Evergreen Products Group Limited
訓修實業集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1962)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

FINANCIAL HIGHLIGHTS

- Revenue for the Period amounted to HK$305.8 million, representing an increase of 1.2% from HK$302.1 million for the corresponding period in 2016.
- Gross profit for the Period amounted to HK$106.3 million, representing an increase of 6.6% from HK$99.7 million for the corresponding period in 2016.
- Net profit for the Period amounted to HK$46.7 million, representing an increase of 32.2% from HK$35.4 million for the corresponding period in 2016, primarily attributable to a gain of HK$16.8 million from change in fair value of redeemable convertible preferred shares (30 June 2016: Nil) and net off against the listing expenses of HK$11.5 million (30 June 2016: HK$4.9 million). Without taking into account of the listing expenses and the change in fair value of the Preferred Shares, the Group's adjusted net profit for the period was HK$41.4 million, representing an increase of 3.0% from approximately HK$40.2 million for the corresponding period in 2016.
- The Board has resolved not to declare any interim dividend for the Period.

INTERIM RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Evergreen Products Group Limited (the "**Company**") hereby announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2017 (the "**Period**") together with comparative figures for the corresponding period in 2016 as set out below:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Notes	Six months ended 30.6.2017 HK$'000 (Unaudited)	30.6.2016 HK$'000 (Unaudited)
Revenue	4	**305,758**	302,078
Cost of goods sold		**(199,447)**	(202,353)
Gross profit		**106,311**	99,725
Other income		**340**	1,489
Other gains and losses		**(958)**	(2,316)
Distribution and selling expenses		**(6,759)**	(6,358)
Administrative expenses		**(48,009)**	(43,073)
Other expenses		**(13,153)**	(5,782)
Change in fair value of redeemable convertible preferred shares	13	**16,848**	–
Finance costs		**(7,722)**	(7,126)
Profit before taxation		**46,898**	36,559
Taxation	5	**(150)**	(1,196)
Profit for the period	6	**46,748**	35,363
Other comprehensive income (expense) for the period:			
Items that will not be reclassified subsequently to profit or loss:			
Surplus on revaluation of land and buildings		**5,762**	1,016
Deferred tax arising from revaluation of land and buildings		**(433)**	(84)
		5,329	932
Items that may be reclassified subsequently to profit or loss:			
Loss on fair value change of available-for-sales investments		**–**	(573)
Reclassification adjustments relating to disposal of available-for-sale investments		**–**	1,275
Exchange differences arising from translation of foreign operations		**1,491**	(2,336)
		1,491	(1,634)
Other comprehensive income (expense) for the period, net of income tax		**6,820**	(702)
Total comprehensive income for the period		**53,568**	34,661

	Notes	Six months ended 30.6.2017 HK$'000 (Unaudited)	30.6.2016 HK$'000 (Unaudited)
Profit (loss) for the period attributable to:			
Owners of the Company		**47,213**	35,363
Non-controlling interests		**(465)**	–
		46,748	35,363
Total comprehensive income (expense) attributable to:			
Owners of the Company		**54,084**	34,661
Non-controlling interests		**(516)**	–
		53,568	34,661
Earnings per share *(HK$)*	*8*		
– basic		**0.14**	0.11
– diluted		**0.07**	0.10

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	Notes	30.6.2017 HK$'000 (Unaudited)	31.12.2016 HK$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	**329,616**	305,014
Prepaid lease payments		**19,337**	18,809
Deposits and prepayments for life insurance policies		**23,172**	29,986
		372,125	353,809
CURRENT ASSETS			
Inventories		**335,734**	317,078
Trade and other receivables	10	**224,613**	191,199
Prepaid lease payments		**349**	336
Amounts due from fellow subsidiaries		**–**	824
Amounts due from directors		**–**	24,079
Tax recoverable		**930**	882
Pledged bank deposits		**77,901**	35,912
Bank balances and cash		**48,049**	60,377
		687,576	630,687
CURRENT LIABILITIES			
Trade and other payables	11	**50,223**	54,345
Amount due to a related company		**–**	46,644
Amount due to former ultimate holding company		**–**	8,587
Amount due to a former shareholder		**–**	602
Amount due to a preferred shareholder		**–**	1,234
Amount due to immediate holding company		**–**	11,145
Tax payable		**3,128**	4,026
Secured bank borrowings	12	**617,491**	503,656
Obligations under finance leases		**–**	165
Derivative liabilities		**733**	2,985
		671,575	633,389
NET CURRENT ASSETS (LIABILITIES)		**16,001**	(2,702)
TOTAL ASSETS LESS CURRENT LIABILITIES		**388,126**	351,107

	Notes	30.6.2017	31.12.2016
		HK$'000	*HK$'000*
		(Unaudited)	(Audited)
CAPITAL AND RESERVES			
Share capital		**7,780**	7,780
Reserves		**189,321**	135,237
Equity attributable to owners of the Company		**197,101**	143,017
Non-controlling interests		**(416)**	100
TOTAL EQUITY		**196,685**	143,117
NON-CURRENT LIABILITIES			
Deferred taxation		**3,033**	2,734
Redeemable convertible preferred shares	*13*	**188,408**	205,256
		191,441	207,990
		388,126	351,107

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34"), issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as 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 "Stock Exchange").

The Company was incorporated in the Cayman Islands with limited liability and its shares have been listed on the Stock Exchange with effect from 12 July 2017.

2. GROUP REORGANISATION AND BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In preparation of the listing of the Company's shares on the Main Board of the Stock Exchange, the companies comprising the Company and its subsidiaries (hereinafter collectively refer as the "Group") underwent the group reorganisation as described below.

The principal activity of the Group is the manufacturing and trading of hair products. The Company's ultimate holding company is Golden Evergreen Limited ("GEL"), a company incorporated in the British Virgin Islands ("BVI"). GEL is wholly owned by HSBC International Trustee Limited, the trustee of the Felix Family Trust and CLC Family Trust (collectively, the "Trust"). The beneficiaries and settlor of the Trust, including Mr. Chang Chih Lung, Mr. Chang Yoe Chong Felix and their family members, is considered as the controlling shareholder of the Group ("Controlling Shareholder"). The group reorganisation mainly involved inserting new holding entities, including the Company, between Evergreen Products Factory Limited ("Evergreen Factory") and its shareholders and has not resulted in any change of economic substances. Accordingly, the condensed consolidated financial statements have been prepared on the basis as if the current group structure had been in existence throughout the six months period ended 30 June 2016. The Company became the holding company of the companies now comprising the Group on 22 June 2016. Major steps of the group reorganisation include the following:

Step 1: On 19 May 2016, the Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability with an authorised share capital of US$50,000 divided into 5,000,000 shares at par value of US$0.01 each. On 10 June 2016, the one share allotted to the first subscriber was transferred to Evergreen Enterprise Holdings Limited (the "HoldCo"), immediate holding company.

Step 2: On 30 May 2016, Evergreen Enterprise Investment Limited ("EEIL") was incorporated in the BVI as a BVI business company with an authorised share capital of US$50,000 divided into 50,000 ordinary shares at par value of US$1 each. On 30 May 2016, the one ordinary share allotted to the first subscriber was transferred to the Company.

Step 3: On 22 June 2016, HoldCo approved that (i) the authorised share capital of the Company be increased to US$5,000,000 divided into 500,000,000 shares of par value of US$0.01 each; and (ii) the authorised share capital be re-designated so that 400,000,000 shares in the share capital of the Company, including the one issued share, be re-designated to 400,000,000 ordinary shares and 100,000,000 shares in the share capital of the Company be re-designated to 100,000,000 redeemable convertible preferred shares.

On 22 June 2016, Evergreen Group Limited ("EGL"), a company controlled by the Controlling Shareholder, transferred 30,000 ordinary shares of Evergreen Factory, representing 100% of the shareholding in Evergreen Factory, to EEIL. As consideration, 99,999,999 ordinary shares and 36,908,517 series A redeemable convertible preferred shares of the Company were issued to EGL. On 22 June 2016, the Company became the holding company of the companies now comprising the Group.

Step 4: Pursuant to a reorganisation deed dated 29 June 2016 entered into between EGL, HoldCo, Mr. Chang Chih Lung, Mr. Chang Yoe Chong Felix and SEAVI Advent Investments Ltd. (the "Investor"), EGL distributed 99,999,999 ordinary shares and 36,908,517 series A redeemable convertible preferred shares of the Company in specie to HoldCo and the Investor, respectively.

The condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six months period ended 30 June 2016 include the results, changes in equity and cash flows of the companies comprising the Group as if the Company had always been the holding company of the Group and the current group structure had been in existence throughout that reporting period or since the respective dates of incorporation, where this is a shorter period except for those subsidiaries being disposed of during that reporting period that the results of which have been accounted for until the effective date of disposal.

3. 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. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group's consolidated financial statements for each of the three years ended 31 December 2016 underlying the preparation of the financial information in the accountants' report which have been included in Appendix I to the prospectus of the Company dated 29 June 2017.

In the current reporting period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKAS 7	Disclosure initiative
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses
Amendments to HKFRS 12	As part of the annual improvements to HKFRSs 2014 – 2016 cycle

The application of above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements, but additional disclosures about changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes on application of amendments to HKAS 7 will be provided in the consolidated financial statements for the year ending 31 December 2017.

4. 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 other, 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.

An analysis of the Group's revenue by products for the period is as follows:

	Six months ended	
	30.6.2017	30.6.2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Wigs, hair accessories and other	**206,083**	209,021
High-end human hair extensions	**70,999**	65,839
Halloween products	**28,676**	27,218
	305,758	302,078

5. TAXATION

	Six months ended 30.6.2017 HK$'000 (Unaudited)	30.6.2016 HK$'000 (Unaudited)
The taxation charge comprises:		
Current tax:		
Hong Kong	**–**	–
People's Republic of China ("PRC") Enterprise Income Tax ("EIT")	**49**	56
Other jurisdictions	**387**	–
	436	56
(Overprovision) underprovision in prior years:		
PRC EIT	**–**	1,250
Other jurisdictions	**(153)**	–
	(153)	1,250
	283	1,306
Deferred tax:		
Current period	**(133)**	(110)
	150	1,196

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

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.

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, in Japan and US, is calculated at the rates prevailing in the relevant jurisdictions. For Japan, the applicable prevailing tax rate was 27% for both periods.

6. PROFIT FOR THE PERIOD

	Six months ended	
	30.6.2017	30.6.2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Amortisation of prepaid lease payments	**172**	177
Depreciation of property, plant and equipment	**13,342**	9,775
Total depreciation and amortisation	**13,514**	9,952
Interest income	**(63)**	(41)
Dividend income received from listed equity securities	**–**	(20)
Rental income from warehouses	**(276)**	(284)
Cost of inventories recognised as expense (included in cost of goods sold)	**199,447**	202,353
Listing expenses	**11,540**	4,868
Operating lease payments in respect of rented premises	**2,233**	2,725
Donation expense	**1,613**	914

7. DIVIDENDS

The directors of the Company have determined that no dividend will be paid in respect of the current interim period.

During the six months ended 30 June 2016, a subsidiary of the Company declared dividends of HK$50,000,000 to its then shareholders. Dividend per share is not presented as its inclusion is not considered meaningful for the preparation of the condensed consolidated financial statements of the Group.

Other than the above, no dividend was paid or declared by the Company or by Group's entities during the six months ended 30 June 2017 and 2016.

8. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to the owners of the Company is based on the following data on the assumption that the group reorganisation and capitalisation issue as disclosed in notes 2 and 14 has been effective on 1 January 2016.

	Six months ended	
	30.6.2017	30.6.2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Earnings attributable to owners of the Company:		
Earnings for the purpose of basic earnings per share	**47,213**	35,363
Add: Interest expenses on redeemable convertible preferred shares	**778**	58
Change in fair value of redeemable convertible preferred shares	**(16,848)**	–
Earnings for the purpose of diluted earnings per share	**31,143**	35,421

	Six months ended	
	30.6.2017	30.6.2016
	'000	*'000*
	(Unaudited)	(Unaudited)
Number of shares:		
Number of ordinary shares for the purpose of basic earnings per share	**336,904**	336,904
Effect of dilutive potential ordinary shares:		
Redeemable convertible preferred shares	**124,346**	6,149
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**461,250**	343,053

The number of ordinary shares for the purpose of basic earnings per share has been arrived on the basis of 236,904,000 ordinary shares deemed to be issued pursuant to the capitalisation issue as disclosed in note 14, which does not reflect the number of capitalisation shares to be issued resulting from the conversion of the redeemable convertible preferred shares.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period ended 30 June 2017, the Group spent approximately HK$31,550,000 (six months ended 30 June 2016: HK$35,420,000 (unaudited)) on property, plant and equipment.

10. TRADE AND OTHER RECEIVABLES

	30.6.2017	31.12.2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables	**116,041**	121,633
Other receivables	**3,206**	6,745
Purchase rebate receivables	**12,000**	16,000
Other tax receivables	**575**	625
Prepayment	**31,659**	9,471
Deferred listing related expenses	**7,620**	4,660
Deposits paid to suppliers	**53,512**	32,065
	224,613	191,199

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

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

	30.6.2017	31.12.2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 – 60 days	**89,169**	81,083
61 – 90 days	**15,421**	23,558
91 – 120 days	**8,725**	13,485
Over 120 days	**2,726**	3,507
	116,041	121,633

11. TRADE AND OTHER PAYABLES

	30.6.2017	31.12.2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade payables	**19,579**	17,127
Accrued staff costs	**12,330**	21,729
Accruals and other payables	**18,314**	15,489
	50,223	54,345

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

	30.6.2017	31.12.2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 – 60 days	**19,579**	17,127

12. SECURED BANK BORROWINGS

During the six months ended 30 June 2017, the Group obtained new mortgage and short term loans amounting to HK$318,135,000 (30 June 2016: HK$143,000,000) and repaid mortgage and short term loans of HK$320,585,000 (30 June 2016: HK$21,481,000). Proceeds from new borrowings were used to finance the general operating activities and construction of production facilities of the Group. As at 30 June 2017, the bank borrowings carried floating rate interest ranging from 1.39% to 5.25% (31 December 2016: 1.39% to 5.25%) per annum.

13. REDEEMABLE CONVERTIBLE PREFERRED SHARES

	Number of shares	**Nominal value**
		US$'000
Redeemable convertible preferred shares of US$0.01 each:		
Authorised:		
Balance at 22 June 2016, 31 December 2016 and 30 June 2017	**100,000,000**	**1,000**
Issued and fully paid:		
Balance at 22 June 2016, 31 December 2016 and 30 June 2017	**36,908,517**	**15,000**

The 36,908,517 series A redeemable convertible preferred shares (the "Preferred Shares") are designated as financial liabilities at fair value through profit or loss.

The fair value of the Preferred Shares was determined by discounted cash flow analysis and option pricing method. The present value of the estimated future cash flow is discounted at the weighted average cost of capital ("WACC") of 14% (31 December 2016: 14%) at 30 June 2017.

The assumptions and key parameters adopted for the valuation of the Preferred Shares are as follows:

	30 June 2017 option-pricing method (unaudited)	31 December 2016 option-pricing method (audited)
Methodology		
Estimated probability of the Preferred Shares		
– for redemption	**0%**	10%
– for conversion	**100%**	90%
Discount rate		
– for redemption	**N/A**	12.6%
Time to expiration (number of years)	**0.73**	1.25
Preferred shares dividend yield	**2%**	2%
Compound annual growth rate	**10%**	10%
Expected volatility	**16.0% – 34.6%**	38.5% – 43.6%

The other major assumptions adopted for the option-pricing method valuation of the Preferred Shares are as follows:

(a) The estimation of risk free rate is based on the yield to maturity of the Hong Kong Government Bond matured at time close to the initial public offering timing as of valuation date.

(b) Volatility is estimated based on annualised standard deviation of daily stock price return of comparable companies.

The movements of the Preferred Shares during the period ended 30 June 2017 are set out below:

	Amount ***HK$'000***
At 1 January 2017 (audited)	**205,256**
Change in fair value of redeemable convertible preferred shares	**(16,848)**
At 30 June 2017 (unaudited)	**188,408**

14. EVENTS AFTER THE REPORTING PERIOD

Save as disclosed elsewhere in the condensed consolidated financial statements, the following subsequent events taken place:

(i) Pursuant to the written resolution passed by the shareholders of the Company on 19 June 2017, conditional upon the share premium account of the Company being credited as a result of the global offering, the directors of the Company were authorised to capitalise the amount of US$3,243,415 from the amount standing to the credit of the share premium account of the Company to pay up in full at par 324,341,483 shares for allotment and issue to the existing shareholders of the Company.

On 12 July 2017, 153,750,000 new shares of the Company have been issued at the price of HK$1.65 per share under the global offering and 324,341,483 shares were allotted and issued to the existing shareholders of the Company pursuant to the resolution mentioned above. The shares of the Company were successfully listed on the same date.

(ii) On 12 July 2017, Preferred Shares were converted into the Company's ordinary shares at par value of US$0.01 each and 36,908,517 ordinary shares were issued.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is one of the leading global manufacturers of hair goods with approximately 4.0% market share of global synthetic hair goods manufacturer revenue in 2016. The Group designs, manufactures and sells a wide range of hair goods made with synthetic fibres and human hair, including wigs, hairpieces, braids and high-end human hair extensions, targeted at different ethnic groups and the Halloween market.

As at 30 June 2017, the Group had three production centres in China and two production centres in Bangladesh, with the three production centres in China occupying approximately 113,163 square metres of land with a total gross floor area ("**GFA**") of 54,091 square metres, and the two production centres in Bangladesh occupying approximately 58,000 square metres of land with a total GFA of 89,372 square metres. In January 2017, the Group completed the construction work of the phase III production facility in the Uttara Export Processing Zone in Bangladesh, which is used for the production of wigs and related products, and had commenced operation and production in January 2017.

During the Period, adhering to the Group's strategic planning in factory deployment, the production facilities in Bangladesh (the "**Bangladesh Factory**") have contributed significantly to the Group's profitability and housed the Group's principal manufacturing capacity.

OUTLOOK

In order to meet the expected increase in demand for the Group's products and to capture business opportunities arising from the growth in the hair goods industry, the Group intends to expand its production capacity and the scope of its operations in Bangladesh to include human hair sourcing, bleaching and dyeing, printing and package cartoning. The Group plans to complete the construction of four new production facilities in Bangladesh by the end of 2019. Construction of one of the Group's new production facilities in Bangladesh (the "**GT Hand Tie Facility**") is close to completion with only interior decoration in progress before its commencement of production. The GT Hand Tie Facility will be principally engaged in hand tie production. In addition, the Group has also commenced construction of two other production facilities (the "**Bleaching and Dyeing Complex**" and the "**UEPZ Printing Facility**", respectively) during the Period. The Bleaching and Dyeing Complex will be principally engaged in bleaching and dyeing while the UEPZ Printing Facility will be principally engaged in printing. Construction of the remaining production facility in Bangladesh is expected to commence by the end of 2017, which will be principally engaged in package cartoning.

With the addition of new facilities in Bangladesh, the Group believes that it will be able to meet additional product demand from customers, shorten the production lead time and improve its production efficiency through both consolidation of its raw material processing and hair goods production functions in Bangladesh and an increase in its production capacity. The Group also anticipates that the continued expansion of its product portfolio and customer base will lead to an increase in demand of its products and increase in its market share in the relevant markets. The Group plans to increase market share and enhance revenue sources and profitability by introducing more human hair goods to existing customers and further develop the product segment of high-end human extensions with the Bleaching and Dyeing Complex in Bangladesh currently under construction. Moreover, with the expansion of the Group's production capacity, the Group is able to increase penetration of Halloween products.

FINANCIAL REVIEW

During the Period, the Group's financial results were similar compared to the same period in 2016 with improved profitability growth due to an increase in economies of scale in the Bangladesh Factory.

Revenue

Revenue of the Group is mainly generated from the manufacture and sale of its products. Revenue represents the amount received by the Group and the receivables for the sale of the Group's 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$305.8 million, representing an increase of HK$3.7 million or 1.2% as compared with HK$302.1 million for the corresponding period in 2016. 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 wigs and hair products. During the Period, market demand for the Group's wigs products continued to grow, and such demand was satisfied by the rapid increase in production capacity of the Bangladesh Factory. The Bangladesh Factory, which had consistent enhancement in its production capabilities and continued to develop steadily during the Period, remained as the Group's main revenue source and facilitated the Group's profitability growth. During the Period, the Group's revenue generated from hair goods made at the Bangladesh Factory accounted for 87.1% of the Group's total revenue as compared to 78.8% for the corresponding period in 2016.

The United States remained as the Group's principal market during the Period. Revenue from the United States accounted for 81.3% of the Group's total revenue during the Period as compared to 77.7% for the corresponding period in 2016. In terms of product segments, wigs, hair accessories and others remained as the Group's key product segment and accounted for 67.4% of its total revenue during the Period as compared to 69.2% for the corresponding period in 2016.

Wigs, hair accessories and others. Revenue from wigs, hair accessories and others decreased by HK$2.9 million, or 1.4%, from HK$209.0 million for the six months ended 30 June 2016 to HK$206.1 million for the Period. The decrease was primarily due to less production of products with a relatively low gross profit margin, such as braids, during the Period. Production capacity was concentrated on the other two segments during the Period.

High-end human hair extensions. Revenue from high-end human hair extensions increased by HK$5.2 million, or 7.8%, from HK$65.8 million for the six months ended 30 June 2016 to HK$71.0 million for the Period, primarily due to slightly higher sales volume driven by increased production of the Bangladesh Factory.

Halloween products. Revenue from Halloween products increased slightly by HK$1.5 million, or 5.4%, from HK$27.2 million for the six months ended 30 June 2016 to HK$28.7 million for the Period, primarily due to early delivery of finished goods during the Period as compared to the corresponding period in 2016.

Cost of Goods Sold

The Group's cost of goods sold decreased by HK$3.0 million, or 1.4%, from HK$202.4 million for the six months ended 30 June 2016 to HK$199.4 million for the Period, primarily due to absence of subcontracting fee incurred during the Period.

Wigs, hair accessories and others. Cost of goods sold for wigs, hair accessories and others decreased by HK$9.1 million, or 5.9%, from HK$152.4 million for the six months ended 30 June 2016 to HK$143.3 million for the Period, corresponding with a decrease in sales of such products during the Period. The decrease was also attributable to a change in product mix towards production of more wigs and lace wigs during the Period, which requires less labour than the production of simple braids.

High-end human hair extensions. Cost of goods sold for high-end human hair extensions increased by HK$5.2 million, or 16.0%, from HK$32.5 million for the six months ended 30 June 2016 to HK$37.7 million for the Period, primarily due to an increase in raw material costs of human hair as a result of using more Chinese hair for such products.

Halloween products. Cost of goods sold for Halloween products increased by HK$0.9 million, or 5.3%, from HK$17.5 million for the six months ended 30 June 2016 to HK$18.4 million for the Period, corresponding with an increase in sales of such products during the Period.

Gross Profit

The Group continued to enjoy low labour costs from production in the Bangladesh Factory during the Period, which also contributed positively to the Group's overall improvement in gross profit. During the Period, the Group's gross profit amounted to HK$106.3 million, representing an increase of HK$6.6 million, or 6.6%, as compared to HK$99.7 million for the corresponding period in 2016, primarily due to an increase in the sales of high-end human hair extensions, which had higher gross profit margin than the other two segments. During the Period, the Group's gross profit margin amounted to 34.8%, representing an increase of 1.8 percentage points from 33.0% for the corresponding period in 2016.

Wigs, hair accessories and others. Gross profit for wigs, hair accessories and others increased by HK$6.1 million, or 10.7%, from HK$56.6 million for the six months ended 30 June 2016 to HK$62.7 million for the Period. Gross profit margin for wigs, hair accessories and others increased slightly from 27.1% for the six months ended 30 June 2016 to 30.4% for the Period, primarily due to a change in product mix towards production of more wigs and lace wigs during the Period, which requires less labour than the production of simple braids.

High-end human hair extensions. Gross profit for high-end human hair extensions decreased by HK$36,000, or 0.1%, from HK$33.3 million for the six months ended 30 June 2016 to HK$33.3 million for the Period. Gross profit margin for high-end human hair extensions decreased from 50.6% for the six months ended 30 June 2016 to 46.9% for the Period, primarily due to an increase in the sales of high-end human hair extensions under other brands during the Period, which recorded lower profit margin than similar products sold under the Group's own brands.

Halloween products. Gross profit for Halloween products increased by HK$0.5 million, or 5.5%, from HK$9.8 million for the six months ended 30 June 2016 to HK$10.3 million for the Period, which is in line with an increase in revenue from Halloween products during the Period. Gross profit margin for Halloween products for the Period had remained stable as compared to the corresponding period in 2016, having slightly increased from 35.8% for the six months ended 30 June 2016 to 35.9% for the Period.

Other Income

Other income decreased by HK$1.1 million, or 77.2%, from HK$1.5 million for the six months ended 30 June 2016 to HK$0.3 million for the Period, primarily due to a decrease in interest earned from certain key-man life insurance contracts for one of the Directors.

Other Gains and Losses

Other gains and losses decreased by HK$1.4 million, or 58.6%, from a loss of HK$2.3 million for the six months ended 30 June 2016 to a loss of HK$1.0 million for the Period, primarily due to a gain from changes in fair value of the Group's foreign currency forward contracts and absence of loss on disposal of available-for-sales investments during the Period.

Change in Fair Value of Redeemable Convertible Preferred Shares

As at 30 June 2017, there were 36,908,517 series A redeemable and convertible preferred shares of par value of US$0.01 each in the share capital of the Company (the "**Preferred Shares**"). The Group did not record any change in fair value of redeemable convertible preferred shares for the six months ended 30 June 2016, but recognised a gain from change in fair value of redeemable convertible preferred shares of HK$16.8 million during the Period, primarily due to change in fair value of the Preferred Shares in the second half of 2016.

All the Preferred Shares were converted, on a one-to-one basis, into 36,908,517 ordinary shares (the "**Shares**") of the Company immediately before the completion of the global offering of the Company in July 2017.

Distribution and Selling Expenses

Distribution and selling expenses increased by HK$0.4 million, or 6.3%, from HK$6.4 million for the six months ended 30 June 2016 to HK$6.8 million for the Period, primarily due to an increase in advertising and commission expenses to boost sales during the Period.

Administrative Expenses

Administrative expenses increased by HK$4.9 million, or 11.5%, from HK$43.1 million for the six months ended 30 June 2016 to HK$48.0 million for the Period, primarily due to an increase in staff salary and corresponding pension payments during the Period especially for administrative staff in China.

Other Expenses

Other expenses increased by HK$7.4 million, or 127.5%, from HK$5.8 million for the six months ended 30 June 2016 to HK$13.2 million for the Period, primarily due to an increase in listing expenses from HK$4.9 million for the six months ended 30 June 2016 to HK$11.5 million for the Period and an increase in the amount of donation made by the Group from HK$0.9 million for the six months ended 30 June 2016 to HK$1.6 million for the Period.

Finance Costs

Finance costs increased by HK$0.6 million, or 8.4%, from HK$7.1 million for the six months ended 30 June 2016 to HK$7.7 million for the Period. During the Period, the Group has capitalised interest on bank borrowings of HK$2.9 million as the cost of qualifying assets (30 June 2016: Nil). Without such capitalisation, the increase in finance costs, as compared to the corresponding period in 2016, was HK$3.5 million or 49.1% for the Period, primarily due to an increase in bank borrowings.

Taxation

Income tax expense of the Group decreased by HK$1.0 million, or 87.5%, from HK$1.2 million for the six months ended 30 June 2016 to HK$0.2 million for the Period, primarily due to provision for the transfer pricing exposure of the Group's subsidiaries established in the People's Republic of China (the "**PRC**") in prior years. In 2016, the Group commissioned a transfer pricing review for its PRC subsidiaries for the years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2016. Based on the results of the transfer pricing review, the Group made a tax provision of approximately HK$1.3 million for PRC enterprise income tax for the six months ended 30 June 2016, representing the total amount of tax provision in relation to the transfer pricing exposure of the Group's PRC subsidiaries for the years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2016. Income tax expense was net off against the reversal of deferred taxation in the amount of HK$0.1 million for both the six months ended 30 June 2016 and the Period.

Net Profit

The Group's net profit for the Period was HK$46.7 million, representing an increase of HK$11.3 million, or 32.2%, as compared to HK$35.4 million for the corresponding period in 2016, primarily attributable to a gain of HK$16.8 million from change in fair value of redeemable convertible preferred shares (30 June 2016: Nil) and net off against the listing expenses of HK$11.5 million (30 June 2016: HK$4.9 million) as mentioned above.

Without taking into account of the listing expenses of HK$11.5 million and the change in fair value of redeemable convertible preferred shares of HK$16.8 million recognised during the Period, the Group's adjusted net profit for the Period was HK$41.4 million, representing an increase of HK$1.2 million, or 3.0%, as compared with HK$40.2 million for the corresponding period in 2016.

LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's bank balances, pledged bank deposits and cash increased by 30.8% from HK$96.3 million as at 31 December 2016 to HK$126.0 million as at 30 June 2017. The significant increase in cash and bank balances for the six months ended 30 June 2017 was primarily due to an increase in borrowings for the preparation for the upcoming construction payments and operating expense such as salary and utilities payment with regards to the Bangladesh Factory in the coming months.

Borrowings and Gearing Ratio

As at 30 June 2017, the Group's banking facilities amounted to HK$687.7 million, of which HK$70.2 million remained unutilised. As at 30 June 2017, the gearing ratio of the Group, which is equivalent to total interest-bearing debt (including secured bank borrowings, obligations under finance leases and the Preferred Shares) divided by total equity, was 409.7% as compared to 495.4% as at 31 December 2016. Assuming the Preferred Shares had been converted into ordinary Shares of the Company as at 31 December 2016, the gearing ratio as at 30 June 2017 and 31 December 2016 would have been 160.3% and 144.6%, respectively, on the basis that the Group's total interest-bearing debt would have decreased by HK$188.4 million and HK$205.3 million, respectively, while its total equity would have increased by the same amount. Such amounts represent the fair value and the carrying amount of the Preferred Shares as at 30 June 2017 and 31 December 2016, respectively. The Group considers 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$34.5 million (including interest on bank borrowings of HK$2.9 million capitalised as the cost of qualifying assets) on additions to fixed assets as compared to HK$35.4 million for the corresponding period in 2016 mainly to further upgrade and expand its manufacturing capabilities in Bangladesh. As at 30 June 2017, the Group had authorised a capital commitment of HK$0.8 million in respect of the purchase of printing equipment and the construction of factories in Bangladesh.

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 China 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 87.1% during the Period (30 June 2016: 78.8%)) 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 2016 and 2017, the Group did not have any material contingent liabilities.

Pledge of Assets

As at 30 June 2017, the Group's banking facilities were secured by:

(a) a pledge of the Group's bank deposits of approximately HK$77.9 million;

(b) safe custody of title deeds for the Group's office buildings of approximately HK$3.6 million, and prepaid lease payments in the PRC of approximately HK$1.7 million;

(c) unlimited guarantees provided by one of the Directors and the Group's fellow subsidiaries;

(d) a subordination agreement which provides that the amounts due to Directors advanced by them to the Company would be subordinated to the advance from a bank;

(e) a negative pledge on the assets of the Group's subsidiaries in the PRC and Bangladesh;

(f) insurance contracts entered for one of the Directors; and

(g) the Group's land and buildings in Hong Kong.

After the Period and upon the Listing Date (as defined below), the unlimited guarantees provided by one of the Directors and the Group's subsidiaries as referred to in (c) above and the subordination agreement as referred to in (d) above were released and replaced by corporate guarantees of the Group to the relevant banks.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2017, the Group employed a total of (i) 14,499 employees in Bangladesh, as compared to 14,097 as at 30 June 2016; (ii) 770 employees in China, as compared to 826 as at 30 June 2016; (iii) 76 employees in Hong Kong, as compared to 73 as at 30 June 2016; and (iv) 8 employees in Japan and the United States, as compared to 7 as at 30 June 2016.

Total employee expenditures during the Period amounted to HK$100.0 million as compared to HK$88.2 million for the corresponding period in 2016. The Group operates a defined contribution retirement scheme under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for all qualified employees. Employees of the Group's factories in the PRC are members of a state-managed retirement benefit plan operated by the government of the PRC. For employees in Bangladesh, the Group is currently not subject to any compulsory social insurance contribution, but they are covered by a self-managed provident fund operated by respective subsidiaries of the Group in Bangladesh.

Share Option Scheme

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

From the Listing Date (as defined below) up to the date of this announcement, no option has been granted or agreed to be granted under the share option scheme.

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

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

IMPORTANT EVENTS AFTER THE END OF THE PERIOD

The Listing

After the Period, on 12 July 2017 (the "**Listing Date**"), the Shares of US$0.01 each in the share capital of the Company were successfully listed (the "**Listing**") on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), which marked an important milestone in the strategic development of the Group. The Group received unaudited IPO net proceeds of around HK$206.0 million on the Listing Date, further enhancing the Group's financial resources and capital strengths to purse its business developments and contributed positively to the Group's gearing ratio. The Listing is expected to provide a more effective fund-raising platform to equip the Group with stronger financial capability and flexibility to timely capture greater opportunities for its sustainable business development and expansion in the long term. The Group will continue to strengthen its core business and explore new opportunities in order to maximize the value of the Company and its shareholders.

Updates on Rectification Progress

As disclosed in the prospectus of the Company dated 29 June 2017, certain PRC subsidiaries of the Group did not make any or full social insurance payments and/or housing provident fund contributions for certain of their employees during the years ended 31 December 2014, 2015 and 2016. As a result of rectification measures taken by the Group, all of the Group's subsidiaries in the PRC have been paying the social insurance and housing provident fund for all of their employees in full amount since February or March 2017, except that Shenzhen Evergreen Hair Products Co., Ltd.*（深圳訓修髮製品有限公司）("**Shenzhen Evergreen**") and Evergreen Products Factory (SZ) Co., Ltd.*（訓修實業（深圳）有限公司）("**Evergreen Factory (SZ)**"), were expected to only be able to pay the housing provident fund in full amounts in July 2017 at the earliest, due to the fact that pursuant to the relevant PRC laws and regulations, the local housing authority in Shenzhen only allows adjustment to the base number of contribution once within one housing provident fund year (that is, from 1 July each year to 30 June next year) for the employees involved, and as Shenzhen Evergreen and Evergreen Factory (SZ) had adjusted the base number of housing provident funds for their employees in August 2016, they would only be able to adjust the base number of contribution of housing provident fund for their employees in July 2017 at the earliest. For details, please refer to the section headed "Business – Licences, Regulatory Approvals and Compliance – Non-compliance" in the prospectus of the Company dated 29 June 2017.

In July 2017, Shenzhen Evergreen and Evergreen Factory (SZ) made such adjustments and have been paying full amount of social insurance and housing provident fund since then.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the Period (30 June 2016: Nil).

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

During the Period, since the Shares had not yet been listed on the Stock Exchange, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

The Company was incorporated in the Cayman Islands on 19 May 2016 as an exempted company with limited liability, and the Shares were listed on the Main Board of the Stock Exchange on the Listing Date.

As the Shares were not yet listed on the Stock Exchange as of 30 June 2017, the principles and code provisions of 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**") were not applicable to the Company during the Period.

The Company has adopted the principles and code provisions of the CG Code as the basis of the Company's corporate governance practices, and the CG Code has been applicable to the Company with effect from the Listing Date.

Pursuant to code provision A.2.1 of the CG Code, the responsibilities between the chairman and the chief executive officer should be separate and should not be performed by the same individual. However, Mr. Chang Yoe Chong Felix, an executive Director, currently performs these two roles in the Company. Given the current scale of the Company's operations and management structure, the Company considers that entrusting Mr. Chang, who has been the Company's key leadership figure and chiefly responsible for the business strategy, decisions and operations, to perform both the functions of the chairman and the chief executive officer of the Company is appropriate. The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired considering the background and experience of the Directors and the number of independent non-executive Directors on the Board and this structure will enable the Company to make and implement decisions promptly and effectively.

Save as disclosed above, in the opinion of the Board, the Company has complied with the code provisions in the CG Code throughout the period from the Listing Date to the date of this announcement.

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 from the Listing Date to the date of this announcement.

REVIEW OF INTERIM RESULTS BY THE AUDIT COMMITTEE

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

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

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

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

Hong Kong, 28 August 2017

As at the date of this announcement, the executive Directors are Mr. Chang Yoe Chong Felix, Mr. Chan Kwok Keung, Mr. Kwok Yau Lung Anthony, Ms. Jia Ziying and Mr. Li Yanbo; the non-executive Directors are Mr. Chang Chih Lung, Mr. Chan Lau Yui Kevin and Mr. Chan Hoi Sing Harold; and the independent non-executive Directors are Mr. Lau Ip Keung Kenneth, Mr. Sin Hendrick, Dr. Yung Bruce Pak Keung and Mr. Szeto Yuk Ting.