governance standards are essential in providing a framework for the Group to safeguard the interests of shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has adopted the principles as set out in the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to the Listing Rules. The Board is of the view that the Company has complied with all the code provisions as set out in the CG Code throughout the Period, save and except for code provision A.2.1, which states that the roles of chairman and chief executive should be separate and should not be performed by the same individual, details of which are set out below:

Pursuant to code provision A.2.1 of the CG Code, the responsibilities between the chairman and the chief executive officer should be separate and should not be performed by the same individual. However, Mr. Chang Yoe Chong Felix, an executive Director, currently performs these two roles in the Company. Given the current scale of the Company's operations and management structure, the Company considers that entrusting Mr. Chang, who has been the Company's key leadership figure and chiefly responsible for the business strategy, decisions and operations, to perform both the

functions of the chairman and the chief executive officer of the Company is appropriate. The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired considering the background and experience of the Directors and the number of independent non-executive Directors in the Board and this structure will enable the Company to make and implement decisions promptly and effectively.

## **COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “**Model Code**”) as its code of conduct regarding securities transactions by the Directors. All the Directors have confirmed, following a specific enquiry by the Company, that they had complied with the required standards as set out in the Model Code throughout the Period.

## **REVIEW OF INTERIM RESULTS BY THE AUDIT COMMITTEE**

The audit committee of the Company (the “**Audit Committee**”) has reviewed together with the Board and Deloitte Touche Tohmatsu, the Company’s external auditor, the unaudited condensed consolidated financial statements of the Group for the Period. The Audit Committee is satisfied that the unaudited condensed consolidated financial statements of the Group for the Period were prepared in accordance with the applicable accounting standards and fairly present the Group’s financial position and results for the Period.

## **PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT**

This announcement is published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.epfhk.com](http://www.epfhk.com)). The interim report of the Company for the Period containing all the information required under the Listing Rules will be published on the aforesaid websites of the Stock Exchange and the Company and will be despatched to the Company’s shareholders in due course.

By Order of the Board  
**Evergreen Products Group Limited**  
**Chang Yoe Chong Felix**  
*Chairman, Chief Executive Officer and Executive Director*

Hong Kong, 28 August 2020

*As at the date of this announcement, the executive Directors are Mr. Chang Yoe Chong Felix, Mr. Kwok Yau Lung Anthony, Mr. Chan Kwok Keung, Mr. Hui Wing Ki, Ms. Jia Ziyang and Mr. Li Yanbo; the non-executive Director is Mr. Chan Lau Yui Kevin; and the independent non-executive Directors are Mr. Lau Ip Keung Kenneth, Mr. Sin Hendrick, Mr. Szeto Yuk Ting and Ir. Cheung Siu Wa.*