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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 2021**

#### **FINANCIAL HIGHLIGHTS**

- Revenue for the Period amounted to HK\$548.9 million, representing an increase of 49.1% from HK\$368.2 million for the corresponding period in 2020.
- Gross profit for the Period amounted to HK\$117.4 million, representing an increase of 34.1% from HK\$87.5 million for the corresponding period in 2020.
- Net profit for the Period amounted to HK\$30.8 million, representing an increase of 369.8% from HK\$6.5 million for the corresponding period in 2020, primarily due to the global COVID-19 pandemic having been brought under control, the demand for and hence the sales of human hair extension products and lace products with high profit margin having gradually recovered and there having been a strong demand for braid products since the second half of 2020 which continued throughout the rest of the Period when compared to the corresponding period in 2020 as a result of the favourable market conditions during the Period.
- The Board has declared the payment of interim dividend of HK\$1.3 cents per Share for the Period (30 June 2020: No interim dividend declared).
- The interim dividend payout ratio is 29.0% for the Period (2020: Interim dividend payout ratio: Nil).

## 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 2021 (the “**Period**”) together with comparative figures for the corresponding period in 2020 as set out below:

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

For the six months ended 30 June 2021

	Notes	Six months ended	
		30.6.2021 HK\$'000 (Unaudited)	30.6.2020 HK\$'000 (Unaudited)
Revenue	3	548,887	368,203
Cost of goods sold		<u>(431,481)</u>	<u>(280,655)</u>
Gross profit		117,406	87,548
Other income		2,330	2,151
Other gains and losses		(3,419)	(7,564)
Impairment losses under expected credit loss model on trade receivable, net of reversal		940	(1,656)
Distribution and selling expenses		(7,091)	(5,221)
Administrative expenses		(66,071)	(57,868)
Other expenses		(388)	(227)
Finance costs		<u>(11,267)</u>	<u>(10,063)</u>
Profit before tax		32,440	7,100
Income tax expense	4	<u>(1,689)</u>	<u>(555)</u>
Profit for the period	5	<u>30,751</u>	<u>6,545</u>
Other comprehensive income (expense):			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising from translation of foreign operations		<u>954</u>	<u>(4,507)</u>
Other comprehensive income (expense) for the period, net of income tax		<u>954</u>	<u>(4,507)</u>
Total comprehensive income for the period		<u><u>31,705</u></u>	<u><u>2,038</u></u>

	<i>Note</i>	<b>Six months ended</b>	
		<b>30.6.2021</b>	30.6.2020
		<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
		<b>(Unaudited)</b>	(Unaudited)
Profit (loss) for the period attributable to:			
Owners of the Company		<b>29,626</b>	7,902
Non-controlling interests		<b>1,125</b>	(1,357)
		<u><b>30,751</b></u>	<u>6,545</u>
Total comprehensive income (expense) attributable to:			
Owners of the Company		<b>30,401</b>	3,414
Non-controlling interests		<b>1,304</b>	(1,376)
		<u><b>31,705</b></u>	<u>2,038</u>
Earnings per share (HK\$)	7		
– basic		<u><b>0.04</b></u>	<u>0.01</u>
– diluted		<u><b>0.04</b></u>	<u>0.01</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2021

		<b>30.6.2021</b>	31.12.2020
		<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>714,980</b>	719,917
Right-of-use assets	8	<b>30,442</b>	26,987
Non-current deposits	9	<b>11,352</b>	13,293
Financial assets at fair value through profit or loss		<b>19,789</b>	16,773
		<b>776,563</b>	776,970
<b>CURRENT ASSETS</b>			
Inventories		<b>451,608</b>	486,517
Trade and other receivables	9	<b>281,198</b>	300,266
Tax recoverable		<b>1,203</b>	1,195
Pledged bank deposits		<b>121,825</b>	122,009
Bank balances and cash		<b>75,074</b>	70,233
		<b>930,908</b>	980,220
<b>CURRENT LIABILITIES</b>			
Trade and other payables	10	<b>70,483</b>	69,518
Contract liabilities		<b>16,509</b>	15,610
Amount due to a related company		<b>2,930</b>	4,050
Amount due to a non-controlling shareholder of a subsidiary		<b>2,876</b>	2,941
Tax payable		<b>3,508</b>	3,370
Secured bank borrowings	11	<b>644,775</b>	718,370
Bank overdrafts	11	<b>33,566</b>	44,774
Derivative liabilities		<b>41</b>	273
Lease liabilities		<b>2,679</b>	708
		<b>777,367</b>	859,614
<b>NET CURRENT ASSETS</b>		<b>153,541</b>	120,606
		<b>930,104</b>	897,576

	<b>30.6.2021</b>	31.12.2020
	<b>HK\$'000</b>	<b>HK\$'000</b>
<i>Note</i>	<b>(Unaudited)</b>	(Audited)
<b>CAPITAL AND RESERVES</b>		
Share capital	<b>53,377</b>	53,377
Reserves	<b>849,333</b>	818,868
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Equity attributable to owners of the Company	<b>902,710</b>	872,245
Non-controlling interests	<b>2,014</b>	710
	<hr/>	<hr/>
<b>TOTAL EQUITY</b>	<b>904,724</b>	872,955
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<b>NON-CURRENT LIABILITIES</b>		
Deferred tax liabilities	<b>5,048</b>	5,188
Lease Liabilities	<b>9,802</b>	8,168
Secured bank borrowings	<b>10,530</b>	11,265
<i>11</i>	<hr/>	<hr/>
	<b>25,380</b>	24,621
	<hr/>	<hr/>
	<b>930,104</b>	897,576
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# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

## 1. BASIS OF PREPARATION

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

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

## 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**”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2021 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2020.

### Application of amendments to HKFRSs

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2021 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2

Except as described below, the application of the amendments to HKFRSs in the current interim 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.

## 2.1 IMPACTS AND ACCOUNTING POLICIES ON APPLICATION OF AMENDMENTS TO HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 AND HKFRS 16 “INTEREST RATE BENCHMARK REFORM – PHASE 2”

### 2.1.1 Accounting policies

#### *Financial instruments*

Changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform

For changes in the basis for determining the contractual cash flows of a financial asset or financial liability to which the amortised cost measurement applies as a result of interest rate benchmark reform, the Group applies the practical expedient to account for these changes by updating the effective interest rate, such change in effective interest rate normally has no significant effect on the carrying amount of the relevant financial asset or financial liability.

A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if and only if, both these conditions are met:

- the change is necessary as a direct consequence of interest rate benchmark reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis (i.e. the basis immediately preceding the change).

### 2.1.2 Transition and summary of effects

As at 1 January 2021, the Group has several financial liabilities and derivatives, the interest of which are indexed to benchmark rates that will or may be subject to interest rate benchmark reform.

The following table shows the total amounts of outstanding contracts. The amounts of financial liabilities are shown at their carrying amounts and derivatives are shown at their notional amounts.

	<b>London Interbank Offered Rate ("LIBOR") HK\$'000</b>	<b>Hong Kong Interbank Offered Rate ("HIBOR") HK\$'000</b>
Secured bank borrowings	332,883	276,125
Bank overdrafts	31,332	–
Derivative liabilities	–	15,000
	<b>—————</b>	<b>—————</b>

The Group intends to apply the practical expedient in relation to the changes in contractual cash flows resulting from the interest rate benchmark reform for secured bank borrowings and bank overdrafts measured at amortised cost and derivative liabilities at fair value through profit or loss (“FVTPL”). The amendments have had no impact on the condensed consolidated financial statements as none of the above contracts has been transitioned to the relevant replacement rates during the interim period. The impacts on application of the amendments, if any, including additional disclosures, will be reflected in the Group’s consolidated financial statements for the year ending 31 December 2021.

### 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 Group’s CODM does not regularly review such information.

#### Disaggregation of revenue from contracts with customers

##### *Group revenue by products*

	Six months ended	
	30.6.2021	30.6.2020
	<i>HK\$’000</i>	<i>HK\$’000</i>
	(Unaudited)	(Unaudited)
Wigs, hair accessories and others	459,195	295,161
High-end human hair extensions	68,048	51,266
Halloween products	21,644	21,776
	<u>548,887</u>	<u>368,203</u>

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

	Six months ended	
	30.06.2021	30.06.2020
	<i>HK\$’000</i>	<i>HK\$’000</i>
	(Unaudited)	(Unaudited)
United States of America	492,361	315,982
The People’s Republic of China (the “PRC”)	12,140	13,238
United Kingdom	7,442	4,899
Germany	17,240	7,927
Japan	14,593	14,112
Others	5,111	12,045
	<u>548,887</u>	<u>368,203</u>

All revenue is recognised at a point of time.

#### 4. INCOME TAX EXPENSE

Six months ended	
30.6.2021	30.6.2020
<i>HK\$'000</i>	<i>HK\$'000</i>
(Unaudited)	(Unaudited)

The taxation charge comprises:

Current tax:

Hong Kong	–	20
Bangladesh	<b>1,695</b>	299
The PRC Enterprise Income Tax (“EIT”)	<b>3</b>	71
Other jurisdictions	<b>131</b>	64
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	<b>1,829</b>	454
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Deferred tax:

Current period	<b>(140)</b>	101
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	<b>1,689</b>	<b>555</b>
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During the six months ended 30 June 2020, 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 current interim period as the Group does not have assessable profits arising in Hong Kong.

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.

For both periods, the subsidiaries operating in Bangladesh are subject to income tax rate of the higher of 0.6% of revenue or 32.5% on the assessable profit except Evergreen Products Factory (BD) Limited and Master Purple (BD) Limited. 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 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>30.6.2021</b>	30.6.2020
	<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	<b>18,368</b>	22,399
Depreciation of right-of-use assets	<b>1,776</b>	2,112
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Total depreciation and amortisation	<b>20,144</b>	24,511
	<hr/>	<hr/>
Interest income	<b>(67)</b>	(180)
Government grants (included in other income)	<b>(123)</b>	(876)
Cost of inventories recognised as expense (included in cost of goods sold)	<b>431,481</b>	280,655
Short-term lease payments	<b>38</b>	38
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## 8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

During the period ended 30 June 2021, the Group spent HK\$9,651,000 (for the six months ended 30 June 2020: HK\$12,922,000 (unaudited)) on property, plant and equipment.

In the opinion of the directors of the Company, the respective carrying amounts of the Group's owned properties at the end of the current interim period that are carried at revalued amounts do not differ significantly from their respective estimated fair values. Consequently, no revaluation surplus or deficit has been recognised in the current interim period.

During the period ended 30 June 2021, the Group entered into a new lease agreement for the use of leasehold land and buildings (for the six months ended 30 June 2020: motor vehicle) with lease term ranged from 2.2 to 3 years (for the six months ended 30 June 2020: 4.5 years). The Group is required to make fixed monthly payments. On lease commencement, the Group recognised right-of-use assets of HK\$5,006,000 (for the six months ended 30 June 2020: HK\$322,000) and lease liabilities of HK\$5,006,000 (for the six months ended 30 June 2020: HK\$322,000).

## 9. TRADE AND OTHER RECEIVABLES

	<b>30.6.2021</b> <b>HK\$'000</b> <b>(Unaudited)</b>	31.12.2020 <i>HK\$'000</i> <i>(Audited)</i>
Trade receivables		
– contracts with customers	<b>191,479</b>	196,720
Less: allowance for credit loss	<b>(1,760)</b>	(2,700)
	<b>189,719</b>	194,020
Other receivables	<b>38,799</b>	38,160
Purchase rebate receivables	–	12,449
Other tax receivables	<b>800</b>	1,247
Prepayments	<b>11,219</b>	10,272
Deposits paid to suppliers	<b>40,587</b>	43,725
Deposits for acquisition of property, plant and equipment	<b>10,269</b>	12,587
Property rental deposits	<b>1,157</b>	1,099
	<b>292,550</b>	313,559
Analysis for reporting purpose as		
Non-current assets	<b>11,352</b>	13,293
Current assets	<b>281,198</b>	300,266
	<b>292,550</b>	313,559

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>30.6.2021</b> <b>HK\$'000</b> <b>(Unaudited)</b>	31.12.2020 <i>HK\$'000</i> (Audited)
0 – 60 days	160,653	137,794
61 – 90 days	15,161	39,643
91 – 120 days	9,210	11,422
Over 120 days	4,695	5,161
	<u>189,719</u>	<u>194,020</u>

#### 10. TRADE AND OTHER PAYABLES

	<b>30.6.2021</b> <b>HK\$'000</b> <b>(Unaudited)</b>	31.12.2020 <i>HK\$'000</i> (Audited)
Trade payables	39,582	46,513
Accrued staff costs	25,939	19,425
Accruals and other payables	4,962	3,580
	<u>70,483</u>	<u>69,518</u>

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

	<b>30.6.2021</b> <b>HK\$'000</b> <b>(Unaudited)</b>	31.12.2020 <i>HK\$'000</i> (Audited)
0 – 60 days	38,681	46,513
61 – 90 days	67	–
Over 120 days	834	–
	<u>39,582</u>	<u>46,513</u>

## 11. SECURED BANK BORROWINGS/BANK OVERDRAFTS

	<b>30.6.2021</b> <b>HK\$'000</b> <b>(Unaudited)</b>	31.12.2020 <i>HK\$'000</i> <i>(Audited)</i>
Bank overdrafts	<b>33,566</b>	44,774
Trust receipts loans and discounted bills	<b>284,620</b>	338,692
Mortgage and short term loan	<b>370,685</b>	390,963
	<b>688,871</b>	774,409

The carrying amounts of the borrowings are analysed as follows:

Original currency	<b>30.6.2021</b> <b>HK\$'000</b> <b>(Unaudited)</b>	31.12.2020 <i>HK\$'000</i> <i>(Audited)</i>	Interest rate
HK\$	<b>281,268</b>	365,899	Hong Kong Dollar Prime Rate minus 1.85% to Hong Kong Dollar Prime Rate plus 1% or HIBOR plus 1.2% to HIBOR plus 3.5% (31 December 2020: Hong Kong Dollar Prime Rate minus 1.5% to Hong Kong Dollar Prime Rate or HIBOR plus 1.2% to HIBOR plus 3.5% or fixed interest rate at 5.65%)
US\$	<b>332,115</b>	332,883	LIBOR plus 2.5% to LIBOR plus 4% (31 December 2020: LIBOR plus 1.5%)
Renminbi	<b>64,958</b>	64,362	PRC Loan Prime Rate plus 1% to PRC Loan Prime Rate plus 1.375% (31 December 2020: PRC Loan Prime Rate plus 1% to PRC Loan Prime Rate plus 1.375%)
Japanese Yen	<b>10,530</b>	11,265	Fixed interest at 1.19% or 1.78% (31 December 2020: Fixed interest at 1.19% or 1.78%)
Total	<b>688,871</b>	774,409	

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>30.6.2021</b> <b>HK\$'000</b> <b>(Unaudited)</b>	31.12.2020 <i>HK\$'000</i> <i>(Audited)</i>
Bank overdrafts	<u>33,566</u>	<u>44,774</u>
Bank borrowings are repayable ( <i>Note</i> )		
Within 1 year	587,658	634,906
After 1 year but within 2 years	17,267	26,949
After 2 years but within 5 years	41,954	54,451
After 5 years	<u>8,426</u>	<u>13,329</u>
Total bank borrowings	<u>655,305</u>	<u>729,635</u>
Total	<u><b>688,871</b></u>	<u><b>774,409</b></u>
Bank borrowings comprising:		
Amounts due within one year shown under current liabilities and containing a repayment on demand clause	587,658	634,906
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>57,117</u>	<u>83,464</u>
	<u>644,775</u>	<u>718,370</u>
Amounts due within one year shown under current liabilities		
Comprising:		
Bank overdrafts	33,566	44,774
Secured bank borrowings	<u>644,775</u>	<u>718,370</u>
	<b>678,341</b>	763,144
Amounts shown under non-current liabilities		
Comprising:		
Secured bank borrowings	<u>10,530</u>	<u>11,265</u>
Total	<u><b>688,871</b></u>	<u><b>774,409</b></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 3.64% to 5.88% and are repayable on demand (31 December 2020: 5.00% to 6.27%).

The bank borrowings arranged at floating rates are with average effective interest rates ranging from 1.83% to 5.25% (31 December 2020: 1.47% to 6.20%) per annum. The bank borrowings arranged at fixed rate are ranging from 1.19% to 1.78% (2020: ranging from 1.19% to 5.65%) per annum.

As at 30 June 2021 and 31 December 2020, the Group's banking facilities were secured by:

- (a) pledge of the Group's bank deposits of approximately HK\$121,825,000 (2020: HK\$122,009,000);
- (b) the Group's land and buildings and carparks in Hong Kong of approximately HK\$85,900,000 (2020: HK\$85,900,000);
- (c) negative pledge on the assets of certain subsidiaries in the PRC and Bangladesh; and
- (d) certain financial assets at FVTPL of the Group.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

During the Period, the COVID-19 pandemic continued to wreak havoc worldwide and brought unprecedented challenges to all industries. The capacity restrictions and the social distancing measures during the COVID-19 pandemic altered the lifestyle of people such as women of African descent, the primary patrons of African hair braiding salons, turned to the internet to learn how to style and braid their own hair while in social isolation. Thus, a strong demand for braid products since the second half of 2020 continued throughout the rest of the Period.

As more and more people get vaccinated, the COVID-19 pandemic is expected to gradually come under control which will boost confidence in the economic recovery, so that they can return to hair salons for hair maintenance and styling, and to retail shops buying hair products which drive the demand for and hence the sales of human hair extension products and lace products with high margin and the sales of these products having gradually recovered during the Period. The revenue of the Group amounted to HK\$548.9 million for the Period, representing an increase of approximately 49.1% against the corresponding period ended 30 June 2020. Gross profit margin slightly reduced to 21.4%, mainly due to the change in the product mix since the second half of 2020 which continued throughout the Period. The sales of braid products with low margin kept strong demand and the sales of human hair products with high margin gradually recovered. Net profit margin rose to 5.6% when compared to 1.8% for the corresponding period ended 30 June 2020, mainly due to the increase in revenue.

### **OUTLOOK**

The COVID-19 pandemic has completely changed the lifestyle of people, and trends such as shopping online will not be reversible. The Group will continue to grow the E-commerce team, aiming to expand its customer base, achieve a more balanced and healthy market layout, and enhance its risk resistance. Besides, the Group has continuously made all efforts to reduce costs and overheads to make further improvement in the profitability soonest possible and preserve working capital for any future opportunities.

The Board believes that the Group has overcome challenges from the COVID-19 pandemic and the market demand for high margin products will gradually restore 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 maximising our shareholders' value.

## FINANCIAL REVIEW

During the Period, the Group's financial results grew significantly compared with the same period in 2020, primarily due to the sales growth substantially boosted by the strong market demand rebound after the COVID-19 pandemic stabilised and vaccination program was launched effectively.

### REVENUE

Revenue of the Group is mainly generated from the manufacturing and sales of its products. Revenue represents the amount received by the Group and the receivables from the sales 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\$548.9 million, representing a significant increase of HK\$180.7 million, or 49.1%, as compared to HK\$368.2 million for the corresponding period in 2020. The increase was primarily due to the strong market demand rebound on its wig and hair products. During the Period, the market demand for the Group's wig products continued to grow, and the Bangladesh factory has consistent enhancement in its production capabilities to satisfy strong demand. During the Period, the revenue generated from hair goods made at the Bangladesh factory accounted for 97.7% of the Group's total revenue as compared to 96.1% for the corresponding period in 2020.

The United States remained as the Group's principal market during the Period with revenue contribution accounting for 89.7% of the Group's total revenue during the Period as compared to 85.8% for the corresponding period in 2020. In terms of product segment, wigs, hair accessories and others remained as the Group's key product segment accounting for 83.7% of its total revenue during the Period as compared to 80.1% for the corresponding period in 2020.

*Wigs, hair accessories and others.* Revenue for wigs, hair accessories and others increased by HK\$164.0 million, or 55.6%, from HK\$295.2 million for the six months ended 30 June 2020 to HK\$459.1 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 increased by HK\$16.8 million, or 32.7%, from HK\$51.3 million for the six months ended 30 June 2020 to HK\$68.0 million for the Period, primarily due to an increase in sales volume of human hair products after the market demand gradually restored and the COVID-19 social distancing restrictions may be relaxed.

*Halloween products.* Revenue for Halloween products slightly decreased by HK\$0.1 million, or 0.6%, from HK\$21.8 million for the six months ended 30 June 2020 to HK\$21.6 million for the Period, primarily due to a slight decrease in sales volume due to the tightened COVID-19 social distancing restrictions during Halloween festival.

## Cost of Goods Sold

The Group's cost of goods sold increased by HK\$150.8 million, or 53.7%, from HK\$280.7 million for the six months ended 30 June 2020 to HK\$431.5 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\$137.5 million, or 58.8%, from HK\$233.9 million for the six months ended 30 June 2020 to HK\$371.3 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 increased by HK\$13.0 million, or 40.3%, from HK\$32.3 million for the six months ended 30 June 2020 to HK\$45.4 million for the Period. The increase was in line with the increase in revenue from this segment.

*Halloween products.* Cost of goods sold for Halloween products slightly increased by HK\$0.3 million, or 2%, from HK\$14.5 million for the six months ended 30 June 2020 to HK\$14.8 million for the Period. The increase was the increase in production cost of Halloween products during the Period.

## Gross Profit

During the Period, the Group's gross profit amounted to HK\$117.4 million, representing an increase of HK\$29.9 million, or 34.1%, as compared to HK\$87.5 million for the corresponding period in 2020, 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 21.4%, representing a decrease of 2.4% from 23.8% for the corresponding period in 2020.

*Wigs, hair accessories and others.* Gross profit for wigs, hair accessories and others increased by HK\$26.5 million, or 43.2%, from HK\$61.2 million for the six months ended 30 June 2020 to HK\$87.8 million for the Period. Gross profit margin for wigs, hair accessories and others decreased from 20.7% for the six months ended 30 June 2020 to 19.1% 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 increased by HK\$3.8 million, or 19.8%, from HK\$19.0 million for the six months ended 30 June 2020 to HK\$22.7 million for the Period. Gross profit margin for high-end human hair extensions decreased from 36.9% for the six months ended 30 June 2020 to 33.4% for the Period, as a result of a greater increase in the total production overheads than the increase in sales for the Period.

*Halloween products.* Gross profit for Halloween products decreased by HK\$0.4 million, or 5.8%, from HK\$7.3 million for the six months ended 30 June 2020 to HK\$6.9 million for the Period, which was in line with the decrease in revenue from the segment during the Period. Gross profit margin for Halloween products decreased from 33.5% for the six months ended 30 June 2020 to 31.7% for the Period, primarily due to an increase in total production costs of Halloween products during the Period.

### **Other Income**

Other income increased by HK\$0.1 million, or 8.3%, from HK\$2.2 million for the six months ended 30 June 2020 to HK\$2.3 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\$4.2 million, or 54.8%, from losses of HK\$7.6 million for the six months ended 30 June 2020 to losses of HK\$3.4 million for the Period. The other gains and losses primarily comprised a loss amounting to HK\$1.8 million from the fair value change of the financial assets at fair value through profit and loss and HK\$1.8 million from the loss on the exchange conversion due to the repayment of a bank loan in Hong Kong dollars during the Period.

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

During the Period, the Group reversed impairment allowance of HK\$0.9 million in respect of trade receivables (2020: The Group provided HK\$1.7 million).

### **Distribution and Selling Expenses**

Distribution and selling expenses increased by HK\$1.9 million, or 35.8%, from HK\$5.2 million for the six months ended 30 June 2020 to HK\$7.0 million for the Period, primarily due to an increase in shipping expenses in respect of the sales conducted during the Period.

## **Administrative Expenses**

Administrative expenses increased by HK\$8.2 million, or 14.2%, from HK\$57.9 million for the six months ended 30 June 2020 to HK\$66.1 million for the Period, primarily due to an increase in salary remuneration and rent, rate and government rate during the Period.

## **Other Expenses**

Other expenses increased by HK\$0.2 million, or 70.9%, from HK\$0.2 million for the six months ended 30 June 2020 to HK\$0.4 million for the Period, primarily due to an increase in donation made during the Period.

## **Finance Costs**

Finance costs increased by HK\$1.2 million, or 12.0%, from HK\$10.1 million for the six months ended 30 June 2020 to HK\$11.3 million for the Period. During the Period, the Group capitalised interest on bank borrowings of HK\$3.6 million as cost of qualifying assets (30 June 2020: HK\$6.5 million). Without such capitalisation, finance costs for the Period were decreased by HK\$1.6 million, or 9.8%, as compared with the corresponding period in 2020 primarily due to a decrease in capitalised interest on bank borrowings.

## **Taxation**

Income tax expense of the Group increased by HK\$1.1 million, or 204.3%, from a taxation of HK\$0.6 million for the six months ended 30 June 2020 to a taxation of HK\$1.7 million for the Period, primarily due to the income tax provided for the operation in the PRC and Bangladesh. Income tax expense including a reversal of deferred taxation in the amount of HK\$0.1 million for the Period (2020: included deferred taxation in the amount of HK\$0.1 million).

## **Net Profit**

The Group's net profit for the Period was HK\$30.8 million, representing an increase of HK\$24.3 million, or 369.8%, as compared to HK\$6.5 million for the corresponding period in 2020, primarily due to the global COVID-19 pandemic having been brought under control, the demand for and hence the sales of human hair extension products and lace products with high margin having gradually recovered and there having been a strong demand for braid products since the second half of 2020 which continued through the rest of the Period when compared to the corresponding period in 2020 as a result of the favourable market conditions during the Period.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group's bank balances, pledged bank deposits and cash increased by 2.4% from HK\$192.2 million as at 31 December 2020 to HK\$196.9 million as at 30 June 2021. 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 6.4% from HK\$300.3 million as at 31 December 2020 to HK\$281.2 million as at 30 June 2021. The decrease was primarily due to a decrease in trade receivables due to an early settlement by certain customers.

### **Borrowings and Gearing Ratio**

As at 30 June 2021, the Group's banking facilities amounted to HK\$800.6 million, of which HK\$163.7 million remained unutilised. As at 30 June 2021, 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 76.2% as compared to 88.7% as at 31 December 2020. 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\$13.3 million (including interest on bank borrowings of HK\$3.6 million capitalised as the cost of qualifying assets) on additions to fixed assets as compared to HK\$19.4 million (including interest on bank borrowings of HK\$6.5 million capitalised as the cost of qualifying assets) for the corresponding period in 2020 mainly to tighten capital spending given the unpredictability associated with the global economic recovery from the COVID-19 pandemic. As at 30 June 2021, the Group had capital commitments of HK\$1.0 million in respect of property, plant and equipment (31 December 2020: HK\$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 97.7% during the Period (30 June 2020: 96.1%)) 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 2021, the Group did not have any material contingent liabilities.

### **Pledge of Assets**

As at 30 June 2021, the Group's banking facilities were secured by:

- (a) pledge of the Group's bank deposits of approximately HK\$121.8 million (2020: HK\$122.0 million);
- (b) the Group's land, buildings and car parks in Hong Kong of approximately HK\$85.9 million (2020: HK\$85.9 million);
- (c) negative pledge on the assets of certain subsidiaries in the PRC and Bangladesh; and
- (d) certain financial assets at fair value through profit and loss of the Group.

### **Employees and Remuneration Policies**

As at 30 June 2021, the Group employed a total of 29,690 employees, as compared to 19,829 employees as at 30 June 2020.

Total employee expenditures during the Period amounted to HK\$190.9 million (including value of employee services of approximately HK\$0.1 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\$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) for the corresponding period in 2020. 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 2021, 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.

The award shares were vested to the selected participants in three tranches with 1,333,000 Shares vested in July 2018, 1,735,000 Shares vested in July 2019 and 1,910,667 Shares vested in July 2020.

As at 30 June 2021, 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.

On 5 July 2021, a total of 105,333 Shares were granted by the Company to the employees of the Group (none of them are Directors). The vesting date of such Shares is 6 October 2021.

The award shares would be vested to selected participants in next tranche with 250,000 Shares to be vested in July 2021. On 13 July 2021, the trustee of the Share Award Scheme transferred a total of 250,000 Shares upon vesting of such Shares to a Director.

## **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 2021.

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

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

- (a) On 5 July 2021, the Group entered into a supplemental agreement with a related company which stated that any advances from that related company after 5 July 2021 will change from interest-free to bearing a fixed interest of 4.5% per annum.
- (b) On 5 July 2021 the Group granted 105,333 Shares to certain employees of the Group (none of them are Directors) under Share Award Scheme. These Shares will be vested on 6 October 2021.

## **INTERIM DIVIDEND**

The Board has declared the payment of an interim dividend of HK\$1.3 cent per Share for the Period (30 June 2020: No Interim dividend declared), totally approximately HK\$8.9 million based on a total of 686,082,000 Shares in issue as at the date of this announcement.

The interim dividend payout ratio is 29.0% for the Period (2020: Interim dividend payout ratio: Nil).

The interim dividend will be payable on Tuesday, 21 September 2021 to the shareholders of the Company whose names appear on the register of members of the Company on Monday, 13 September 2021.

## **CLOSURE OF REGISTER OF MEMBERS**

For determining shareholders' entitlement to the interim dividend, the register of members of the Company will be closed from Thursday, 9 September 2021 to Monday, 13 September 2021, both dates inclusive, during which period no transfer of Shares will be registered. In order to qualify for the interim dividend, all transfer of 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 Wednesday, 8 September 2021.

## **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, 20 August 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.*