

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



2019

INTERIM REPORT

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Corporate Information

DIRECTORS

EXECUTIVE DIRECTORS

Mr. Chang Yoe Chong Felix
(Chairman and Chief Executive Officer)

Mr. Kwok Yau Lung Anthony
(Chief Operating Officer)

Mr. Chan Kwok Keung

Mr. Hui Wing Ki

Ms. Jia Ziyang

Mr. Li Yanbo

NON-EXECUTIVE DIRECTORS

Mr. Chan Lau Yui Kevin

Mr. Chan Hoi Sing Harold

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lau Ip Keung Kenneth

Mr. Sin Hendrick

Dr. Yung Bruce Pak Keung

Mr. Szeto Yuk Ting

Ir. Cheung Siu Wa

(appointed on 18 February 2019)

COMPANY SECRETARY

Ms. Leung Pui Yee *(HKICPA, FCCA)*

AUTHORIZED REPRESENTATIVES

Mr. Kwok Yau Lung Anthony

Ms. Leung Pui Yee *(HKICPA, FCCA)*

AUDIT COMMITTEE

Mr. Sin Hendrick *(Chairman)*

Mr. Lau Ip Keung Kenneth

Dr. Yung Bruce Pak Keung

Mr. Szeto Yuk Ting

REMUNERATION COMMITTEE

Mr. Szeto Yuk Ting *(Chairman)*

Mr. Chang Yoe Chong Felix

Mr. Lau Ip Keung Kenneth

Mr. Sin Hendrick

Dr. Yung Bruce Pak Keung

NOMINATION COMMITTEE

Mr. Chang Yoe Chong Felix *(Chairman)*

Mr. Lau Ip Keung Kenneth

Mr. Sin Hendrick

Dr. Yung Bruce Pak Keung

Mr. Szeto Yuk Ting

AUDITOR

Deloitte Touche Tohmatsu

Certified Public Accountants

PRINCIPAL BANKS

Bank of China (Hong Kong) Limited
The Hongkong and Shanghai Banking
Corporation Limited

HONG KONG LEGAL ADVISER

Norton Rose Fulbright Hong Kong

REGISTERED OFFICE

P.O. Box 472, 2nd Floor
Harbour Place, 103 South Church Street
George Town, Grand Cayman KY1-1106
Cayman Islands

PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN HONG KONG

11th Floor, Chiap Luen Industrial Building
30-32 Kung Yip Street
Kwai Chung, New Territories
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

International Corporation Services Ltd.
P.O. Box 472, 2nd Floor
Harbour Place, 103 South Church Street
George Town, Grand Cayman KY1-1106
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

PLACE OF LISTING

The Stock Exchange of Hong Kong Limited
(stock code: 1962)

COMPANY WEBSITE

www.epfhk.com

Management Discussion and Analysis

The board (the “**Board**”) of directors (the “**Directors**”) of Evergreen Products Group Limited (the “**Company**”) is pleased to present the unaudited consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2019 (the “**Period**”), together with the comparative figures for the corresponding period in 2018.

BUSINESS REVIEW

During the Period, revenue of the Group maintained while gross profit and net profit of the Group deteriorated due to the significant increment of minimum wages of workers in Bangladesh since December 2018. As disclosed in the announcement of the Company dated 27 December 2018, on 27 November 2018, the Bangladesh Export Processing Zone Authority issued a circular which requires all enterprises (including the Group) within the export processing zones in Bangladesh to increase the minimum gross wage (comprising basic wage (which accounts for approximately 60% of gross wage), housing and medical allowance) of their workers and apprentices with effect from 1 December 2018 (the “**2018 Increment**”). Contrary to the practice in the past few years under which the wages of workers within the Uttara Export Processing Zone in the Nilphamari district of Bangladesh would normally be subject to an annual increment equal to about 10% of their basic wages only, the 2018 Increment amounted to approximately 44.4% of the gross wages of the workers in that area. The Group believes that the 2018 Increment was exceptional and would not be recurring. The Group has gradually shifted the effect of wage increment to end-users by increasing the selling prices of existing products for new orders and marking up the prices for new items. The Group expects that the net effect of wage increment will decrease in the second half of 2019. During the Period, sales from the segment of high-end human hair extensions increased. The Group keeps focusing on high margin items.

Phase II construction of the Group’s bleaching and dyeing complex in Bangladesh is in progress and is expected to complete in 2019. At the same time, the Group has further scaled down its production capacity in the People’s Republic of China (the “**PRC**”) due to the better saving of manufacturing costs in Bangladesh by benefiting from low labour costs.

OUTLOOK

In the second half of 2019, gross profit ratio and net profit ratio of the Group shall be positively affected by adjustments on the selling prices of existing products and launching of new styles of products. At the same time, the Group has stopped employing new workers inside the Uttara Export Processing Zone in Bangladesh but employs new workers at the Group’s developing factory complex outside the zone. Costs of goods sold shall further decrease because the minimum wages of the workers outside the zone are lower than that of the workers within the zone. Besides, exports from Bangladesh are not subject to increased taxation as a result of the trade war between the PRC and the United States, which has no direct impact on the Group, and many new orders received have been indirectly shifted from other market players. Hence, financial performance of the Group in the second half of the year is expected to restore to the original upward trend.

The Group expects that the construction of new facilities in Bangladesh will continue in full speed until the end of 2019 but will slow down afterwards. Planned addition of gross floor area to the production facilities in Bangladesh is around 100,000 square metres. Training to different levels of workers especially in relation to human hair products is in full swing now. The Group has integrated its bleaching and dyeing complex and the Group’s human hair production technique with its existing facilities in Bangladesh to enhance the utilisation of the Group’s production facilities in Bangladesh (the “**Bangladesh Factory**”).

Management Discussion and Analysis

With full support from the Bangladesh Factory, the Group keeps on setting up more sales offices in other Asian countries for selling high-end human hair extensions under self-owned brands with an aim to keep boosting sales and profit margins. The Group also searches for opportunities to integrate with some one-stop hair care centres which specialise in providing tailor-made toupees to treat hair loss in Asian countries such as the PRC and Japan. These plans of downstream integration are expected to boost the Group's gross profit margin and net profit to next level.

FINANCIAL REVIEW

During the Period, the Group's financial results improved compared with the same period in 2018, primarily due to the improved sales revenue and profitability growth powered by an increase in economies of scale at the Bangladesh Factory.

REVENUE

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

During the Period, the Group's revenue amounted to HK\$375.3 million, representing an increase of HK\$2.0 million, or 0.5%, as compared to HK\$373.3 million for the corresponding period in 2018. The increase was primarily due to the result of long-standing stable business relationships with the Group's existing clients and the strong overall market demand for its wig and hair products. During the Period, market demand for the Group's wig products continued to grow, and such demand was satisfied by the rapid increase in production capacity at the Bangladesh Factory. The Bangladesh Factory, which has consistent enhancement in its production capabilities and continued to steadily develop during the Period, remained as the main revenue source of the Group, facilitating its profitability growth. During the Period, the revenue generated from hair goods made at the Bangladesh Factory accounted for 92.1% of the Group's total revenue as compared to 89.5% for the corresponding period in 2018.

The United States remained as the Group's principal market during the Period with revenue contribution accounting for 82.3% of the Group's total revenue during the Period as compared to 82.7% for the corresponding period in 2018. In terms of product segment, wigs, hair accessories and others remained as the Group's key product segment accounting for 69.4% of its total revenue during the Period as compared to 72.9% for the corresponding period in 2018.

Wigs, hair accessories and others. Revenue for wigs, hair accessories and others decreased by HK\$11.4 million, or 4.2%, from HK\$272.0 million for the six months ended 30 June 2018 to HK\$260.6 million for the Period. The decrease was primarily due to the netting off effect of: (i) a significant decrease in sales of special braid items, which were one of the popular products in the past years; and (ii) the continual increase in sales of high margin products such as lace wigs.

Management Discussion and Analysis

High-end human hair extensions. Revenue for high-end human hair extensions increased by HK\$10.6 million, or 14.0%, from HK\$75.8 million for the six months ended 30 June 2018 to HK\$86.4 million for the Period, primarily due to higher sales volume driven by increased production of the Bangladesh Factory.

Halloween products. Revenue for Halloween products increased by HK\$2.8 million, or 11.0%, from HK\$25.5 million for the six months ended 30 June 2018 to HK\$28.3 million for the Period, primarily due to higher sales volume and higher average selling prices of the Halloween products during the Period as compared to the corresponding period in 2018.

COST OF GOODS SOLD

The Group's cost of goods sold increased by HK\$8.1 million, or 3.4%, from HK\$241.6 million for the six months ended 30 June 2018 to HK\$249.7 million for the Period, primarily due to an increase in sales during the Period.

Wigs, hair accessories and others. Cost of goods sold for wigs, hair accessories and others decreased by HK\$2.2 million, or 1.2%, from HK\$185.1 million for the six months ended 30 June 2018 to HK\$182.9 million for the Period, corresponding with a decrease in sales of such products during the Period.

High-end human hair extensions. Cost of goods sold for the high-end human hair extensions increased by HK\$9.9 million, or 26.2%, from HK\$37.8 million for the six months ended 30 June 2018 to HK\$47.7 million for the Period. The increase was in line with an increase in revenue from this segment.

Halloween products. Cost of goods sold for the Halloween products slightly increased by HK\$0.4 million, or 2.1%, from HK\$18.7 million for the six months ended 30 June 2018 to HK\$19.1 million for the Period. The increase was in line with the increased sales volume of Halloween products during the Period.

GROSS PROFIT

During the Period, the Group's gross profit amounted to HK\$125.6 million, representing a decrease of HK\$6.1 million, or 4.6%, as compared to HK\$131.7 million for the corresponding period in 2018, primarily due to a significant increase in workers' minimum wages in Bangladesh since December 2018. During the Period, the Group's gross profit margin was 33.5%, representing a decrease of 1.8% from 35.3% for the corresponding period in 2018.

Wigs, hair accessories and others. Gross profit for wigs, hair accessories and others decreased by HK\$9.2 million, or 10.6%, from HK\$86.9 million for the six months ended 30 June 2018 to HK\$77.7 million for the Period. Gross profit margin for wigs, hair accessories and others decreased from 32.0% for the six months ended 30 June 2018 to 29.8% for the Period, primarily due to a significant increase in workers' minimum wages in Bangladesh.

High-end human hair extensions. Gross profit for high-end human hair extensions increased by HK\$0.7 million, or 1.8%, from HK\$38.0 million for the six months ended 30 June 2018 to HK\$38.7 million for the Period. Gross profit margin for high-end human hair extensions decreased from 50.1% for the six months ended 30 June 2018 to 44.8% for the Period, as a result of an increase in workers' minimum wages in Bangladesh.

Management Discussion and Analysis

Halloween products. Gross profit for Halloween products increased by HK\$2.4 million, or 35.3%, from HK\$6.8 million for the six months ended 30 June 2018 to HK\$9.2 million for the Period, in line with an increase in revenue from the segment during the Period. Gross profit margin for Halloween products increased from 26.7% for the six months ended 30 June 2018 to 32.5% for the Period, primarily due to an increase in average selling prices of Halloween products during the Period.

OTHER INCOME

Other income increased by HK\$0.5 million, or 71.4%, from HK\$0.7 million for the six months ended 30 June 2018 to HK\$1.2 million for the Period, primarily due to an increase in income from warehouse rentals and an increase in interest income during the Period.

OTHER GAINS AND LOSSES

Other gains and losses increased by HK\$3.5 million, or 388.9%, from losses of HK\$0.9 million for the six months ended 30 June 2018 to gains of HK\$2.6 million for the Period, primarily due to a decrease in net foreign exchange losses and an increase in interests earned from certain key-man life insurance contracts for one of the Directors during the Period.

DISTRIBUTION AND SELLING EXPENSES

Distribution and selling expenses decreased by HK\$3.1 million, or 35.2%, from HK\$8.8 million for the six months ended 30 June 2018 to HK\$5.7 million for the Period, primarily due to a decrease in shipping expenses in respect of the sales conducted during the Period.

ADMINISTRATIVE EXPENSES

Administrative expenses increased by HK\$3.8 million, or 6.1%, from HK\$62.4 million for the six months ended 30 June 2018 to HK\$66.2 million for the Period, primarily due to an increase in depreciation charges, staff salary and corresponding pension payments during the Period.

OTHER EXPENSES

Other expenses increased by HK\$0.2 million, or 50.0%, from HK\$0.4 million for the six months ended 30 June 2018 to HK\$0.6 million for the Period, primarily due to an increase in donation made by the Group from HK\$0.4 million for the six months ended 30 June 2018 to HK\$0.6 million for the Period.

FINANCE COSTS

Finance costs increased by HK\$1.3 million, or 16.3%, from HK\$8.0 million for the six months ended 30 June 2018 to HK\$9.3 million for the Period. During the Period, the Group capitalised interest on bank borrowings of HK\$7.4 million as cost of qualifying assets (30 June 2018: HK\$2.8 million). Without such capitalisation, the increase in finance costs for the Period was HK\$5.9 million, or 54.6%, as compared with the corresponding period in 2018, primarily due to an increase in bank borrowings.

Management Discussion and Analysis

TAXATION

Income tax expense of the Group decreased by HK\$0.6 million, or 300.0%, from expense of HK\$0.2 million for the six months ended 30 June 2018 to a reverse of taxation of HK\$0.4 million for the Period, primarily due to a reversal of deferred tax provided in the prior years.

NET PROFIT

The Group's net profit for the Period was HK\$47.9 million, representing a decrease of HK\$3.8 million, or 7.4%, as compared to HK\$51.7 million for the corresponding period in 2018, primarily attributable to the significant increment of minimum wages of workers in Bangladesh since December 2018.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's bank balances, pledged bank deposits and cash decreased by 3.4% from HK\$153.7 million as at 31 December 2018 to HK\$148.5 million as at 30 June 2019. The decrease in cash and bank balances for the Period was primarily due to the utilisation of part of the proceeds from the listing for construction payments and operating expense such as salary and utilities payment with regard to the Bangladesh Factory during the Period.

The Group's trade and other receivables increased by 24.5% from HK\$270.0 million as at 31 December 2018 to HK\$336.2 million as at 30 June 2019. The increase was primarily due to an increase in deposits paid to suppliers especially human hair suppliers as a result of the Group's further expansion of human hair production in the Bangladesh Factory during the Period. Purchase prices of human hair are generally higher than that of synthetic fibres.

BORROWINGS AND GEARING RATIO

As at 30 June 2019, the Group's banking facilities amounted to HK\$754.2 million, of which HK\$14.8 million remained unutilised. As at 30 June 2019, 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 98.2% as compared to 91.0% as at 31 December 2018. 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\$68.8 million (including interest on bank borrowings of HK\$7.4 million capitalised as the cost of qualifying assets) on additions to fixed assets as compared to HK\$70.3 million (including interest on bank borrowings of HK\$2.8 million capitalised as the cost of qualifying assets) for the corresponding period in 2018 mainly to further upgrade and expand its manufacturing capabilities in Bangladesh. As at 30 June 2019, the Group had no capital commitment.

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 92.1% during the Period (30 June 2018: 89.5%)) 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 2018 and 2019, the Group did not have any material contingent liabilities.

PLEDGE OF ASSETS

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

- (a) a pledge of the Group's bank deposits of approximately HK\$87.9 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 30 June 2019, the Group employed a total of (i) 18,513 employees in Bangladesh, as compared to 18,046 as at 30 June 2018, (ii) 431 employees in the PRC, as compared to 679 as at 30 June 2018, (iii) 64 employees in Hong Kong, as compared to 65 as at 30 June 2018, and (iv) a total of 29 employees in Japan, the United States, Thailand and Ukraine, as compared to a total of 8 in Japan and the United States as at 30 June 2018.

Management Discussion and Analysis

Total employee expenditures during the Period amounted to HK\$153.0 million (including value of employee services of HK\$1.4 million in respect of the share awards granted under the share award scheme adopted by the Company on 11 December 2017 (the “**Share Award Scheme**”)) as compared to HK\$129.1 million (including value of employee services of HK\$3.0 million in respect of the share awards granted under the Share Award Scheme during the Period) for the corresponding period in 2018. 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.

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

Save as disclosed in this report, (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 2019.

IMPORTANT EVENTS AFTER THE END OF THE PERIOD

On 13 July 2019, 1,735,000 ordinary shares of the Company (the “**Shares**”) out of the 3,929,667 Shares granted by the Company under the Share Award Scheme vested in five Directors and certain senior management and employees. Details of the Share Award Scheme are set out in the section headed “Share Award Scheme” of this report.

USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING

The Shares were listed on the main board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 12 July 2017. The Group received net proceeds (after deduction of underwriting commissions and related costs and expenses) from the initial public offering of approximately HK\$204.7 million.

As at 30 June 2019, the Group had partially utilised such proceeds in the manner consistent with that mentioned in the section headed “Future Plans and Use of Proceeds” of the prospectus of the Company dated 29 June 2017:

Management Discussion and Analysis

| Use of proceeds | Net proceeds <i>HK\$ million</i> | Utilised as at the date of this report <i>HK\$ million</i> | Utilised as at the date of this report % |
|--|-------------------------------------|---|---|
| Construction of additional production facilities in the Group's Bangladesh production base | 100.7 | 91.2 | 90.6% |
| Relocation of the Group's research and display centre and sales office in Dongguan, Guangdong | 20.5 | – | – |
| Expansion of the Group's business, including establishing sales offices for high-end human hair extensions in Asia, further development of the Group's e-commerce business, and expansion of the Group's Halloween costume sales | 22.1 | 20.1 | 91.0% |
| Repayment of outstanding trust receipt loans | 40.9 | 40.9 | 100% |
| Working capital and general corporate purposes | 20.5 | 20.5 | 100% |
| Total | 204.7 | 172.7 | 84.4% |

The unutilised net proceeds have been placed with licensed banks as interest-bearing deposits.

INTERIM DIVIDEND

The Board has declared the payment of an interim dividend of HK1.0 cent per Share for the Period (30 June 2018: HK4.2 cents), totaling approximately HK\$6.2 million based on a total of 615,000,000 Shares in issue as at the date of this report.

The dividend payout ratio has decreased from 49.9% for the six months ended 30 June 2018 to 12.9% for the Period due to the Group's decision to deploy sufficient funding and liquidity resources for future expenditure plans.

The interim dividend will be payable on Monday, 21 October 2019 to the shareholders of the Company whose names appear on the register of members of the Company on Tuesday, 15 October 2019.

CLOSURE OF REGISTER OF MEMBERS

For determining shareholders' entitlement to the interim dividend, the register of members of the Company will be closed from Friday, 11 October 2019 to Tuesday, 15 October 2019, both dates inclusive, during which period no transfer of Shares will be registered. In order to qualify for the interim dividend, all transfer documents 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 Thursday, 10 October 2019.

Corporate Governance and Other Information

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 Rules Governing the Listing of Securities on the Stock Exchange (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.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2019, the interests or short positions of the Directors and chief executives' of the Company in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

(i) LONG POSITION IN THE SHARES OF THE COMPANY

| Name of Director/chief executive | Capacity/nature of interest | Number of Shares | Approximate percentage of issued share capital of the Company ⁽⁹⁾ |
|----------------------------------|---|----------------------------|--|
| Mr. Chang Yoe Chong Felix | (i) Beneficiary of a trust/ Founder of a discretionary trust | 336,903,803 ⁽¹⁾ | 54.78% |
| | (ii) Beneficial owner | 9,790,600 ⁽²⁾ | 1.59% |
| Mr. Chan Kwok Keung | Beneficial owner | 1,000,000 ⁽³⁾ | 0.16% |
| Mr. Kwok Yau Lung Anthony | Beneficial owner | 333,333 ⁽⁴⁾ | 0.05% |
| Mr. Hui Wing Ki | Beneficial owner | 223,333 ⁽⁵⁾ | 0.04% |
| Ms. Jia Ziying | (i) Beneficial owner | 394,000 ⁽⁶⁾ | 0.06% |
| | (ii) Interest of spouse | 100,000 ⁽⁶⁾ | 0.02% |
| Mr. Li Yanbo | (i) Beneficial owner | 100,000 ⁽⁷⁾ | 0.02% |
| | (ii) Interest of spouse | 394,000 ⁽⁸⁾ | 0.06% |

Notes:

- (1) These Shares are held directly by Evergreen Enterprise Holdings Limited ("**Evergreen Holdings**"), a direct wholly owned subsidiary of Golden Evergreen Limited ("**Golden Evergreen**"). 49% and 51% of the issued share capital of Golden Evergreen are owned by FC Investment Worldwide Limited ("**FC Investment**") (a direct wholly owned subsidiary of FC Management Limited ("**FC Management**")) and CLC Investment Worldwide Limited ("**CLC Investment**") (a direct wholly owned subsidiary of CLC Management Limited ("**CLC Management**")), respectively. FC Management is directly and wholly owned by HSBC International Trustee Limited as the trustee of a discretionary trust established on 17 February 2010 by Mr. Chang Yoe Chong Felix as the settlor for the benefit of Mr. Chang Chih Lung, Mr. Chang Ka Wai Aidan and Mr. Chang Yoe Chong Felix's issue (the "**Felix Family Trust**"). CLC Management is directly and wholly owned by HSBC International Trustee Limited as the trustee of a discretionary trust established on 9 July 2013 by Mr. Chang Chih Lung as the settlor for the benefit of Mr. Chang Yoe Chong Felix and his issue (the "**CLC Family Trust**"). Accordingly, each of Mr. Chang Chih Lung and Mr. Chang Yoe Chong Felix is deemed to be interested in the Shares which are interested by HSBC International Trustee Limited under the SFO.
- (2) These Shares are beneficially owned by Mr. Chang Yoe Chong Felix.
- (3) These Shares were granted by the Company to Mr. Chan Kwok Keung on 16 January 2018 pursuant to the Share Award Scheme.

Corporate Governance and Other Information

- (4) These Shares were granted by the Company to Mr. Kwok Yau Lung Anthony on 16 January 2018 pursuant to the Share Award Scheme.
- (5) These Shares were granted by the Company to Mr. Hui Wing Ki on 16 January 2018 pursuant to the Share Award Scheme.
- (6) These Shares were granted by the Company to Ms. Jia Ziyong on 16 January 2018 pursuant to the Share Award Scheme.
- (7) These Shares were granted by the Company to Mr. Li Yanbo on 16 January 2018 pursuant to the Share Award Scheme.
- (8) Ms. Jia Ziyong is the spouse of Mr. Li Yanbo. As such, Ms. Jia Ziyong and Mr. Li Yanbo are deemed to be interested in each other's interest.
- (9) Based on a total of 615,000,000 issued Shares as at 30 June 2019.

(ii) LONG POSITION IN THE SHARES OF THE ASSOCIATED CORPORATIONS OF THE COMPANY

| Name of Director/ chief executive | Name of our associated corporations | Capacity/nature of interest | Number of shares interested | Approximate percentage of shareholding |
|---|--|--|-----------------------------------|--|
| Mr. Chang Yoe Chong Felix ⁽³⁾ | Evergreen Holdings ⁽¹⁾ | Beneficiary of a trust/ Founder of a discretionary trust | 20,000 | 100% |
| Mr. Chang Yoe Chong Felix ⁽³⁾ | Golden Evergreen ⁽¹⁾ | Beneficiary of a trust/ Founder of a discretionary trust | 100 | 100% |
| Mr. Chang Yoe Chong Felix ⁽³⁾ | CLC Investment ⁽¹⁾ | Beneficiary of a trust | 2 | 100% |
| Mr. Chang Yoe Chong Felix ⁽³⁾ | CLC Management ⁽¹⁾ | Beneficiary of a trust | 2 | 100% |
| Mr. Chang Yoe Chong Felix ⁽³⁾ | Evergreen Group Limited ⁽²⁾ | Beneficiary of a trust/ Founder of a discretionary trust | 100,000,000 | 73.04% |
| Mr. Chang Yoe Chong Felix ⁽³⁾ | Ventures Day Investments Limited ⁽²⁾ | Beneficiary of a trust/ Founder of a discretionary trust | 100 | 100% |
| Mr. Chang Yoe Chong Felix ⁽³⁾ | Acemaster Ventures Limited ⁽²⁾ | Beneficiary of a trust/ Founder of a discretionary trust | 1 | 100% |
| Mr. Chang Yoe Chong Felix ⁽³⁾ | Cowden Ventures Limited ⁽²⁾ | Beneficiary of a trust/ Founder of a discretionary trust | 1 | 100% |

Corporate Governance and Other Information

| Name of Director/ chief executive | Name of our associated corporations | Capacity/nature of interest | Number of shares interested | Approximate percentage of shareholding |
|---|--|--|-----------------------------------|--|
| Mr. Chang Yoe Chong Felix ⁽³⁾ | Fast Track Ventures Limited ⁽²⁾ | Beneficiary of a trust/ Founder of a discretionary trust | 1 | 100% |
| Mr. Chang Yoe Chong Felix ⁽³⁾ | Golden Image Ventures Limited ⁽²⁾ | Beneficiary of a trust/ Founder of a discretionary trust | 1 | 100% |
| Mr. Chang Yoe Chong Felix ⁽³⁾ | Market Focus Ventures Limited ⁽²⁾ | Beneficiary of a trust/ Founder of a discretionary trust | 1 | 100% |
| Mr. Chang Yoe Chong Felix ⁽³⁾ | Punchline Ventures Limited ⁽²⁾ | Beneficiary of a trust/ Founder of a discretionary trust | 1 | 100% |
| Mr. Chang Yoe Chong Felix ⁽³⁾ | Smart Plus Ventures Limited ⁽²⁾ | Beneficiary of a trust/ Founder of a discretionary trust | 1 | 100% |
| Mr. Chang Yoe Chong Felix ⁽³⁾ | Eastern Earnings (China) Company Limited ⁽⁴⁾ | Beneficiary of a trust/ Founder of a discretionary trust | 1,000,000 | 100% |
| Mr. Chang Yoe Chong Felix ⁽³⁾ | Sunleaf Holdings Limited ⁽⁴⁾ | Beneficiary of a trust/ Founder of a discretionary trust | 7,000 | 70% |
| | | Interest of controlled corporation ⁽⁵⁾ | 3,000 | 30% |
| Mr. Chang Yoe Chong Felix ⁽³⁾ | Loyal Helper Supply Limited ⁽⁴⁾ | Founder of a discretionary trust | 100 | 100% |
| Mr. Chang Yoe Chong Felix ⁽³⁾ | Evergreen Housekeepers Training Center Limited ⁽⁴⁾ | Founder of a discretionary trust | 999 | 99% |

Corporate Governance and Other Information

Notes:

- (1) Evergreen Holdings, a direct wholly owned subsidiary of Golden Evergreen, holds more than 50% of the issued share capital of the Company. 49% and 51% of the issued share capital of Golden Evergreen are owned by FC Investment (a direct wholly owned subsidiary of FC Management) and CLC Investment (a direct wholly owned subsidiary of CLC Management), respectively. Accordingly, each of Evergreen Holdings, Golden Evergreen, CLC Investment and CLC Management is a holding company and an associated corporation of the Company.
- (2) Approximately 73.04% of the issued share capital of Evergreen Group Limited is owned by Evergreen Holdings. Evergreen Group Limited holds the entire issued share capital of Ventures Day Investments Limited. Ventures Day Investments Limited holds the entire issued share capital of each of Acemaster Ventures Limited, Cowden Ventures Limited, Fast Track Ventures Limited, Golden Image Ventures Limited, Market Focus Ventures Limited, Punchline Ventures Limited and Smart Plus Ventures Limited. Accordingly, each of Evergreen Group Limited, Ventures Day Investments Limited, Acemaster Ventures Limited, Cowden Ventures Limited, Fast Track Ventures Limited, Golden Image Ventures Limited, Market Focus Ventures Limited, Punchline Ventures Limited and Smart Plus Ventures Limited is a subsidiary of Evergreen Holdings and an associated corporation of the Company.
- (3) Each of FC Management and CLC Management is directly and wholly owned by HSBC International Trustee Limited, the trustee of the Felix Family Trust and the CLC Family Trust. The CLC Family Trust is a discretionary trust established by Mr. Chang Chih Lung (the father of Mr. Chang Yoe Chong Felix, and a controlling shareholder as well as a substantial shareholder of the Company as at 30 June 2019) as the settlor, with Mr. Chang Yoe Chong Felix and his issue being the beneficiaries. The Felix Family Trust is a discretionary trust established by Mr. Chang Yoe Chong Felix as the settlor, with Mr. Chang Chih Lung, Mr. Chang Ka Wai Aidan (the son of Mr. Chang Yoe Chong Felix and a minor) and Mr. Chang Yoe Chong Felix's issues being the beneficiaries. Accordingly, Mr. Chang Yoe Chong Felix is deemed to be interested in the above associated corporations of the Company under the SFO.
- (4) Each of Loyal Helper Supply Limited and Evergreen Housekeepers Training Center Limited is 100% owned by Sunleaf Holdings Limited, which is 70% owned by Eastern Earnings (China) Company Limited. Eastern Earnings (China) Company Limited is 51% owned by FC Investment, which is 100% held by FC Management. Accordingly, Mr. Chang Yoe Chong Felix is deemed to be interested in the above associated corporations of the Company under the SFO.
- (5) Such shares are held by Prince Orchid Limited, which is 100% owned by Mr. Chang Yoe Chong Felix.

Save as disclosed above and to the best knowledge of the Directors, as at 30 June 2019, none of the Directors or the chief executives of the Company had any interests and/or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

So far as the Directors are aware, as at 30 June 2019, the following corporations/persons had interests of 5% or more in the issued Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which recorded in the register required to be kept by the Company under section 336 of the SFO:

LONG POSITION IN THE SHARES OF THE COMPANY

| Name of shareholder | Capacity/nature of interest | Number of Shares | Approximately percentage of issued share capital of the Company ⁽⁴⁾ |
|--|---|------------------|--|
| Evergreen Holdings ⁽¹⁾ | Beneficial owner | 336,903,803 | 54.78% |
| Golden Evergreen ⁽¹⁾ | Interest of controlled corporation | 336,903,803 | 54.78% |
| FC Investment ⁽¹⁾ | Interest of controlled corporation | 336,903,803 | 54.78% |
| FC Management ⁽¹⁾ | Interest of controlled corporation | 336,903,803 | 54.78% |
| CLC Investment ⁽¹⁾ | Interest of controlled corporation | 336,903,803 | 54.78% |
| CLC Management ⁽¹⁾ | Interest of controlled corporation | 336,903,803 | 54.78% |
| HSBC International Trustee Limited ⁽¹⁾ | Trustee of a trust | 336,903,803 | 54.78% |
| Mr. Chang Chih Lung ⁽¹⁾ | Beneficiary of a trust/ Founder of a discretionary trust | 336,903,803 | 54.78% |
| Ms. Wong Hor Yan ⁽²⁾ | Interest of spouse | 346,694,403 | 56.37% |
| SEAVI Advent Investments Ltd. ("SEAVI Advent") ⁽³⁾ | Beneficial owner | 108,520,197 | 17.64% |
| Codan Trust Company (Cayman) Limited ⁽⁹⁾ | Interest in controlled corporation | 108,520,197 | 17.64% |

Corporate Governance and Other Information

Notes:

- (1) Evergreen Holdings is a direct wholly owned subsidiary of Golden Evergreen. 49% and 51% of issued share capital of Golden Evergreen are owned by FC Investment (a direct wholly owned subsidiary of FC Management) and CLC Investment (a direct wholly owned subsidiary of CLC Management), respectively. Each of FC Management and CLC Management is directly and wholly owned by HSBC International Trustee Limited, the trustee of the Felix Family Trust and the CLC Family Trust. Mr. Chang Chih Lung is the settlor of the CLC Family Trust and one of the beneficiaries of the Felix Family Trust. Accordingly, each of Golden Evergreen, FC Investment, FC Management, CLC Investment, CLC Management, HSBC International Trustee Limited and Mr. Chang Chih Lung is deemed to be interested in the Shares held by Evergreen Holdings under the SFO.
- (2) Ms. Wong Hor Yan is the spouse of Mr. Chang Yoe Chong Felix, and is deemed to be interested in the Shares which are interested by Mr. Chang Yoe Chong Felix under the SFO.
- (3) SEAVI Advent is wholly owned by SEAVI Advent Equity V (A) Ltd and is indirectly controlled by Codan Trust Company (Cayman) Limited. Codan Trust Company (Cayman) Limited is therefore deemed to be interested in the Shares held by SEAVI Advent under the SFO.
- (4) Based on a total of 615,000,000 issued Shares as at 30 June 2019.

Save as disclosed above and to the best knowledge of the Directors, as at 30 June 2019, the Directors have not been notified by any person who had interests or short position in Shares or underlying Shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

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 Shares.

As at 30 June 2019, 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 Listing Rules.

Corporate Governance and Other Information

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

Since the adoption date and up to 30 June 2019, the Company had granted a total of 5,333,334 Shares under the Share Award Scheme, representing approximately 0.87% of the total issued Shares as at 30 June 2019.

As at 30 June 2019, the trustee of the Share Award Scheme held a total of 4,001,000 Shares, of which 3,929,667 Shares had been granted to certain Directors, senior management and employees of the Company and 71,333 Shares remained ungranted. The ungranted Shares remain as trust fund and will be used for grant of share awards in future.

As at the date of this report, the trustee of the Share Award Scheme has transferred a total of 1,735,000 Shares upon vesting of such Shares in certain grantees.

Details of the movement in the Shares under the Share Award Scheme during the Period are as follows:

| Date of grant | Grantees | Number of Shares | | | | Outstanding as at 30 June 2019 | Vesting schedule |
|--------------------|--|--|---------------------------------|--------------------------------|---------------------------------|--|---|
| | | Outstanding as at 31 December 2018 | Granted during the Period | Vested during the Period | Lapsed during the Period | | |
| 16 January 2018 | Mr. Chan Kwok Keung Mr. Kwok Yau Lung Anthony Mr. Hui Wing Ki Ms. Jia Ziyang Mr. Li Yanbo Other grantees | 750,000 222,333 222,333 267,000 100,000 2,434,668 | - - - - - - | - - - - - - | - - - - - 66,667 | 750,000 ⁽¹⁾ 222,333 ⁽²⁾ 222,333 ⁽²⁾ 267,000 ⁽³⁾ 100,000 ⁽⁴⁾ 2,368,001 ⁽⁵⁾ | To vest on 13 July of each year from 2018 to 2021 |
| | Total | 3,996,334 | - | - | 66,667 | 3,929,667 | |

Notes:

- (1) As at the date of this report, 250,000 Shares had vested after the Period.
- (2) As at the date of this report, 111,000 Shares had vested after the Period.
- (3) As at the date of this report, 133,000 Shares had vested after the Period.
- (4) As at the date of this report, 50,000 Shares had vested after the Period.
- (5) As at the date of this report, 1,080,000 Shares had vested after the Period.

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.

CHANGES IN INFORMATION OF DIRECTORS

There has been no change in information of the Directors since the publication of the annual report of the Company for the year ended 31 December 2018, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

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.

By Order of the Board
Evergreen Products Group Limited
Chang Yoe Chong Felix

Chairman, Chief Executive Officer and Executive Director

Hong Kong, 28 August 2019

Report on Review of Condensed Consolidated Financial Statements

Deloitte.

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TO THE BOARD OF DIRECTORS OF EVERGREEN PRODUCTS GROUP LIMITED

(incorporated in Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Evergreen Products Group Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) set out on pages 22 to 52, which comprise the condensed consolidated statement of financial position as of 30 June 2019 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 ‘Interim Financial Reporting’ (“**HKAS 34**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

28 August 2019

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2019

| | Note | Six months ended | |
|--|------|--------------------------------------|--------------------------------------|
| | | 30.6.2019 HK\$'000 (Unaudited) | 30.6.2018 HK\$'000 (Unaudited) |
| Revenue | 3 | 375,342 | 373,330 |
| Cost of goods sold | | (249,720) | (241,573) |
| Gross profit | | 125,622 | 131,757 |
| Other income | | 1,245 | 682 |
| Other gains and losses | 4 | 2,565 | (941) |
| Distribution and selling expenses | | (5,748) | (8,759) |
| Administrative expenses | | (66,203) | (62,365) |
| Other expenses | 5 | (625) | (424) |
| Finance costs | 6 | (9,290) | (7,999) |
| Profit before tax | | 47,566 | 51,951 |
| Income tax credit (expense) | 7 | 381 | (194) |
| Profit for the period | 8 | 47,947 | 51,757 |
| Other comprehensive income (expense) for the period: | | | |
| Item that will not be reclassified to profit or loss: | | | |
| Surplus on revaluation of land and buildings | | 10,229 | – |
| Deferred tax arising from revaluation of land and buildings | | (877) | – |
| | | 9,352 | – |
| Item that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences arising from translation of foreign operations | | (1,502) | 173 |
| Other comprehensive income for the period, net of income tax | | 7,850 | 173 |
| Total comprehensive income for the period | | 55,797 | 51,930 |

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2019

| | <i>Note</i> | Six months ended | |
|---|-------------|--|--|
| | | 30.6.2019 <i>HK\$'000</i> (Unaudited) | 30.6.2018 <i>HK\$'000</i> (Unaudited) |
| Profit (loss) for the period attributable to: | | | |
| Owners of the Company | | 49,301 | 52,065 |
| Non-controlling interests | | (1,354) | (308) |
| | | 47,947 | 51,757 |
| Total comprehensive income (expense) attributable to: | | | |
| Owners of the Company | | 57,195 | 52,238 |
| Non-controlling interests | | (1,398) | (308) |
| | | 55,797 | 51,930 |
| Earnings per share (HK\$) | <i>10</i> | | |
| – basic | | 0.08 | 0.09 |
| – diluted | | 0.08 | 0.08 |

Condensed Consolidated Statement of Financial Position

At 30 June 2019

| | | 30.6.2019 HK\$'000 (Unaudited) | 31.12.2018 HK\$'000 (Audited) |
|---|--------------|--------------------------------------|-------------------------------------|
| | <i>Notes</i> | | |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 11 | 619,206 | 553,951 |
| Prepaid lease payments | | – | 18,412 |
| Right-of-use assets | 11 | 31,968 | – |
| Deposits for acquisition of property, plant and equipment | | 17,678 | 21,321 |
| Financial assets at fair value through profit or loss | | 27,549 | 24,766 |
| | | 696,401 | 618,450 |
| CURRENT ASSETS | | | |
| Inventories | 12 | 433,986 | 430,889 |
| Trade and other receivables | 13 | 336,162 | 269,986 |
| Prepaid lease payments | | – | 344 |
| Tax recoverable | | 956 | 962 |
| Pledged bank deposits | 14 | 87,912 | 84,785 |
| Bank balances and cash | | 60,619 | 68,873 |
| | | 919,635 | 855,839 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 15 | 29,690 | 64,773 |
| Contract liabilities | | 13,324 | 4,638 |
| Lease liabilities/obligations under finance lease | | 3,139 | 52 |
| Amount due to a related company | | 50,000 | 30,000 |
| Amount due to a non-controlling shareholder of a subsidiary | | 9,596 | 8,845 |
| Tax payable | | 3,375 | 2,967 |
| Secured bank borrowings | 16 | 739,381 | 646,788 |
| Derivative liabilities | | 511 | 499 |
| | | 849,016 | 758,562 |
| NET CURRENT ASSETS | | 70,619 | 97,277 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 767,020 | 715,727 |

Condensed Consolidated Statement of Financial Position

At 30 June 2019

| | | 30.6.2019 | 31.12.2018 |
|---|-------------|--------------------|-----------------|
| | | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | <i>Note</i> | (Unaudited) | (Audited) |
| CAPITAL AND RESERVES | | | |
| Share capital | 17 | 47,847 | 47,847 |
| Reserves | | 707,264 | 664,080 |
| <hr/> | | | |
| Equity attributable to owners of the Company | | 755,111 | 711,927 |
| Non-controlling interests | | (2,457) | (1,059) |
| <hr/> | | | |
| TOTAL EQUITY | | 752,654 | 710,868 |
| <hr/> | | | |
| NON-CURRENT LIABILITIES | | | |
| Deferred taxation | | 4,870 | 4,703 |
| Lease Liabilities/obligations under finance lease | | 9,496 | 156 |
| <hr/> | | | |
| | | 14,366 | 4,859 |
| <hr/> | | | |
| | | 767,020 | 715,727 |
| <hr/> | | | |

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019

| | Attributable to owners of the Company | | | | | | | | | | | |
|---|---------------------------------------|---------------|-----------------|------------------------------|---------------------|-----------------------------------|---------------|---------------------|------------------|-----------|---------------------------|----------|
| | Share capital | Share premium | Capital reserve | Property revaluation reserve | Share award reserve | Share held for share award scheme | Other reserve | Translation reserve | Retained profits | Sub-total | Non-controlling interests | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 (Note 18) | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 31 December 2018 (audited) and 1 January 2019 | 47,847 | 366,950 | (53,992) | 91,657 | 919 | (6,000) | (76) | (20,551) | 285,173 | 711,927 | (1,059) | 710,868 |
| Profit (loss) for the period | - | - | - | - | - | - | - | - | 49,301 | 49,301 | (1,354) | 47,947 |
| Surplus on revaluation of land and buildings | - | - | - | 10,229 | - | - | - | - | - | 10,229 | - | 10,229 |
| Deferred tax arising from revaluation of land and buildings | - | - | - | (877) | - | - | - | - | - | (877) | - | (877) |
| Exchange differences arising from translation of foreign operations | - | - | - | - | - | - | - | (1,458) | - | (1,458) | (44) | (1,502) |
| Total comprehensive income (expense) for the period | - | - | - | 9,352 | - | - | - | (1,458) | 49,301 | 57,195 | (1,398) | 55,797 |
| Employee share award scheme: | | | | | | | | | | | | |
| - Value of employee services | - | - | - | - | 1,364 | - | - | - | - | 1,364 | - | 1,364 |
| Dividend recognised as distribution (note 9) | - | - | - | - | - | - | - | - | (15,375) | (15,375) | - | (15,375) |
| At 30 June 2019 (unaudited) | 47,847 | 366,950 | (53,992) | 101,009 | 2,283 | (6,000) | (76) | (22,009) | 319,099 | 755,111 | (2,457) | 752,654 |
| At 1 January 2018 (audited) | 47,847 | 366,950 | (53,992) | 79,057 | - | - | (76) | (17,266) | 249,932 | 672,452 | (650) | 671,802 |
| Profit (loss) for the year | - | - | - | - | - | - | - | - | 52,065 | 52,065 | (308) | 51,757 |
| Exchange differences arising from translation of foreign operations | - | - | - | - | - | - | - | 173 | - | 173 | - | 173 |
| Total comprehensive income (expense) for the year | - | - | - | - | - | - | - | 173 | 52,065 | 52,238 | (308) | 51,930 |
| Employee share award scheme: | | | | | | | | | | | | |
| - Value of employee services | - | - | - | - | 2,919 | - | - | - | - | 2,919 | - | 2,919 |
| - Shares withheld for share award schemes | - | - | - | - | - | (8,000) | - | - | - | (8,000) | - | (8,000) |
| Dividend recognised as distribution (note 9) | - | - | - | - | - | - | - | - | (50,000) | (50,000) | - | (50,000) |
| At 30 June 2018 (unaudited) | 47,847 | 366,950 | (53,992) | 79,057 | 2,919 | (8,000) | (76) | (17,093) | 251,997 | 669,609 | (958) | 668,651 |

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2019

| | Six months ended | |
|--|------------------|-------------|
| | 30.6.2019 | 30.6.2018 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Net cash used in operating activities | (19,400) | (11,552) |
| Net cash used in investing activities | | |
| Purchase of property, plant and equipment | (47,441) | (67,510) |
| Placement of pledged bank deposits | (3,127) | – |
| Deposit paid for acquisition of property, plant and equipment | (17,678) | (2,483) |
| Interest received | 173 | 122 |
| Proceeds from disposal of property, plant and equipment | 500 | 179 |
| Proceeds from disposal of right-of-use assets | 223 | – |
| Withdrawal of pledged bank deposits | – | 17,702 |
| | (67,350) | (51,990) |
| Net cash from financing activities | | |
| New mortgage and short term loans raised | 154,900 | 80,000 |
| New trust receipt loan and discounted bills raised | 49,089 | 107,785 |
| Advance from a related company | 20,000 | – |
| Advance from a non-controlling shareholder of a subsidiary | 751 | – |
| Repayments of mortgage and short term loans | (111,396) | (63,880) |
| Interest paid | (16,662) | (10,773) |
| Dividend paid | (15,375) | (50,000) |
| Proceeds for purchase of shares for share award scheme | – | (8,000) |
| Repayments of lease liabilities | (1,717) | – |
| | 79,590 | 55,132 |
| Net decrease in cash and cash equivalents | (7,160) | (8,410) |
| Cash and cash equivalents at beginning of the period | 68,873 | 91,154 |
| Effect of foreign exchange rate changes | (1,094) | 215 |
| Cash and cash equivalents at end of the period, represented by bank balances and cash | 60,619 | 82,959 |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

1. BASIS OF PREPARATION

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

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

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 changes in accounting policies resulting from application of new and 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 2019 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2018.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES (continued)

APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

| | |
|-----------------------|--|
| HKFRS 16 | Leases |
| HK(IFRIC) – Int 23 | Uncertainty over Income Tax Treatments |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation |
| Amendments to HKAS 19 | Plan Amendment, Curtailment or Settlement |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2015 – 2017 Cycle |

Except as described below, the application of the new and amendments to HKFRSs in the current period has had no material impact on the Group's financial position and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

IMPACTS AND CHANGES IN ACCOUNTING POLICIES OF APPLICATION ON HKFRS 16 LEASES

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 "Leases", and the related interpretations.

2.1 KEY CHANGES IN ACCOUNTING POLICIES RESULTING FROM APPLICATION OF HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 KEY CHANGES IN ACCOUNTING POLICIES RESULTING FROM APPLICATION OF HKFRS 16 (continued)

As a lessee

Short-term leases

The Group applies the short-term lease recognition exemption to leases of office premises that have a lease term of 12 months or less from the commencement date and do not contain a purchase option.

Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 KEY CHANGES IN ACCOUNTING POLICIES RESULTING FROM APPLICATION OF HKFRS 16 (continued)

As a lessee (continued)

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 “Financial Instruments” (“**HKFRS 9**”) and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 KEY CHANGES IN ACCOUNTING POLICIES RESULTING FROM APPLICATION OF HKFRS 16 (continued)

As a lessee (continued)

Lease liabilities (continued)

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 “Income Taxes Requirements” to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 KEY CHANGES IN ACCOUNTING POLICIES RESULTING FROM APPLICATION OF HKFRS 16 (continued)

As a lessor

Refundable rental deposits

Refundable rental deposits received are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

2.2 TRANSITION AND SUMMARY OF EFFECTS ARISING FROM INITIAL APPLICATION OF HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 “Determining whether an Arrangement contains a Lease” and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. relied on the assessment of whether leases are onerous by applying HKAS 37 “Provisions, Contingent Liabilities and Contingent Assets” as an alternative of impairment review;
- ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application; and
- iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 TRANSITION AND SUMMARY OF EFFECTS ARISING FROM INITIAL APPLICATION OF HKFRS 16 (continued)

As a lessee (continued)

On transition, the Group has made the following adjustments upon application of HKFRS 16:

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8(b)(ii) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rates applied by the relevant group entities range from 4.75% to 7.20%.

| <i>Note</i> | At 1 January 2019 HK\$'000 |
|--|---|
| Operating lease commitments disclosed as at 31 December 2018 | 19,630 |
| Lease liabilities discounted at relevant incremental borrowing rates | 8,844 |
| Less: Recognition exemption – short-term leases | (214) |
| Lease liabilities relating to operating leases recognised upon application of HKFRS 16 as at 1 January 2019 | 8,630 |
| Add: Obligations under finance lease recognised at 31 December 2018 <i>(b)</i> | 208 |
| Lease liabilities as at 1 January 2019 | 8,838 |
| Analysed as | |
| Current | 1,032 |
| Non-current | 7,806 |
| | 8,838 |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 TRANSITION AND SUMMARY OF EFFECTS ARISING FROM INITIAL APPLICATION OF HKFRS 16 (continued)

As a lessee (continued)

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

| | <i>Notes</i> | Right-of-use assets HK\$'000 |
|--|--------------|---|
| Right-of-use assets relating to operating leases recognised upon application of HKFRS 16 | | 8,630 |
| Reclassified from prepaid lease payments | <i>(a)</i> | 18,756 |
| Amounts included in property, plant and equipment under HKAS 17 | | |
| – Assets previously under finance lease | <i>(b)</i> | 260 |
| Adjustments on rental deposits at 1 January 2019 | <i>(c)</i> | 304 |
| | | 27,950 |
| By class: | | |
| Leasehold lands | | 26,182 |
| Leasehold land and buildings | | 585 |
| Motor vehicles | | 260 |
| Factory buildings | | 923 |
| | | 27,950 |

Notes:

- a. Upfront payments for leasehold lands in the People's Republic of China ("PRC") were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to HK\$344,000 and HK\$18,412,000, respectively were reclassified to right-of-use assets.
- b. In relation to assets previously under finance lease, the Group recategorised the carrying amounts of the relevant assets which were still under lease as at 1 January 2019 amounting to HK\$260,000 as right-of-use assets. In addition, the Group reclassified the obligations under finance lease of HK\$208,000 to lease liabilities as current liabilities at 1 January 2019.
- c. Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. Accordingly, HK\$304,000 was adjusted to refundable rental deposits paid and right-of-use assets.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 TRANSITION AND SUMMARY OF EFFECTS ARISING FROM INITIAL APPLICATION OF HKFRS 16 (continued)

As a lessee (continued)

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

| | Carrying amounts previously reported at 31 December 2018 <i>HK\$'000</i> | Adjustments <i>HK\$'000</i> | Carrying amounts under HKFRS 16 at 1 January 2019 <i>HK\$'000</i> |
|---------------------------------|--|--------------------------------|---|
| Non-current Assets | | | |
| Prepaid lease payments | 18,412 | (18,412) | – |
| Right-of-use assets | – | 27,950 | 27,950 |
| Property, plant and equipment | 553,951 | (260) | 553,691 |
| Current Assets | | | |
| Prepaid lease payments | 344 | (344) | – |
| Trade and other receivables | 269,986 | (304) | 269,682 |
| Current Liabilities | | | |
| Lease liabilities | – | 1,032 | 1,032 |
| Obligations under finance lease | 52 | (52) | – |
| Non-current Liabilities | | | |
| Lease liabilities | – | 7,806 | 7,806 |
| Obligations under finance lease | 156 | (156) | – |

Note: For the purpose of reporting cash flows for the six months ended 30 June 2019, movements have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 TRANSITION AND SUMMARY OF EFFECTS ARISING FROM INITIAL APPLICATION OF HKFRS 16 (continued)

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated. The application of HKFRS 16 has had no material impact on the Group's condensed consolidated financial statements for the six months ended 30 June 2019.

3. REVENUE AND SEGMENT INFORMATION

The chief executive officer of the Group, 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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

3. REVENUE AND SEGMENT INFORMATION (continued)

DISAGGREGATION OF REVENUE

Group revenue by products

| | Six months ended | |
|-----------------------------------|------------------|-------------|
| | 30.6.2019 | 30.6.2018 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Wigs, hair accessories and others | 260,609 | 272,004 |
| High-end human hair extensions | 86,422 | 75,833 |
| Halloween products | 28,311 | 25,493 |
| | 375,342 | 373,330 |

Group revenue by location of delivery to customers

| | Six months ended | |
|--------------------------|------------------|-------------|
| | 30.6.2019 | 30.6.2018 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| United States of America | 308,909 | 308,864 |
| The PRC | 6,625 | 24,565 |
| United Kingdom | 12,324 | 15,415 |
| Others | 47,484 | 24,486 |
| | 375,342 | 373,330 |

All revenue is recognised at a point of time.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

4. OTHER GAINS AND LOSSES

| | Six months ended | |
|---|------------------|-------------|
| | 30.6.2019 | 30.6.2018 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Change in fair value of derivative liabilities | (12) | – |
| Change in fair value of the financial assets at fair value through profit or loss (“FVTPL”) | 2,783 | – |
| Gain on disposal of property, plant and equipment | – | 179 |
| Loss on disposal of right-of-use assets | (10) | – |
| Net foreign exchange loss | (196) | (1,120) |
| | 2,565 | (941) |

5. OTHER EXPENSES

| | Six months ended | |
|------------------|------------------|-------------|
| | 30.6.2019 | 30.6.2018 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Donation expense | 625 | 424 |

6. FINANCE COSTS

| | Six months ended | |
|---|------------------|-------------|
| | 30.6.2019 | 30.6.2018 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Interest on bank borrowings | 16,261 | 10,773 |
| Less: amount capitalised in the cost of qualifying assets | (7,372) | (2,774) |
| | 8,889 | 7,999 |
| Interest on lease payment | 401 | – |
| | 9,290 | 7,999 |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

7. INCOME TAX (CREDIT) EXPENSE

| | Six months ended | |
|---|--------------------------------------|--------------------------------------|
| | 30.6.2019 HK\$'000 (Unaudited) | 30.6.2018 HK\$'000 (Unaudited) |
| The taxation (credit) charge comprises: | | |
| Current tax: | | |
| PRC Enterprise Income Tax ("EIT") | 176 | 61 |
| Other jurisdictions | 183 | 212 |
| | 359 | 273 |
| Overprovision in prior years: | | |
| Hong Kong | (30) | – |
| | 329 | 273 |
| Deferred tax: | | |
| Current period | (710) | (79) |
| | (381) | 194 |

During the six months ended 30 June 2019 and 2018, 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%.

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

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

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

7. INCOME TAX (CREDIT) EXPENSE (continued)

No Bangladesh income tax was provided in the condensed consolidated financial statements as one of the subsidiaries 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 2019 while the remaining entities in Bangladesh have no assessable profits for both periods.

Taxation arising from other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions. For Japan, the applicable prevailing tax rate was 27% for both periods.

8. PROFIT FOR THE PERIOD

| | Six months ended | |
|--|------------------|-------------|
| | 30.6.2019 | 30.6.2018 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Profit for the period has been arrived at after charging (crediting): | | |
| Amortisation of prepaid lease payments | – | 140 |
| Depreciation of property, plant and equipment | 17,865 | 13,348 |
| Depreciation of right-of-use assets | 429 | – |
| Total depreciation and amortisation | 18,294 | 13,488 |
| Interest income | (186) | (122) |
| Cost of inventories recognised as expense (included in cost of goods sold) | 249,720 | 241,573 |
| Short-term lease payments | 183 | – |
| Operating lease payments in respect of rented premises | – | 2,065 |

9. DIVIDENDS

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

9. DIVIDENDS (continued)

Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of HK1.00 cent per share amounting to HK\$6,150,000 in aggregate (30 June 2018: HK4.20 cents per share amounting to HK\$25,830,000 in aggregate) will be paid to the owners of the Company whose names appear in the Register of Members of the Company on 15 October 2019.

10. EARNINGS PER SHARE

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

| | Six months ended | |
|--|------------------|-------------|
| | 30.6.2019 | 30.6.2018 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Earnings attributable to owners of the Company: | | |
| Earnings for the purpose of calculating basic and diluted earnings per share | 49,301 | 52,065 |

| | Six months ended | |
|--|------------------|-------------|
| | 30.6.2019 | 30.6.2018 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Number of shares: | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 610,999 | 610,108 |
| Effect of dilutive potential ordinary shares: | | |
| Share awards scheme | 2,621 | 4,892 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | 613,620 | 615,000 |

The weighted average number of ordinary shares for the purpose of basic earnings per share shown above has been arrived at after deducting the shares held by the trustee of the share award scheme of the Company as set out in Note 18.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

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

During the current period, the Group spent HK\$47,441,000 (for the six months ended 30 June 2018: HK\$67,510,000 (unaudited)) on property, plant and equipment.

The Group's leasehold land and buildings classified as property, plant and equipment were revalued by the third party qualified valuer engaged by the Company as at the end of the current interim period. The resulting revaluation surplus of HK\$10,229,000 has been credited to the properties revaluation reserve during the six months ended 30 June 2019 (2018: revaluation surplus of HK\$nil).

During the current period, the Group entered into new or renewed lease agreements for the use of leasehold land and buildings ranging from 2 to 30 years. The Group is required to make fixed monthly payments. On lease commencement, the Group recognised HK\$5,606,000 of right-of-use assets and HK\$5,514,000 of lease liabilities.

12. INVENTORIES

| | 30.6.2019 <i>HK\$'000</i> (Unaudited) | 31.12.2018 <i>HK\$'000</i> (Audited) |
|------------------|---|--|
| Raw materials | 327,445 | 342,430 |
| Work in progress | 49,170 | 51,272 |
| Finished goods | 57,371 | 37,187 |
| | 433,986 | 430,889 |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

13. TRADE AND OTHER RECEIVABLES

| | 30.6.2019 <i>HK\$'000</i> (Unaudited) | 31.12.2018 <i>HK\$'000</i> (Audited) |
|-----------------------------|---|--|
| Trade receivables | 172,798 | 162,473 |
| Other receivables | 16,804 | 19,645 |
| Purchase rebate receivables | 15,779 | 15,953 |
| Other tax receivables | 563 | 4,733 |
| Prepayments | 15,789 | 13,969 |
| Deposits paid to suppliers | 114,429 | 53,213 |
| | 336,162 | 269,986 |

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

The following is an analysis of trade receivables by age, presented based on the invoice date, which approximates the respective revenue recognition dates.

| | 30.6.2019 <i>HK\$'000</i> (Unaudited) | 31.12.2018 <i>HK\$'000</i> (Audited) |
|---------------|---|--|
| 0 – 60 days | 125,733 | 119,487 |
| 61 – 90 days | 26,931 | 27,579 |
| 91 – 120 days | 11,147 | 10,895 |
| Over 120 days | 8,987 | 4,512 |
| | 172,798 | 162,473 |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

14. PLEDGED BANK DEPOSITS

The amounts represent deposits pledged to banks to secure short-term bank loans and are therefore classified as current assets.

The deposits carry fixed interest rate ranging from 0.001% to 1.61% (31 December 2018: 0.001% to 1.89%) per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

15. TRADE AND OTHER PAYABLES

| | 30.6.2019 <i>HK\$'000</i> (Unaudited) | 31.12.2018 <i>HK\$'000</i> (Audited) |
|-----------------------------|---|--|
| Trade payables | 11,280 | 38,582 |
| Accrued staff costs | 12,312 | 20,141 |
| Accruals and other payables | 6,098 | 6,050 |
| | 29,690 | 64,773 |

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

| | 30.6.2019 <i>HK\$'000</i> (Unaudited) | 31.12.2018 <i>HK\$'000</i> (Audited) |
|-------------|---|--|
| 0 – 60 days | 11,280 | 38,582 |

16. SECURED BANK BORROWINGS

| | 30.6.2019 <i>HK\$'000</i> (Unaudited) | 31.12.2018 <i>HK\$'000</i> (Audited) |
|---|---|--|
| Trust receipts loans and discounted bills | 310,082 | 260,993 |
| Mortgage and short term loan | 429,299 | 385,795 |
| | 739,381 | 646,788 |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

16. SECURED BANK BORROWINGS (continued)

The carrying amounts of the borrowings are analysed as follows:

| | 30.6.2019 <i>HK\$'000</i> (Unaudited) | 31.12.2018 <i>HK\$'000</i> (Audited) | Interest rate |
|------|---|--|--|
| HK\$ | 420,937 | 357,486 | Hong Kong Dollar Prime Rate minus 2.5% to Hong Kong Dollar Prime Rate plus 1% or Hong Kong Interbank Offered Rate ("HIBOR") plus 2.75% |
| US\$ | 318,444 | 289,302 | London Interbank Offered Rate ("LIBOR") plus 3% |

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:

| | 30.6.2019 <i>HK\$'000</i> (Unaudited) | 31.12.2018 <i>HK\$'000</i> (Audited) |
|---|---|--|
| Bank borrowings are repayable (<i>Note</i>) | | |
| Within 1 year | 663,745 | 546,953 |
| After 1 year but within 2 years | 35,793 | 58,251 |
| After 2 years but within 5 years | 31,719 | 32,341 |
| After 5 years | 8,124 | 9,243 |
| Total bank borrowings | 739,381 | 646,788 |
| Comprising: | | |
| Amounts due within one year shown under current liabilities and containing a repayment on demand clause | 663,745 | 546,953 |
| 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) | 75,636 | 99,835 |
| Total | 739,381 | 646,788 |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

16. SECURED BANK BORROWINGS (continued)

Note: The Group's secured bank borrowings were subject to variable interest rates based on Hong Kong Dollar Prime Rate, HIBOR and LIBOR. The range of effective interest rates during the period are from 2.95% to 4.75% (31 December 2018: 2.50% to 5.39%).

17. SHARE CAPITAL OF THE COMPANY

| | Number of shares | Share capital <i>US\$'000</i> |
|---|----------------------|-------------------------------------|
| Ordinary shares of US\$0.01 each | | |
| Authorised: | | |
| At 1 January 2018, 31 December 2018, 1 January 2019 and 30 June 2019 | 1,000,000,000 | 10,000 |
| Issued and fully paid: | | |
| At 1 January 2018, 31 December 2018, 1 January 2019 and 30 June 2019 | 615,000,000 | 6,150 |

Shown in the condensed consolidated financial statement as:

| | Amount <i>HK\$'000</i> |
|--------------------------------------|---------------------------|
| At 31 December 2018 and 30 June 2019 | 47,847 |

There is no movement of share capital of the Company during both periods.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

18. SHARE BASED PAYMENT TRANSACTIONS

SHARE OPTION SCHEME

The Group adopted a share option scheme on 19 June 2017 (the “**Share Option Scheme**”). The purpose of the Share Option Scheme is to provide any directors and full-time employees of any members of the Group who have contributed or will contribute to the Group (the “**Participants**”) with the opportunity to acquire proprietary interests in the Company and to encourage Participants to work towards enhancing the value of the Company and its shares for the benefit of the Company with a flexible means of either retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to Participants.

Pursuant to the Share Option Scheme, the directors of the Company may invite the Participants to take up options at a price determined by the board of directors provided that it shall be at least the highest of (a) the closing price of the shares as stated in the Stock Exchange of Hong Kong Limited’s daily quotations sheet on the date on which an offer is made by the Company to the grantee (which must be a business day, the “**Offer Date**”); (b) a price being the average of the closing prices of the shares of the Company as stated in the Stock Exchange of Hong Kong Limited’s daily quotations sheets for the 5 business days immediately preceding the Offer Date; and (c) the nominal value of a share of the Company.

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Company shall not in aggregate exceed 10% of the total number of shares in issue as at 12 July 2017 unless the Company obtains a fresh approval from the shareholders to refresh the limit.

The maximum entitlement for any one Participant is that the total number of the shares issued and to be issued upon exercise of the options granted under the Share Option Scheme to each participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue unless otherwise approved by the shareholders at a general meeting of the Company.

The option may be exercised in accordance with the terms of the Share Option Scheme at any time during the option period which would be determined and notified by the board of directors to the grantee at the time of making an offer.

No share options have been granted by the Group up to the date of issuance of these condensed consolidated financial statements.

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For the six months ended 30 June 2019

18. SHARE BASED PAYMENT TRANSACTIONS (continued)

SHARE AWARD SCHEME

The Group adopted a share award scheme on 11 December 2017 (“**Share Award Scheme**”). The specific objectives of the Share Award Scheme are (i) to recognise the contributions by certain employees 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 result in the number of the shares awarded shall not exceed 5% of the number of the issued shares of the Company from time to time. The maximum number of shares which may be awarded to a selected employee under the Share Award Scheme shall not exceed 1% of the number of the issued shares of the Company from time to time.

During the year ended 31 December 2018, 5,334,000 ordinary shares of the Company have been acquired at an aggregate cost of HK\$8,000,000. On 16 January 2018, certain directors and employees of the Group have been awarded for 5,334,000 ordinary shares under the Share Award Scheme. The award shares will be vested to the Selected Participants in four tranches with 1,333,000 ordinary shares of the Company to be vested in July 2018, 1,769,000 ordinary shares of the Company to be vested in July 2019, 1,982,000 ordinary shares of the Company to be vested in July 2020 and 250,000 ordinary shares of the Company to be vested in July 2021.

The fair value of the shares awards amounting to HK\$1,364,000 is recognised as staff cost in the profit or loss for the six months ended 30 June 2019 (30 June 2018: HK\$2,919,000). As at 30 June 2019, 4,001,000 (31 December 2018: 4,001,000) ordinary shares of the Company were held by the trustee of the Share Award Scheme.

During the six months ended 30 June 2018, the closing price of the shares of the Company immediately before the grant of awarded shares was HK\$1.50 per share.

19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

FAIR VALUE OF THE GROUP'S FINANCIAL ASSETS AND FINANCIAL LIABILITIES THAT ARE MEASURED AT FAIR VALUE ON A RECURRING BASIS

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorized (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

FAIR VALUE OF THE GROUP'S FINANCIAL ASSETS AND FINANCIAL LIABILITIES THAT ARE MEASURED AT FAIR VALUE ON A RECURRING BASIS (continued)

- Level 1 fair value measurements are quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| Financial asset and liabilities | Fair value as at | | Fair value hierarchy | Valuation technique and key inputs |
|---|---------------------------------------|--------------------------------------|----------------------|--|
| | 30.6.2019 HK\$' 000 (Unaudited) | 31.12.2018 HK\$' 000 (Audited) | | |
| Derivative liability – interest rate swap | Liabilities – 511 | Liabilities – 499 | Level 2 | Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties. |
| Financial assets at FVTPL | Assets – 27,549 | Assets – 24,766 | Level 2 | Values quoted by insurance companies. |

There is no transfers between Level 1 and Level 2 at the end of the reporting period.

FAIR VALUE OF THE GROUP'S FINANCIAL ASSETS AND FINANCIAL LIABILITIES THAT ARE NOT MEASURED AT FAIR VALUE ON A RECURRING BASIS

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values. Such fair values have been determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

20. PLEDGE OF ASSETS

At the end of the reporting period, the following assets were pledged by the Group to secure its banking and other financing facilities:

| | 30.6.2019 <i>HK\$'000</i> (Unaudited) | 31.12.2018 <i>HK\$'000</i> (Audited) |
|------------------------------|---|--|
| Pledged bank deposits | 87,912 | 84,785 |
| Leasehold land and buildings | 111,654 | 80,890 |
| | 199,566 | 165,675 |

Notes:

As at 30 June 2019 and 31 December 2018, the Group's banking facilities were also secured by:

- (a) Negative pledge on the assets of certain subsidiaries in the PRC and Bangladesh; and
- (b) Financial assets at FVTPL of the Company.

21. CAPITAL COMMITMENT

| | 30.6.2019 <i>HK\$'000</i> (Unaudited) | 31.12.2018 <i>HK\$'000</i> (Audited) |
|---|---|--|
| Contracted but not provided in the condensed consolidated financial statements of financial position in respect of acquisition of property, plant and equipment | - | 1,399 |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

22. RELATED PARTY TRANSACTIONS

Other than balances disclosed elsewhere in the condensed consolidated financial statements, the Group had the following transactions with related parties for both periods:

a)

| | Note | Six months ended | |
|---------------------------------------|------|---------------------------------------|---------------------------------------|
| | | 30.6.2019 HK\$' 000 (Unaudited) | 30.6.2018 HK\$' 000 (Unaudited) |
| Computer product and service expenses | (i) | 856 | 540 |

Note (i): For both periods, the Group entered into transactions with Hopcom Software Company Limited which is controlled by Mr. Chang Chih Lung and Mr. Chang Yoe Chong, Felix who are also the directors and shareholders of the Company.

(b) **Compensation of key management personnel**

The remuneration of directors and other members of key management during the period was as follows:

| | Six months ended | |
|--------------------------|---------------------------------------|---------------------------------------|
| | 30.6.2019 HK\$' 000 (Unaudited) | 30.6.2018 HK\$' 000 (Unaudited) |
| Short-term benefits | 1,945 | 1,347 |
| Post-employment benefits | 41 | 33 |
| | 1,986 | 1,380 |

The remuneration of directors and other members of key management is determined having regard to the performance of individuals and market trends.

23. APPROVAL OF INTERIM FINANCIAL INFORMATION

The interim financial information was approved by the Board of Directors on 28 August 2019.