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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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020**

#### **FINANCIAL HIGHLIGHTS**

- Revenue for the Year amounted to HK\$890.2 million, representing an increase of 14.5% from HK\$777.4 million for the year ended 31 December 2019.
- Gross profit margin for the Year was 17.2%, representing a decrease of 15.9 percentage points from 33.1% for the year ended 31 December 2019.
- Net loss for the Year amounted to HK\$18.0 million, representing a decrease of 120.9% from a net profit of HK\$86.2 million for the year ended 31 December 2019.
- Basic and diluted losses per Share attributable to equity shareholders of the Company for the Year were approximately HK2 cents and HK2 cents, respectively, representing a decrease of approximately 113.3% and approximately 114.3%, respectively, as compared with the year ended 31 December 2019.
- As at 31 December 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 88.7% as compared to 83.0% as at 31 December 2019.
- The Board does not recommend the payment of a final dividend for the Year, and no interim dividend was declared during the Year (2019: final dividend of HK2.0 cents per Share and interim dividend of HK1.0 cent per Share). The dividend payout ratio for the year ended 31 December 2019 was approximately 22.9%.

## CONSOLIDATED ANNUAL RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Evergreen Products Group Limited (the “**Company**”) hereby announces the consolidated annual results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2020 (the “**Year**”) as set out below:

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME For the year ended 31 December 2020

	NOTES	2020 HK\$'000	2019 HK\$'000
Revenue	4	890,201	777,405
Cost of goods sold		<u>(737,546)</u>	<u>(520,397)</u>
Gross profit		152,655	257,008
Other income	6	13,608	2,868
Other gains and losses	7	(22,380)	3,463
Impairment losses under expected credit loss model on trade receivables		(2,700)	–
Distribution and selling expenses		(13,437)	(14,962)
Administrative expenses		(123,144)	(140,177)
Other expenses	8	(253)	(729)
Finance costs	9	<u>(21,699)</u>	<u>(20,677)</u>
(Loss) profit before tax	10	(17,350)	86,794
Income tax expense	11	<u>(632)</u>	<u>(594)</u>
(Loss) profit for the year		<u>(17,982)</u>	<u>86,200</u>
Other comprehensive income (expense) for the year:			
<i>Items that will not be reclassified to profit or loss:</i>			
Surplus on revaluation of land and buildings		551	12,482
Deferred tax arising from revaluation of land and buildings		<u>188</u>	<u>(879)</u>
		<u>739</u>	<u>11,603</u>
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising from translation of foreign operations		<u>1,540</u>	<u>(2,957)</u>
Other comprehensive income for the year, net of income tax		<u>2,279</u>	<u>8,646</u>
Total comprehensive (expense) income for the year		<u><u>(15,703)</u></u>	<u><u>94,846</u></u>

	<i>NOTE</i>	<b>2020</b> <b>HK\$'000</b>	2019 <i>HK\$'000</i>
(Loss) profit for the year attributable to:			
Owners of the Company		<b>(16,176)</b>	90,328
Non-controlling interests		<b>(1,806)</b>	(4,128)
		<u><b>(17,982)</b></u>	<u>86,200</u>
 Total comprehensive (expense) income attributable to:			
Owners of the Company		<b>(13,776)</b>	98,985
Non-controlling interests		<b>(1,927)</b>	(4,139)
		<u><b>(15,703)</b></u>	<u>94,846</u>
 (Loss) earnings per share (HK\$)	<i>13</i>		
– basic		<u><b>(0.02)</b></u>	<u>0.15</u>
– diluted		<u><b>(0.02)</b></u>	<u>0.14</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	<i>NOTES</i>	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	<i>14</i>	<b>719,917</b>	721,680
Right-of-use assets	<i>14</i>	<b>26,987</b>	29,041
Non-current deposits	<i>15</i>	<b>13,293</b>	19,570
Financial assets at fair value through profit or loss		<b>16,773</b>	25,761
		<b>776,970</b>	796,052
Current assets			
Inventories		<b>486,517</b>	476,613
Trade and other receivables	<i>15</i>	<b>300,266</b>	319,159
Tax recoverable		<b>1,195</b>	950
Pledged bank deposits		<b>122,009</b>	93,097
Bank balances and cash		<b>70,233</b>	36,109
		<b>980,220</b>	925,928
Current liabilities			
Trade and other payables	<i>16</i>	<b>69,518</b>	60,643
Contract liabilities	<i>17</i>	<b>15,610</b>	3,391
Amount due to a related company		<b>4,050</b>	50,000
Amount due to a non-controlling shareholder of a subsidiary		<b>2,941</b>	2,700
Tax payable		<b>3,370</b>	3,172
Secured bank borrowings	<i>18</i>	<b>718,370</b>	672,444
Bank overdrafts		<b>44,774</b>	41,500
Derivative liabilities		<b>273</b>	345
Lease liabilities		<b>708</b>	3,024
		<b>859,614</b>	837,219
Net current assets		<b>120,606</b>	88,709
		<b>897,576</b>	884,761

	<i>NOTES</i>	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Capital and reserves			
Share capital	<i>19</i>	<b>53,377</b>	51,432
Reserves		<b>818,868</b>	811,827
		<hr/>	<hr/>
Equity attributable to owners of the Company		<b>872,245</b>	863,259
Non-controlling interests		<b>710</b>	2,637
		<hr/>	<hr/>
Total equity		<b>872,955</b>	865,896
		<hr/>	<hr/>
Non-current liabilities			
Deferred tax liabilities		<b>5,188</b>	5,370
Lease liabilities		<b>8,168</b>	8,594
Secured bank borrowings	<i>18</i>	<b>11,265</b>	4,901
		<hr/>	<hr/>
		<b>24,621</b>	18,865
		<hr/>	<hr/>
		<b>897,576</b>	884,761
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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 1. GENERAL INFORMATION

Evergreen Products Group Limited (the “**Company**”) is a public limited company incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The Company’s immediate holding company is Evergreen Enterprise Holdings Limited, a company which was incorporated in the British Virgin Islands (the “**BVI**”). The Company’s ultimate holding company is Golden Evergreen Limited (“**GEL**”), a company incorporated in the BVI. GEL is wholly owned by HSBC International Trustee Limited, the trustee of the Felix Family Trust and CLC Family Trust (collectively, the “**Trust**”). The beneficiaries and settlors of the Trust, including Mr. Chang Chih Lung, Mr. Chang Yoe Chong Felix and their family members, are considered as the controlling shareholders of the Company. The registered office of the Company is PO Box 472, 2nd Floor, Harbour Place, 103 South Church Street, George Town, Grand Cayman KY1-1106, Cayman Islands and the principal place of business of the Company is 11th Floor, Chiap Luen Industrial Building, 30- 32 Kung Yip Street, Kwai Chung, New Territories, Hong Kong.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (hereinafter collectively refer as the “**Group**”) are the manufacturing and trading of hair products.

The consolidated financial statements are presented in Hong Kong dollars (“**HK\$**”). The Company’s functional currency is the United States dollars (the “**US\$**”). For the convenience of the financial statements users, the consolidated financial statements are presented in HK\$ as the Company’s shares are listed on the Stock Exchange.

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. Results for the year are 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 year ended 31 December 2019 as a result of the adverse market conditions during the current year.

## 2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“**HKFRSs**”)

### Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the “Amendments to References to the Conceptual Framework in HKFRS Standards” and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the 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 amendments to HKFRSs in the current year had no material impact on the Group’s financial position and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

The Group has applied the Amendments to HKAS 1 and HKAS 8 for the first time in the current year. 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 statement taken as a whole.

The application of the amendments in the current year had no impact on the consolidated financial statements.

### **New and amendments to HKFRSs in issue but not yet effective**

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts and the related Amendments <sup>1</sup>
Amendment to HKFRS 16	Covid-19-Related Rent Concessions <sup>4</sup>
Amendments to HKFRS 3	Reference to the Conceptual Framework <sup>2</sup>
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2 <sup>5</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) <sup>1</sup>
Amendments to HKAS 16	Property, Plant and Equipment Proceeds before Intended Use <sup>2</sup>
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract <sup>2</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018 – 2020 <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2023

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2022

<sup>3</sup> Effective for annual periods beginning on or after a date to be determined

<sup>4</sup> Effective for annual periods beginning on or after 1 June 2020

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2021

Except for the amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

## ***Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 “Interest Rate Benchmark Reform – Phase 2”***

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 “Interest Rate Benchmark Reform – Phase 2” relate to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements and disclosure requirements applying HKFRS 7 “Financial Instruments: Disclosures” to accompany the amendments regarding modifications and hedge accounting.

- **Modification of financial assets, financial liabilities and lease liabilities.** A practical expedient is introduced for modifications required by the reform (modifications required as a direct consequence of the interest rate benchmark reform and made on an economically equivalent basis). These modifications are accounted for by updating the effective interest rate. All other modifications are accounted for using the current HKFRSs requirements. A similar practical expedient is proposed for lessee accounting applying HKFRS 16 “Leases” (“**HKFRS 16**”); and
- **Disclosures.** The amendments require disclosures in order to allow users to understand the nature and extent of risks arising from the interest rate benchmark reform to which the Group is exposed to and how the entity manages those risks as well as the entity’s progress in transitioning from interbank offered rates to alternative benchmark rates, and how the entity is managing this transition.

As at 31 December 2020, the Group has several London Interbank Offered Rate, Hong Kong Interbank Offered Rate and Hong Kong Dollar Prime Rate bank loans which will or may be subject to interest rate benchmark reform. The Group will negotiate with the banks and closely monitor impact.

## ***Amendments to HKAS 1 “Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)”***

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:
  - (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and
  - (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and
- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity’s own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 “Financial Instruments: Presentation”.

In addition, Hong Kong Interpretation 5 was revised as a consequence of the Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.

Based on the Group's outstanding liabilities as at 31 December 2020, the application of the amendments will not result in reclassification of the Group's liabilities.

### ***Amendments to HKFRSs “Annual Improvements to HKFRSs 2018-2020”***

The annual improvements make amendments to the following standards.

#### *HKFRS 9 “Financial Instruments”*

The amendment clarifies that for the purpose of assessing whether modification of terms of original financial liability constitutes substantial modification under the “10 per cent” test, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other's behalf.

#### *HKFRS 16 “Leases”*

The amendment to Illustrative Example 13 accompanying HKFRS 16 removes from the example the illustration of reimbursement relating to leasehold improvements by the lessor in order to remove any potential confusion.

The application of the amendments is not expected to have a significant impact on the financial position and performance of the Group.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

The consolidated annual results set out in this announcement do not constitute the Group's consolidated financial statements for the year ended 31 December 2020 but are extracted from those financial statements.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

#### 4. REVENUE

##### Disaggregation of revenue from contracts with customers

Revenue represents amount received and receivable for the sales of hair products and net of discounts and sales related taxes during the year.

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>Group revenue by products</b>		
Wigs, hair accessories and others	713,526	554,762
High-end human hair extensions	145,936	184,508
Halloween products	30,739	38,135
	<u>890,201</u>	<u>777,405</u>

All revenue is recognised at a point in time.

Revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the designated location (delivery). The normal credit period is 90 days upon delivery. A contract liability is recognised for receipt in advance for sales in which revenue has yet been recognised.

All the Group's sales contracts are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

#### 5. 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 year 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 Group's CODM does not regularly review such information.

##### Geographical information

Revenue from the external customers, based on the location of delivery to customers are as follows:

	<b>Revenue from external customers</b>	
	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
The United States of America (the "USA")	784,079	610,439
The PRC	31,522	17,609
The United Kingdom	15,092	19,480
Japan	33,138	39,684
Germany	17,433	74,883
Others	8,937	15,310
	<u>890,201</u>	<u>777,405</u>

Revenue from the customers of the corresponding years contributing over 10% of the total revenue of the Group are as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Customer A <sup>1</sup>	332,679	235,117
Customer B <sup>1</sup>	<u>148,971</u>	<u>114,104</u>

<sup>1</sup> The owner of Customer A is a relative of the owner of Customer B.

An analysis of the Group's non-current assets other than financial assets by their physical geographical location is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Bangladesh	571,136	577,516
Hong Kong	99,557	96,146
The PRC	47,893	49,861
The USA	17,963	19,610
Japan	2,155	2,168
Thailand	8,017	8,131
Ukraine	<u>12,770</u>	<u>15,953</u>
	<u>759,491</u>	<u>769,385</u>

*Note:* Non-current assets excluded financial assets at fair value through profit or loss ("FVTPL") and property rental deposits.

## 6. OTHER INCOME

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
The amount represents:		
Bank interest income	238	368
Interest income on rental deposit	122	13
Processing income	774	140
Rental income from warehouses	924	983
Government grant ( <i>note</i> )	4,754	–
Insurance claim received	4,991	98
Sundry income	<u>1,805</u>	<u>1,266</u>
	<u>13,608</u>	<u>2,868</u>

*Note:* During the current year, the Group recognised government grants of HK\$4,754,000 in respect of COVID-19-related subsidies, which mainly comprised HK\$3,170,000 relating to Employment Support Scheme provided by the Hong Kong government, HK\$631,000 relating to unemployment and social grant provided by the PRC government, HK\$454,000 relating to sustainable benefits and employment adjustment subsidy provided by the Japan government, and HK\$444,000 relating to pandemic subsidy provided by the USA government.

## 7. OTHER GAINS AND LOSSES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Changes in fair value of the financial assets at FVTPL	(294)	3,739
Changes in fair value of derivative liabilities	72	154
Loss on disposal of property, plant and equipment	(163)	–
Loss on disposal of right-of-use assets	–	(10)
Inventories written off ( <i>note</i> )	(19,619)	–
Net foreign exchange losses	(2,376)	(420)
	<u>(22,380)</u>	<u>3,463</u>

*Note:* In June 2020, certain of the Group's fully depreciated machinery, equipment, furniture and fixtures and inventories located in the Group's Bangladesh factory were damaged by fire. The fire accident had no material impact to the operation of the factory and production lines. As at the date of this report, the insurance claim is still in progress and it is uncertain whether any amount of insurance claim can be recovered.

## 8. OTHER EXPENSES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Donation expense	253	729
	<u>253</u>	<u>729</u>

## 9. FINANCE COSTS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Interest on bank borrowings	31,524	35,701
Less: amount capitalised in the cost of qualifying assets	(10,596)	(15,853)
	<u>20,928</u>	<u>19,848</u>
Interest on lease liabilities	771	829
	<u>21,699</u>	<u>20,677</u>

**10. (LOSS) PROFIT BEFORE TAX**

	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
(Loss) profit before tax has been arrived at after charging:		
Depreciation of property, plant and equipment	<b>38,254</b>	38,573
Depreciation of right-of-use assets	<b>3,520</b>	4,572
	<hr/>	<hr/>
Total depreciation and amortisation	<b>41,774</b>	43,145
	<hr/>	<hr/>
Directors' emoluments		
– fee	<b>1,022</b>	1,168
– salaries and other benefits	<b>4,905</b>	3,780
– equity settled share-based expenses	<b>985</b>	984
– retirement benefits schemes contributions	<b>95</b>	93
	<hr/>	<hr/>
	<b>7,007</b>	6,025
Staff's salaries and other benefits	<b>281,987</b>	293,925
Staff's equity settled share-based expenses	<b>324</b>	2,543
Staff's retirement benefits scheme contributions	<b>15,415</b>	19,217
	<hr/>	<hr/>
Total staff costs	<b>304,733</b>	321,710
	<hr/>	<hr/>
Auditor's remuneration	<b>1,871</b>	1,410
Cost of inventories recognised as expense (included in cost of goods sold)	<b>737,546</b>	520,397
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## 11. INCOME TAX EXPENSE

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
The income tax expense comprises:		
Current tax:		
Hong Kong	22	–
The PRC Enterprise Income Tax (“EIT”)	74	184
Bangladesh	223	–
Other jurisdictions	307	622
	<u>626</u>	<u>806</u>
Deferred tax:		
Current year	6	(212)
	<u>632</u>	<u>594</u>

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “**Bill**”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2019 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be 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.

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

Meanwhile, the profit derived under the import processing arrangement are treated as 100% taxable under Hong Kong Profits Tax for both years. In addition, the processing factories of the Group are subject to the 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 for both years. Evergreen Products Factory (BD) Limited operating in Bangladesh is exempted from income tax for 10 financial years from the date of commencement of commercial operations (i.e. 10 May 2010) up to April 2020. Master Purple (BD) Limited operating in Bangladesh is exempted from income tax for 3 financial years from the date of commencement of commercial operation (i.e. 9 March 2020) up to 8 March 2023, afterwards with 3 financial years of 50% exemption and subsequently with 1 financial year of 25% exemption.

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

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

## 12. DIVIDENDS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2019 interim dividend of HK1.00 cent per share	–	6,482
2019 final dividend of HK2.00 cents (2019: 2018 final dividend of HK2.50 cents) per share	<u>13,222</u>	<u>15,375</u>
	<u><u>13,222</u></u>	<u><u>21,857</u></u>

Subsequent to the end of the reporting period, no final dividend was proposed for ordinary shareholders of the Company in respect of the year ended 31 December 2020 (2019: final dividend in respect of the year ended 31 December 2019 of HK2.0 cents per ordinary share, in an aggregate amount of HK\$13,222,000).

## 13. (LOSS) EARNINGS PER SHARE

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
(Loss) earnings attributable to owners of the Company:		
Earnings for the purpose of calculating basic and diluted (loss) earnings per share	<u>(16,176)</u>	<u>90,328</u>
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic (loss) earnings per share	667,295,876	621,664,000
Effect of dilutive potential ordinary share: Share award scheme	<u>–</u>	<u>2,268,000</u>
Weighted average number of ordinary shares for the purpose of calculating diluted (loss) earnings per share	<u><u>667,295,876</u></u>	<u><u>623,932,000</u></u>

The computation of diluted loss per share for the year ended 31 December 2020 does not take into account the shares held by the trustee of the share award scheme of the Company since it would result in a decrease in loss per share.

The weighted average number of ordinary shares for the purpose of basic earnings per share shown above for the year ended 31 December 2019 has been arrived at after deducting the shares held by the trustee of the share award scheme of the Company.

There were no other potential ordinary shares outstanding as at the end of both reporting periods.

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

During the Year, the Group spent approximately HK\$39.4 million (2019: HK\$198.0 million) 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 at the end of the reporting period. The resulting revaluation surplus of HK\$551,000 has been credited to the properties revaluation reserve for the year ended 31 December 2020 (2019: revaluation surplus of HK\$12,482,000).

During the Year, the Group entered into a new lease agreement for the use of a motor vehicle for 5 years. On the lease commencement, the Group recognised HK\$322,000 of right-of-use assets and HK\$322,000 of lease liabilities (2019: HK\$5,547,000 right-of-use assets and HK\$5,455,000 lease liabilities).

#### 15. TRADE AND OTHER RECEIVABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade receivables		
– contracts with customers	196,720	183,607
Less: Allowance for credit losses	<u>(2,700)</u>	<u>–</u>
	194,020	183,607
Other receivables	38,160	26,111
Purchase rebate receivables	12,449	19,786
Other tax receivables	1,247	1,293
Prepayments	10,272	10,754
Deposits paid to suppliers	43,725	77,608
Deposits for acquisition of property, plant and equipment	12,587	18,664
Property rental deposits	<u>1,099</u>	<u>906</u>
	<u><b>313,559</b></u>	<u><b>338,729</b></u>
Analysis for reporting purpose as		
Non-current assets	13,293	19,570
Current assets	<u>300,266</u>	<u>319,159</u>
	<u><b>313,559</b></u>	<u><b>338,729</b></u>

As at 1 January 2019, trade receivables from contracts with customers amounted to HK\$162,473,000.

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

	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
0 – 60 days	<b>137,794</b>	137,770
61 – 90 days	<b>39,643</b>	34,233
91 – 120 days	<b>11,422</b>	5,234
Over 120 days	<b>5,161</b>	6,370
	<b>194,020</b>	183,607

The Group normally allows a credit period up to 90 days to its customers. A longer credit period may be granted to large or long established customers with good payment history.

Before accepting any new customers, the Group has an internal credit control system to assess the potential customers' credit quality and the Board of Directors has delegated the management to be responsible for determination of credit limits and credit approvals for customers. Limits attributed to customers are reviewed periodically.

As at 31 December 2020, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK\$14,557,000 (2019: HK\$35,970,000) are past due at the reporting date. Out of the past due balance, HK\$571,000 (2019: HK\$14,999,000) has been past due 90 days or more and is not considered as in default due to long and on-going business relationship and good repayment record from these customers.

The Group does not hold any collateral over the balances.

Most of the Group's trade receivables are denominated in functional currency of the relevant group entities.

## 16. TRADE AND OTHER PAYABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade payables	46,513	36,568
Accrued staff costs	19,425	19,721
Accruals and other payables	3,580	4,354
	<u>69,518</u>	<u>60,643</u>

Credit period on purchases of goods is granted from 0-120 days but the Group will normally settle within 60 days.

The following is an aged analysis of trade payables presented based on invoice date at the end of each reporting period:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
0 – 60 days	<u>46,513</u>	<u>36,568</u>

Included in the Group's trade payables are the following amounts denominated in currency other than the functional currency of the relevant group entities:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Hong Kong dollars	<u>8,961</u>	<u>10,166</u>

## 17. CONTRACT LIABILITIES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Receipt in advance for sale of hair products	<u>15,610</u>	<u>3,391</u>

As at 1 January 2019, contract liabilities amounted to HK\$4,638,000.

Contract liabilities represent amounts received in advance for sale of hair products. Contract liabilities as at the end of each reporting period are recognised as revenue in subsequent year.

All contract liabilities are recognised as revenue in subsequent year for both years.

Contract liabilities are classified as current as they are expected to be settled within the Group's normal operating cycle. The balance of contract liabilities has increased mainly due to the increase in receipt in advance for sales of hair products.

During the year, one of the customers prepaid 18-months deposit with interest charged at 8% per annum, for its future purchase. As at 31 December 2020, the amount of HK\$11,670,000 including in contract liabilities.

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

When the Group receives a deposit before the production activity commences, this will give rise to contract liabilities at the start of production, until the revenue recognised on the relevant contract exceeds the amount of the deposit. The Group typically receives 30% to 50% deposit on acceptance of new customers' order.

## 18. SECURED BANK BORROWINGS

During the Year, the Group obtained new mortgage and short-term loans amounting to HK\$227.3 million (2019: HK\$294.9 million) and repaid mortgage and short-term loans of HK\$216.7 million (2019: HK\$300.4 million). Proceeds from new borrowings were used to finance the general operating activities and construction of production facilities of the Group. As at 31 December 2020, the bank borrowings arranged at floating rate are with average effective interest rates interest ranging from 1.47% to 6.20% (2019: 3.60% to 6.21%) per annum. The bank borrowings arranged at fixed rate is ranging from 1.19% to 1.78% (2019: 5.65%) per annum.

## 19. SHARE CAPITAL OF THE COMPANY

	<i>Notes</i>	<b>Number of shares</b>	<b>Share capital US\$'000</b>
Ordinary shares of US\$0.01 each			
Authorised:			
At 1 January 2019, 31 December 2019 and 31 December 2020		1,000,000,000	10,000
Issued and fully paid:			
At 1 January 2019		615,000,000	6,150
Issue of new ordinary shares by way of placing	<i>(a)</i>	33,180,000	332
Issue of new ordinary shares under specific mandate	<i>(b)</i>	12,902,000	129
At 31 December 2019		661,082,000	6,611
Issue of new ordinary shares by way of placing	<i>(c)</i>	25,000,000	250
At 31 December 2020		<u>686,082,000</u>	<u>6,861</u>

Shown in the consolidated financial statements as:

	<b>Amount HK\$'000</b>
At 31 December 2019	51,432
At 31 December 2020	<u>53,377</u>

*Notes:*

- (a) On 26 September 2019, the Company completed the placement of existing ordinary shares to independent investors of 33,180,000 ordinary shares of US\$0.01 each of the Company at a price of HK\$1.55 per ordinary share representing a discount of approximately 14.36% to the closing market price of the Company's ordinary shares on 20 September 2019.

Pursuant to a top-up subscription agreement dated 20 September 2019, the immediate holding company subscribed for 33,180,000 new ordinary shares of US\$0.01 in the Company at a price of HK\$1.55 per ordinary share on 3 October 2019. The proceeds were used to reduce borrowings for the Company. These new shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on 17 May 2019 and rank pari passu with other shares in issue in all respects.

- (b) In order to reduce borrowings for the Company, the Company issued 12,902,000 new ordinary shares of US\$0.01 each, for consideration of HK\$1.55 per share to the immediate holding company under a specific mandate. The new ordinary shares were issued on 15 November 2019 to the immediate holding company after approval by the independent shareholders at the extraordinary general meeting of the Company held on 13 November 2019. The new shares rank pari passu with the existing shares in all respects.
- (c) On 11 September 2020, the Company completed the placing of new ordinary shares to independent investors of 25,000,000 ordinary shares of US\$0.01 each of the Company at a price of HK\$1.43 per ordinary share representing a discount of approximately 17.82% to the closing market price of the Company's ordinary shares on 7 August 2020. The new shares rank pari passu with the existing shares in all respects.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

The year of 2020 was definitely a difficult and challenging year to the Group. During the Year, revenue of the Group increased to HK\$890.2 million but the Group recorded a significant decrease in profit with a net loss of approximately HK\$18.0 million, representing an increase of approximately 14.5% and a decrease of approximately 120.9% as compared to the year ended 31 December 2019, respectively. This Year 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 suffer any negative financial and production impact from COVID-19 even when it spread severely in China and some Asian countries. Our main production is in Bangladesh and approximately 88.1% of our export is to the United States. We even recorded an increment in sales 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 Year was able to catch up and even recorded an increase when compared to the year ended 31 December 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 margin. We offered special discounts on sales of products to customers during this tough year. We also noticed a change in our product mix during the Year. 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 17.2% when compared to 33.1% for the year ended 31 December 2019.

Accordingly, net margin was also affected and dropped to -2.1% when compared to a net profit margin of 11.1% for the year ended 31 December 2019.

### FINANCIAL REVIEW

During the Year, the Group’s financial results deteriorated as compared with 2019, primarily due to the net effect of sales increment as a result of expanded production capacity and a drop in sales margin due to a change in product mix under the COVID-19 pandemic during the Year.

#### 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 for 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 Year, the Group's revenue amounted to HK\$890.2 million, representing an increase of HK\$112.8 million or 14.5% as compared with HK\$777.4 million for the year ended 31 December 2019. The increase was primarily due to the result of its long-standing stable business relationships with the Group's existing clients and the strong overall market demand for its wigs and hair products. During the Year, market demand for the Group's wig products continued to grow despite the fact that product mix had changed from high margin products such as lace wigs to low margin products such as braids, and such demand was satisfied by the rapid increase in production capacity at the Bangladesh Factory. The Bangladesh Factory, which has consistent enhancements in its production capabilities and continued to steadily develop during the Year, remained as the main revenue source of the Group. During the Year, the revenue generated from hair goods made at the Bangladesh Factory accounted for 96.3% of the Group's total revenue as compared to 94.5% for the year ended 31 December 2019.

The United States remained as the Group's principal market during the Year with revenue contribution accounting for 88.1% of the Group's total revenue during the Year as compared to 78.5% for the year ended 31 December 2019. In terms of product segments, wigs, hair accessories and others remained as the Group's key product segment, accounting for 80.2% of its total revenue during the Year as compared to 71.4% for the year ended 31 December 2019.

*Wigs, hair accessories and others.* Revenue from wigs, hair accessories and others increased by HK\$158.7 million, or 28.6%, from HK\$554.8 million for the year ended 31 December 2019 to HK\$713.5 million for the Year, primary due to more sales of low-margin products such as braids during the Year.

*High-end human hair extensions.* Revenue from high-end human hair extensions decreased by HK\$38.5 million, or 20.9%, from HK\$184.5 million for the year ended 31 December 2019 to HK\$146.0 million for the Year, primarily due to a change of product demand to relatively low margin products under the COVID-19 pandemic.

*Halloween products.* Revenue from Halloween products decreased by HK\$7.4 million, or 19.4%, from HK\$38.1 million for the year ended 31 December 2019 to HK\$30.7 million for the Year, primarily due to the implementation of social distancing policy under the COVID-19 outbreak during the Year.

## **Cost of Goods Sold**

The Group's cost of goods sold increased by HK\$217.1 million, or 41.7%, from HK\$520.4 million for the year ended 31 December 2019 to HK\$737.5 million for the Year, which is in line with an increase in revenue and a change of product mix during the Year.

*Wigs, hair accessories and others.* Cost of goods sold for wigs, hair accessories and others increased by HK\$223.8 million, or 57.8%, from HK\$387.3 million for the year ended 31 December 2019 to HK\$611.1 million for the Year, corresponding with an increase in sales of these products during the Year.

*High-end human hair extensions.* Cost of goods sold for high-end human hair extensions decreased by HK\$3.4 million, or 3.1%, from HK\$108.6 million for the year ended 31 December 2019 to HK\$105.2 million for the Year, which is in line with an decrease in sales of these products during the Year.

*Halloween products.* Cost of goods sold for Halloween products decreased slightly by HK\$3.3 million, or 13.5%, from HK\$24.5 million for the year ended 31 December 2019 to HK\$21.2 million for the Year, corresponding with a decrease in sales of these products during the Year.

## **Gross Profit**

The Group changed its product mix to low margin products under the COVID-19 pandemic in 2020. During the Year, the Group's gross profit amounted to HK\$152.7 million, representing a decrease of HK\$104.3 million, or 40.6%, as compared with HK\$257.0 million for the year ended 31 December 2019, primarily due to a significant increase in sales of braid products which generated a relatively low gross profit. During the Year, the Group's gross profit margin amounted to 17.2%, representing a decrease of 15.9 percentage points from 33.1% for the year ended 31 December 2019.

*Wigs, hair accessories and others.* Gross profit for wigs, hair accessories and others decreased by HK\$65.1 million, or 38.9%, from HK\$167.5 million for the year ended 31 December 2019 to HK\$102.4 million for the Year. Gross profit margin for this segment decreased from 30.2% for the year ended 31 December 2019 to 14.4% for the Year, primarily due to change of product mix to low margin products during the Year.

*High-end human hair extensions.* Gross profit for high-end human hair extensions decreased by HK\$35.1 million, or 46.2%, from HK\$75.9 million for the year ended 31 December 2019 to HK\$40.8 million for the Year. Gross profit margin for this segment declined from 41.1% for the year ended 31 December 2019 to 27.9% for the Year, primarily due to sharing of high fixed costs amid a smaller scale of production during the Year under the COVID-19 pandemic when compared to the year ended 31 December 2019.

*Halloween products.* Gross profit for Halloween products decreased by HK\$4.1 million, or 30.1%, from HK\$13.6 million for the year ended 31 December 2019 to HK\$9.5 million for the Year. Gross profit margin for Halloween products decreased from 35.7% for the year ended 31 December 2019 to 30.9% for the Year, primarily due to sharing of high fixed costs amid a smaller scale of production during the Year under the COVID-19 pandemic when compared to the year ended 31 December 2019.

## **Other Income**

Other income increased by HK\$10.7 million, or 369.0%, from HK\$2.9 million for the year ended 31 December 2019 to HK\$13.6 million for the Year, primarily due to subsidies related to the COVID-19 pandemic received from governmental bodies of HK\$4.8 million, compensation from insurance claims in relation to cargo shipments of HK\$5.0 million and increases in other incomes such as warehouse rentals during the Year.

## **Other Gains And Losses**

Other gains and losses decreased by HK\$25.9 million, or 740.0%, from a gain of HK\$3.5 million for the year ended 31 December 2019 to a loss of HK\$22.4 million for the Year, primarily due to a loss of HK\$19.6 million resulting from a fire at the Bangladesh Factory occurred during the Year destroying certain machineries and inventories and a loss amounting to HK\$1.3 million from the disposal of certain life insurance contracts for one Director during the Year.

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

During the Year, the Group provided impairment allowance of HK\$2.7 million in respect of trade receivables (2019: nil). Due to the greater financial uncertainty triggered by the COVID-19 pandemic, the Group has increased the expected loss rates for the Year as there is a higher risk that a prolonged pandemic could lead to increased credit default rates.

## **Distribution and Selling Expenses**

Distribution and selling expenses decreased by HK\$1.6 million, or 10.7%, from HK\$15.0 million for the year ended 31 December 2019 to HK\$13.4 million for the Year, primarily due to a decrease in shipping expenses in respect of the sale conducted during the Year.

## **Administrative Expenses**

Administrative expenses decreased by HK\$17.1 million, or 12.2%, from HK\$140.2 million for the year ended 31 December 2019 to HK\$123.1 million for the Year, primarily due to tightened control on such expenses under the current pandemic situation.

## **Other Expenses**

Other expenses decreased by HK\$0.4 million, or 57.1%, from HK\$0.7 million for the year ended 31 December 2019 to HK\$0.3 million for the Year, primarily due to a decrease in the amount of donations made by the Group.

## **Finance Costs**

Finance costs increased by HK\$1.0 million, or 4.8%, from HK\$20.7 million for the year ended 31 December 2019 to HK\$21.7 million for the Year. During the Year, the Group capitalised interest on bank borrowings of HK\$10.6 million as the cost of qualifying assets (2019: HK\$15.9 million). Without such capitalisation, the decrease in finance costs, as compared to the year ended 31 December 2019, was HK\$4.3 million or 11.7% for the Year, primarily due to an increase in bank borrowings.

## **Taxation**

Income tax expense of the Group maintained at HK\$0.6 million for both the year ended 31 December 2019 and for the Year. Income tax expense included deferred taxation in the amount of HK\$6,000 for the Year (2019: included reversal of deferred taxation in the amount of HK\$0.2 million).

## **Net Loss**

The Group's net loss for the Year amounted to HK\$18.0 million, representing a decrease of HK\$104.2 million, or 120.9%, as compared with a net profit of HK\$86.2 million for the year ended 31 December 2019, primarily attributable to the significant negative impact from the outbreak of COVID-19, 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 year ended 31 December 2019 as a result of the adverse market conditions during the Year.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group's bank balances, pledged bank deposits and cash increased by 48.8% from HK\$129.2 million as at 31 December 2019 to HK\$192.2 million as at 31 December 2020. The increase in cash and bank balances as at 31 December 2020 was primarily due to the measures from banks for postponement on the repayment of bank loans and trade facilities during the Year.

## **Share Placements**

On 7 August 2020, the Company entered into a placing agreement with a placing agent who agreed to procure not less than six placees to purchase an aggregate of up to 60,000,000 new shares of the Company ("**Shares**"), on a best effort basis, at the placing price of HK\$1.43 per Share (the "**Placing**"). The Placing was completed on 11 September 2020. The placing price of HK\$1.43 per placing Share represents (i) a discount of approximately 17.82% to the closing price of HK\$1.74 per Share as quoted on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 7 August 2020, being the date of the placing agreement; and (ii) a discount of approximately 16.37% to the average of the closing price of HK\$1.71 per Share as quoted on the Stock Exchange for the last five consecutive trading days prior to 7 August 2020. A total of 25,000,000 new Shares with aggregate nominal value of US\$250,000 were successfully placed to not less than six independent placees under the Placing. The gross proceeds and net proceeds were approximately HK\$35.75 million and HK\$34.44 million, respectively. The net price per placing Share was approximately HK\$1.37. The net proceeds of the Placing have been used in settling outstanding liabilities of the Group. Details of the Placing were disclosed in the announcements of the Company dated 7 August 2020, 21 August 2020, 28 August 2020, 4 September 2020, 11 September 2020 and 14 September 2020, respectively.

The Company has been exploring various options to raise capital. Taking into account the benefits and cost of each of the options, the Board considered that the Placing was in the interests of the Company and the shareholders as a whole as it would not impose any interest burden on the Group. In the circumstances, the Company considered that the Placing was the most efficient way to raise capital in order to maintain a sufficient cash position of the Group to meet its current liabilities and to enhance the capital base of the Company.

### **Borrowings and Gearing Ratio**

As at 31 December 2020, the Group's banking facilities amounted to HK\$867.2 million, of which HK\$92.8 million remained unutilised. As at 31 December 2020, the gearing ratio of the Group, which is equivalent to total interest-bearing debt (including secured bank borrowings, bank overdrafts and obligations under finance leases) divided by total equity, was 88.7% as compared to 83.0% as at 31 December 2019. Moreover, the net gearing ratio of the Group, which is equivalent to total interest-bearing debt (including secured bank borrowings, bank overdrafts and obligations under finance leases) net of total cash and bank balances divided by total equity, was 66.7% as compared to 68.1% as at 31 December 2019. The increase in gearing ratio was primarily due to an increase in bank borrowings for the Year while the decrease in net gearing ratio was primarily due to an increase in cash and cash equivalents as at 31 December 2020.

### **Capital Expenditure and Capital Commitments**

During the Year, the Group spent approximately HK\$39.4 million (including interest on bank borrowings of HK\$10.6 million capitalised as the cost of qualifying assets) on additions to fixed assets as compared to HK\$198.0 million (including interest on bank borrowings of HK\$15.9 million capitalised as the cost of qualifying assets) for the year ended 31 December 2019 mainly to maintain its manufacturing capabilities in Bangladesh. As at 31 December 2020, the Group had capital commitments of HK\$1.0 million in respect of property, plant and equipment (31 December 2019: HK\$0.1 million).

## **Currency Risks**

A significant portion of the Group's revenue is derived from sales to overseas customers denominated in foreign currencies. For the Year, 88.1% (2019: 78.5%) of the Group's revenue was denominated in U.S. dollar ("US\$"). The Group mainly operates in Bangladesh and the PRC and most of the Group's operating expenses are denominated in Bangladeshi Taka ("Taka") and Renminbi ("RMB").

During the Year, the Group did not enter into any foreign currency forward contracts in view of the high volatility in the exchange rate of RMB. The Group has not hedged exposure to any change in the foreign exchange rate of Taka. The value of Taka or RMB against US\$ and other currencies may fluctuate due to, among other things, political as well as economic policies and conditions both in the jurisdictions in which the Group operates as well as globally. The Group's profit margins could be adversely affected to the extent that the Group is unable to increase the US\$ denominated selling prices of products sold to overseas customers or shift the exchange risk to the Group's customers to account for the appreciation of Taka or RMB against US\$. These fluctuations may result in exchange losses or gains or increases or reductions in the Group's costs after translation from US\$ to RMB or Taka. Any appreciation of Taka or RMB may lead to an increase in the Group's manufacturing costs if the Group is unable to pass on such additional costs to customers. This potential increase may, in turn, affect the Group's competitiveness against competitors outside Bangladesh and/or the PRC.

## **Contingent Liabilities**

As at 31 December 2020, the Group did not have any material contingent liabilities.

## **Pledge of Assets**

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

- (a) a pledge of the Group's bank deposits of approximately HK\$122.0 million;
- (b) a negative pledge on the assets of the Group's subsidiaries in the PRC and Bangladesh;
- (c) insurance contracts entered for one of the Directors; and
- (d) the Group's land and buildings in Hong Kong.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 31 December 2020, the Group employed a total of (i) 26,699 employees in Bangladesh, as compared to 21,634 as at 31 December 2019, (ii) 375 employees in China, as compared to 402 as at 31 December 2019, (iii) 61 employees in Hong Kong, as compared to 62 as at 31 December 2019, and (iv) 26 employees in Japan, the United States, Thailand and Ukraine, as compared to 31 as at 31 December 2019.

Total employee expenditures during the Year amounted to HK\$297.2 million as compared to HK\$321.7 million for the year ended 31 December 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 the respective subsidiaries of the Group in Bangladesh.

### **Share Option Scheme**

On 19 June 2017, a share option scheme was adopted, 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 Shares.

During the Year, 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 will be entitled to participate.

Details of the Share Award Scheme are set out in the announcement of the Company dated 11 December 2017.

Since the adoption date of the Share Award Scheme and up to 31 December 2020, a total of 5,333,334 Shares, representing approximately 0.78% of the total issued Shares as at 31 December 2020, were granted by the Company to certain Directors, senior management and employees of the Company. During the Year, 1,910,667 awarded Shares were vested in the name of selected employees under the Share Award Scheme.

As at 31 December 2020, the trustee of the Share Award Scheme held a total of 355,333 Shares, of which 250,000 Shares remained unvested 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.

## **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 Year; and (ii) no plans have been authorised by the Board for any material investments or additions of capital assets as at the date of this announcement.

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

There were no events after the reporting period that had significant impacts on the Group after 31 December 2020 and up to the date of this announcement.

## **OUTLOOK**

The coronavirus crisis has hit the global economy seriously. Recently, many countries already started rolling out mass coronavirus vaccination programme in an effort to resume business and social activities. The Group has been closely monitoring the market conditions and adjusting its business strategies and operations to minimize any negative impacts, including proactive cost control measures on factory operating costs and staff costs. Such measures will nonetheless take time to reflect in the Group's sales performance.

In the coming year, the Group will continue to enhance the e-commerce operation capability and develop new e-commerce platforms to explore the African American and Caucasian markets and also be enabled with the technology of virtual reality (VR) for selling digital wigs in games. We have engaged Shadow Factory Limited, a leading VR/AR production company, and details are set out in the announcement of the Company dated 22 September 2020.

## **ANNUAL GENERAL MEETING**

An annual general meeting (the "AGM") of the Company is scheduled to be held on Monday, 17 May 2021, notice of which will be published and despatched to the shareholders as soon as practicable in accordance with the Company's articles of association and the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

## **FINAL DIVIDEND**

The Board does not recommend the payment of a final dividend for the Year and no interim dividend was declared during the Year (2019: final dividend of HK2.0 cents per Share and interim dividend of HK1.0 cent per Share).

## **CLOSURE OF REGISTER OF MEMBERS**

For the purposes of determining the eligibility of the shareholders of the Company to attend and vote at the AGM or any adjournment thereof, the register of members of the Company will be closed from Wednesday, 12 May 2021 to Monday, 17 May 2021, both dates inclusive, during which period no transfer of Shares will be registered.

In order to be eligible to attend and vote at the AGM, all transfer of the Shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 11 May 2021.

The record date for such purposes is Monday, 17 May 2021.

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

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

## **CORPORATE GOVERNANCE**

The Company has adopted the principles and code provisions of the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to the Listing Rules as the basis of the Company’s corporate governance practices.

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 on the Board and this structure will enable the Company to make and implement decisions promptly and effectively.

Save as disclosed above, in the opinion of the Board, the Company has complied with the code provisions in the CG Code throughout the Year.

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the “**Model Code**”) as its code of conduct for 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 Year.

## **REVIEW OF CONSOLIDATED ANNUAL RESULTS BY THE AUDIT COMMITTEE**

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

## **SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU**

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in this preliminary announcement have been agreed by the Group's external auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the Year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with the Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this preliminary announcement.

## **PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL 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 annual report of the Company for the Year 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, 30 March 2021

*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.*