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## **Evergreen Products Group Limited**

**訓修實業集團有限公司**

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

**(Stock Code: 1962)**

### **ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022**

#### **FINANCIAL HIGHLIGHTS**

- Revenue for the Period amounted to HK\$542.1 million, representing a slight decrease of 1.2% from HK\$548.9 million for the corresponding period in 2021.
- Gross profit for the Period amounted to HK\$114.4 million, representing a decrease of 2.6% from HK\$117.4 million for the corresponding period in 2021.
- Net profit for the Period amounted to HK\$23.4 million, representing a decrease of 23.8% from HK\$30.8 million for the corresponding period in 2021, primarily attributable to (1) the increase in ocean freight cost since the pandemic, (2) the increase in depreciation expense since the construction project of the expansion production facilities in Bangladesh carried forward as property, plant and equipment, and (3) the increase in salaries and staff benefit (including director's remuneration) due to the annual salary increment and bonus payment.
- The Board has declared the payment of an interim dividend of HK\$1.7 cents per Share for the Period (30 June 2021: HK\$1.3 cents per Share).
- The interim dividend payout ratio is 49.7% for the Period (2021: Interim dividend payout ratio: 29.0%).

## 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 2022 (the “**Period**”) together with comparative figures for the corresponding period in 2021 as set out below:

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

*For the six months ended 30 June 2022*

	<i>Notes</i>	<b>Six months ended</b>	
		<b>30.6.2022</b> <i>HK\$’000</i> <b>(unaudited)</b>	30.6.2021 <i>HK\$’000</i> <b>(unaudited)</b>
Revenue	3	<b>542,058</b>	548,887
Cost of sales		<b>(427,696)</b>	(431,481)
Gross profit		<b>114,362</b>	117,406
Other income		<b>2,693</b>	2,330
Other gains and losses		<b>(2,282)</b>	(3,419)
Impairment losses (recognised) reversed on trade receivables under expected credit loss model, net of (provision) reversal		<b>(47)</b>	940
Distribution and selling expenses		<b>(8,781)</b>	(7,091)
Administrative expenses		<b>(70,754)</b>	(66,071)
Other expenses		<b>(119)</b>	(388)
Finance costs		<b>(11,584)</b>	(11,267)
Profit before tax		<b>23,488</b>	32,440
Income tax expense	4	<b>(41)</b>	(1,689)
Profit for the period	5	<b>23,447</b>	30,751
<b>Other comprehensive (expense) income:</b>			
<i>Items that will not be reclassified to profit or loss:</i>			
Gain on revaluation of properties transferred to investment properties		<b>7,340</b>	–
Deferred tax arising from gain on revaluation of properties transferred to investment properties		<b>(1,835)</b>	–
		<b>5,505</b>	–

	<i>Notes</i>	<b>Six months ended</b>	
		<b>30.6.2022</b> <i>HK\$'000</i> <b>(unaudited)</b>	30.6.2021 <i>HK\$'000</i> (unaudited)
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising from translation of foreign operations		<u>(39,963)</u>	<u>954</u>
Other comprehensive (expense) income for the period, net of income tax		<u>(34,458)</u>	<u>954</u>
Total comprehensive (expense) income for the period		<u><b>(11,011)</b></u>	<u><b>31,705</b></u>
Profit (loss) for the period attributable to:			
Owners of the Company		<u>26,846</u>	<u>29,626</u>
Non-controlling interests		<u>(3,399)</u>	<u>1,125</u>
		<u><b>23,447</b></u>	<u><b>30,751</b></u>
Total comprehensive (expense) income attributable to:			
Owners of the Company		<u>(6,188)</u>	<u>30,401</u>
Non-controlling interests		<u>(4,823)</u>	<u>1,304</u>
		<u><b>(11,011)</b></u>	<u><b>31,705</b></u>
Earnings per share ( <i>HK\$</i> )	7		
– basic		<u><b>0.04</b></u>	<u>0.04</u>
– diluted		<u><b>N/A</b></u>	<u>0.04</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022

		30.6.2022 <i>HK\$'000</i> (unaudited)	31.12.2021 <i>HK\$'000</i> (audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	8	660,405	715,786
Right-of-use assets	8	26,548	30,126
Investment properties	8	12,649	–
Non-current deposits	9	7,057	7,596
Financial assets at fair value through profit or loss		37,467	20,371
		744,126	773,879
<b>CURRENT ASSETS</b>			
Inventories		495,421	471,450
Trade and other receivables	9	281,153	294,315
Tax recoverable		1,225	1,320
Pledged bank deposits		106,619	106,568
Bank balances and cash		98,844	68,444
		983,262	942,097
<b>CURRENT LIABILITIES</b>			
Trade and other payables	10	91,205	72,783
Contract liabilities		7,906	8,791
Amount due to a related company		300	4,300
Amount due to a non-controlling shareholder of a subsidiary		5,737	6,021
Tax payable		8,579	8,519
Secured bank and other borrowings	11	621,933	575,240
Bank overdrafts	11	30,675	42,088
Lease liabilities		2,413	2,669
		768,748	720,411
<b>NET CURRENT ASSETS</b>		214,514	221,686
		958,640	995,565

		<b>30.6.2022</b>	31.12.2021
		<b>HK\$'000</b>	<b>HK\$'000</b>
	<i>Notes</i>	<b>(unaudited)</b>	<b>(audited)</b>
<b>CAPITAL AND RESERVES</b>			
Share capital		<b>53,377</b>	53,377
Reserves		<b>850,676</b>	864,411
		<hr/>	<hr/>
Equity attributable to owners of the Company		<b>904,053</b>	917,788
Non-controlling interests		<b>(920)</b>	3,903
		<hr/>	<hr/>
<b>TOTAL EQUITY</b>		<b>903,133</b>	921,691
		<hr/>	<hr/>
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		<b>7,085</b>	5,777
Lease liabilities		<b>8,408</b>	9,417
Secured bank and other borrowings	11	<b>40,014</b>	41,224
Provision for employee benefits		<b>–</b>	17,456
		<hr/>	<hr/>
		<b>55,507</b>	73,874
		<hr/>	<hr/>
		<b>958,640</b>	995,565
		<hr/> <hr/>	<hr/> <hr/>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

## 1. BASIS OF PREPARATION

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

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

## 2. PRINCIPAL ACCOUNTING POLICIES

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

Other than application of certain accounting policies which became relevant to the Group, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2022 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2021.

### Application of amendments to HKFRSs

In the current interim period, the Group has applied the following amendments to Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the HKICPA, for the first time, which are mandatorily effective for the Group’s annual period beginning on 1 January 2022 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before intended Use
Amendments to HKFRS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020

The application of the amendments to HKFRSs in the current interim period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

### Investment properties

Property that is held for long-term rental yields or for capital appreciation or both is classified as investment property. Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at fair value, adjusted to exclude any prepaid or accrued operating lease income. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

If a property becomes an investment property because its use has changed, any difference between the carrying amount and the fair value of that item (including the relevant leasehold land classified as right-of-use assets) at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the property, the relevant revaluation reserve will be transferred directly to retained profits.

## Taxation

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale, except for freehold land, which is always presumed to be recovered entirely.

### 3. REVENUE AND SEGMENT INFORMATION

Information reported to the chief executive officer of the Company, being the chief operating decision maker (“CODM”), for the purposes of resource allocation and performance assessment focuses on revenue analysis by products including wigs, hair accessories and others, high-end human hair extensions and Halloween products. No other discrete financial information is provided other than the profit for the period of the Group as a whole. Accordingly, no further segment information is disclosed.

#### Disaggregation of revenue from contracts with customers

##### *Group revenue by products*

	Six months ended	
	30.6.2022	30.6.2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Wigs, hair accessories and others	420,271	459,195
High-end human hair extensions	86,222	68,048
Halloween products	35,565	21,644
	<u>542,058</u>	<u>548,887</u>

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

	Six months ended	
	30.6.2022	30.6.2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
United States of America	478,683	492,361
The People's Republic of China (“the PRC”)	13,756	12,140
United Kingdom	5,198	7,442
Germany	20,194	17,240
Japan	13,336	14,593
Others	10,891	5,111
	<u>542,058</u>	<u>548,887</u>

All revenue is recognised at a point of time.

#### 4. INCOME TAX EXPENSE

	Six months ended	
	30.6.2022	30.6.2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
The taxation charge comprises:		
Current tax:		
Hong Kong	–	–
Bangladesh	1,162	1,695
The PRC Enterprise Income Tax (“EIT”)	15	3
Other jurisdictions	79	131
	<u>1,256</u>	<u>1,829</u>
Over-provision in prior years:		
Hong Kong	(739)	–
	<u>517</u>	<u>1,829</u>
Deferred tax:		
Current period	(476)	(140)
	<u>41</u>	<u>1,689</u>

#### 5. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging (crediting) the following items:

	Six months ended	
	30.6.2022	30.6.2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Depreciation of property, plant and equipment	23,532	18,368
Depreciation of right-of-use assets	1,883	1,776
	<u>25,415</u>	<u>20,144</u>
Total depreciation	25,415	20,144
Capitalised in inventories	(19,150)	(14,067)
	<u>6,265</u>	<u>6,077</u>
Interest income	(73)	(67)
Government grants (included in other income)	(1,055)	(123)
	<u>(1,055)</u>	<u>(123)</u>



## 6. DIVIDENDS

During the six months ended 30 June 2022, a final dividend of HK\$1.1 cents per share (2021: HK\$ nil per share in respect of the year ended 31 December 2020) in respect of the year ended 31 December 2021 was declared and paid to the owners of the Company. The aggregate amount of the final dividend declared in the prior interim period amounted to approximately HK\$7,547,000 (2021: HK\$ nil).

Subsequent to the end of the current interim period, the directors of the Group have determined that an interim dividend of HK\$1.7 cents per share amounting to HK\$11,663,000 in aggregate will be paid to owners of the Company whose names appear on the register of members of the Company on 16 September 2022.

## 7. EARNINGS PER SHARE

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

	<b>Six months ended</b>	
	<b>30.6.2022</b>	<b>30.6.2021</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Earnings attributable to owners of the Company:		
Earnings for the purpose of calculating basic and diluted earnings per share	<b>26,846</b>	29,626
	<b>686,082</b>	685,727
	<b>686,082</b>	685,957

Number of shares:

Weighted average number of ordinary shares for the purpose of basic earnings per share

Effect of dilutive potential ordinary shares:

Share awards scheme - unvested

Weighted average number of ordinary shares for the purpose of diluted earnings per share

No diluted earnings per share is presented for the six months ended 30 June 2022 as there were no potential ordinary shares in issue for the six months ended 30 June 2022.

The weighted average number of ordinary shares for the purpose of basic earnings per share shown above for the six months ended 30 June 2021 has been arrived at after deducting the shares held by the trustee of the share award scheme of the Company. Other than unvested share awards, there were no other potential ordinary shares outstanding for the six months ended 30 June 2021.

## 8. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS AND INVESTMENT PROPERTIES

During the six months ended 30 June 2022, the Group acquired certain property, plant and equipment of HK\$18,699,000 (for the six months ended 30 June 2021: HK\$9,651,000).

In the opinion of the directors of the Company, the respective carrying amounts of the Group's leasehold land and buildings at the end of the current interim period that are carried at revalued amounts do not differ significantly from their respective estimated fair values. Consequently, no revaluation surplus or deficit has been recognised in the interim periods ended 30 June 2022 and 2021.

During the six months ended 30 June 2022, the Group leased out certain properties with lease terms of 1 to 6 years to earn rentals. Accordingly, leasehold land and buildings of HK\$2,988,000 and its relevant leasehold land classified as right-of-use assets of HK\$2,321,000 were revalued to the fair value of HK\$12,649,000 and transferred to investment properties. The gain on revaluation of properties at the date of transfer is accumulated in property revaluation reserve.

During the period ended 30 June 2022, the Group entered into a new lease agreement with lease term of 3 years (six months ended 30 June 2021: renewed several lease agreements and entered into several new lease agreements with lease terms ranged from 2.2 to 3 years). The Group is required to make fixed monthly payments during the contract period. On lease commencement, or effective date of lease modification, the Group recognised right-of-use assets of HK\$595,000 (for the six months ended 30 June 2021: HK\$5,006,000) and lease liabilities of HK\$595,000 (for the six months ended 30 June 2021: HK\$5,006,000).

## 9. TRADE AND OTHER RECEIVABLES

	<b>30.6.2022</b> <i>HK\$'000</i> <b>(unaudited)</b>	31.12.2021 <i>HK\$'000</i> (audited)
Trade receivables		
– contracts with customers	<b>227,219</b>	236,425
Less: allowance for credit loss	<b>(1,819)</b>	(1,772)
	<b>225,400</b>	234,653
Other receivables	<b>35,599</b>	36,132
Purchase rebate receivables	–	7,695
Other tax receivables	<b>5,512</b>	2,087
Prepayments	<b>7,299</b>	8,286
Deposits paid to suppliers	<b>7,343</b>	5,462
Deposits for acquisition of property, plant and equipment	<b>5,812</b>	6,491
Property rental deposits	<b>1,245</b>	1,105
	<b>288,210</b>	301,911
Analysis for reporting purpose as:		
Non-current assets	<b>7,057</b>	7,596
Current assets	<b>281,153</b>	294,315
	<b>288,210</b>	301,911

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

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

	<b>30.6.2022</b> <i>HK\$'000</i> (unaudited)	31.12.2021 <i>HK\$'000</i> (audited)
0 – 60 days	<b>156,773</b>	182,885
61 – 90 days	<b>44,032</b>	37,612
91 – 120 days	<b>13,083</b>	8,013
Over 120 days	<b>11,512</b>	6,143
	<b>225,400</b>	234,653

#### 10. TRADE AND OTHER PAYABLES

	<b>30.6.2022</b> <i>HK\$'000</i> (unaudited)	31.12.2021 <i>HK\$'000</i> (audited)
Trade payables	<b>34,160</b>	44,551
Accrued staff costs	<b>34,631</b>	19,795
Accruals and other payables	<b>9,077</b>	8,437
Provision for employee benefits	<b>13,337</b>	–
	<b>91,205</b>	72,783

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

	<b>30.6.2022</b> <i>HK\$'000</i> (unaudited)	31.12.2021 <i>HK\$'000</i> (audited)
0 – 60 days	<b>34,160</b>	44,551

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

	<b>30.6.2022</b> <i>HK\$'000</i> <b>(unaudited)</b>	31.12.2021 <i>HK\$'000</i> (audited)
Bank overdrafts	<b>30,675</b>	42,088
Bank borrowings	<b>562,382</b>	487,253
Bank borrowings under supplier financing arrangement	<b>84,977</b>	108,788
Other borrowing	<b>14,588</b>	20,423
	<b>692,622</b>	658,552

Bank overdrafts carry interest at market rates which range from 3.72% to 5.88% (31 December 2021: 3.63% to 5.50%) and are repayable on demand.

The other borrowing carries interest at LIBOR + 2.75% (31 December 2021: LIBOR + 2.75%) per annum and were secured by the Group's bank deposits of approximately HK\$4,680,000 (31 December 2021: HK\$4,680,000).

The bank borrowings arranged at floating rates are with average effective interest rates ranging from 1.74% to 5.23% (31 December 2021: 1.86% to 5.23%) per annum. The bank borrowings arranged at fixed rate are ranging from 1.19% to 1.78% (31 December 2021: ranging from 1.19% to 1.78%) per annum. As at 30 June 2022 and 31 December 2021, the Group's banking borrowing facilities were secured by:

- (a) pledge of the Group's bank deposits of approximately HK\$101,939,000 (31 December 2021: HK\$101,888,000);
- (b) leasehold land, buildings and car parks in Hong Kong of approximately HK\$79,100,000 (31 December 2021: HK\$79,100,000);
- (c) leasehold land and buildings, including related right-of-use assets in the PRC of carrying amounts of approximately HK\$18,518,000 (31 December 2021: HK\$24,734,000);
- (d) investment properties in the PRC of approximately HK\$10,062,000 (31 December 2021: HK\$Nil);
- (e) negative pledge on the assets of certain subsidiaries in the PRC and Bangladesh; and
- (f) certain life insurance contracts classified as financial assets at fair value through profit and loss of the Group.

### Loan covenants

The Group is required to comply with the financial covenants throughout the continuance of the relevant loan and/or as long as the loan is outstanding with a carrying amount of HK\$407,031,000 as at 30 June 2022 (31 December 2021: HK\$358,617,000). The Group has complied with these covenants throughout the reporting period.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

Over two years since the onset of the pandemic, many countries have lifted or eased the COVID-19 restrictions and adopted loose monetary policies to resume economic activities, thus quickly releasing the suppressed consumer demand, with the hair wig industry continuously witnessing a positive demand across all regions.

The global economy is still plagued by the outbreaks of the pandemic, which disrupted the global supply chain for all industries. In the current complex and changeable environment, the Group has seized the favourable opportunity in the strong market demand to increase market expansion efforts and adjust the product mix and production capacities and also deepen the cooperative relationship with the key customers, ensuring the process of group production and operation is manageable since the pandemic. The revenue of the Group amounted to HK\$542.1 million for the Period, representing a slight decrease of approximately 1.2% against the corresponding period in 2021. The sales of lace wigs and closures and human hair products with high margin gradually increased but were offset by a slowdown in the sales of braid products with low margin during the Period. Gross profit margin slightly reduced to 21.1%, which was mainly due to the increase in ocean freight cost since the pandemic led to global surge of freight and cargo charges and the increase in depreciation expenses due to the construction project of the expansion production facilities in Bangladesh carried forward as property, plant and equipment. Net profit margin dropped to 4.3% when compared to 5.6% for the corresponding period ended 30 June 2021, which is mainly as a result of the increase in salaries and staff benefit (including directors' remuneration) due to the annual salary increment and bonus payment.

### **OUTLOOK**

The Group will continue to enlarge the sale team to explore the new market opportunities, aiming to expand its customer base, achieve a more balanced and healthy market layout, and enhance its risk resistance. The Group has continuously made all efforts on the negotiations on the terms of the bank loan restructuring to enhance the financial position and the cost-control to further increase the profitability soonest possible and enhance the liquidity. Besides, in light of the recent continuing conflict between Russia and Ukraine, the Group has entered into a sale and purchase agreement to sell the entire equity interest of the Ukraine subsidiary to preserve working capital for any future opportunities. The Board believes that the Group has managed the challenges from the pandemic and predicts that the market demand for high margin products will continuously restore towards the end of this year. The Group will continue to focus on its core business, closely monitor the latest development in the industry and adjust its strategies to provide the best interest of the shareholders of the Company in the medium to longer term.

## FINANCIAL REVIEW

During the Period, the Group's financial results primarily dropped compared with the same period in 2021, mainly due to the fact that the sales growth of the lace wigs and closure and human hair products with high margin substantially boosted after more and more countries lifting the COVID-19 measure which offset the slowdown in sale of braid products with low margin and the operating cost increased since the pandemic.

### REVENUE

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

During the Period, the Group's revenue amounted to HK\$542.1 million, representing a slight decrease of HK\$6.8 million, or 1.2%, as compared to HK\$548.9 million for the corresponding period in 2021. The decrease was primarily due to the fact that the strong market demand of the lace wigs and closure and human hair products with high margin substantially grew but was offset by the slowdown in sale of braid products with low margin. During the Period, the revenue generated from hair goods made at the Bangladesh factory accounted for 97.4% of the Group's total revenue as compared to 97.7% for the corresponding period in 2021.

The United States remained as the Group's principal market during the Period with revenue contribution accounting for 88.3% of the Group's total revenue during the Period as compared to 89.7% for the corresponding period in 2021. In terms of product segment, wigs, hair accessories and others remained as the Group's key product segment accounting for 77.5% of its total revenue during the Period as compared to 83.7% for the corresponding period in 2021.

*Wigs, hair accessories and others.* Revenue for wigs, hair accessories and others decreased by HK\$38.8 million, or 8.5%, from HK\$459.1 million for the six months ended 30 June 2021 to HK\$420.3 million for the Period. The decrease was primarily due to a significant drop in sales of braid items, which was one of the popular products. However, the sales of the lace closures continued to contribute to revenue and the sales of lace wigs increased, which partially offset the drop in the sales of braid items.

*High-end human hair extensions.* Revenue for high-end human hair extensions increased by HK\$18.2 million, or 26.8%, from HK\$68.0 million for the six months ended 30 June 2021 to HK\$86.2 million for the Period, primarily due to an increase in sales volume of human hair products for which the market demand continuously restored after uplifting of the epidemic control.

*Halloween products.* Revenue for Halloween products increased by HK\$14.0 million, or 64.8%, from HK\$21.6 million for the six months ended 30 June 2021 to HK\$35.6 million for the Period, primarily due to the increase in sales volume due to the uplifting of the epidemic control during Halloween festival.

### **Cost of Goods Sold**

The Group's cost of goods sold decreased by HK\$3.8 million, or 0.9%, from HK\$431.5 million for the six months ended 30 June 2021 to HK\$427.7 million for the Period, primarily due to a decrease in costs in connection with the product mix impact which a decrease in direct materials usage was partially offset by an increase in the depreciation expenses and ocean freight costs during the Period.

*Wigs, hair accessories and others.* Cost of goods sold for wigs, hair accessories and others decreased by HK\$33.8 million, or 9.1%, from HK\$371.3 million for the six months ended 30 June 2021 to HK\$337.5 million for the Period, corresponding with a decrease in direct materials usage which was partially offset by an increase in the depreciation expenses and ocean freight costs during the Period.

*High-end human hair extensions.* Cost of goods sold for high-end human hair extensions increased by HK\$19.6 million, or 43.2%, from HK\$45.4 million for the six months ended 30 June 2021 to HK\$65.0 million for the Period. The increase was the increase in production costs of this segment.

*Halloween products.* Cost of goods sold for Halloween products increased by HK\$10.3 million, or 69.6%, from HK\$14.8 million for the six months ended 30 June 2021 to HK\$25.1 million for the Period. The increase was in line with the increase in revenue from Halloween products during the Period.

### **Gross Profit**

During the Period, the Group's gross profit amounted to HK\$114.4 million, representing a decrease of HK\$3.0 million, or 2.6%, as compared to HK\$117.4 million for the corresponding period in 2021, primarily due to an increase in depreciation expenses which the construction project of the expansion productions facilities in Bangladesh carried forward as properties, plant and machinery and an increase in ocean freight cost since the pandemic led to global surge of freight and cargo charges. During the Period, the Group's gross profit margin was 21.1%, representing a decrease of 0.3% from 21.4% for the corresponding period in 2021.

*Wigs, hair accessories and others.* Gross profit for wigs, hair accessories and others decreased by HK\$5.0 million, or 5.7%, from HK\$87.8 million for the six months ended 30 June 2021 to HK\$82.8 million for the Period. Gross profit margin for wigs, hair accessories and others increased from 19.1% for the six months ended 30 June 2021 to 19.7% for the Period, primarily due to an increase in sales of lace wigs and closure products with a higher profit margin which was offset by an increase in total production overheads for the Period.

*High-end human hair extensions.* Gross profit for high-end human hair extensions decreased by HK\$1.5 million, or 6.6%, from HK\$22.7 million for the six months ended 30 June 2021 to HK\$21.2 million for the Period. Gross profit margin for high-end human hair extensions decreased from 33.4% for the six months ended 30 June 2021 to 24.6% for the Period, as a result of a greater increase in the total production overheads than the increase in sales for the Period.

*Halloween products.* Gross profit for Halloween products increased by HK\$3.5 million, or 50.7%, from HK\$6.9 million for the six months ended 30 June 2021 to HK\$10.4 million for the Period. Gross profit margin for Halloween products decreased from 31.7% for the six months ended 30 June 2021 to 29.2% for the Period, primarily due to an increase in total production costs of Halloween products during the Period.

### **Other Income**

Other income increased by HK\$0.4 million, or 17.4%, from HK\$2.3 million for the six months ended 30 June 2021 to HK\$2.7 million for the Period, primarily due to an increase in income from warehouse rental and government subsidies during the Period.

### **Other Gains and Losses**

Other gains and losses decreased by HK\$1.1 million, or 33.3%, from losses of HK\$3.4 million for the six months ended 30 June 2021 to losses of HK\$2.3 million for the Period. The other gains and losses primarily comprised a loss amounting to HK\$3.0 million from the fair value change of the financial assets at fair value through profit and loss and HK\$0.7 million from the gain on the exchange conversion due to the repayment of a bank loan in Hong Kong dollars during the Period.

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

During the Period, the Group provided approximately HK\$0.1 million of an impairment allowance in respect of trade receivables (2021: The Group reversed HK\$0.9 million).

### **Distribution and Selling Expenses**

Distribution and selling expenses increased by HK\$1.7 million, or 23.8%, from HK\$7.1 million for the six months ended 30 June 2021 to HK\$8.8 million for the Period, primarily due to an increase in shipping expenses in respect of the sales conducted and advertising expenses during the Period.



## **Administrative Expenses**

Administrative expenses increased by HK\$4.7 million, or 7.1%, from HK\$66.1 million for the six months ended 30 June 2021 to HK\$70.8 million for the Period, primarily due to an increase in salaries and staff benefit (including directors' remuneration) due to the annual salary increment and bonus payment.

## **Other Expenses**

Other expenses decreased by HK\$0.3 million, or 75.0%, from HK\$0.4 million for the six months ended 30 June 2021 to HK\$0.1 million for the Period, primarily due to a decrease in donation made during the Period.

## **Finance Costs**

Finance costs increased by HK\$0.3 million, or 2.7%, from HK\$11.3 million for the six months ended 30 June 2021 to HK\$11.6 million for the Period. During the Period, the Group did not capitalise interest on bank borrowings as cost of qualifying assets (30 June 2021: HK\$3.6 million). Without such capitalisation, finance costs for the Period decreased by HK\$3.3 million, or 22.1%, as compared with the corresponding period in 2021, primarily due to no capitalised interest on bank borrowings.

## **Taxation**

Income tax expenses of the Group decreased by approximately HK\$1.6 million, or 97.6%, from a taxation of HK\$1.7 million for the six months ended 30 June 2021 to a taxation of approximately HK\$0.1 million for the Period, primarily due to over-provision in prior years of the income tax in Hong Kong. Income tax expense included a reversal of deferred taxation in the amount of HK\$0.5 million for the Period (2021: included a reversal of deferred taxation in the amount of HK\$0.1 million).

## **Net Profit**

The Group's net profit for the Period was HK\$23.4 million, representing a decrease of HK\$7.4 million, or 23.8%, as compared to HK\$30.8 million for the corresponding period in 2021, which was primarily attributable to the increase in ocean freight cost since the pandemic and the increase in depreciation expense since the construction project of the expansion production facilities in Bangladesh carried forward as property, plant and equipment and the increase in salaries and staff benefit (including director's remuneration) due to the annual salary and bonus payment.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group's bank balances, pledged bank deposits and cash increased by 17.4% from HK\$175.0 million as at 31 December 2021 to HK\$205.5 million as at 30 June 2022. The increase in cash and bank balances for the Period was primarily due to an increase in the usage of the bank borrowings and trade finance during the Period.

The Group's trade and other receivables decreased by 4.5% from HK\$294.3 million as at 31 December 2021 to HK\$281.2 million as at 30 June 2022. The decrease was primarily due to a decrease in trade receivables due to an early settlement by certain customers.

### **Borrowings and Gearing Ratio**

As at 30 June 2022, the Group's banking facilities amounted to HK\$796.1 million, of which HK\$103.5 million remained unutilised. As at 30 June 2022, 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 77.9% as compared to 72.8% as at 31 December 2021. 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\$18.7 million (including no interest on bank borrowings as the cost of qualifying assets) on additions to fixed assets as compared to HK\$13.3 million (including interest on bank borrowings of HK\$3.6 million capitalised as the cost of qualifying assets) for the corresponding period in 2021 mainly to maintain its manufacturing capabilities in Bangladesh. As at 30 June 2022, the Group had capital commitments of HK\$0.5 million in respect of property, plant and equipment (31 December 2021: HK\$0.9 million).

### **Foreign Exchange Risk**

The Group has sales and purchases denominated in foreign currencies, such as U.S. dollars and Renminbi, which expose the Group to foreign currency risk. The Group mainly operates in the PRC and Bangladesh where its operating expenses are denominated in Renminbi and Bangladeshi Taka, respectively, while the majority of the Group's sales are settled in U.S. dollars. With the increase of the production of the Group in Bangladesh (revenue contributed by the Bangladesh factory having slightly reduced to 97.4% during the Period (30 June 2021: 97.7%)) 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 did not have any 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 2022, the Group did not have any material contingent liabilities.

### **Pledge of Assets**

As at 30 June 2022, the Group's banking borrowing facilities were secured by:

- (a) pledge of the Group's bank deposits of approximately HK\$101.9 million (31 December 2021: HK\$101.9 million);
- (b) leasehold land and buildings and carparks in Hong Kong of approximately HK\$79.1 million (31 December 2021: HK\$79.1 million);
- (c) leasehold land and buildings, including related right-of-use assets in the PRC of approximately HK\$18.5 million (31 December 2021: HK\$24.7 million);
- (d) negative pledge on the assets of certain subsidiaries in the PRC and Bangladesh; and
- (e) certain life insurance contracts classified as financial assets at fair value through profit and loss of the Group.

As at 30 June 2022, the Group's other borrowing was secured by the Group's bank deposits of approximately HK\$4.7 million (31 December 2021: HK\$4.7 million).

### **Employees and Remuneration Policies**

As at 30 June 2022, the Group employed a total of 30,391 employees, as compared to 29,690 employees as at 30 June 2021.

Total employee expenditures during the Period amounted to HK\$208.8 million (No share awards granted under the share award scheme adopted by the Company on 11 December 2017 (the "**Share Award Scheme**")) as compared to HK\$190.9 million (including value of employee services of HK\$0.1 million in respect of the share awards granted under the Share Award Scheme) for the corresponding period in 2021. The Group operates a defined contribution retirement scheme under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for all qualified employees. Employees of the Group's factories in the PRC are members of a state-managed retirement benefit plan operated by the government of the PRC. For employees in Bangladesh, the Group is currently not subject to any compulsory social insurance contribution, but they are covered by a self-managed provident fund operated by respective subsidiaries of the Group in Bangladesh.

## **SHARE OPTION SCHEME**

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

As at 30 June 2022, 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.

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

Since the adoption date of the Share Award Scheme and up to 31 December 2021, a total of 5,333,334 Shares, representing approximately 0.78% of the total issued Shares as at 31 December 2021, were granted by the Company to certain Directors, senior management and employees of the Company.

As at 30 November 2021, the Share Award Scheme were completed and terminated.

As at 30 June 2022 and 31 December 2021, all shares have been granted and vested and no ordinary share of the Company was held by the trustee of the Share Award 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 30 June 2022.

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

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

- (a) On 10 August 2022, the Group entered into a supplemental agreement with a related company which stated that any advances from that related company after 10 August 2022 will change from a fixed interest of 4.5% per annum to bearing a floating interest rate of HIBOR +3.5%.
- (b) On 19 August 2022, a wholly owned subsidiary of the Group entered into the sale and purchase agreement with an independent third party in relation to the entire equity interest in Evergreen Ukraine Investments Limited (which is engaged in digital marketing and photography workshop and held an office building in Ukraine) and its related loan, for a total cash consideration of HK\$10 million.

## **INTERIM DIVIDEND**

The Board has declared the payment of an interim dividend of HK\$1.7 cent per Share for the Period (30 June 2021: HK\$1.3 cent per share of an interim dividend declared), totally approximately HK\$11.7 million based on a total of 686,082,000 Shares in issue as at the date of this announcement.

The interim dividend payout ratio is 49.7% for the Period (2021: interim dividend payout ratio: 29.0%).

The interim dividend will be payable on Tuesday, 27 September 2022 to the shareholders of the Company whose names appear on the register of members of the Company on Friday, 16 September 2022.

## **CLOSURE OF REGISTER OF MEMBERS**

For determining shareholders' entitlement to the interim dividend, the register of members of the Company will be closed from Tuesday, 13 September 2022 to Friday, 16 September 2022, both dates inclusive, during which period no transfer of Shares will be registered. In order to qualify for the interim dividend, all transfer of Shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on Friday, 9 September 2022.

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

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

## **COMPLIANCE WITH CORPORATE GOVERNANCE CODE**

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

The Company has adopted the principles as set out in the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to the Listing Rules. The Board is of the view that the Company has complied with all the code provisions as set out in the CG Code throughout the Period, save and except for code provision C.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 C.2.1 of the CG Code, the responsibilities between the chairman and the chief executive officer should be separate and should not be performed by the same individual. However, Mr. Chang Yoe Chong Felix, an executive Director, currently performs these two roles in the Company. Given the current scale of the Company’s operations and management structure, the Company considers that entrusting Mr. Chang, who has been the Company’s key leadership figure and chiefly responsible for the business strategy, decisions and operations, to perform both the functions of the chairman and the chief executive officer of the Company is appropriate. The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired considering the background and experience of the Directors and the number of independent non-executive Directors in the Board and this structure will enable the Company to make and implement decisions promptly and effectively.

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

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

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

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

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

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

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

*Chairman, Chief Executive Officer and Executive Director*

Hong Kong, 24 August 2022

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