

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

Annual Report
2020

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Corporate Information

DIRECTORS

EXECUTIVE DIRECTORS

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

Mr. Kwok Yau Lung Anthony
(Chief Operating Officer)

Mr. Chan Kwok Keung

Mr. Hui Wing Ki

Ms. Jia Ziyang

Mr. Li Yanbo

NON-EXECUTIVE DIRECTORS

Mr. Chan Lau Yui Kevin

Mr. Chan Hoi Sing Harold
(resigned with effect from 12 July 2020)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lau Ip Keung Kenneth

Mr. Sin Hendrick

Dr. Yung Bruce Pak Keung
(resigned with effect from 12 July 2020)

Mr. Szeto Yuk Ting

Ir. Cheung Siu Wa

COMPANY SECRETARY

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

AUTHORIZED REPRESENTATIVES

Mr. Kwok Yau Lung Anthony

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

AUDIT COMMITTEE

Mr. Sin Hendrick *(Chairman)*

Mr. Lau Ip Keung Kenneth

Dr. Yung Bruce Pak Keung
(resigned with effect from 12 July 2020)

Mr. Szeto Yuk Ting

REMUNERATION COMMITTEE

Mr. Szeto Yuk Ting *(Chairman)*

Mr. Chang Yoe Chong Felix

Mr. Lau Ip Keung Kenneth

Mr. Sin Hendrick

Dr. Yung Bruce Pak Keung
(resigned with effect from 12 July 2020)

NOMINATION COMMITTEE

Mr. Chang Yoe Chong Felix *(Chairman)*

Mr. Lau Ip Keung Kenneth

Mr. Sin Hendrick

Dr. Yung Bruce Pak Keung
(resigned with effect from 12 July 2020)

Mr. Szeto Yuk Ting

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance

PRINCIPAL BANKS

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

HONG KONG LEGAL ADVISER

Norton Rose Fulbright Hong Kong

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PLACE OF LISTING

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

COMPANY WEBSITE

www.epfhk.com

Chairman's Statement

On behalf of the board (the “**Board**”) of directors (the “**Directors**”) of Evergreen Products Group Limited (“**Evergreen**” or the “**Company**”) and its subsidiaries (collectively, the “**Group**”), I am pleased to present the annual report of the Group for the year ended 31 December 2020 (the “**Year**”).

BUSINESS REVIEW

Since the beginning of 2020, the outbreak of the novel coronavirus pneumonia (“**COVID-19**”) has severely and adversely impacted the world's economic activities. At the start of the Year, although the COVID-19 outbreak had widely spread in China and some Asian countries, we did not suffer any negative impact on our operation. In addition to our production plant expansion in Bangladesh in 2019 to further increase our production capacity, we recorded growth in sales of over 20% in the first quarter of the Year as compared to the same period in 2019. However, the continuing spread of COVID-19 compelled the government in the United States to announce national lockdowns in mid-to-late March 2020. Inevitably, the lockdowns inflicted a serious blow to our business in April 2020. Fortunately, the demand for our consumers' hair products restored in late May and in early June 2020.

In the fourth quarter of the Year, the growth in sales was strong with a 28% increment when compared to the same period in 2019 due to the continuously strong growth in demand growth for braid and special braid products in the African American market. As a result, the Group's revenue for the Year recorded a significant growth of 14.5% as compared with the year ended 31 December 2019.

In response to this unprecedented situation, we offered special sale discounts to specific customers during the Year. However, due to the national lockdowns and restrictions on public life, the end-customer demand were affected by the social distancing measures and other structural changes in social activities such as work-from-home arrangement. Nearly all major retail channels of our human hair products such as hair salons and retail shops selling hair products were forced to be closed which shifted customer demand to hair products with lower profit margin which finally changed our product mix during the Year. As a result, the Group's gross profit margin deteriorated during the Year.

Our gross profit margin dropped to 17.2% when compared to 33.1% for the year ended 31 December 2019. Accordingly, net margin was also affected and dropped to -2.1% when compared to a net profit margin of 11.1% for the year ended 31 December 2019.

FINANCIAL OVERVIEW

During the Year, the Group's turnover amounted to HK\$890.2 million (2019: HK\$777.4 million), representing an increase of 14.5% from the year ended 31 December 2019. Due to the special discounts offered to customers and the change in our product mix during the unprecedented COVID-19 pandemic, gross profit margin decreased by 15.9 percentage point to 17.2%. The Group recorded a loss of HK\$18.0 million for the Year, representing a decrease of HK\$104.2 million, or 120.9%, as compared with a profit of HK\$86.2 million for the year ended 31 December 2019.

OUTLOOK

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

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

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the Year and no interim dividend was declared during the Year (2019: final dividend of HK2.0 cents per ordinary share of the Company (the "Share") and interim dividend of HK1.0 cent per Share). The dividend payout ratio for 2019 was approximately 22.9%. The Group decided to deploy sufficient funding and liquidity resources for future expenditure plans and any uncertain expenditure that may arise from the COVID-19 outbreak.

APPRECIATION

On behalf of the Board, I would like to express my gratitude to the Directors for their continuing efforts and to thank all members of our staff and management team for their dedication and continuous support. The Group is dedicated to seeking opportunities for positive change and pursuing breakthroughs in 2021. I look forward to sharing the Group's prosperity with them and all of our shareholders and customers in the future.

Chang Yoe Chong Felix

Chairman

Hong Kong, 30 March 2021

Management Discussion and Analysis

BUSINESS REVIEW

The year of 2020 was definitely a difficult and challenging year to the Group. During the Year, revenue of the Group increased to HK\$890.2 million but the Group recorded a significant decrease in profit with a net loss of approximately HK\$18.0 million, representing an increase of approximately 14.5% and a decrease of approximately 120.9% as compared to the year ended 31 December 2019, respectively. This Year started on a good note from January to March 2020. In the first quarter of 2020, we enjoyed increasing production capacity in our expanded production facilities in Bangladesh (the “**Bangladesh Factory**”). We did not suffer any negative financial and production impact from COVID-19 even when it spread severely in China and some Asian countries. Our main production is in Bangladesh and approximately 88.1% of our export is to the United States. We even recorded an increment in sales of over 20% in the first quarter of 2020 when compared to the same period in 2019. However, the COVID-19 pandemic spread to the United States since the end of March 2020 which inflicted a serious blow to our business in April 2020. Fortunately, our high quality products which are a necessity in nature and our strong customer base have restored our market demands and their shipments in late May and June 2020. Hence, the Group’s revenue for the Year was able to catch up and even recorded an increase when compared to the year ended 31 December 2019.

Other than the above, the impact from the COVID-19 pandemic during the Period has deteriorated the Group’s gross profit margin and net margin. We offered special discounts on sales of products to customers during this tough year. We also noticed a change in our product mix during the Year. The sales of human hair products with high margin decreased while sales of braid products with low margin increased. This was because major retail channels of our human hair products such as hair salons and retail shops selling hair products were forced to be closed as a result of the social distancing measures adopted during the COVID-19 outbreak and affected our sales of human hair products as a result. Our gross profit margin dropped to 17.2% when compared to 33.1% for the year ended 31 December 2019.

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

FINANCIAL REVIEW

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

REVENUE

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

Management Discussion and Analysis

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

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

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

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

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

COST OF GOODS SOLD

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

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

Management Discussion and Analysis

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

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

GROSS PROFIT

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

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

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

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

OTHER INCOME

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

Management Discussion and Analysis

OTHER GAINS AND LOSSES

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

IMPAIRMENT LOSSES UNDER EXPECTED CREDIT LOSS MODEL

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

DISTRIBUTION AND SELLING EXPENSES

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

ADMINISTRATIVE EXPENSES

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

OTHER EXPENSES

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

FINANCE COSTS

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

Management Discussion and Analysis

TAXATION

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

NET LOSS

The Group's net loss for the Year amounted to HK\$18.0 million, representing a decrease of HK\$104.2 million, or 120.9%, as compared with a net profit of HK\$86.2 million for the year ended 31 December 2019, primarily attributable to the significant negative impact from the outbreak of COVID-19, which resulted in: (i) special discounts on sales of products having been offered to customers; and (ii) a shift of product mix from less sales of human hair extension products with high margin to more sales of braid products with low margin when compared to the year ended 31 December 2019 as a result of the adverse market conditions during the Year.

LIQUIDITY AND FINANCIAL RESOURCES

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

SHARE PLACEMENTS

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

Management Discussion and Analysis

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

BORROWINGS AND GEARING RATIO

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

CAPITAL EXPENDITURE AND CAPITAL COMMITMENTS

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

Management Discussion and Analysis

CURRENCY RISKS

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

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

CONTINGENT LIABILITIES

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

PLEDGE OF ASSETS

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

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

Management Discussion and Analysis

EMPLOYEES AND REMUNERATION POLICIES

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

Total employee expenditures during the Year amounted to HK\$297.2 million as compared to HK\$321.7 million for the year ended 31 December 2019. The Group operates a defined contribution retirement scheme under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for all qualified employees. Employees of the Group's factories in the PRC are members of a state-managed retirement benefit plan operated by the government of the PRC. For employees in Bangladesh, the Group is currently not subject to any compulsory social insurance contribution, but they are covered by a self-managed provident fund operated by the respective subsidiaries of the Group in Bangladesh.

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

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

OUTLOOK

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

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

Biographical Details of Directors and Senior Management

Brief biographical particulars of the existing Directors and senior management of the Company are set out below:

EXECUTIVE DIRECTORS

Mr. Chang Yoe Chong Felix, aged 55, has been a Director since the incorporation of the Company on 19 May 2016. Mr. Chang was re-designated as an executive Director and appointed as the Chief Executive Officer on 9 September 2016. He is also the Chairman of the Group, the chairman of the nomination committee (the “**Nomination Committee**”) and a member of the remuneration committee (the “**Remuneration Committee**”) of the Company and has assumed various positions in the Company’s subsidiaries including a director of Evergreen Products Factory Limited, a director of EPF Global Enterprises Limited, a director of EPF International Limited, the sole director and manager of Kunming Evergreen Hair Products Co., Ltd.* (昆明訓修髮製品有限公司), a director of Evergreen Products Factory (BD) Ltd., a director of Gold Timing Manufacture (BD) Limited and the manager of Evergreen Products Factory (YZ) Co., Ltd.* (訓修實業(禹州)有限公司). He is responsible for the Group’s overall business strategy and major business decisions. He also oversees the Group’s operation in Hong Kong, China, Bangladesh and Japan. Mr. Chang is also a director of certain substantial shareholders of the Company including Evergreen Enterprise Holdings Limited, Golden Evergreen Limited, FC Investment Worldwide Limited and CLC Investment Worldwide Limited.

Mr. Chang joined the Group in April 1992 as a manager and was promoted to be the Vice-Chairman and Managing Director in September 1996. He accumulated over 29 years of experience in the hair goods industry. Since joining the Group, Mr. Chang has been responsible for the Group’s business strategies and decision-making. Mr. Chang also developed and modified the Group’s strategies relating to production, market strategies, and research and development. He has also proposed directional recommendations to the Company by discovering new business opportunities. Mr. Chang has also significantly expanded the Group’s scale of production which has led to the Group’s current leading position in the hair goods industry.

Mr. Chang obtained a Master of Science degree in Information Technology for Manufacture and a Bachelor of Science degree with honours in Computer and Management Sciences from the University of Warwick in the United Kingdom in July 1992 and July 1990, respectively. Mr. Chang has become a member of the Yunnan Provincial Committee of the Chinese People’s Political Consultative Conference (中國人民政治協商會議) since January 2018. Mr. Chang is the son of Mr. Chang Chih Lung, a controlling shareholder and a substantial shareholder of the Company.

Save as disclosed above, Mr. Chang does not have any relationship with any Directors, senior management, substantial shareholders or controlling shareholders of the Company.

The discloseable interests of Mr. Chang in the shares and underlying shares of the Company and its associated corporations under the provisions of Part XV of the Securities and Futures Ordinance (the “**SFO**”) are set out in the section headed “Report of the Directors – Directors’ and Chief Executives’ Interests in Shares and Underlying Shares of the Company and its Associated Corporations” in this annual report.

Mr. Kwok Yau Lung Anthony, aged 43, was appointed as an executive Director and the Chief Operating Officer on 9 September 2016. Mr. Kwok is currently the head of the Company’s logistics, procurement and human resources and administration department. He is primarily responsible for the Group’s logistics, procurement, brand development and management.

* For identification purposes only

Biographical Details of Directors and Senior Management

Mr. Kwok joined the Group in September 2000. After heading to Japan for his further education in October 2003, Mr. Kwok returned to the Group in April 2005. From April 2005 to July 2012, Mr. Kwok worked for the Group and held last position as a director of Evergreen Products Factory Limited. He assisted the Group in setting up its e-commerce business in Japan and establishing its Bangladesh Production Base. Prior to Mr. Kwok's current employment with the Group in June 2016, Mr. Kwok worked at Direct Source (Far East) Limited, a garment manufacturer, from November 2012 to January 2015 and from March 2015 to May 2016, respectively, and was responsible for all merchandising activities.

Mr. Kwok obtained a Bachelor of Science in Mathematics from the Hong Kong University of Science and Technology in July 2000.

Mr. Kwok does not have any relationships with any Directors, senior management, substantial shareholders or controlling shareholders of the Company.

The discloseable interests of Mr. Kwok in the shares and underlying shares of the Company and its associated corporations under the provisions of Part XV of the SFO are set out in the section headed "Report of the Directors – Directors' and Chief Executives' Interests in Shares and Underlying Shares of the Company and its Associated Corporations" in this annual report.

Mr. Chan Kwok Keung, aged 53, was appointed as an executive Director on 9 September 2016. Mr. Chan is currently the head of the Company's sales and marketing department and primarily responsible for overseeing the Group's sales and marketing.

Mr. Chan joined the Group in March 1995 and accumulated over 25 years of experience in sales and marketing. He has held various positions in the Group, including director of Evergreen Products Factory Limited, director of EPF Global Enterprises Limited, director of EPF International Limited, director of Evergreen Products Factory (BD) Ltd., as well as director of Gold Timing Manufacture (BD) Limited. Before joining the Group, Mr. Chan worked in the Korea Trade Centre, the Korean Trade-Investment Promotion Agency, as a market research officer from September 1990 to April 1994.

Mr. Chan obtained a Higher Diploma in Institutional Management and Catering Studies from the Hong Kong Polytechnic University (formerly known as the Hong Kong Polytechnic) in November 1990.

Mr. Chan does not have any relationships with any Directors, senior management, substantial shareholders or controlling shareholders of the Company.

The discloseable interests of Mr. Chan in the shares and underlying shares of the Company and its associated corporations under the provisions of Part XV of the SFO are set out in the section headed "Report of the Directors – Directors' and Chief Executives' Interests in Shares and Underlying Shares of the Company and its Associated Corporations" in this annual report.

Biographical Details of Directors and Senior Management

Mr. Hui Wing Ki, aged 41, was appointed as an executive Director on 15 November 2018, Mr. Hui is primarily responsible for procurement of human hair and sales and marketing of high-end human hair extension.

Mr. Hui joined the Group in August 2001 as marketing executive and accumulated almost 20 years of experience in sales and marketing. He was promoted to be a senior manager in January 2012. As the Company's senior manager, Mr. Hui focuses on procurement of human hair, including budget estimates and quality and inventory control; sales and marketing of high-end human hair extension; supervision of sales and marketing in Caucasian and Asian markets; and identification of potential growth of existing customers as well as development of new customers in line with the Group's objectives in Caucasian and Asian markets.

Mr. Hui obtained a Bachelor of Business Administration degree in China Business Studies (Marketing) from Hong Kong Baptist University in December 2001.

Mr. Hui does not have any relationships with any Directors, senior management, substantial shareholders or controlling shareholders of the Company.

The discloseable interests of Mr. Hui in the shares and underlying shares of the Company and its associated corporations under the provisions of Part XV of the SFO are set out in the section headed "Report of the Directors – Directors' and Chief Executives' Interests in Shares and Underlying Shares of the Company and its Associated Corporations" in this annual report.

Ms. Jia Ziying, aged 44, was appointed as an executive Director on 9 September 2016. Ms. Jia is currently the head of the Company's research and development department and production coordination department and is primarily responsible for the Group's product research and development, and the overall manufacturing management. She is also a director of Evergreen Products Factory Limited.

Ms. Jia joined the Group in July 1997 and accumulated over 20 years of experience in design and development of the hair goods. In February 2002, she set up a product design, research and development division for wigs made by sewing machines. In February 2009, Ms. Jia took charge of the product design, research and development division for weaving products. In February 2011, she was promoted to the head of the Group's research and development department and production coordination department. As the head of the Group's production coordination department, Ms. Jia has been primarily responsible for overseeing production and operations management. In March 2011, Ms. Jia also took charge of the product design, research and development division for Halloween products.

Biographical Details of Directors and Senior Management

Ms. Jia obtained a Diploma in Accounting and Statistics from Chongqing Radio and TV University (重慶廣播電視大學) in October 1997. Ms. Jia is the spouse of Mr. Li Yanbo, an executive Director.

Save as disclosed above, Ms. Jia does not have any relationship with any Directors, senior management, substantial shareholders or controlling shareholders of the Company.

The discloseable interests of Ms. Jia in the shares and underlying shares of the Company and its associated corporations under the provisions of Part XV of the SFO are set out in the section headed “Report of the Directors – Directors’ and Chief Executives’ Interests in Shares and Underlying Shares of the Company and its Associated Corporations” in this annual report.

Mr. Li Yanbo, aged 50, was appointed as an executive Director on 9 September 2016. He is primarily responsible for the Company’s sales and marketing in the PRC. Mr. Li is also a director of Evergreen Products Factory (SZ) Co., Ltd.* (訓修實業(深圳)有限公司) and Evergreen Products Factory Limited, respectively.

Mr. Li has over 20 years of experience in sales and marketing and has assumed various positions in the Group. Mr. Li joined the Group in September 1995 as a merchandiser in Shenzhen Evergreen Hair Products Co., Ltd.* (深圳訓修髮製品有限公司) and was later promoted to its production planner and production director in October 1996 and February 1997, respectively. In October 1998, Mr. Li was further promoted to the manager of the PRC marketing department in Kunming Evergreen Hair Products Co., Ltd.* (昆明訓修髮製品有限公司). Since then, he has been primarily responsible for the Group’s sales and marketing in the PRC, including but not limited to sales, marketing planning, market information collection and after-sales service.

Mr. Li graduated from Northwest A&F University (西北農林科技大學) majoring in Environmental Monitoring and Assessment (distance learning) in July 2016. He graduated from a two-year programme in business administration of China Sociology Correspondence University (中國社會學函授大學) (not MOE accredited) (distance learning) in August 2004. In July 1990, he completed two years of study majoring in English in Hunan Wulingyuan Foreign Language School (湖南武陵源外國語學校).

In March 2003, Mr. Li obtained a Qualification Certificate for National Marketing Manager approved and issued by the Marketing Professional Committee of China Business Manager Association. Mr. Li is the spouse of Ms. Jia Ziyang, an executive Director.

Save as disclosed above, Mr. Li does not have any relationship with any Directors, senior management, substantial shareholders or controlling shareholders of the Company.

The discloseable interests of Mr. Li in the shares and underlying shares of the Company and its associated corporations under the provisions of Part XV of the SFO are set out in the section headed “Report of the Directors – Directors’ and Chief Executives’ Interests in Shares and Underlying Shares of the Company and its Associated Corporations” in this annual report.

* For identification purposes only

Biographical Details of Directors and Senior Management

NON-EXECUTIVE DIRECTOR

Mr. Chan Lau Yui Kevin, aged 54, was appointed as a non-executive Director on 9 September 2016, representing SEAVI Advent Investments Ltd, a pre-IPO investor of the Group. He is also a director of Evergreen Enterprise Investment Limited and Evergreen Products Factory Limited. Mr. Chan is responsible for formulation of the Group's strategic directions and for high level oversight of the Group's management and operations. Mr. Chan is a senior partner of SEAVI Advent Private Equity Limited, overseeing its fund management activities for private equity investments in Greater China. Mr. Chan is also an executive director and a responsible officer of SEAVI Advent Ocean Private Equity Limited, a company licensed to conduct type 9 (asset management) regulated activities under the SFO.

Mr. Chan first joined Advent International Corporation as the Principal of its Technology and Communications Investment in its Hong Kong office in May 2000. He has been with SEAVI Advent Equity Limited, the Asian affiliate of Advent International Corporation since July 2002. Prior to the employment in Advent International Corporation, Mr. Chan worked at HSBC Investment Bank Asia Limited from June 1999 to May 2000 and his last position was an associate director, and earlier worked as an associate in the Investment Banking Division of Goldman Sachs (Asia) L.L.C. from 1997 to 1999.

Mr. Chan obtained a Master of Business Administration degree from Columbia University in May 1997, a Master of Arts degree from the University of Cambridge in May 1993, a Master of Science degree in Electrical Engineering from Polytechnic University in the U.S. (currently known as New York University Polytechnic School of Engineering) in June 1991 and a Bachelor of Arts degree from the University of Cambridge in July 1989. He is a member of the Institution of Engineering and Technology and the Institute of Electrical and Electronics Engineers, respectively, and is a Chartered Engineer. Mr. Chan has been a responsible officer licensed under the SFO to engage in type 9 (asset management) regulated activities since July 2008. He was awarded the Pearson SRF BTEC Level 7 Advanced Professional Diploma for the Financial Times Non-Executive Director by Pearson Education Ltd in May 2016.

Mr. Chan does not have any relationships with any Directors, senior management, substantial shareholders or controlling shareholders of the Company.

As at 31 December 2020, Mr. Chan did not have any interests in the shares, underlying shares and debentures of the Company and its associated corporations under the provisions of Part XV of the SFO.

Biographical Details of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lau Ip Keung Kenneth, aged 54, was appointed as an independent non-executive Director on 19 June 2017. He is a member of each of the audit committee (the “**Audit Committee**”) of the Company, the Remuneration Committee and the Nomination Committee. Mr. Lau is responsible for giving strategic and independent advice and guidance on the Group’s business and operations.

Mr. Lau is the vice chairman of Wing Tung Yick Holdings Limited, and the chairman of Super Clean Agricultural Technology International Limited, a company principally engaged in agricultural business. He has assumed various positions in numerous statutory bodies in Hong Kong, including non-official member of the Executive Council of Hong Kong since July 2017, member of the Legislative Council of Hong Kong for the Heung Yee Kuk functional constituency since October 2016; member of Tuen Mun District Council since May 2016; the chairman of the Heung Yee Kuk since June 2015; an indigenous inhabitant representative of Lung Kwu Tan, Tuen Mun, since May 2016; and the chairman of the Tuen Mun Rural Committee since May 2016. He is also a member of the National Committee of the Chinese People’s Political Consultative Conference since March 2013.

Mr. Lau obtained a Bachelor of Science (Economics) degree with Honours in Statistics from the London School of Economics and Political Science, the University of London in August 1990. He was appointed by the Hong Kong Government as a New Territories Justice of the Peace in 2007 and a Justice of the Peace in 2002, respectively, and also awarded the Medal of Honour in 1999 by the Hong Kong Government.

Mr. Lau does not have any relationships with any Directors, senior management, substantial shareholders or controlling shareholders of the Company.

As at 31 December 2020, Mr. Lau did not have any interests in the shares, underlying shares and debentures of the Company and its associated corporations under the provisions of Part XV of the SFO.

Mr. Sin Hendrick, aged 46, was appointed as an independent non-executive Director on 19 June 2017. He is the chairman of the Audit Committee and a member of each of the Remuneration Committee and the Nomination Committee. Mr. Sin is responsible for giving strategic and independent advice and guidance on the Group’s business and operations.

Mr. Sin is a founding partner of China Prosperity Capital Fund. He is also the vice chairman of CMGE Group Limited and has been an executive director of CMGE Technology Group Limited (the shares of which were listed on the Stock Exchange on 31 October 2019, stock code: 0302) since 25 April 2018. Between July 2013 and August 2015, Mr. Sin was an independent non-executive director of AID Partners Capital Holdings Limited, a company listed on the Stock Exchange (Stock Code: 8088). Between March 2009 and October 2012, Mr. Sin was an executive director and the chief financial officer of V1 Group Limited, a company listed on the Stock Exchange (Stock Code: 0082).

Biographical Details of Directors and Senior Management

Mr. Sin obtained a Master of Science degree in Engineering Economic Systems and Operations Research from Stanford University in June 1997. He also obtained three Bachelor of Science degrees in Mathematics/Computer Science, Economics and Industrial Management from Carnegie Mellon University in May 1996. Mr. Sin is a member of The Hong Kong Institute of Directors. Mr. Sin has become a member of the Tianjin Municipal's Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議) since January 2018.

Mr. Sin does not have any relationships with any Directors, senior management, substantial shareholders or controlling shareholders of the Company.

As at 31 December 2020, Mr. Sin did not have any interests in the shares, underlying shares and debentures of the Company and its associated corporations under the provisions of Part XV of the SFO.

Mr. Szeto Yuk Ting, aged 53, was appointed as an independent non-executive Director on 19 June 2017. He is the chairman of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee. Mr. Szeto is responsible for giving strategic and independent advice and guidance on the Group's business and operations.

Mr. Szeto was admitted as a solicitor in Hong Kong in September 1992 and had over 25 years of legal experience. His major areas of practice include civil and criminal litigation, conveyancing and probate. Mr. Szeto co-founded Messrs. Y.T. Szeto & Company, Solicitors in September 1996 and has been the sole proprietor of the firm since January 2001. He also worked in Messrs. Paul Chan & Co., Solicitors from 1993 to 1996.

Mr. Szeto obtained a Postgraduate Certificate in Laws and a Bachelor of Laws degree (with Honours) from the University of Hong Kong in June 1990 and December 1989, respectively.

Mr. Szeto does not have any relationships with any Directors, senior management, substantial shareholders or controlling shareholders of the Company.

As at 31 December 2020, Mr. Szeto did not have any interests in the shares, underlying shares and debentures of the Company and its associated corporations under the provisions of Part XV of the SFO.

Ir. Cheung Siu Wa, aged 59, was appointed as an independent non-executive Director on 18 February 2019. Ir. Cheung is responsible for giving strategic and independent advice and guidance on the Group's business and operations.

Biographical Details of Directors and Senior Management

Ir. Cheung is an equity partner of Key Direction Limited (“**KDL**”), a railway engineering consultancy firm based in Hong Kong with subsidiaries in Kuala Lumpur, Singapore and Macau. He has been appointed as the vice chairman and a director of KDL since September 2018. Before joining KDL, he worked in MTR Corporation Limited (“**MTR**”), a company listed on Stock Exchange (stock code: 0066), for 35 years during the period from November 1983 to July 2018 and held various senior positions in MTR involving railway operations and maintenance and construction of new extension projects. He joined MTR in 1983 as a graduate engineer, and had progressed over the years to senior management positions in its Operations and Projects Divisions. He was seconded to Ngong Ping 360 Limited as its managing director from September 2007 to July 2009. In July 2009, Ir. Cheung was appointed as the Chief of Operating of MTR and was responsible for the operations of all transport business of MTR in Hong Kong. In January 2011, he took up the position of the Chief of Operations Engineering of MTR for overseeing all maintenance and technical functions for railway assets. Ir. Cheung was the Human Resources Director of MTR between July 2012 and June 2015 and the European Business Director of MTR between June 2015 and June 2016. He was the president of the MTR Academy between July 2016 and July 2018 and a member of the Executive Directorate of MTR between July 2012 and July 2018.

Ir. Cheung is a fellow of each of The Hong Kong Institution of Engineers, The Institution of Electrical Engineers of the United Kingdom and The Chartered Institute of Logistics & Transport in Hong Kong. He is also a member of the Hong Kong Institute of Directors. Ir. Cheung has become a member of the Yunnan Provincial Committee of the Chinese People’s Political Consultative Conference (中國人民政治協商會議) since January 2018.

Ir. Cheung obtained a Bachelor of Science degree in Engineering and a Master of Science degree in Engineering from The University of Hong Kong in 1983 and 1990, respectively, a Master of Business Administration degree from the City Polytechnic of Hong Kong (now called City University of Hong Kong) in 1990 and a Master of Science degree in Financial Analysis from The Hong Kong University of Science and Technology in 2005.

Ir. Cheung does not have any relationships with any Directors, senior management, substantial shareholders or controlling shareholders of the Company.

As at the 31 December 2020, Ir. Cheung did not have any interests in the shares, underlying shares and debentures of the Company and its associated corporations under the provisions of Part XV of the SFO.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT

Ms. Leung Pui Yee, aged 42, is the Chief Financial Officer and company secretary of the Company, and is responsible for supervising financial reporting, corporate finance, treasury, tax and other financial related matters, and overseeing investment activities and transactions of the Group. She has also assumed various positions in the Company's subsidiaries including a director of each of Evergreen Products Factory (BD) Ltd. and Gold Timing Manufacture (BD) Limited.

Ms. Leung joined the Group in May 2011 as financial controller and was appointed as the Chief Financial Officer and company secretary of the Company on 9 September 2016. Ms. Leung has over 16 years of experience in accounting and financial management. Prior to joining the Group, from September 2003 to September 2010, Ms. Leung worked at Deloitte Touche Tohmatsu, an international accounting firm, and her last position was manager.

Ms. Leung obtained a Bachelor of Arts degree in Accountancy from the Hong Kong Polytechnic University in November 2003. Ms. Leung has been a certified public accountant of the Hong Kong Institute of Certified Public Accountants since February 2011. She is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants.

Corporate Governance Report

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 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**”).

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 Year, save and except for code provision A.2.1, which states that the roles of chairman and chief executive should be separate and should not be performed by the same individual, details of which are set out below:

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

Corporate Governance Report

CORPORATE GOVERNANCE PRINCIPLES AND THE COMPANY'S PRACTICES

A. DIRECTORS

A.1. Board of Directors

The Company should be headed by an effective Board which should assume responsibility for leadership and control of the Company and be collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs. Directors should take decisions objectively in the interests of the Company.

The Board shall resolve to provide separate independent professional advice to the Directors to assist the Directors to discharge their duties at the Company's expenses.

A.2. Chairman and Chief Executive Officer

There are two key aspects of the management of the Company – the management of the Board and the day-to-day management of the Company's business. There should be a clear division of these responsibilities at the Board level to ensure a balance of power and authority, so that power is not concentrated in any one individual.

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

In view of the present composition of the Board, the in-depth knowledge of Mr. Chang Yoe Chong Felix, the Chairman and the Chief Executive Officer, of the Company's operations and the wigs industry in general, his extensive business network and connections, and the scope of operations of the Company, the Board believes that it is in the best interest of the Company for Mr. Chang Yoe Chong Felix to assume the roles of both the Chairman and the Chief Executive Officer.

A.3. Board Composition

The Board should have a balance of skills and experience appropriate for the requirements of the business of the Company. The Board should ensure that changes to its composition can be managed without undue disruption. The Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors) so that there is a strong independent element on the Board to enable effective exercise of independent judgment. Non-executive Directors should be of sufficient calibre and number for their views to carry weight.

Corporate Governance Report

The Board currently comprises six executive Directors, namely, Mr. Chang Yoe Chong Felix, Mr. Kwok Yau Lung Anthony, Mr. Chan Kwok Keung, Mr. Hui Wing Ki, Ms. Jia Ziyang and Mr. Li Yanbo; one non-executive Director, namely, Mr. Chan Lau Yui Kevin; and four independent non-executive Directors, namely, Mr. Lau Ip Keung Kenneth, Mr. Sin Hendrick, Mr. Szeto Yuk Ting and Ir. Cheung Siu Wa. Mr. Li Yanbo is the spouse of Ms. Jia Ziyang. Mr. Chang Yoe Chong Felix is the Chairman of the Board.

During the Year, the Company has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules in relation to the appointment of at least three independent non-executive Directors with one of whom, being Mr. Sin Hendrick, possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his independence in accordance with the requirements set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

Biographies of the Directors including the necessary details of the relationships among the Directors are set out in the section headed “Biographical Details of Directors and Senior Management” of this annual report, which demonstrate a diversity of skills, expertise, experience and qualifications among members of the Board.

A.4. Appointments, Re-election and Removal of Directors

There should be formal, considered and transparent procedures for the appointment of new Directors to the Board. There should be plans in place for orderly succession for appointments to the Board. All Directors should be subject to re-election at regular intervals. The Company must explain the reasons for the resignation or removal of any Director.

Code provision A.4.1 of the CG Code stipulates that non-executive Directors should be appointed for a specific term, subject to re-election. The non-executive Directors (including independent non-executive Directors) of the Company are appointed for a specific term of three years subject to renewal after the expiry of the current term. During the Year, Mr. Chan Hoi Sing Harold resigned as a non-executive Director with effect from 12 July 2020 after expiry of the three-year appointment term commencing from 12 July 2017 (the “**Listing Date**”), the date on which the shares of the Company were listed on the Stock Exchange, while Dr. Yung Bruce Pak Keung resigned as an independent non-executive Director and ceased to act as a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company with effect from 12 July 2020 after expiry of the three-year appointment term commencing from the Listing Date.

According to article 108 of the articles of association of the Company, at each annual general meeting, one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election. The Company at the general meeting at which a Director retires may fill the vacated office.

Corporate Governance Report

According to article 112 of the articles of association of the Company, any Director appointed to fill a casual vacancy or as an additional Director shall hold office only until the first general meeting of the Company after such appointment and be subject to re-election at such meeting.

A.5. Responsibilities and Delegation of Directors

The Board oversees the overall management of the Company's businesses and affairs. The Board's primary duty is to ensure the viability of the Company and to ascertain that it is managed in the best interests of the shareholders as a whole while taking into account the interests of other stakeholders.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

The Board reserves its decision for all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company.

The Board has delegated the day-to-day management of the Company's businesses to the management and the executive committee of the Company, and focuses its attention on matters affecting the Company's long-term objectives and plans for achieving these objectives, the overall business and commercial strategy of the Group as well as overall policies and guidelines.

During the Year, all Directors have been provided, on a quarterly basis, with the Group's management information updates, giving a balanced and understandable assessment of the Group's performance, position, recent developments and prospects in sufficient detail to keep them abreast of the Group's affairs and facilitate them to discharge their duties under the relevant requirements of the Listing Rules.

All Directors are entitled to access Board papers, minutes and related materials. Where queries are raised by Directors, steps are taken to respond as promptly and fully as possible.

Corporate Governance Report

A.6. Model Code for Securities Transactions

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 for securities transactions by the Directors. All the Directors have confirmed, following a specific enquiry by the Company, that they had complied with the required standards as set out in the Model Code throughout the Year.

The Company has also established written guidelines (the “**Employees Written Guidelines**”) no less exacting than the Model Code for securities transactions by employees who are likely to be in possession of inside information of the Company. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

A.7. Corporate Governance Functions

The Audit Committee is responsible for performing the functions as set out in code provision D.3.1 of the CG Code.

During the Year, the Audit Committee has reviewed the Company’s corporate governance policies and practices, training and continuous professional development (“**CPD**”) of the Directors and senior management, the Company’s policies and practices on compliance with legal and regulatory requirements, the Company’s compliance with the CG Code and the disclosures in this report.

A.8. Continuous Professional Development of Directors

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Every newly appointed Director would receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director’s responsibilities and obligations under the Listing Rules and relevant statutory requirements. Such induction would be supplemented by visits to the Company’s key plant sites and meetings with senior management of the Company.

Directors should participate in appropriate CPD training to develop and refresh their knowledge and skills. Internally-facilitated briefings for Directors would be arranged and reading materials on relevant topics would be provided to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company’s expenses.

The Directors are required to provide the Company with details of the CPD training undertaken by them from time to time. Based on the details so provided, the CPD training undertaken by the Directors in the Year is summarized as follows:

Corporate Governance Report

Name	Attending internal seminars and training on the Model Code and corporate governance	Attending seminars/workshops on Directors' responsibilities and other related issues	Reading relevant news alerts, newspapers, journals, magazines, relevant publications and guidelines on Directors' continuous responsibilities, corporate governance and other related issues
Executive Directors			
Mr. CHANG Yoe Chong Felix (Chairman and Chief Executive Officer)	–	–	✓
Mr. KWOK Yau Lung Anthony (Chief Operating Officer)	–	–	✓
Mr. CHAN Kwok Keung	–	–	✓
Mr. HUI Wing Ki	–	–	✓
Ms. JIA Ziyang	–	–	✓
Mr. LI Yanbo	–	–	✓
Non-executive Directors			
Mr. CHAN Lau Yui Kevin	–	✓	✓
Mr. CHAN Hoi Sing Harold (resigned with effect from 12 July 2020)	–	–	–
Independent non-executive Directors			
Mr. LAU Ip Keung Kenneth	–	–	✓
Mr. SIN Hendrick	–	–	✓
Dr. YUNG Bruce Pak Keung (resigned with effect from 12 July 2020)	–	–	–
Mr. SZETO Yuk Ting	✓	✓	✓
Ir. CHEUNG Siu Wa	–	✓	✓

Each of the Directors has complied with code provision A.6.5 of the CG Code. The Directors have confirmed that they have devoted sufficient time and attention to the affairs of the Group. Besides, the Directors have disclosed to the Company their interests as director and other office in other public companies and organizations in a timely manner and updated the Company on any subsequent changes.

B. BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee, for overseeing particular aspects of the Company's affairs and delegated its authority to these committees to assist it in the implementation of its functions.

The terms of reference setting out the authorities, duties and responsibilities of the above committees are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

B.1. Audit Committee

On 19 June 2017, the Board established the Audit Committee which currently comprises three independent non-executive Directors, namely Mr. Sin Hendrick (Chairman), Mr. Lau Ip Keung Kenneth, and Mr. Szeto Yuk Ting. The Company has complied with Rule 3.21 of the Listing Rules, which requires that the Audit Committee must comprise a minimum of three members with at least one member being an independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise, and must be chaired by an independent non-executive Director. All members of the Audit Committee have appropriate skills and experience in reviewing financial statements as well as addressing significant control and financial issues of the Company.

B.1.1. Duties of the Audit Committee

The Audit Committee is principally responsible for, among other things, monitoring the integrity of periodical financial statements of the Company, reviewing significant financial reporting judgments contained in them before submission to the Board for approval, reviewing and monitoring the external auditor's independence and objectivity as well as the effectiveness of the audit process in accordance with applicable standards.

The Audit Committee has been delegated with the responsibilities to develop, review, monitor, and make recommendations to the Board (as appropriate) in respect of the Company's policies and practices of corporate governance (including the compliance with the CG Code and the relevant disclosures in the Company's interim and annual reports), whether the practices are in compliance with legal and regulatory requirements, the Company's compliance with the CG Code and disclosures in this report and the training and continuous professional development of the Directors and senior management of the Company. In addition, the Audit Committee has also been delegated the duties of overseeing and reviewing the Company's risk management and internal control systems.

Corporate Governance Report

B.1.2. Work Performed by the Audit Committee

The Audit Committee held two meetings during the Year, at which it reviewed the audited annual results of the Group for the year ended 31 December 2019, the unaudited interim results of the Group for the six months ended 30 June 2020, the terms of reference of the Audit Committee, other matters related to the financial and accounting policies and practices of the Company, as well as the nature and scope of the audit for the Year. Further, it reviewed the Group's internal control review report, the risk management policy and a report on risk assessment prepared by CityLinkers Corporate Advisory Services Limited (an independent advisor of the Company) (the "**Independent Advisor**"), and put forward relevant recommendations to the Board for approval.

During the Year, the terms of reference of the Audit Committee had been revised, under which the cooling-off period for a former partner of the Company's existing auditing firm to act as a member of the Audit Committee has been amended to align with the relevant requirements under the Listing Rules.

On 30 March 2021, the Audit Committee held another meeting and reviewed the audited consolidated financial statements of the Group as well as the accounting principles and policies for the Year in the presence of the representatives from Deloitte Touche Tohmatsu, the Company's independent auditor ("**Deloitte**" or the "**Independent Auditor**"), and the Company's management. It also reviewed this report, a report on enterprise risk management of the Company prepared by the Independent Advisor and a report on internal control review and assessment of risk management prepared by the internal audit team of the Group. The Audit Committee concluded that the internal control systems and risk management of the Group are effective and adequate.

B.2. Remuneration Committee

On 19 June 2017, the Board established the Remuneration Committee which currently comprises five members, including four independent non-executive Directors, namely Mr. Szeto Yuk Ting (Chairman), Mr. Lau Ip Keung Kenneth and Mr. Sin Hendrick and an executive Director, Mr. Chang Yoe Chong Felix.

The Remuneration Committee has adopted the model under code provision B.1.2(c)(ii) of the CG Code, where it performs an advisory role to the Board by making recommendations to the Board on the remuneration packages of the Directors and the senior management of the Company, with the Board retaining the final authority to approve the remuneration packages of such individuals.

B.2.1. Duties of the Remuneration Committee

The Remuneration Committee has been charged with the responsibility of making recommendations to the Board, in consultation with the Chairman of the Board, on an appropriate policy and framework for all aspects of remuneration of all Directors and senior management of the Company, including but not limited to Directors' fees, salaries, allowances, bonuses, share options, benefits in kind and pension rights, to ensure that the level of remuneration offered by the Company is competitive and sufficient to attract, retain and motivate personnel of the required quality to manage the Company successfully.

Corporate Governance Report

B.2.2. Work Performed by the Remuneration Committee

The Remuneration Committee held one meeting during the Year to discuss the Company's remuneration-related matters. All members of the Remuneration Committee had also deliberated on matters relating to the director's fee of independent non-executive Directors, the remuneration package of, payment of bonuses and grant of share awards to, certain executive Directors and senior management of the Company and the remuneration packages of the Directors newly appointed during the Year. No Director was involved in deciding his own remuneration at the meeting of the Remuneration Committee.

The remuneration of the members of the senior management of the Group by band for the Year is set out below:

Remuneration band	Number of persons
HK\$1 to HK\$500,000	9
HK\$500,001 to HK\$1,000,000	2
HK\$1,000,001 to HK\$1,500,000	2
HK\$1,500,001 to HK\$2,000,000	1

B.3. Nomination Committee

On 19 June 2017, the Board established the Nomination Committee which currently comprises four members, including an executive Director, Mr. Chang Yoe Chong Felix (Chairman) and three independent non-executive Directors, namely Mr. Lau Ip Keung Kenneth, Mr. Sin Hendrick, and Mr. Szeto Yuk Ting.

B.3.1. Duties of the Nomination Committee

The principal duties of the Nomination Committee include reviewing the composition of the Board, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of the independent non-executive Directors.

The Company and the Nomination Committee commit to selecting the best person for the role as Director. In assessing the composition of the Board, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Board diversity policy adopted by the Company, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's character, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

Corporate Governance Report

The Company has adopted a policy for the nomination of Directors, which sets out the procedures as well as the process and criteria for nomination and appointment of a new Director and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business.

The Nomination Committee should, upon receipt of the proposal on appointment of a new Director and his/her biographical information, evaluate such candidate based on the criteria as set out in the nomination policy to determine whether such candidate is qualified for directorship. If the process yields one or more desirable candidates, the Nomination Committee should rank them by order of preference based on the needs of the Company and reference check of each candidate. The Nomination Committee should then recommend to the Board to appoint the appropriate candidate for directorship, as applicable. For any person that is nominated by a shareholder for election as a Director at the general meeting of the Company, the Nomination Committee should evaluate such candidate based on the criteria as set out in the nomination policy to determine whether such candidate is qualified for directorship.

To ensure that a newly appointed Director will have a proper understanding of the operations and business of the Company and is fully aware of his/her responsibilities under all applicable laws and regulations (including the Listing Rules), he/she will be provided with a comprehensive, tailored made and formal induction on the first occasion of his/her appointment.

B.3.2. Work Performed by the Nomination Committee

The Nomination Committee held two meetings during the Year to review the size and composition of the Board and the independence of the independent non-executive Directors, identify any new Board member and make recommendation on the re-election of the retiring Directors at the 2020 annual general meeting.

Corporate Governance Report

C. ATTENDANCE RECORD AT MEETINGS

During the Year, ten Board meetings, two meetings of the Audit Committee, one meeting of the Remuneration Committee, two meetings of the Nomination Committee and one general meeting of the Company were held. Attendance of individual Directors at such meetings are as follows:

	Board Meetings	Audit Committee Meetings	Remuneration Committee Meetings	Nomination Committee Meetings	General Meetings
Number of meetings	10	2	1	2	1
Executive Directors					
Mr. Chang Yoe Chong Felix (<i>Chairman and Chief Executive Officer</i>)	5	N/A	1	1	1
Mr. Kwok Yau Lung Anthony (<i>Chief Operating Officer</i>)	10	N/A	N/A	N/A	1
Mr. Chan Kwok Keung	4	N/A	N/A	N/A	–
Mr. Hui Wing Ki	5	N/A	N/A	N/A	–
Ms. Jia Ziyang	–	N/A	N/A	N/A	–
Mr. Li Yanbo	–	N/A	N/A	N/A	–
Non-executive Directors					
Mr. Chan Lau Yui Kevin	6	N/A	N/A	N/A	–
Mr. Chan Hoi Sing Harold (resigned with effect from 12 July 2020)	2	N/A	N/A	N/A	1
Independent Non-executive Directors					
Mr. Lau Ip Keung Kenneth	8	2	1	2	–
Mr. Sin Hendrick	7	2	1	2	–
Dr. Yung Bruce Pak Keung (resigned with effect from 12 July 2020)	1	1	1	1	1
Mr. Szeto Yuk Ting	7	2	1	2	–
Ir. Cheung Siu Wa	8	N/A	N/A	N/A	1

Directors are consulted to include matters in the agenda for regular Board meetings.

Dates of regular Board meetings are scheduled at least 14 days in advance to provide sufficient notice to give all Directors an opportunity to attend. For all other Board meetings, a reasonable period of notice will be given.

Directors have access to the advice and services of the company secretary of the Company to ensure that Board procedures and all applicable rules and regulations are followed.

Corporate Governance Report

Minutes of the Board, the Audit Committee, the Remuneration Committee and the Nomination Committee are kept by the company secretary and are open for inspection at any reasonable time on reasonable notice by any Director.

Minutes of the Board, the Audit Committee, the Remuneration Committee and the Nomination Committee have recorded in sufficient detail the matters considered by the Board and the committees, decisions reached, including any concerns raised by Directors or dissenting views expressed. Draft and final versions of such minutes would be sent to all Directors for their comments and records.

D. ACCOUNTABILITY AND AUDIT

D.1. Financial Reporting

The Directors acknowledge that they are responsible for overseeing the preparation of the financial statements which give a true and fair view of the financial position of the Group and of the financial performance and cash flows for such reporting period. In doing so, the Directors select suitable accounting policies and apply them consistently and make accounting estimates that are appropriate in the circumstances. With the assistance of the accounting and finance staff, the Directors ensure that the financial statements of the Group are prepared in accordance with statutory requirements and appropriate financial reporting standards. The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

More detailed descriptions of the changes in accounting policies (if any) and the related financial impacts are included in the audited consolidated financial statements of the Group for the Year.

D.2. Independent Auditor's Reporting

The statement by the Independent Auditor about its reporting and auditing responsibilities for the financial statements is set out in the Independent Auditor's Report contained in this annual report.

D.3. Independent Auditor's Remuneration

The fees in respect of the audit and non-audit services provided to the Group by the Independent Auditor for the Year amounted to approximately HK\$1.9 million and HK\$1.0 million, respectively. The non-audit services mainly consisted of tax assessment review and interim review of the Group for the Year.

E. INTERNAL CONTROLS AND RISK MANAGEMENT REPORT

The Board is directly responsible for risk management and the internal control systems of the Group and reviewing their effectiveness. The systems are designed for the Group to identify and manage significant risks to achieve its business objectives, safeguard its assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant laws and regulations. The systems are designed to manage rather than to eliminate the risk of failure in order to achieve the business objectives of the Group, and can only serve as reasonable, but not absolute, assurance against material misstatement or loss. The Board determines the nature and extent of risks that shall be taken in achieving the Group's strategic objectives, and has the overall responsibility for monitoring the design and implementation and the overall effectiveness of risk management and internal control systems. The Board conducts and reviews the effectiveness of such systems on an annual basis through the Audit Committee which is responsible for all material controls, including financial, operational and compliance controls.

The Board has adopted a comprehensive risk management policy to identify, evaluate and manage significant risks. The Group can thereby identify risks which might adversely affect the achievement of the Group's objectives, and assess as well as prioritise the level of risk, in order to draw up risk mitigation plans which can then be established to respond to such significant risks.

The Company had an internal function to conduct internal control on certain significant areas of the Group during the Year. In addition, the Group has engaged the Independent Advisor to provide internal audit services, which assisted the Board and the Audit Committee in ongoing monitoring of the risk management and internal control systems of the Group. The Board, through the Audit Committee, has also reviewed the adequacy of the Group's resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions.

An internal control and risk management report would be submitted to the Audit Committee and the Board of Directors at least once a year. During the Year, the Board, through the Audit Committee, conducted an annual review on the effectiveness of the Group's risk management and internal control systems, including financial, operational and compliance controls and risk management functions, including but not limited to the Group's ability to cope with its business transformation and changing external environmental in terms of significant risks, the scope and quality of management's ongoing monitoring of risks and of the internal controls systems and results of internal audit work, the extent and frequency of communication of monitoring results to the Board in relation to the result of risk and internal control review, significant control failing or weakness having been identified and their related implications, and status of compliance with the Listing Rules. The Board is of the opinion that the Group's risk management and internal control systems were adequate and effective throughout the Year.

Corporate Governance Report

F. HANDLING AND DISSEMINATION OF INSIDE INFORMATION

The Company has put in place a policy on handling and dissemination of inside information which sets out the procedures and internal controls for handling and dissemination of inside information in a timely manner in such a way to avoid placing any person in a privileged dealing position. The inside information policy also provides guidelines to employees of the Group to ensure proper safeguards exist to prevent the Company from breaching the statutory and Listing Rules disclosure requirements. The Company has appropriate internal control and reporting systems to identify and assess potential inside information. Dissemination of inside information of the Company shall be conducted by publishing the relevant information on the websites of the Stock Exchange and the Company, according to the requirements of the Listing Rules.

G. COMPANY SECRETARY

Ms. Leung Pui Yee, an employee of the Company, has been appointed as the company secretary of the Company. During the Year, Ms. Leung has complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

H. COMMUNICATION WITH SHAREHOLDERS

H.1. Effective Communication

On 19 June 2017, the Board adopted a shareholders' communication policy reflecting mostly the current practices of the Company for communication with its shareholders. Such policy aims at providing the shareholders and potential investors with ready and timely access to balanced and understandable information of the Company. It will be reviewed regularly to ensure its effectiveness and compliance with the prevailing regulatory and other requirements.

The Company has established a number of channels for maintaining an on-going dialogue with its shareholders as follows:

- (i) corporate communications such as annual reports, interim reports and circulars are issued in printed form and are available on the Company's website at www.epfhk.com and the Stock Exchange's website at www.hkexnews.hk;
- (ii) periodic announcements are made through the Stock Exchange and published on websites of the Company and the Stock Exchange, respectively;
- (iii) corporate information is made available on the Company's website and the articles of association of the Company is made available on websites of the Company and the Stock Exchange, respectively;
- (iv) annual general meetings and other general meetings of the Company provide a forum for the shareholders to make comments and exchange views with the Directors and senior management of the Company; and
- (v) the Company's share registrar serves the shareholders in respect of share registration, dividend payment, change of shareholders' particulars and related matters.

Corporate Governance Report

On 15 May 2020, the annual general meeting was held, at which the Board and the chairmen of the Audit Committee and the Remuneration Committee were present to answer questions from shareholders.

The Chairman of the Board and the chairmen of the Audit Committee and the Remuneration Committee shall attend the upcoming annual general meeting of the Company to answer questions from shareholders.

H.2. Procedures for Convening an Extraordinary General Meeting by Shareholders

Pursuant to article 64 of the articles of association of the Company, one or more shareholders of the Company holding, at the date of deposit of the requisition, not less than one-tenth of the paid-up capital of the Company and having the right of voting at general meetings may make a requisition to convene an extraordinary general meeting by a written requisition to the Board or the company secretary either via mail to the Company's principal place of business in Hong Kong at 11th Floor, Chiap Luen Industrial Building, 30-32 Kung Yip Street, Kwai Chung, New Territories, Hong Kong or at the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, or via email to info2@epfhk.com. Such meeting shall be held within two months after the deposit of such requisition. If the Board fails to proceed to convene such meeting within 21 days of such deposit, the requisitionist(s) himself/themselves may do so in the same manner.

H.3. Procedures for Putting Forward Proposals at General Meetings

Any shareholder who wishes to put forward proposals at a general meeting of the Company shall submit such proposals to the Board in writing for the Board's consideration either via mail to the Company's principal place of business in Hong Kong at 11th Floor, Chiap Luen Industrial Building, 30-32 Kung Yip Street, Kwai Chung, New Territories, Hong Kong or at the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, or via email to info2@epfhk.com not less than seven days prior to the date of the general meeting.

H.4. Procedures for Proposing a Person for Election as a Director

As regards the procedures for proposing a person for election as a Director, please refer to the procedures titled "Procedures for Shareholders to Propose a Director" made available under the section headed "Investor Relations – Corporate Governance" in the Company's website at www.epfhk.com.

H.5. Procedures for Putting Forward Enquiries to the Board

To put forward any enquiries to the Board, shareholders may send written enquiries to the Company. The Company will normally not deal with verbal or anonymous enquiries.

Address: 11th Floor, Chiap Luen Industrial Building, 30-32 Kung Yip Street, Kwai Chung, New Territories, Hong Kong, for the attention of the Board of Directors/Company Secretary

Email: info2@epfhk.com

Corporate Governance Report

For the avoidance of doubt, shareholders must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

I. CONSTITUTIONAL DOCUMENTS

There was no change in the memorandum and articles of association of the Company during the Year.

J. INVESTOR RELATIONS

The Company keeps on promoting good investor relations and enhancing communication with its shareholders and potential investors in order to understand the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings. At the annual general meeting, Directors (or their delegates as appropriate) are available to meet shareholders and answer their enquiries.

The Company welcomes suggestions from investors, stakeholders and the public who may contact the Company by phone on (852) 2427 5468 during normal business hours, by fax at (852) 2420 3938 or by e-mail at info2@epfhk.com.

Report of the Directors

The Directors present their report and the audited consolidated financial statements (“**Consolidated Financial Statements**”) of the Group for the Year.

PRINCIPAL ACTIVITIES

During the Year, the principal activities of the Group included the manufacturing and trading of hair products. There were no significant changes in the nature of the Group’s principal activities during the Year and up to the date of this report.

Particulars of the Company’ principal subsidiaries as at 31 December 2020 are set out in note 39 to the Consolidated Financial Statements.

BUSINESS REVIEW AND OUTLOOK

A fair review of the business of the Group including a discussion and analysis of the Group’s performance during the Year and the material factors underlying its financial performance and financial position as well as an indication of likely future development in the Group’s business as required by section 388(2) and Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) can be found in the section headed “Management Discussion and Analysis” of this annual report. The financial risk management objectives and policies of the Group are set out in note 38 to the Consolidated Financial Statements.

RESULTS AND DIVIDENDS

Details of the consolidated loss of the Group for the Year and the Group’s financial position as at 31 December 2020 are set out in the Consolidated Financial Statements and their accompanying notes on pages 91 to 179.

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

Report of the Directors

DIVIDEND POLICY

The Company has adopted a dividend policy (the “**Dividend Policy**”) on payment of dividends. The objectives of the Dividend Policy are to allow shareholders of the Company to participate in the Company’s profits and to attract potential investors whilst retaining adequate reserves for the Group’s future growth.

The Board shall consider the following factors of the Group before declaring or recommending dividends:

- financial results;
- shareholders’ interests;
- general business conditions and strategies;
- capital requirements;
- contractual restrictions on the payment of dividends by the Company to its shareholders or by the Company’s subsidiaries to the Company;
- taxation considerations;
- possible effects on our creditworthiness;
- statutory and regulatory restrictions; and
- any other factors the Board may deem relevant.

The Company intends distribute no less than 20% of its net distributable profits as dividends to its shareholders for each financial year, subject to the conditions and factors as set out above.

The Board will review the Dividend Policy, as appropriate, to ensure its effectiveness from time to time.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties that may cause the Group’s financial conditions or results materially different from the expected or historical results can be categorised into the following areas: (i) risks relating to the Group’s business and industry; (ii) risks relating to conducting business in Bangladesh; and (iii) risks relating to conducting business in the PRC, as described below:

RISKS WITH REGARD TO LABOUR SUPPLY, INCREASED LABOUR COSTS AND OTHER FACTORS AFFECTING LABOUR SUPPLY FOR THE GROUP'S PRODUCTION

The manufacturing of hair goods is labour intensive. Labour supply is key to being able to ensure the quality of the Group's products. The Group's performance relies on the steady supply of skilled and low-cost labour in Bangladesh and the PRC. The Group's direct labour costs accounted for approximately 32.5% of its total cost of goods sold for the Year (2019: 48.9%). Labour costs are primarily affected by the demand for and supply of labour, laws and regulations governing the industries operating inside the export processing zones, and other economic factors such as the rate of inflation and standard of living. Labour costs may increase due to a shortage of skilled labour or growing industry demands for skilled workers. There is no assurance that supply of skilled workers would not be disrupted or that labour costs would not increase. As such, the Group is subject to the risks associated with labour supply and its respective costs.

RISKS WITH REGARD TO HIGHLY COMPETITIVE INDUSTRY AND COMPETITION AMONG COMPETITORS

The industry in which the Group operates is highly competitive and fragmented. Competitive factors include product quality, price, design and development capability, timely delivery, valuable service, scale and capacity, and efficiency. The Group faces competition from existing and new players in the hair goods industry worldwide, including numerous manufacturers in the PRC and Indonesia which offer similar hair goods at lower prices than it does, as well as other enterprises which offer an increasing number of related products which could be used as substitutes for the Group's products. The Group's competitors conduct operations in Indonesia, Bangladesh, Cambodia or other developing countries where labour costs are relatively lower, and as a result they may adopt more competitive pricing strategies and achieve greater scales of production at lower production costs. In addition, margin pressure could arise from, among other factors, limited demand growth and overcapacity in a relevant market, price reductions by competitors, new industry players, industry consolidation, and the ability of competitors to capitalise on their economies of scale and create excess product supply.

Moreover, the entry barriers to the hair goods industry are relatively low as hair goods do not require advanced technology to produce and a small amount of production of these products does not require intensive capital investment. The Group therefore faces intense domestic and foreign competition in terms of production and sales. In the overseas market, enterprises located in central and southern Asian regions where hair goods may be commonly produced (for example, India and Pakistan) have been very competitive in terms of cost as there are cheap and abundant supplies of labour. In response to increasing labour and rental costs in the PRC, some PRC manufacturers are shifting their manufacturing bases from the PRC to various Asian countries such as Indonesia and Bangladesh.

Report of the Directors

To compete effectively, the Group may be forced, among other actions, to reduce prices, provide more sales incentives to customers and increase capital expenditures in the Group's labour force, plant, property and equipment. Any or a combination of these events may reduce the Group's profitability which could, in turn, adversely affect the Group's business, financial condition, results of operations and prospects. Any intensification of the competition or failure by us to compete successfully with the Group's competitors could have an adverse impact on the demand for, and pricing of, the Group's products, and as a result, could result in a reduction of the Group's market share and have an adverse effect on the Group's business, financial condition, results of operations and prospects.

RISKS WITH REGARD TO SIGNIFICANT RELIANCE ON SALES IN THE UNITED STATES AND OTHER INTERNATIONAL MARKETS

A significant portion of the Group's revenue is derived from international markets, in particular, the United States. For the Year, the Group derived 96.5% (2019: 97.7%) of the Group's revenue from outside the PRC and derived 88.1% (2019: 78.5%) of the Group's revenue from sales to the United States. As the Group relies heavily on international sales and sales to the United States, the economic conditions of these regions have had and will continue to have a significant impact on the Group's sales and business. Any significant downturn in the global economy and particularly in the local economies of the United States could have an adverse effect on the Group's business, financial condition, results of operations and prospects.

RISKS WITH REGARD TO FAILURE ON DESIGN, RESEARCH AND DEVELOPMENT OF NEW HAIR GOODS AND LOSE THE GROUP'S COMPETITIVENESS

The sales of hair goods to a specific sales market are subject to several factors, including consumers' taste, design, fashion trends and usage. There may be changes in fashion trends and consumers may have a change in preference towards certain hair goods in the future. The Group's future success depends upon the ability to address the changes in consumer trends by developing and introducing new and innovative products on a timely basis and in accordance with changing demands. The Group's market research regarding the latest trends of hair goods may be inaccurate, or the Group may fail to appreciate the change in customer preferences.

RISKS WITH REGARD TO FAILURE TO FULLY IMPLEMENT THE GROUP'S EXPANSION PLANS IN BANGLADESH

The Group intends to expand its production capacity by upgrading existing facilities in Bangladesh. Under the current COVID pandemic, expansion plans have been put on hold since early 2020. The Group plans to construct and complete a total of two new production facilities in Bangladesh once the economy recovers.

Report of the Directors

The Group's growth and future success will be dependent upon, among other factors, the successful completion of proposed expansion plans and sufficient demand for the Group's products. The upgrade or construction of any of the Group's production facilities may be adversely affected by delays and cost overruns. Factors that may contribute to delays and cost overruns with respect to the Group's expansion or upgrade include increased costs of land acquisition in Bangladesh, increases in the cost of, or inability to secure, financing, risks relating to construction, changes in safety and/or environmental requirements, delay or failure in obtaining necessary government approvals, changes in general economic conditions in Bangladesh, adverse weather conditions, natural disasters, accidents, unanticipated changes in government policies and other unforeseen circumstances and problems. A significant delay in the completion of these projects or a material increase in the costs of these projects could adversely affect the competitive advantage that we hope to achieve by undertaking such projects and may also divert the Group's resources away from the Group's other business operations.

RISKS WITH REGARD TO ANY DISRUPTION IN SUPPLIERS' SUPPLY THAT COULD HAVE AN ADVERSE EFFECT ON THE GROUP'S BUSINESS, RESULTS OF OPERATIONS, FINANCIAL CONDITION AND PROSPECTS

The Group's five largest suppliers collectively supplied raw materials comprising 32.0% (2019: 42.6%) of the Group's cost of goods sold during the Year. The Group's largest supplier supplied raw materials comprising 27.6% (2019: 35.7%) of the Group's cost of goods sold. Some of the synthetic fibres that the Group uses in the manufacturing of products are not able to be readily sourced from other suppliers. If there is any decrease or disruption in supply or an increase in prices by one or more of the Group's major suppliers, particularly the Group's largest supplier, or any termination of the Group's business relationships with the Group's major suppliers and any failure to find replacement suppliers on similar or favourable terms in a timely manner, the Group's business, results of operations, financial condition and prospects could be adversely affected.

In general, the Group does not enter into any long-term supply agreements, which exposes the Group to uncertainty and potential volatility with respect to the Group's costs of raw materials and supply of raw materials. The prices of most of the Group's raw materials generally follow the price trends of, and vary with, prevailing market conditions. There is no assurance that the Group can continue to secure adequate supplies of raw materials at a competitive cost level to meet its production requirements. If the Group experiences any interruption, reduction or termination in supply of raw materials from its suppliers, or is unable to find a substitute material to meet the Group's production schedule or to produce or at all, the Group might not be able to have a stable and adequate supply of raw materials needed for the production of its products.

Report of the Directors

RISKS WITH REGARD TO POTENTIAL FINANCIAL DIFFICULTIES IF THE GROUP FAILS TO MAINTAIN SUFFICIENT WORKING CAPITAL

As at 31 December 2020, the Group recorded net cash from operating activities of HK\$79.3 million (2019: net cash from operating activities of HK\$49.0 million) and net cash use in financing activities of HK\$4.1 million (2019: net cash from financing activities of HK\$103.0 million). During the Year, the Group had used net cash of HK\$42.7 million (2019: HK\$184.4 million) in its investing activities. The Group had total bank borrowings and bank overdrafts of HK\$774.4 million (2019: HK\$718.8 million), out of which HK\$679.7 million (2019: HK\$658.6 million) will be due within one year. Also, the Group had cash and cash equivalents of HK\$70.2 million (2019: HK\$36.1 million) and unutilised bank credit facilities of HK\$92.8 million (2019: HK\$10.9 million). While the Group has in the past financed its working capital needs primarily with cash generated from operating activities and borrowings, there is no assurance that the Group will always be able to generate net cash from operating activities or that banking facilities or other loans will always be available to it on commercially acceptable terms, or at all. Even if the Group is able to obtain new borrowings, any increased level of indebtedness could have a negative impact on the Group's business. For example, any increase in finance expenses could lower the Group's profitability, and the banking facilities that the Group may enter into may contain covenants limiting its flexibility in planning for, or reacting to, changes in its business. The Group may even be in breach of certain covenants in existing bank facilities by increasing its level of indebtedness.

RISKS WITH REGARD TO CONDUCTING BUSINESS IN BANGLADESH

The Group's principal manufacturing capacities are currently housed in the Bangladesh Factory. As at 31 December 2020, the Group had a total of 26,699 employees (2019: 21,634 employees) in Bangladesh. The Group intends to continue to expand its production capacity and increase the scope of operations in Bangladesh. Operating in developing countries exposes the Group to risks associated with regional, political and economic instabilities that could have a disproportionately negative effect on the Group's business, financial condition, results of operations and prospects.

The application of the laws in emerging-market countries such as Bangladesh is not always clear or consistent. The legislative drafting has not always kept pace with the demands of the marketplace, which can make it difficult to ensure that the Group is in compliance with changing legal requirements. Moreover, the government has the broad discretion in the grant of its licences and permits, including revocation for public interests. In addition, regulations are often introduced that require the Group to implement changes that are costly and technologically challenging. The regulators responsible for the control and supervision of communications services in Bangladesh frequently check the Group's compliance with the requirements of the applicable regulations. The Group may incur significant costs in implementing such compliance.

Corruption and poor governance in Bangladesh have historically been a hindrance to the Bangladesh government's ability to attract foreign investment and to reduce poverty. Failure of the Bangladesh government to continue to fight corruption or the perceived risk of corruption in Bangladesh could have an adverse effect on the Bangladesh economy, which may adversely affect the Group's business, financial condition, results of operations and prospects.

RISKS WITH REGARD TO CONDUCTING BUSINESS IN THE PRC

The economic, political and social conditions in the PRC, as well as government policies, laws and regulations, could affect the business, financial condition, results of operation and prospects of the Group.

As at the date of this report, the Group had substantial operations in the PRC, including production centres in Kunming, Yunnan, production and research and display centres in Nantou, Shenzhen, and processing and dyeing centre in Yuzhou, Henan. Accordingly, the Group's results of operations and prospects are also subject to economic, political and legal developments in the PRC. The PRC's economy differs from the economies of most developed countries in many respects, including the extent of government involvement, its level of development, its growth rate and its control over foreign exchange. The PRC's economy has been transitioning from a planned economy to a more market-oriented economy. In recent years, the PRC Government has implemented measures emphasising market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises. However, a portion of productive assets in the PRC is still owned by the PRC Government. The PRC Government continues to play a significant role in regulating industrial development. It also exercises significant control over the PRC's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policies and providing preferential treatments to particular industries or companies. All of these factors may affect the economic conditions in the PRC and, in turn, the Group's business.

INTEREST RATE RISKS

Most of the Group's borrowings are floating-rate bank loans, which expose the Group to rising interest rates. The Group will closely monitor the interest rate risk and when appropriate adopt measures to manage the associated risk, including but not limited to, the issuance of fixed rate bonds, and use of derivatives such as interest rate swaps and management of the ratio of fixed or floating loan portfolio. The Group has entered into a HK\$15,000,000 interest rate swap contract to hedge exposure to the fluctuations of floating-rate bank loans on a monthly basis for the period from July 2016 to July 2021. During the Year, the Group had incurred a net loss of approximately HK\$72,000 (2019: net loss of HK\$70,000) from the transactions under the contract.

CURRENCY RISKS

Please refer to the section headed "Management Discussion and Analysis – Liquidity and Financial Resources – Currency Risks" in this annual report.

Report of the Directors

DIRECTORS

The Directors during the Year and up to the date of this report are:

EXECUTIVE DIRECTORS

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

Mr. KWOK Yau Lung Anthony (*Chief Operating Officer*)

Mr. CHAN Kwok Keung

Mr. HUI Wing Ki

Ms. JIA Ziyang

Mr. LI Yanbo

NON-EXECUTIVE DIRECTORS

Mr. CHAN Lau Yui Kevin

Mr. CHAN Hoi Sing Harold (resigned with effect from 12 July 2020)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LAU Ip Keung Kenneth

Mr. SIN Hendrick

Dr. YUNG Bruce Pak Keung (resigned with effect from 12 July 2020)

Mr. SZETO Yuk Ting

Ir. CHEUNG Siu Wa

During the Year, Mr. Chan Hoi Sing Harold resigned as a non-executive Director with effect from 12 July 2020 in order to dedicate more time to his other businesses and personal commitments and Dr. Yung Bruce Pak Keung resigned as an independent non-executive Director and ceased to act as a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee with effect from 12 July 2020 in order to dedicate more time to his other businesses. For details, please refer to the announcement of the Company dated 12 July 2020.

In accordance with article 108 of the articles of association of the Company, at each annual general meeting, one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election. The Directors to retire every year will be those who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot. By virtue of article 108 of the articles of association of the Company, Mr. Chang Yoe Chong Felix, Mr. Hui Wing Ki, Mr. Chan Lau Yui Kevin and Ir. Cheung Siu Wa will retire from office and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company ("**AGM**").

DIRECTORS AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors are set out in the section headed "Biographical Details of Directors and Senior Management" of this annual report.

CHANGES IN INFORMATION OF DIRECTORS

Changes in information of the Directors since the publication of the interim report of the Company for the six months ended 30 June 2020, which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, are set out below:

- The remuneration of Mr. Chan Kwok Keung, an executive Director, has been increased from 1,168,000 per year to 1,181,000 per year with effect from 30 March 2021.
- The remuneration of Mr. Hui Wing Ki, an executive Director, has been increased from HK\$752,000 per year to HK\$761,000 per year with effect from 30 March 2021.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation in writing of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that, as at the date of this report, all of the independent non-executive Directors are independent.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the AGM has an unexpired service contract with the Company and/or any of its subsidiaries, which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The Directors' fees and other emoluments are supervised by the Remuneration Committee and determined by the Board with reference to the Directors' duties, responsibilities and performance and the results of the Company as well as the prevailing market conditions. Details of the Directors' remuneration are set out in note 12 to the Consolidated Financial Statements.

Report of the Directors

PERMITTED INDEMNITY PROVISION AND DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The articles of association of the Company provide that the Directors or other officers of the Company are entitled to be indemnified out of the assets of the Company against all losses and liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto, provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of the Directors. The Company has arranged appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Company during the Year.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in note 37 headed "Related Party Transactions" to the Consolidated Financial Statements, no Director nor an entity connected with a Director had a material interest, whether directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the Year.

MANAGEMENT CONTRACTS

No contract of significance concerning the management and administration of the whole or any substantial part of business of the Company or any of its subsidiaries was entered into or subsisted during the Year.

ARRANGEMENT FOR DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this annual report, at no time during the Year was the Company or any of its subsidiaries, the holding company, a party to any arrangement to enable a Director to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS OF SUBSIDIARIES

Other than the Directors named in the section headed "Biographical Details of Directors and Senior Management" of this annual report, the persons who had served on the boards of the subsidiaries of the Company during the Year and up to the date of this report include Mr. Chan Wing Shing, Mr. Feng Zhi Hui, Mr. Li San Tung, Mr. Hu Jianan, Mr. Li Chao, Mr. Dewan Zakir Hussain, Ms. Loretta Lo, Ms. Butsan Oksana Serhiivna, Ms. Sujifra Luangcharoen and Mr. Chan Hau Him Howard.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the Year and up to the date of this report, none of the Directors is considered to have interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules.

DEED OF NON-COMPETITION

Each of the controlling shareholders of the Company, namely, Mr. Chang Chih Lung, Mr. Chang Yoe Chong Felix, FC Management Limited, FC Investment Worldwide Limited, CLC Management Limited, CLC Investment Worldwide Limited, Golden Evergreen Limited and Evergreen Enterprise Holdings Limited, has confirmed to the Company his/its compliance with the non-competition undertakings given to the Company under the Deed of Non-competition as defined in the prospectus of the Company dated 29 June 2017.

SHARE OPTION SCHEME

On 19 June 2017 (the “**Adoption Date**”), a share option scheme (the “**Share Option Scheme**”) was adopted by the Company. The following is a summary of the principal terms of the rules of the Share Option Scheme:

PURPOSE OF THE SHARE OPTION SCHEME

The purpose of the Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to employees (full-time and part-time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners or service providers of the Group and to promote the success of the business of the Group.

WHO MAY JOIN AND BASIS OF ELIGIBILITY

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 at a price calculated in accordance with paragraph (c) below for such number of Shares as it may determine in accordance with the terms of the Share Option Scheme.

The basis of eligibility of any participant to the grant of any option shall be determined by the Board (or as the case may be, the independent non-executive Directors) from time to time on the basis of his/her contribution or potential contribution to the development and growth of the Group.

Report of the Directors

PRICE OF SHARES

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the higher of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date on which the option is offered, which must be any day on which the Stock Exchange is open for the business of dealings in securities ("**Business Day**"); (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the date on which the option is offered; and (iii) the nominal value of a Share on the date on which the option is offered.

MAXIMUM NUMBER OF SHARES AVAILABLE FOR ISSUE UNDER THE SHARE OPTION SCHEME

The maximum number of Shares issuable upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company (excluding, for this purpose, Shares issuable upon exercise of options which have been granted but which have lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Company) must not in aggregate exceed 10% of all the Shares in issue as at the Listing Date, i.e. 61,500,000 Shares.

As at the date of this report, the total number of shares available for issue under the Share Option Scheme was 61,500,000 Shares, representing approximately 8.96% of the Company's issued share capital as at the date of this report.

MAXIMUM ENTITLEMENT OF EACH PARTICIPANT UNDER THE SHARE OPTION SCHEME

The total number of Shares issued and to be issued upon exercise of options granted to any participant (including both exercised and outstanding options) under the Share Option Scheme or any other share option schemes of the Company in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue unless otherwise approved by the shareholders in general meeting.

TIME OF EXERCISE OF AN OPTION

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date on which the option is offered subject to the provisions of early termination thereof.

MINIMUM PERIOD FOR WHICH AN OPTION MUST BE HELD BEFORE IT CAN BE EXERCISED

There is no minimum period for which an option must be held before it can be exercised; however, the Board may, subject to the provisions of the Listing Rules, in its absolute discretion when offering the grant of an option impose any conditions, restrictions or limitations in relation thereto in addition to those set forth in the Share Option Scheme as it may think fit.

AMOUNT PAYABLE ON APPLICATION OR ACCEPTANCE OF AN OPTION

Participants of the Share Option Scheme are required to pay the Company a nominal consideration of HK\$1.00 upon acceptance of the grant within seven days from the offer date.

BASIS OF DETERMINING THE EXERCISE PRICE

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the higher of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date on which the option is offered, which must be a Business Day; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the date on which the option is offered; and (iii) the nominal value of a Share on the date on which the option is offered.

LIFE OF THE SHARE OPTION SCHEME

The Share Option Scheme will remain in force for a period of 10 years commencing on the Adoption Date and shall expire at the close of business on a Business Day immediately preceding the tenth anniversary thereof.

As at the date of this report, the remaining life of the Share Option Scheme is about eight years and two months.

During the Year, no option has been granted or agreed to be granted under the Share Option Scheme.

Report of the Directors

SHARE AWARD SCHEME

On 11 December 2017, the Company adopted the Share Award Scheme in which employees of the Group will be entitled to participate.

The specific objectives of the Share Award Scheme are (i) to recognise the contributions by certain employees of the Group and to provide them with incentives in order to retain them for the continual operation and development of the Group; and (ii) to attract suitable personnel for further development of the Group.

The Share Award Scheme does not constitute a share option scheme or an arrangement analogous to a share option scheme for the purpose of Chapter 17 of the Listing Rules.

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

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

As at 31 December 2020, the trustee of the Share Award Scheme held a total of 355,333 Shares, of which 250,000 Shares remained unvested and 105,333 Shares remained ungranted or lapsed. The ungranted or lapsed Shares remain as trust fund and will be used for grant of share awards in future.

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

Date of grant	Grantees	Number of Shares			Outstanding as at 31 December 2020	Vesting schedule
		Outstanding as at 31 December 2019	Vested during the Year	Lapsed during the Year		
16 January 2018	Mr. Chan Kwok Keung	500,000	250,000	–	250,000	To vest on 13 July of each year from 2018 to 2021
	Mr. Kwok Yau Lung Anthony	111,333	111,333	–	–	
	Mr. Hui Wing Ki	111,333	111,333	–	–	
	Ms. Jia Ziyang	134,000	134,000	–	–	
	Mr. Li Yanbo	50,000	50,000	–	–	
	Other grantees	1,288,001	1,254,001	34,000	–	
	Total	2,194,667	1,910,667	34,000	250,000	

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

As at 31 December 2020, the interests or short positions of the Directors and chief executives' of the Company in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO), which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

LONG POSITION IN THE SHARES OF THE COMPANY

Name of Director/chief executive	Capacity/nature of interest	Number of Shares	Approximate percentage of issued share capital of the Company ⁽⁹⁾
Mr. Chang Yoe Chong Felix	(i) Beneficiary of a trust/ Founder of a discretionary trust	361,379,803 ⁽¹⁾	52.67%
	(ii) Beneficial owner	9,790,000 ⁽²⁾	1.43%
Mr. Chan Kwok Keung	Beneficial owner	1,000,000 ⁽³⁾	0.15%
Mr. Kwok Yau Lung Anthony	Beneficial owner	333,333 ⁽⁴⁾	0.05%
Mr. Hui Wing Ki	Beneficial owner	223,333 ⁽⁵⁾	0.03%
Ms. Jia Ziying	(i) Beneficial owner	394,000 ⁽⁶⁾	0.06%
	(ii) Interest of spouse	100,000 ⁽⁶⁾	0.01%
Mr. Li Yanbo	(i) Beneficial owner	100,000 ⁽⁷⁾	0.01%
	(ii) Interest of spouse	394,000 ⁽⁸⁾	0.06%

Notes:

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

Report of the Directors

- (2) These Shares are beneficially owned by Mr. Chang Yoe Chong Felix.
- (3) These Shares were granted by the Company to Mr. Chan Kwok Keung on 16 January 2018 pursuant to the Share Award Scheme.
- (4) These Shares were granted by the Company to Mr. Kwok Yau Lung Anthony on 16 January 2018 pursuant to the Share Award Scheme.
- (5) These Shares were granted by the Company to Mr. Hui Wing Ki on 16 January 2018 pursuant to the Share Award Scheme.
- (6) These Shares were granted by the Company to Ms. Jia Ziying on 16 January 2018 pursuant to the Share Award Scheme.
- (7) These Shares were granted by the Company to Mr. Li Yanbo on 16 January 2018 pursuant to the Share Award Scheme.
- (8) Ms. Jia Ziying is the spouse of Mr. Li Yanbo. As such, Ms. Jia Ziying and Mr. Li Yanbo are deemed to be interested in each other's interest.
- (9) Based on a total of 686,082,000 issued Shares as at 31 December 2020.

Report of the Directors

LONG POSITION IN THE SHARES OF THE ASSOCIATED CORPORATIONS OF THE COMPANY

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

Report of the Directors

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

Notes:

- (1) Evergreen Holdings, a direct wholly owned subsidiary of Golden Evergreen, holds more than 50% of the issued share capital of the Company. 49% and 51% of the issued share capital of Golden Evergreen are owned by FC Investment (a direct wholly owned subsidiary of FC Management) and CLC Investment (a direct wholly owned subsidiary of CLC Management), respectively. Accordingly, each of Evergreen Holdings, Golden Evergreen, CLC Investment and CLC Management is a holding company and an associated corporation of the Company.
- (2) Approximately 73.04% of the issued share capital of Evergreen Group Limited is owned by Evergreen Holdings. Evergreen Group Limited holds the entire issued share capital of Ventures Day Investments Limited. Ventures Day Investments Limited holds the entire issued share capital of each of Acemaster Ventures Limited, Cowden Ventures Limited, Fast Track Ventures Limited, Golden Image Ventures Limited, Market Focus Ventures Limited, Punchline Ventures Limited and Smart Plus Ventures Limited. Accordingly, each of Evergreen Group Limited, Ventures Day Investments Limited, Acemaster Ventures Limited, Cowden Ventures Limited, Fast Track Ventures Limited, Golden Image Ventures Limited, Market Focus Ventures Limited, Punchline Ventures Limited and Smart Plus Ventures Limited is a subsidiary of Evergreen Holdings and an associated corporation of the Company.

Report of the Directors

- (3) Each of FC Management and CLC Management is directly and wholly owned by HSBC International Trustee Limited, the trustee of the Felix Family Trust and the CLC Family Trust. The CLC Family Trust is a discretionary trust established by Mr. Chang Chih Lung (the father of Mr. Chang Yoe Chong Felix and a controlling shareholder and a substantial shareholder of the Company as at 31 December 2020) as the settlor, with Mr. Chang Yoe Chong Felix and his issue being the beneficiaries. The Felix Family Trust is a discretionary trust established by Mr. Chang Yoe Chong Felix as the settlor, with Mr. Chang Chih Lung, Mr. Chang Ka Wai Aidan (the son of Mr. Chang Yoe Chong Felix and a minor) and Mr. Chang Yoe Chong Felix's issues being the beneficiaries. Accordingly, Mr. Chang Yoe Chong Felix is deemed to be interested in the above associated corporations of the Company under the SFO.
- (4) Each of Loyal Helper Supply Limited and Evergreen Housekeepers Training Center Limited is 100% owned by Sunleaf Holdings Limited, which is 70% owned by Eastern Earnings (China) Company Limited. Eastern Earnings (China) Company Limited is 51% owned by FC Investment, which is 100% held by FC Management. Accordingly, Mr. Chang Yoe Chong Felix is deemed to be interested in the above associated corporations of the Company under the SFO.
- (5) Such shares are held by Prince Orchid Limited, which is 100% owned by Mr Chang Yoe Chong Felix.

Save as disclosed above and to the best knowledge of the Directors, as at 31 December 2020, none of the Directors or the chief executives of the Company had any interests and/or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

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

So far as the Directors are aware, as at 31 December 2020, the following corporations/persons had interests of 5% or more in the issued Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which recorded in the register required to be kept by the Company under section 336 of the SFO:

Report of the Directors

LONG POSITION IN THE SHARES OF THE COMPANY

Name of shareholder	Capacity/nature of interest	Number of Shares	Approximately percentage of issued share capital of the Company ⁽⁴⁾
Evergreen Holdings ⁽¹⁾	Beneficial owner	361,379,803	52.67%
Golden Evergreen ⁽¹⁾	Interest of controlled corporation	361,379,803	52.67%
FC Investment ⁽¹⁾	Interest of controlled corporation	361,379,803	52.67%
FC Management ⁽¹⁾	Interest of controlled corporation	361,379,803	52.67%
CLC Investment ⁽¹⁾	Interest of controlled corporation	361,379,803	52.67%
CLC Management ⁽¹⁾	Interest of controlled corporation	361,379,803	52.67%
HSBC International Trustee Limited ⁽¹⁾	Trustee of a trust	361,379,803	52.67%
Mr. Chang Chih Lung ⁽¹⁾	Beneficiary of a trust/ Founder of a discretionary trust	361,379,803	52.67%
Ms. Wong Hor Yan ⁽²⁾	Interest of spouse	371,169,803	54.10%
SEAVI Advent Investments Ltd. ("SEAVI Advent") ⁽³⁾	Beneficial owner	102,386,197	14.92%

Notes:

- (1) Evergreen Holdings is a direct wholly owned subsidiary of Golden Evergreen. 49% and 51% of issued share capital of Golden Evergreen are owned by FC Investment (a direct wholly owned subsidiary of FC Management) and CLC Investment (a direct wholly owned subsidiary of CLC Management), respectively. Each of FC Management and CLC Management is directly and wholly owned by HSBC International Trustee Limited, the trustee of the Felix Family Trust and the CLC Family Trust. Mr. Chang Chih Lung is the settlor of CLC Family Trust and one of the beneficiaries of the Felix Family Trust. Accordingly, each of Golden Evergreen, FC Investment, FC Management, CLC Investment, CLC Management, HSBC International Trustee Limited and Mr. Chang Chih Lung is deemed to be interested in the Shares held by Evergreen Holdings under the SFO.

Report of the Directors

- (2) Ms. Wong Hor Yan is the spouse of Mr. Chang Yoe Chong Felix, and is deemed to be interested in the Shares which are interested by Mr. Chang Yoe Chong Felix under the SFO.
- (3) SEAVI Advent is wholly owned by SEAVI Advent Equity V (A) Ltd and is deemed to be interested in the Shares held by SEAVI Advent under SFO.
- (4) Based on a total of 686,082,000 issued Shares as at 31 December 2020.

Save as disclosed above and to the best knowledge of the Directors, as at 31 December 2020, the Directors have not been notified by any person who had interests or short position in Shares or underlying Shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

CONTROLLING SHAREHOLDER'S INTERESTS IN SIGNIFICANT CONTRACTS

Save as disclosed in note 34 headed "Related Party Transactions" to the Consolidated Financial Statements, at no time during the Year had the Company or any of its subsidiaries, and any of the controlling shareholders (as defined in the Listing Rules) of the Company or any of their subsidiaries (as the case may be) entered into any contract of significance or any contract of significance for the provision of services by any such controlling shareholders or their subsidiaries (as the case may be) to the Company or any of its subsidiaries.

CONTINUING CONNECTED TRANSACTIONS

The related party transactions as disclosed in note 34 headed "Related Party Transactions" to the Consolidated Financial Statements for the Year constitute de minimis continuing connected transactions of the Company and are fully exempt from the reporting, annual reviews, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Therefore, the Independent Auditor has not been engaged to report on such transactions in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) – *"Assurance Engagements Other Than Audits or Reviews of Historical Financial Information"*. No letter is prepared by the Independent Auditor with reference to Practice Note 740 – *"Auditor's letter on Continuing Connected Transactions under the Hong Kong Listing Rules"* issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

Report of the Directors

RELATED PARTY TRANSACTIONS

Details of the significant related party transactions undertaken in the normal course of business of the Group during the Year are provided under note 34 to the Consolidated Financial Statements.

SEGMENT INFORMATION

An analysis of the Group's revenue and contribution to results by businesses and geographical areas of the operations for the Year is set out in note 6 to the Consolidated Financial Statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the Year are set out in note 16 to the Consolidated Financial Statements.

SHARES ISSUED IN THE YEAR

Details of the ordinary shares issued by the Company during the Year are set out in note 29 to the Consolidated Financial Statements.

DISTRIBUTABLE RESERVES

As at 31 December 2020, the Company had reserves available for distribution to the Shareholders of approximately HK\$475.8 million.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The Shares were listed on the Main Board of the Stock Exchange on the Listing Date. The Group received net proceeds (after deduction of underwriting commissions and related costs and expenses) from the initial public offering of approximately HK\$204.7 million.

During the period from the Listing Date and up to 31 December 2020, the net proceeds were utilised in accordance with the purpose as set out in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 29 June 2017.

Report of the Directors

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

Use of proceeds	Net proceeds <i>HK\$ million</i>	Utilised as at the date of this report <i>HK\$ million</i>	Utilised as at the date of this report %
(i) Construction of additional production facilities in the Group’s Bangladesh production base	100.7	100.7	100.0%
(ii) Relocation of the Group’s research and display centre and sales office in Dongguan, Guangdong	20.5	–	–
(iii) Expansion of the Group’s business, including establishing sales offices for high-end human hair extensions in Asia, further development of the Group’s e-commerce business, and expansion of the Group’s Halloween costume sales	22.1	22.1	100.0%
(iv) Repayment of outstanding trust receipt loans	40.9	40.9	100.0%
(v) Working capital and general corporate purposes	20.5	20.5	100.0%
Total utilisation	204.7	184.2	90.0%

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

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company had maintained the prescribed public float under the Listing Rules during the Year and up to the date of this report.

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

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

Report of the Directors

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the articles of association of the Company or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

BANK BORROWINGS

Details of the bank borrowings of the Group as at 31 December 2020 are set out in note 26 to the Consolidated Financial Statements.

KEY PERFORMANCE INDICATORS (“KPI”)

(i) Gross profit margin

- Definition and calculation: Gross profit margin is derived by dividing gross profit by revenue for a given year.
- Purpose: The Group aims to enhance its gross profit margin. The extent to which this objective has been achieved is assessed by comparing the Group’s gross profit margin from one year to the next, as it is an indicator showing the Group’s profitability.
- Quantified KPI data: The gross profit margin was approximately 17.2% for the Year (2019: approximately 33.1%).

(ii) Net margin

- Definition and calculation: Net margin is derived by dividing loss/profit for a given year by revenue for that year.
- Purpose: The Group emphasises cost control. The net margin provides direction for a better control and utilisation of expenses. The extent to which this objective has been achieved is assessed by comparing the Group’s net margin from one year to the next, as it is an indicator showing the Group’s earnings from its business operations and other related activities.
- Quantified KPI data: The net margin was approximately -2.4% for the Year (2019: net profit margin was approximately 11.1%). The decrease in net margin was primarily attributable to: (i) the significant negative impact from the outbreak of the COVID-19 disease, which resulted in: (i) special discounts on sales of products have been offered to customers, (ii) a shift of product mix from less sales of human hair extension products with high margin to more sales of braid products with low margin when compared to the year ended 31 December 2019 as a result of the adverse market conditions during the period.

(iii) Gearing ratio and net gearing ratio

- Definition and calculation: Gearing ratio is derived by dividing total interest-bearing debt (including secured bank borrowings, bank overdrafts, obligations under finance leases and any preferred Shares) by total equity as at the end of a given year. Net gearing ratio of the Group is equivalent to total interest-bearing debt (including secured bank borrowings, bank overdrafts, obligations under finance leases and any preferred Shares) net of total cash and bank balances divided by total equity as at the end of a given year.
- Purpose: The Group monitors its capital structure based on gearing ratio. Gearing ratio provides direction for the Group to optimise its financing and business development activities. The extent to which this objective has been achieved is assessed by comparing the Group's gearing ratio from one year to the next, as it is an indicator showing the Group's level of leverage.
- Quantified KPI data: The Group's gearing ratio was approximately 88.7% (2019: 83.0%) and net gearing ratio was approximately 66.7% (2019: 68.1%) for the Year. The increase in gearing ratio was primarily due to an increase in bank borrowings for the Year while the decrease in net gearing ratio was primarily due to an increase in cash and cash equivalents as at 31 December 2020.

CHARITABLE CONTRIBUTIONS

During the Year, the Group made charitable contributions totalling approximately HK\$0.3 million (2019: HK\$0.7 million).

MAJOR CUSTOMERS AND SUPPLIERS

The revenue attributable to the Group's five largest customers and the largest customer accounted for 70.4% and 37.4%, respectively, of the Group's total revenue for the Year.

Purchases attributable to the Group's five largest suppliers and the largest supplier accounted for 32.0% and 27.6%, respectively, of the Group's total purchases for the Year.

None of the Directors or any of their close associates (as defined in the Listing Rules) or any shareholders of the Company (whom, to the best knowledge and belief of the Directors, own more than 5% of the Company's total issued share capital) had any beneficial interest in the Group's five largest suppliers and customers for the Year.

Report of the Directors

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

The Group has compliance policies and procedures in place to ensure adherence to applicable laws, rules and regulations, in particular, those that have a significant impact on it. The Group would seek professional legal advice from its legal advisers to ensure that transactions and business to be performed by the Group are in compliance with the applicable laws and regulations. During the Year, the Group was not aware of any non-compliance with any relevant laws and regulations that had a significant impact on it.

ENVIRONMENTAL POLICIES AND PERFORMANCE

Acting in an environmentally responsible manner, the Group endeavours to comply with laws and regulations regarding environmental protection and to adopt effective measures to achieve efficient use of resources, energy saving and waste reduction. The Group has implemented internal recycling programme for office consumables such as toner cartridges and paper to minimise the operational impact on the environment and natural resources. The Group will review its environmental practices from time to time and will implement further eco-friendly measures and practices closely enhancing environmental sustainability. For details, please refer to the section headed “Environmental, Social and Governance Report” of this annual report.

RELATIONSHIPS WITH THE GROUP’S EMPLOYEES

The Group believes that employees are important and valuable assets. The Group will provide trainings for employees to enhance their knowledge in corporate values and culture and to implement them thoroughly. Meanwhile, the Group encourages staff on continued studies by giving subsidy to recognised development courses. The Group also aims to provide competitive and attractive remuneration packages to retain its employees. Management reviews annually the remuneration package offered to the employees of the Group. Meanwhile, for the purpose of providing incentives and rewards to eligible participants who have contributed to the success of the Group’s operations, the Company has adopted the Share Option Scheme and the Share Award Scheme. Details of such schemes are set out in the sub-sections headed “Share Option Scheme” and “Share Award Scheme” in this report.

RELATIONSHIPS WITH THE GROUP’S CUSTOMERS AND SUPPLIERS

The Group values long standing relationships with its suppliers and customers. The Group aims at delivering high quality products to its customers and developing mutual trust and enhancing communication and commitment between the Group and its suppliers to maintain sustainable growth.

IMPORTANT EVENTS AFTER THE END OF THE YEAR

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

CORPORATE GOVERNANCE

Particulars of the Company's corporate governance practices are set out in the section headed "Corporate Governance Report" of this annual report.

EQUITY-LINK AGREEMENT

For the Year, the Company has not entered into any equity-link agreement, save for options that can be granted under the Share Option Scheme. As at 31 December 2020, no option had been granted under the Share Option Scheme.

REVIEW BY AUDIT COMMITTEE

The Audit Committee currently comprises four independent non-executive Directors, namely, Mr. Sin Hendrick, Mr. Lau Ip Keung Kenneth and Mr. Szeto Yuk Ting. The Audit Committee has reviewed with the management of the Company the audited Consolidated Financial Statements for the Year.

INDEPENDENT AUDITOR

The Consolidated Financial Statements for the Year have been audited by Deloitte who will retire and, being eligible, offer itself for re-appointment at the forthcoming AGM. Having been approved by the Board upon the Audit Committee's recommendation, a resolution for the re-appointment of Deloitte as the Independent Auditor for the ensuing year will be put to the forthcoming AGM for shareholder's approval.

On Behalf of the Board

Chang Yoe Chong Felix

Chairman and Chief Executive Officer

Hong Kong, 30 March 2021

Environmental, Social and Governance Report

1. ABOUT THIS REPORT

This is the Environmental, Social and Governance (“**ESG**”) report of Evergreen Products Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”), highlighting its ESG performance, with disclosure reference made to the ESG Reporting Guide as described in Appendix 27 of the Listing Rules. The Group has complied with all “comply or explain” provisions set out in the ESG Reporting Guide during the year ended 31 December 2020.

This report presents the Group’s management approach and performance in both environmental and social aspects. Data and/or information disclosed in this report is derived from internal statistics and analysis.

REPORTING BOUNDARY

This report covers the Group’s overall environmental and social performances of its principal operations in the manufacturing, distribution and retail business of hair products, which specifically include:

- (1) the Group’s head office in Hong Kong;
- (2) the trading business and relevant services (collectively, the “**Trading Business**”) of hair products, in the United States, the PRC, Hong Kong, Japan, Bangladesh, Thailand and Ukraine; and
- (3) the manufacturing business of hair products (the “**Manufacturing Business**”) in the PRC and Bangladesh.

REPORTING PERIOD

The information published in this report covers the period from 1 January 2020 to 31 December 2020 (“**FY2020**”), which is the same as the financial year covered in the Group’s annual report for the year ended 31 December 2020.

ACCESS OF THIS REPORT

This report is released in both printed and online versions. The online version is available on the Stock Exchange’s website (www.hkexnews.hk) and the Company’s website (www.epfhk.com).

This report is released in both English and Chinese versions. Should there be any discrepancies between the two versions, the English version shall prevail.

Environmental, Social and Governance Report

REPORTING PRINCIPLES

The preparation of the ESG Report has applied the following principles:

Materiality – materiality assessments have been carried out to identify material environmental and social issues that have major impacts on investors and other stakeholders, the significant stakeholders, process, and results of the engagement of which are presented in the section headed “Stakeholder Engagement” in this report.

Quantitative – key performance indicators (“**KPIs**”) have been established, and are measurable and applicable to make valid comparisons under appropriate conditions; information on the standards, methodologies, assumptions, and/or calculation tools used, and sources of conversion factors used, have been disclosed when applicable.

Consistency – consistent statistical methodologies and presentation of KPIs have been used to allow meaningful comparisons of related data over time.

2. ABOUT EVERGREEN

Founded in 1962, the Group is one of the leading global manufacturers of hair goods. Since its establishment, with in-depth industry knowledge, and reputed for its quality products and comprehensive product portfolio, the Group has built up unique competitive advantages in the global hair goods market. In July 2017, the Shares of the Company were listed in the main board of the Stock Exchange.

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, targeting different ethnic groups and the Halloween market.

Headquartered in Hong Kong, the Group currently has three production centres in the PRC, and six production centres in Bangladesh. As of 31 December 2020, the Group employed (i) 26,699 employees in Bangladesh, (ii) 375 employees in the PRC, (iii) 61 employees in Hong Kong, and (iv) 26 employees in other countries (i.e., Japan, the United States, Thailand and Ukraine), as compared to 21,634 in Bangladesh, 402 in the PRC, 62 in Hong Kong, and 31 in other countries as of 31 December 2019.

THE BOARD’S OVERSIGHT OF ESG ISSUES

The Group has developed its environmental protection and social sustainability strategies, and designated teams are established within each business unit of the Group to manage ESG issues. The Board has the ultimate responsibility of ensuring the development and effectiveness of the Group’s ESG policies and measures, while Mr. Kwok Yau Lung Anthony, an executive Director and the Chief Operating Officer, would report to the Board with regards to the ESG management and internal control systems.

Environmental, Social and Governance Report

3. STAKEHOLDER ENGAGEMENT

The Group aims at continuously strengthen its environmental protection and social sustainability approach and performance by engaging and listening to both its internal and external stakeholders. Stakeholders are open to provide their feedback and freely express their expectations and concerns to the Group in the aspects of both environmental protection and social sustainability.

The Group connects with its stakeholders through their preferred communication channels as listed in Table 3.1 below:

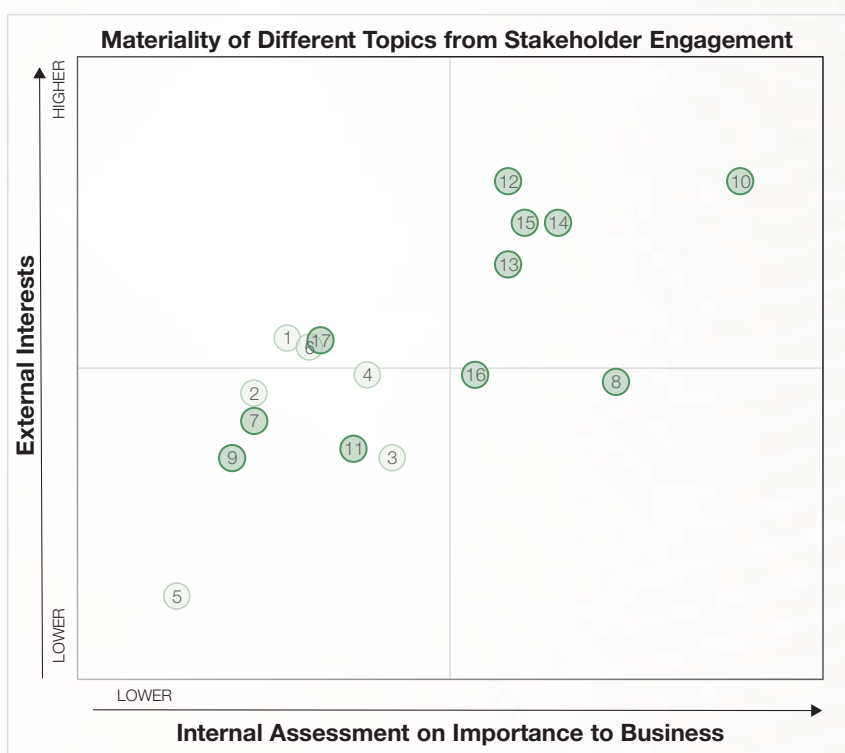
Table 3.1 Stakeholders' Expectations and Communication Channels

Stakeholders	Expectations and Concerns	Communication Channels
Government and regulatory authorities	<ul style="list-style-type: none"> • Compliance with laws and regulations • Pay taxes according to law • Implement relevant regulatory policies 	<ul style="list-style-type: none"> • Policy guidance • Supervision of compliance • Routing reports and taxes paid
Suppliers/Business Partners	<ul style="list-style-type: none"> • Fair and open procurement • Win-win cooperation 	<ul style="list-style-type: none"> • Open tendering • Purchase reviews • Business exchange and cooperation • Supplier screening and rating • Face-to-face meetings and onsite visits
Customers	<ul style="list-style-type: none"> • High quality products and services • Protect the rights of customers 	<ul style="list-style-type: none"> • Product promotion • Sales reviews • Customer service hotline and email
Shareholders	<ul style="list-style-type: none"> • Sound risk management • Good disclosure • The ability to continuously create value • Return on investment 	<ul style="list-style-type: none"> • Regular meetings • Regular reports and announcements • Routing communication • Official website
General public (i.e., media, NGOs, local communities)	<ul style="list-style-type: none"> • Involvement in communities • Business compliance • Environmental protection awareness 	<ul style="list-style-type: none"> • Actively carry out various charitable activities • Media conferences and responses to enquiries • Investment on communities • Public welfare activities • Regular reports and announcements • Official website
Employees	<ul style="list-style-type: none"> • Health and safety in the working places • Employees' compensation and benefits • Fair career development opportunity 	<ul style="list-style-type: none"> • Regular meetings and training • Emails, notice boards, hotline, caring activities with management

Environmental, Social and Governance Report

MATERIALITY ASSESSMENT SURVEY

In FY2020, the Group engaged its internal and external stakeholders to conduct materiality assessment survey. Key stakeholders were selected based on their influence and dependence on the Group. The Group's management chose and invited those key stakeholders with a high level of influence and dependence to express their views and concerns on a list of environmental and social issues via filling in the questionnaire. Results from the survey are grouped into 17 major topics, and would allow the business to better identify any gaps between stakeholders' expectations and the business's efforts in addressing key issues. The following matrix shows the results from the stakeholder engagement.



Environmental		Social	
1	Energy	7	Employment Policies
2	Water	8	Occupational Health and Safety
3	Air Emission	9	Development and Training
4	Waste and Effluent	10	Labour Standards
5	Other Raw Materials Consumption	11	Supply Chain Management
6	Environmental Protection Measures	12	Intellectual Property
		13	Data Protection
		14	Customer Service
		15	Product/Service Quality
		16	Anti-corruption
		17	Community Investment

Environmental, Social and Governance Report

4. ENVIRONMENTAL MATTERS

The Group is engaged in the manufacturing of hair products, which is closely related to environmental protection and usage of natural resources. With a mission to develop and operate sustainably, the Group has formulated a series of management policies, mechanism and measures regarding environmental and natural resources protection.

The Group strives to enhance the efficiency in the usage of energy, water resources and packaging materials, while also complying with relevant environmental laws and regulations in the corresponding jurisdictions. The offices and manufacturing plants of the Group have implemented effective energy conservation measures to reduce emissions and consumption of resources.

4.1 EMISSIONS

The Group has complied with relevant local environmental laws and regulations as set out in the countries where it operates. In FY2020, the Group was not in violation of relevant laws and regulations related to emissions which have a significant impact on the Group and its business.

The detailed emission amounts and intensity for each type of emissions in FY2020 are presented in Table 4.1 below:

Table 4.1 The Group's Emissions Amount and Intensity in FY2020

Indicator	Unit	Manufacturing Business	Trading Business	Intensity (per employee)*
Air Emissions				
SOx	kg	5	2	<0.01
GHG Emissions				
Direct emissions	Tonne CO ₂ e	2,872	348	
Energy Indirect emissions	Tonne CO ₂ e	14,101	542	
Other Indirect emissions	Tonne CO ₂ e	291	1,140	
Total GHG emissions	Tonne CO ₂ e	17,265	2,031	0.71
Discharge to Water				
Total industrial wastewater discharge	Tonne	1,679	/	0.06
Total domestic wastewater discharge	Tonne	6,348	123	0.24
Hazardous Waste				
	Tonne	21	/	<0.01
Non-hazardous Waste				
	Tonne	15	/	<0.01

* Intensity = Total amount of emissions from manufacturing business and trading and other businesses/total employees of the Group in FY2020.

Environmental, Social and Governance Report

To closely monitor and manage its emissions, waste disposal and discharge, the Group has developed and implemented environmental management policies relating to different types of environmental impacts. The detailed policies and practices are described below:

- Environmental impacts must be assessed and considered before production commences
- Regular environmental assessment shall be conducted, and the results shall be evaluated for integration into emission targets formulation
- Any procurement or adaption of new equipment or initiatives shall pass environmental impact assessments prior to usage
- Wastewater management system has been established
- Training shall be delivered to staff to raise environmental awareness and understanding of emission requirements

4.1.1 Air and GHG Emissions

Air emissions are contributed by the consumption of fuel for the Group's mobile vehicles; whereas GHG emissions are mainly derived from the combustion of coal and diesel and the use of purchased electricity for power, the rest of which are from fuel used for mobile vehicles and minor operational purposes, disposal of paper waste and processing of water by third parties.

On top of the abovesaid measures, the Group has specifically developed the following mitigation measures to minimise the amount of GHG emitted and their impacts on the environment:

- Actively searching for and shifting to low-carbon energy resources alternatives, such as gradually replacing diesel and other fuels by natural gas
- Promoting and using highly efficient or energy-saving equipment to reduce demand for imported energy
- Reducing dependence on energy-demanding equipment, e.g., substitute reliance on air conditioning by ventilation fans
- Reducing the frequency of vehicle use
- Encouraging the employees to take the public transportation

Environmental, Social and Governance Report

4.1.2 Water Discharge

Wastewater generated from the Manufacturing Business mainly includes:

- Industrial wastewater from production processes, which is treated onsite by the production plants' own wastewater treatment facility ("WWTF"), then discharged to the municipal drainage system or recycled and reused as landscaping water
- Domestic wastewater from sanitary purpose, which is discharged directly into the municipal drainage system

The Group has a series of measures to control the amount and quality of wastewater discharged:

- Establishing sewage treatment monitoring process under which water quality is inspected to ensure compliance with the national standards
- Reusing shampoo and controlling the usage of fresh water to reduce the amount of wastewater generated
- Recycling treated wastewater for purposes such as plants watering, floor cleaning, landscaping and toilet flushing

4.1.3 Waste Management

Wastes generated from the Manufacturing Business mainly include:

- Non-hazardous wastes: day-to-day domestic solid wastes and non-hazardous industrial wastes from production processes (such as waste packaging materials and fabrics), which are collected and stored at designated waste areas onsite and handled by local sanitary stations/waste handling companies under the signed agreement
- Hazardous wastes: hazardous wastewater and sludge generated from the onsite WWTF, used chemical containers and used oil, which are collected and stored at the designated hazardous waste areas onsite and handled by licensed hazardous waste vendors as engaged

While the amount of hazardous waste is hard to reduce due to the nature of the operations, the Group strives to reduce non-hazardous wastes generated that can be more easily managed, with specific practices including:

- Sourcing, re-using, sorting, and recycling recyclable waste
- Reducing printers' configuration, encouraging duplex printing and making use of wastepaper
- Establishing a network group to reduce paper usage

Environmental, Social and Governance Report

- Reusing waste packaging materials such as carton boxes and paper
- Engaging licensed waste management companies for the collection and disposal of non-recyclable solid wastes

4.2 USE OF RESOURCES

Resources consumed by the Group include resources consumed for energy (i.e. coal, purchased electricity, diesel, natural gas, gasoline), water, packaging materials (i.e. paper boxes) and plastic.

As a manufacturer that consumes a notable amount of resources, the Group proactively emphasizes on the importance of resources conservation and advocates such message to staff. The Group has formulated internal policies on efficient use of resources (e.g. energy, water, packaging materials and raw materials).

In FY2020, the Group has complied with the relevant local laws and regulations related to use of resources which have a significant impact on the Group or its business. The amount of resources consumed and their intensity in FY2020 are presented in Table 4.2 below:

Table 4.2 Resources Consumed and Corresponding Intensity in FY2020

Indicator	Unit	Manufacturing Business	Trading Business	Intensity (per employee)*
Energy				
Electricity	MWh	20,914	844	0.80
Natural Gas	M ³	–	12	<0.01
Gasoline	Litre	39,370	3,642	1.58
Diesel	Litre	344,075	129,563	17.44
Coal	Tonne	694	–	0.03
Total	MWh	30,350	2,172	1.20
Water				
	M ³	304,334	5,338	11.40
Packaging Material (Paper)				
	Tonne	10	2	<0.01
Raw Materials (Plastic)				
	Tonne	0	1	<0.01

* Intensity = Total amount of emissions from Manufacturing Business, Trading Business and other businesses/total employees of the Group in FY2020.

Environmental, Social and Governance Report

4.2.1 Energy

Electricity

Electricity consumption of the Group is mainly from regular operation of the offices and plants. To enhance efficiency, the following practices are adopted:

- Replacing traditional incandescent lighting with electricity-saving lighting in both manufacturing and office areas
- Replacing obsolete equipment with energy-saving or variable frequency equipment
- Turning lights, computers and air conditioning system off if they are not in use
- Placing energy-saving reminder labels next to switches
- Regularly cleaning office equipment to maintain efficiency
- Defaulting temperatures of air conditioners by season

Natural gas and Coal

The boilers of the Group mainly consume natural gas and coal, while some of the vehicles use compressed natural gas. To ensure efficient use of energy, the Group has considered and taken measures to reduce coal usage and enhance the use of natural gas for the boilers' operation.

Gasoline and Diesel

Gasoline is mainly consumed by vehicles, while diesel is used as fuel for both vehicles and back-up generators. The Group has launched simple initiatives to make efficient use of gasoline and diesel, such as:

- Making good use of space to avoid unnecessary travel
- Replacing highly polluting vehicles with more environmentally friendly models (e.g. electricity-powered vehicles)
- Engaging senior auto repair technicians to supervise the condition of vehicles
- Hiring skilled drivers

Environmental, Social and Governance Report

4.2.2 Water

Water consumed by the Group during FY2020 was mainly used for production and sanitary purpose. There was no issue in sourcing water for its operations in FY2020.

To improve efficiency of water use, the Group has carried out a variety of effective water saving measures and policies, for example:

- Enhancing the inspection and maintenance of water consumption facilities (i.e. water taps, pipelines and relevant system) in the manufacturing plants and offices to undergo timely maintenance to any water leakage or dripping
- Posting water conservation slogans in various locations to raise employees' and visitors' awareness of water conservation
- Using water-saving and flow-controlling faucet to reduce water output

4.2.3 Raw Materials and Packaging Materials

The main packaging materials used by the Group include cardboards, carton boxes and self-manufactured polyethylene film bags. The raw materials used by the Group are mainly hair and fibres.

To reduce the use of packaging materials, the Group reuses carton boxes and purchases packaging materials by order quantity.

4.2.4 Paper

Paper is mainly used by the offices of the Group. The Group actively encourages the following behaviours to reduce paper consumption:

- Thinking twice before printing
- Setting duplex printing as the default printing mode for most network printers
- Reducing fax paper consumption by promoting email communication
- Separating single-sided paper and double-sided paper for better recycling
- Reusing single-sided documents for printing or as draft paper

Environmental, Social and Governance Report

4.3 THE ENVIRONMENT AND NATURAL RESOURCES

The main impacts of the Group's operation on the environment and natural resources are the emissions, discharge and use of resources and energy. It strives to mitigate such impacts as much as possible by committing to conducting its business activities in an environmentally conscious manner.

The Group has the following policy outline and direction to ensure sustainable development that takes the environment into consideration while operating:

- Actively explore and introduce renewable energy
- Increase rate of recycling for post-treatment dyed wastewater and carton packaging materials
- Utilise used or waste materials, e.g. cracked cardboards as production tools or construction waste as boiler fuel

5. SOCIAL RESPONSIBILITIES

5.1 EMPLOYMENT AND LABOUR PRACTICES

Employees are practitioners of the Group's values and the key to implementation of the Group's sustainable strategies. Viewing employees as the most valuable resources and wealth, the Group values and protects the legitimate rights and interests of its employees by providing them with good career development opportunities. The Group is also concerned about employees' health and safety as well as well-being. The Group strives to create a safe and satisfactory working environment for its employees with an aim to achieve common growth.

5.1.1 Employment

The Group has developed a variety of human resource ("HR") policies. The HR department regularly reviews and updates the relevant company HR policies based on the latest laws and regulations. All subsidiaries of the Group follow the Group's HR policies and comply with employment laws and regulations in corresponding jurisdictions, including but not limited to the Employment Ordinance of Hong Kong, the Labour Law of the PRC, the Labour Contract Law of the PRC and the Bangladesh Labour Act.

During FY2020, the Group was generally in compliance with the relevant laws and regulations relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare that have a significant impact on the business.

The Group has formulated internal policies such as the Policies and Procedure for Human Resources and Payroll Management, which covers recruitment, resignation and termination, salary determination and approval, pension plans, occupational schemes and contribution, payroll and performance evaluation process. The detailed HR measures and practices related to employment are described in the respective sub-sections as follows.

Environmental, Social and Governance Report

Recruitment, promotion, and dismissal

The HR department is responsible for employment information and conducts recruitment in an open and impartial manner regardless of their personal attributes. It introduces talents according to their personal qualifications and the needs of the Group, with the aim to strictly comply with the laws and regulations in recruiting staff.

The Group provides staff with competitive promotion path based on the Group's performance and talent development strategy, staff performance review and tests, or internal recommendation of by the corresponding departments.

The Group implements performance appraisal scheme to evaluate staff's performance half yearly in order to strengthen mutual understanding and communication between staff and the Group. The appraisal results are utilised as a basis of decisions such as confirmation of employment, promotion, rewards, transferal, jobs rotation, training and personal development of the staff. If an employee is unable to meet expectations set for the position, he/she will go through training or redeployment.

If the employee still fails to meet targets, the Group will terminate the employment relationship in accordance with the relevant laws and regulations. The Group strictly prohibits any kind of unfair or unreasonable dismissals.

Working hours and rest periods

The Group has formulated its policy for determining working hours and rest periods for employees based on local employment laws. The Group has established staff attendance systems to effectively manage staff's working hours. Employees voluntarily apply for overtime when necessary.

The Group strictly adheres to the policies in relation to basic paid leave and statutory holidays stipulated by the local employment laws and regulations. The Group also provides leave entitlements to employees, such as marriage leave, maternity leave and compassionate leave.

Compensation

The Group commits to providing opportunities to employees. It holds the principles of fairness, ability-based, competitiveness, and timely salary adjustment when determining remuneration employees are entitled to. The Group refers to market trends when making adjustments to remuneration to ensure that it is in line with the market and that its employees are kept motivated.

The Group determines the remuneration in accordance with the minimum wage standards as required by local laws and regulations where the Group operates. The final payment is calculated based on the terms of discretionary bonus and leave records of the staff. The payroll related records can only be accessed by the assigned management personnel and are kept confidential.

Environmental, Social and Governance Report

Anti-discrimination, equal opportunity and diversity

By promoting anti-discrimination and equal opportunity in all human resourcing decisions processes, the Group hopes to create a fair, open, objective, non-discriminatory and diverse working environment, where staff are assisted in developing their potentials and talents of different nationalities, genders, ages and religions, etc. are treated with fairness and impartiality.

The Group never interferes with the rights and freedoms of all staff regarding gender, age, nationality, ethnicity, religion, sexual orientation, marital status, disability and marital status, etc. Recruitment, compensation, training and development, promotion opportunities, contract termination and retirement, are all dependent on employees' educational qualifications, professional knowledge, skills, work experience and competency. Employees' rights are safeguarded and shall not be discriminated against at any stages of the employment as a result of their personal attributes that do not affect their capability in handling work.

Employees are encouraged to report any incidents involving discrimination to the HR department. The HR department has the responsibility to assess, deal with and take any necessary disciplinary actions on the reported incidents.

Labour benefits and welfare

The Group provides competitive benefits for employees and formulates benefits according to the relevant laws and regulations in the operating jurisdictions, including various leave entitlements as described in the above section. The Group also provides other benefits such as staff dormitory, lunch, shuttle bus service and gifts during certain festivals or holidays, and organizes social and bonding activities (such as singing and sports activities).

The Group organises annual party, dinners, travels for employees when possible. Comprehensive protection scheme and social insurance (i.e. pension, medical insurance, unemployment insurance, maternity insurance, and work injury insurance) and housing provident fund are provided.

5.1.2 Health and Safety

The Group makes efforts in providing and maintaining a safe and healthy working environment for its employees, and strictly complies with the relevant laws and regulations with regards to occupational health and safety, including but not limited to the Occupational Safety and Health Ordinance of Hong Kong, the Production Safety Law of the PRC, the Occupational Disease Prevention Law of the PRC, the Production Safety Regulations of Guangdong Province, the Bangladesh Labour (Amendment) Act.

During FY2020, the Group was in compliance with the relevant laws and regulations relating to providing a safe working environment and protecting employees from occupational hazards that have a significant impact on the business.

Environmental, Social and Governance Report

Some of the occupational health and safety (“OHS”) related policies and guidelines that the Group has in place include:

- Production Safety Commitment
- Production Safety Management Plan
- Production Safety Accident Emergency Plan
- Fire Safety Management System
- Fire Drill Program
- Health and Safety Committee Structure
- Constructing Plant & Product Safety
- Factory Safety Policy
- Safety Meeting Instruction
- Cutting Machine Operating Guideline
- Chemical Safety Precautions and Hygienic Plan
- Net Department Ultrasonic Machine Safety Operation Instruction

These policies ensure that best practices are in place to maintain safe working conditions for its employees. Some of the measures guided by the policies include:

- Provision of training (see section 5.1.3 below) for enhanced technical skills and OHS awareness to minimise occurrence of accidents
- Strict compliance with dangerous items handling requirements to reduce OHS risks
- Regular emergency evacuation drills and inspection and maintenance of fire-fighting equipment
- Placement of safety warning signs in workplaces which are potentially dangerous and regular update on the fire safety notice board
- Provision of medical checks for employees
- Provision of personal protective equipment (such as safety glasses, boots, gloves, masks, etc.) to pertinent workers

Environmental, Social and Governance Report

- Installation of large suction fans or opening windows to maintain indoor air quality
- Prohibition of smoking and consumption of alcoholic beverages at workplace

5.1.3 Development and Training

The Group puts emphasis on employees' knowledge and ability and provides on-the-job training to enable them to perform their job and enhance competitiveness to meet the Group's needs. To nurture professionals for the Group, the Group has certain internal policies outlined for development and training, such as the Training and Development Policy. Training that the Group provides can be categorised as follows:

- Induction training: orientation training provided to new staff that covers policies and procedures of the Group, OHS and firefighting, position-related knowledge and skills, etc.
- Professional and technical training: training on professional skills (such as mechanical equipment repair and maintenance, special operation test, and product expertise etc.) and knowledge (such as new laws and regulations, product development, etc.)
- Qualifications: training and further education to prepare employees for qualifications or licenses, such as environmental protection supervisors, safety supervisors, first aiders and electrician staff, etc. The "Post Entry Training Scheme", for example, links training and further education to external national standards wherever appropriate
- Occupational health and safety: provided as part of the induction training and regular refresh sessions, topics are tailored to meet employees' needs; local authorities are invited to deliver firefighting safety training

Additionally, to enhance employees' competitiveness and expand their professional capabilities, the Group arranges its management staff and outstanding employees to attend external training courses for continuous learning. Topics may include production cost effectiveness and job-related techniques.

The Group assesses and monitors the execution of its training programmes by conducting post-training evaluation. The Group's HR department is responsible for collecting and analysing training statistics and effectiveness, and overseeing the continuous reviewal of the training and development policy.

5.1.4 Labour Standards

According to the Employment Ordinance of Hong Kong, the Labour Law of the PRC, the Bangladesh Labour Act and other relevant labour laws and regulations, the Group never recruits forced labour or labour whose age is lower than the minimum age allowed in corresponding jurisdictions.

During FY2020, the Group was in compliance with the relevant laws and regulations relating to preventing child and forced labour.

Environmental, Social and Governance Report

The Social Responsibility Policy is in place to prohibit any child and forced labour employment. Practices taken to ensure compliance include:

- Conducting face-to-face interviews with job applicants to prevent forced labour
- Verifying identity proof (i.e. ID card) from job applicants during interviews to confirm their actual age, willingness and eligibility of employment
- Regularly monitoring the latest law and regulation requirements

5.2 OPERATING PRACTICES

5.2.1 Supplier Chain Management

The Group aims to establish a supply chain management system that can help enhance and facilitate production quality to provide comprehensive solutions that meet customers' needs. The Group has formulated the Policies and Procedures for Expenditure Management as a guidance for the selection, management and evaluation of its suppliers. Suppliers and sub-contractor, which are reviewed and evaluated annually, are screened and selected based on criteria such as pricing, quality, and performance capability.

In addition, the Group's belief in environmental protection implies that it also considers suppliers' research and development and sustainable development capability to determine whether they would make a good partner of the Group in demonstrating social and environmental responsibilities. Not only must a supplier meet the Group's internal standards, but also be legally compliant, socially responsible and financially healthy.

The Group has formulated a supplier evaluation system that covers both environmental and social factors to maintain and manage a sustainable and reliable supply chain. Overall, the system puts emphasis on suppliers' commitments to social responsibility and human rights, and requires them to comply with the Business Social Compliance Initiative (BSCI)¹ Code of Conduct, which covers child and forced labour, anti-discrimination, anti-coercion and harassment, health and safety, compensation and benefits, association, environmental protection and legal compliance.

5.2.2 Product Responsibility

As an enterprise with a strong sense of social responsibility, the Group strictly complies with all relevant laws and regulations in the PRC, Bangladesh, the US, and other relevant jurisdictions. Laws and regulations being complied with include the Product Quality Law of the PRC, the Law on Protection of Consumer Rights and Interests of the PRC, the US Consumer Product Safety Act, the Consumer Product Safety Improvement Act, and the US Code of Federal Regulations. All of these assure the safety and quality of its products by having a strict oversight over all stages of production, i.e. from raw material procurement, production and final product testing to warehousing and logistics.

During FY2020, the Group was in compliance with all relevant laws and regulations relating to health and safety, advertising, labelling and privacy matters relating to products and services provided.

¹ The Business Social Compliance Initiative (BSCI) is an industry-driven movement that aims to monitor, assess, and improve workplace standards across the global supply chain through a uniform social standards monitoring solution.

Environmental, Social and Governance Report

Quality Assurance

The Group pays great attention to product quality and has established the Policies and Procedures for Production Management to ensure proper execution at each stage of the manufacturing process. The Quality Control Department is responsible for inspecting the quality of raw materials, semi-finished products and finished products. Random quality checks and inspections are also carried out to spot and fix any products with defects before being shipped to customers. The Group has also formulated internal policies for product responsibility, such as the Product Quality Emergency Response Procedure.

Health and Safety

The Group ensures that its products meet high standards and stringent health and safety requirements by adhering to certain rules of them, such as:

- Only purchasing raw materials from suppliers that have passed the Group's quality and reliability assessment
- Requesting suppliers to provide raw material test reports prepared by internationally recognised testing centres in compliance with international standards
- Engaging independent third-party laboratories to conduct tests on the levels of chemicals, heavy metals, and flammability, under various international standards

In FY2020, no claim or complaint was made against the Group for any product health and safety issues.

Advertising and Labelling

The Group has established internal guidelines to ensure that accurate product labelling and marketing materials complying with the relevant local laws and regulations, including the Advertising Law of the PRC, are provided to its customers. Any exaggeration of descriptions in marketing materials is strictly prohibited. If there is any non-compliance with its internal guidelines, the Group would carry out corrective actions in a timely manner.

Intellectual Properties and Data Protection

The Group is dedicated to protecting and enforcing its intellectual property rights and complies with all relevant laws and regulations such as the Patent Law of the PRC and the Intellectual Property Law of the PRC.

Environmental, Social and Governance Report

The Group is committed to abiding by the laws relating to customer privacy, such as the Personal Data (Privacy) Ordinance of Hong Kong, the Customer Protection Law of the PRC and other relevant laws and regulations to ensure that customers' rights are strictly protected. Information collected by the Group from its customers will only be used for the purpose for which it is collected. The Group prohibits the provision of customer information to any third party without the authorisation of a customer. All personal data of customers collected during the course of business are treated as confidential, kept securely and only accessible by designated personnel. The Group reminds its employees of the serious legal consequences of breaching the regulations through internal training.

5.2.3 Anti-Corruption

The Group strictly prohibits all forms of bribery and corruption and adheres to local laws and regulations relating to anti-corruption, bribery, extortion, fraud and money laundering, including but not limited to the Prevention of Bribery Ordinance of Hong Kong, the Criminal Law of the PRC, the Law on Anti-money Laundering of the PRC and the Bangladesh Anti-Corruption Commission Act. It strictly enforces the Code of Conduct, in which employees are guided to report through established channels any suspicious impropriety, misconduct or malpractice discovered within the Group.

To prevent criminal acts, such as business bribery, extortion, fraud and money laundering in business dealings, the Group strictly abides by all relevant business ethics and regulations. All employees are asked to strictly regulate their behaviours both inside and outside the Group, and arranged to attend training courses related to anti-bribery and anti-corruption delivered by the Hong Kong Independent Commission Against Corruption every three years. It is expected that employees discharge their duties with integrity, act fairly and professionally, and abstain from engaging in bribery activities or any activities which might exploit the Group's interests.

The Group also requires its suppliers to sign and commit to the Written Commitment on Anti-Corruption and Anti-Bribery, so that an effective operation of internal and external integrity structure could be assured.

During FY2020, no legal cases relating to corrupt practices held against the Group or its employees was noted. The Group was in compliance with all relevant laws and regulations relating to bribery, extortion, fraud and money laundering that may have a significant impact on the Group.

The Group is committed to ensuring that employees can speak up with confidence when he or she wishes to report any activity of corruption. Whistle-blowers may report any suspected misconducts verbally or in writing to the senior management of the Group. The Group advocates a confidentiality mechanism to protect the whistle-blowers against unfair dismissal or victimisation.

Environmental, Social and Governance Report

5.3 COMMUNITY

5.3.1 Community Investment

The Group sees community engagement as one of its social responsibilities. It proactively considers the communities' interests and has been trying to make a positive contribution to surrounding communities of where the Group operates. The Group is committed to promoting the economic development and quality of life of communities, and insists on helping individuals and organizations within the community.

The Group is keen on supporting social welfare activities and community care projects and encourages its own employees to participate in the activities and projects. To better fulfil its social responsibilities, the Group has established policies on community engagement:

- Actively cooperate with local governments and social organizations
- Steadfastly promote social employment and contributing to alleviating unemployment
- Donate to charity fund, golf club, national conference, football tournament fund, rice purchase for senior citizens and The Community Chest of Hong Kong, etc.
- Protect the environment by reducing emissions and emphasising energy conservation

Independent Auditor's Report

Deloitte.

德勤

TO THE SHAREHOLDERS OF EVERGREEN PRODUCTS GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Evergreen Products Group Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) set out on pages 91 to 179, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“**HKSAs**”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the “**Code**”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditor's Report

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

How our audit addressed the key audit matter

Valuation of leasehold land and buildings ("FV Properties")

We identified the valuation of FV Properties as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole and the significant assumptions involved in determining their fair value.

As set out in note 4, FV Properties of the Group are stated in the consolidated statement of financial position at the date of the revaluation at fair value less subsequent accumulated depreciation and accumulated impairment losses, if any. As set out in note 16 to the consolidated financial statements, the Group's FV Properties amounted to approximately HK\$132,548,000 as at 31 December 2020, the date of revaluation. A net surplus on revaluation of HK\$551,000 was recognised based on a valuation performed by an independent qualified valuer using the market approach. The key inputs used in valuing the FV Properties are market unit rate of comparable properties.

Our procedures in relation to valuation of FV Properties included:

- Evaluating the competence, capabilities and objectivity of the independent qualified valuer;
- Obtaining an understanding from the independent qualified valuer about the valuation methodology, the significant assumptions adopted, critical judgmental areas on key inputs and data used in the valuation; and
- Assessing the reasonableness of the key inputs used by the independent qualified valuer by comparing to available market data.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
<i>Valuation of inventories</i>	
<p>We identified valuation of inventories, excluding certain of inventories located in the Group's Bangladesh factory which were damaged by fire and written off accordingly during the year as disclosed in note 8 to the consolidated financial statement, as a key audit matter due to the significance of balance to the consolidated financial statements and the significant management's judgment involved in the valuation process. As explained in note 4 to the consolidated financial statements, the management of the Group reviews the usage of the inventories at the end of year and make provision for obsolete and slow-moving inventories that are no longer suitable for production or saleable in the market with reference to the current market conditions, estimated selling prices of the inventories, ageing analysis and subsequent sales/usage of the inventories.</p> <p>As disclosed in notes 19 and 4 to the consolidated financial statements, the Group's inventories as at 31 December 2020 amounted to HK\$486,517,000 and no provision for inventories has been made for the year ended 31 December 2020.</p>	<p>Our procedures in relation to valuation of inventories included:</p> <ul style="list-style-type: none"> • Obtaining an understanding of the Group's inventory provision policy and the management's processes in identifying obsolete and slow-moving inventories that are no longer suitable for production or saleable in the market; • Testing the accuracy of the ageing of inventories prepared by the management, on a sample basis, by tracing to goods receipt notes and production reports; • Assessing whether obsolete and slow moving inventories were properly identified after taking into account of the current market condition, ageing analysis, subsequent sales of finished goods and subsequent usage and consumption of raw materials and work in progress; • Comparing the actual selling price of finished goods subsequent to the year end, on a sample basis, to their carrying amounts to check whether the finished goods are stated at lower of cost and net realisable value; and • Assessing the historical accuracy of the provision for obsolete inventories to evaluate the appropriateness of the basis used by management in the current year.

Independent Auditor's Report

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Independent Auditor's Report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Mak Chun Bon.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

30 March 2021

Consolidated Statement of Profit or Loss and other Comprehensive Income

For the year ended 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Revenue	5	890,201	777,405
Cost of goods sold		(737,546)	(520,397)
Gross profit		152,655	257,008
Other income	7	13,608	2,868
Other gains and losses	8	(22,380)	3,463
Impairment losses under expected credit loss model on trade receivables		(2,700)	–
Distribution and selling expenses		(13,437)	(14,962)
Administrative expenses		(123,144)	(140,177)
Other expenses	9	(253)	(729)
Finance costs	10	(21,699)	(20,677)
(Loss) profit before tax	11	(17,350)	86,794
Income tax expense	13	(632)	(594)
(Loss) profit for the year		(17,982)	86,200
Other comprehensive income (expense) for the year:			
<i>Items that will not be reclassified to profit or loss:</i>			
Surplus on revaluation of land and buildings		551	12,482
Deferred tax arising from revaluation of land and buildings		188	(879)
		739	11,603
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising from translation of foreign operations		1,540	(2,957)
Other comprehensive income for the year, net of income tax		2,279	8,646
Total comprehensive (expense) income for the year		(15,703)	94,846

Consolidated Statement of Profit or Loss and other Comprehensive Income

For the year ended 31 December 2020

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

Consolidated Statement of Financial Position

At 31 December 2020

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	<i>16</i>	719,917	721,680
Right-of-use assets	<i>17</i>	26,987	29,041
Non-current deposits	<i>20</i>	13,293	19,570
Financial assets at fair value through profit or loss	<i>18</i>	16,773	25,761
		776,970	796,052
Current assets			
Inventories	<i>19</i>	486,517	476,613
Trade and other receivables	<i>20</i>	300,266	319,159
Tax recoverable		1,195	950
Pledged bank deposits	<i>21</i>	122,009	93,097
Bank balances and cash	<i>22</i>	70,233	36,109
		980,220	925,928
Current liabilities			
Trade and other payables	<i>23</i>	69,518	60,643
Contract liabilities	<i>24</i>	15,610	3,391
Amount due to a related company	<i>25</i>	4,050	50,000
Amount due to a non-controlling shareholder of a subsidiary	<i>25</i>	2,941	2,700
Tax payable		3,370	3,172
Secured bank borrowings	<i>26</i>	718,370	672,444
Bank overdrafts	<i>26</i>	44,774	41,500
Derivative liabilities	<i>27</i>	273	345
Lease liabilities	<i>28</i>	708	3,024
		859,614	837,219
Net current assets		120,606	88,709
		897,576	884,761

Consolidated Statement of Financial Position

At 31 December 2020

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Capital and reserves			
Share capital	<i>29</i>	53,377	51,432
Reserves		818,868	811,827
Equity attributable to owners of the Company		872,245	863,259
Non-controlling interests		710	2,637
Total equity		872,955	865,896
Non-current liabilities			
Deferred tax liabilities	<i>30</i>	5,188	5,370
Lease liabilities	<i>28</i>	8,168	8,594
Secured bank borrowings	<i>26</i>	11,265	4,901
		24,621	18,865
		897,576	884,761

The consolidated financial statements on pages 91 to 179 were approved and authorised for issue by the board of directors on 30 March 2021 and are signed on its behalf of:

Kwok Yau Lung Anthony
DIRECTOR

Chan Kwok Keung
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Attributable to owners of the Group											
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000 <i>(note a)</i>	Property revaluation reserve HK\$'000	Shares award reserve HK\$'000	Shares held for share award scheme HK\$'000	Other reserve HK\$'000 <i>(note b)</i>	Translation reserve HK\$'000	Retained profits HK\$'000	Sub-total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1 January 2019	47,847	366,950	(53,992)	91,657	919	(6,000)	(76)	(20,551)	285,173	711,927	(1,059)	710,868
Profit (loss) for the year	-	-	-	-	-	-	-	-	90,328	90,328	(4,128)	86,200
Surplus on revaluation of land and buildings	-	-	-	12,482	-	-	-	-	-	12,482	-	12,482
Deferred tax arising from revaluation of land and buildings	-	-	-	(879)	-	-	-	-	-	(879)	-	(879)
Exchange differences arising from translation of foreign operations	-	-	-	-	-	-	-	(2,946)	-	(2,946)	(11)	(2,957)
Total comprehensive income (expense) for the year	-	-	-	11,603	-	-	-	(2,946)	90,328	98,985	(4,139)	94,846
Capital contribution from non-controlling shareholder of a subsidiary	-	-	-	-	-	-	-	-	-	-	7,835	7,835
Employee share award scheme:												
- Value of employee services	-	-	-	-	3,527	-	-	-	-	3,527	-	3,527
- Vesting of shares of share award scheme	-	-	-	-	(2,603)	2,603	-	-	-	-	-	-
Dividends recognised as distribution <i>(note 14)</i>	-	-	-	-	-	-	-	-	(21,857)	(21,857)	-	(21,857)
New ordinary shares issue by way of placing <i>(note 29)</i>	2,581	48,848	-	-	-	-	-	-	-	51,429	-	51,429
New ordinary shares issue under specific mandate <i>(note 29)</i>	1,004	18,994	-	-	-	-	-	-	-	19,998	-	19,998
Transaction costs attributable to issue of new ordinary shares	-	(750)	-	-	-	-	-	-	-	(750)	-	(750)
At 31 December 2019	51,432	434,042	(53,992)	103,260	1,843	(3,397)	(76)	(23,497)	353,644	863,259	2,637	865,896
Loss for the year	-	-	-	-	-	-	-	-	(16,176)	(16,176)	(1,806)	(17,982)
Surplus on revaluation of land and buildings	-	-	-	551	-	-	-	-	-	551	-	551
Deferred tax arising from revaluation of land and buildings	-	-	-	188	-	-	-	-	-	188	-	188
Exchange differences arising from translation of foreign operations	-	-	-	-	-	-	-	1,661	-	1,661	(121)	1,540
Total comprehensive income (expense) for the year	-	-	-	739	-	-	-	1,661	(16,176)	(13,776)	(1,927)	(15,703)
Employee share award scheme:												
- Value of employee services	-	-	-	-	1,309	-	-	-	-	1,309	-	1,309
- Vesting of shares of share award scheme	-	-	-	-	(2,866)	2,866	-	-	-	-	-	-
Dividends recognised as distribution <i>(note 14)</i>	-	-	-	-	-	-	-	-	(13,222)	(13,222)	-	(13,222)
New ordinary shares issue by way of placing <i>(note 29)</i>	1,945	33,805	-	-	-	-	-	-	-	35,750	-	35,750
Transaction costs attributable to issue of new ordinary shares	-	(1,075)	-	-	-	-	-	-	-	(1,075)	-	(1,075)
At 31 December 2020	53,377	466,772	(53,992)	103,999	286	(531)	(76)	(21,836)	324,246	872,245	710	872,955

Notes:

- Capital reserve represents (i) the contribution from an intermediate holding company to Evergreen Products Factory Limited ("**Evergreen Factory**"), a wholly owned subsidiary of the Company; and (ii) the difference between the nominal value of the share capital of Evergreen Factory at the date on which it was acquired by the Group, and the deemed consideration pursuant to the group reorganisation in prior years.
- Other reserve represents the effect of change in ownership in a subsidiary when there was no change in control in prior years.

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	2020 HK\$'000	2019 HK\$'000
OPERATING ACTIVITIES		
(Loss) profit before tax	(17,350)	86,794
Adjustments for:		
Depreciation of property, plant and equipment	38,254	38,573
Depreciation of right-of-use assets	3,520	4,572
Changes in fair value of derivative liabilities	(72)	(154)
Bank interest income	(238)	(368)
Interest income on rental deposit	(122)	(13)
Loss on disposal of property, plant and equipment	163	–
Loss on disposal of right-of-use assets	–	10
Inventories written off	19,619	–
Impairment losses financial assets under expected credit loss model	2,700	–
Finance costs	21,699	20,677
Share-based payment expense	1,309	3,527
Changes in fair value of the financial assets at fair value through profit or loss	294	(3,739)
Operating cash flows before movements in working capital	69,776	149,879
Increase in inventories	(29,523)	(46,921)
Decrease (increase) in trade and other receivables	17,786	(47,856)
Increase (decrease) in trade and other payables	9,675	(4,257)
Increase (decrease) in contract liabilities	12,219	(1,247)
Cash generated from operations	79,933	49,598
Income tax paid	(673)	(589)
NET CASH FROM OPERATING ACTIVITIES	79,260	49,009
INVESTING ACTIVITIES		
Placement of pledged bank deposits	(28,912)	(8,386)
Deposit paid for acquisition of property, plant and equipment	(12,587)	(18,664)
Purchase of property, plant and equipment	(10,135)	(160,789)
Payments for rental deposits	(71)	(457)
Proceeds from disposal of property, plant and equipment	78	461
Interest received	238	368
Receipts from withdrawal of insurance contracts	8,694	3,110
Payments for new insurance contracts	–	(366)
Withdrawal of pledged bank deposits	–	74
Proceeds from disposal of right-of-use assets	–	223
NET CASH USED IN INVESTING ACTIVITIES	(42,695)	(184,426)

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
FINANCING ACTIVITIES		
New mortgage and short-term loans raised	227,300	294,916
New trust receipt loans and discounted bills raised	41,672	36,007
Proceeds from issue of shares	35,750	71,427
Drawdown of bank overdrafts	3,274	41,500
Advance from a non-controlling shareholder of a subsidiary	241	1,690
Transaction costs attributable to issue of new ordinary shares	(1,075)	(750)
Repayment of lease liabilities	(3,063)	(3,014)
Dividends paid	(13,222)	(21,857)
Interest paid	(32,295)	(36,530)
Advance (to) from a related company	(45,950)	20,000
Repayment of mortgage and short-term loans	(216,682)	(300,366)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(4,050)	103,023
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	32,515	(32,394)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	36,109	68,873
Effect of foreign exchange rate changes	1,609	(370)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	70,233	36,109
Represented by		
Bank balances and cash	70,233	36,109

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

1. GENERAL INFORMATION

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

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

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

The outbreak of the novel coronavirus pneumonia (“**COVID-19**”) and the subsequent quarantine measures as well as the travel restrictions imposed by many countries in early 2020 had certain impact on the operations of the Group, as the Group’s operations are located in the People’s Republic of China (the “**PRC**”) and Bangladesh. The Group had to stop its manufacturing activities temporarily due to mandatory government quarantine measures in an effort to contain the spread of the epidemic and operation was resumed shortly. Results for the year are significantly impacted from the outbreak of the COVID-19 disease, which is primarily attributable to special discounts on sales of products offered to customers; and a shift of product mix from less sales of human hair extension products with high margin to more sales of braid products with low margin when compared to the year ended 31 December 2019 as a result of the adverse market conditions during the current year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

AMENDMENTS TO HKFRSs THAT ARE MANDATORILY EFFECTIVE FOR THE CURRENT YEAR

In the current year, the Group has applied the “Amendments to References to the Conceptual Framework in HKFRS Standards” and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of the “Amendments to References to the Conceptual Framework in HKFRS Standards” and amendments to HKFRSs in the current year had no material impact on the Group’s financial position and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

The Group has applied the Amendments to HKAS 1 and HKAS 8 for the first time in the current year. The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statement taken as a whole.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

NEW AND AMENDMENTS TO HKFRSs IN ISSUE BUT NOT YET EFFECTIVE

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

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

¹ Effective for annual periods beginning on or after 1 January 2023

² Effective for annual periods beginning on or after 1 January 2022

³ Effective for annual periods beginning on or after a date to be determined

⁴ Effective for annual periods beginning on or after 1 June 2020

⁵ Effective for annual periods beginning on or after 1 January 2021

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

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

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

- **Modification of financial assets, financial liabilities and lease liabilities.** A practical expedient is introduced for modifications required by the reform (modifications required as a direct consequence of the interest rate benchmark reform and made on an economically equivalent basis). These modifications are accounted for by updating the effective interest rate. All other modifications are accounted for using the current HKFRSs requirements. A similar practical expedient is proposed for lessee accounting applying HKFRS 16 “Leases” (“**HKFRS 16**”); and

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

NEW AND AMENDMENTS TO HKFRSs IN ISSUE BUT NOT YET EFFECTIVE (CONTINUED)

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

- **Disclosures.** The amendments require disclosures in order to allow users to understand the nature and extent of risks arising from the interest rate benchmark reform to which the Group is exposed to and how the entity manages those risks as well as the entity’s progress in transitioning from interbank offered rates to alternative benchmark rates, and how the entity is managing this transition.

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

NEW AND AMENDMENTS TO HKFRSs IN ISSUE BUT NOT YET EFFECTIVE (CONTINUED)

Amendments to HKFRSs “Annual Improvements to HKFRSs 2018 – 2020”

The annual improvements make amendments to the following standards.

HKFRS 9 “Financial Instruments”

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

HKFRS 16 “Leases”

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

3.1 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and properties that are measured at fair value or revalued amounts at the end of each reporting period, as explained in the accounting policies set out below.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 “Share-based Payment”, leasing transactions that are accounted for in accordance with HKFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 “Inventories” or value in use in HKAS 36 “Impairment of Assets”.

A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue from contracts with customers (Continued)

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Leases

Definition of a lease

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

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

The Group as a lessee

Short-term leases

The Group applies the short-term lease recognition exemption to leases for staff quarters and drainage construction that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

The Group as a lessee (Continued)

Right-of-use assets

The cost of right-of-use asset includes:

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

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

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

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

Refundable rental deposits

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

The Group as a lessee (Continued)

Lease liabilities

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

The lease payments include:

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

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

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

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

The Group as a lessee (Continued)

Lease modifications

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

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

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

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in HK\$.

In preparing the financial statements of each individual entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

For the purpose of presenting the consolidated financial statements, (i) the assets and liabilities of the Group's foreign operations are translated into US\$; and (ii) the assets and liabilities of the Group denominated or translated in US\$ are then translated into the presentation currency of the Group (i.e. Hong Kong dollars), using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the asset are substantially ready for their intended use or sale.

Any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. All other borrowing costs are recognised as and included in finance costs in the profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognised as expenses the related costs for which the grants are intended to compensate.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under “other income”.

Retirement benefit costs

Payments to defined contribution retirement benefit plans including state-managed retirement benefits scheme and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries) after deducting any amount already paid.

Equity-settled share-based payment transactions

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity as shares award reserve.

When the trustee purchases the Company's shares from the open market, the consideration paid, including any directly attributable incremental costs, is presented as shares held for share award scheme and deducted from total equity. No gain or loss is recognised on the transactions of the Company's own shares.

When the trustee transfers the Company's shares to grantees upon vesting, the related costs of the granted shares vested are reversed from the shares held for the share award scheme. Accordingly, the related expense of the granted shares vested is reversed from the shares award reserve. The difference arising from such transfer is debited/credited to accumulated profits. At the end of the reporting period, the Group revises its estimates of the number of shares that are expected to ultimately vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the estimates, if any, is recognised in profit or loss with a corresponding adjustment to the shares award reserve.

When shares granted are lapsed, the amount previously recognised in shares award reserve will be transferred to retained profits.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from (loss) profit before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (Continued)

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

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 “Income Taxes” requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly to equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes, other than leasehold land and buildings, freehold land and buildings and construction in progress as described below, are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Freehold lands are not depreciated and are measured at cost less subsequent accumulated impairment losses.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group’s accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (Continued)

Leasehold land and buildings held for use in the production or supply of goods or services, or for administrative purpose, are stated in the consolidated statement of financial position at fair value at the date of the revaluation less subsequent accumulated depreciation and accumulated impairment losses, if any. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting period.

Any revaluation increase arising on revaluation of leasehold land and buildings is recognised in other comprehensive income and accumulated in property revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is recognised in profit or loss to the extent that it exceeds the balance, if any, on the property revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Construction in progress is stated at cost less any identified impairment loss, as appropriate. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use.

Depreciation is recognised so as to write off the cost or revalued amounts of items of property, plant and equipment, other than freehold land and construction in progress, over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the assets and is recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasehold land and buildings

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “right-of-use assets” in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Impairment on property, plant and equipment and right-of-use assets

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment and right-of-use assets to determine whether there is any indication these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of property, plant and equipment and right-of-use assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment on property, plant and equipment and right-of-use assets (Continued)

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated to the assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs to completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 “Revenue from Contracts with Customers” (“**HKFRS 15**”). Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss (“**FVTPL**”)) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or fair value through other comprehensive income (“**FVTOCI**”) as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the “other gains and losses” line item.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets

The Group performs impairment assessment under expected credit loss (“**ECL**”) model on financial assets (including trade and other receivables, pledged bank deposits and bank balances) which are subject to impairment assessment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL (“**12m ECL**”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(i) Significant increase in credit risk (Continued)

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if (i) it has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the Group takes into consideration the following characteristics when formulating the grouping:

- Nature of financial instruments;
- Past-due status; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL on initial recognition.

A financial liability is held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminated or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKFRS 9 permits the entire combined contract to be designated as at FVTPL.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Financial liabilities at amortised cost

Financial liabilities including trade payables, secured bank borrowings, bank overdrafts, amount due to a related company and amount due to a non-controlling shareholder of a subsidiary are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period or that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

FAIR VALUE OF LEASEHOLD LAND AND BUILDINGS

Leasehold land and buildings of the Group are stated in the consolidated statement of financial position at the date of the valuation at fair value less subsequent accumulated depreciation and accumulated impairment losses, if any. They are carried at their revalued amount of HK\$132,548,000 (2019: HK\$138,248,000) at the end of the reporting period. The revalued amount of the leasehold land and buildings was based on valuation on the properties conducted by an independent qualified valuer using market approach, as detailed in note 16. The valuation conducted by independent qualified valuer using the market approach. The key input using in the valuation are market unit rate of comparable properties. Favourable or unfavourable changes to these assumptions would result in changes in fair value of the Group's leasehold land and buildings and corresponding adjustments to the amount reported in other comprehensive income.

ALLOWANCES FOR INVENTORIES

As disclosed in note 19 to the consolidated financial statements, the Group's inventories, amounted to HK\$486,517,000 as at 31 December 2020 (2019: HK\$476,613,000). The management of the Group reviews the usage of the inventories at the end of year, excluding certain of inventories located in the Group's Bangladesh factory which were damaged by fire and written off accordingly during the year as disclosed in note 8 to the consolidated financial statements and makes provision for obsolete and slow-moving inventories that are no longer suitable for production or saleable in the market with reference to the current market conditions, estimated selling prices of the inventories, ageing analysis and subsequent sales/usage of the inventories. The directors of the Company are satisfied that no provision is required to be made for the years ended 31 December 2020 and 2019.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

PROVISION OF ECL FOR TRADE RECEIVABLES

Trade receivables are assessed for ECL individually. The management estimates the ECL based on, including but not limited to, historical credit loss experience, specific financial condition of the debtors, repayment behaviors and forward-looking information.

The provision of ECL is sensitive to changes in estimates. Due to greater financial uncertainty triggered by the COVID-19 pandemic, the Group has increased the expected loss rates in the current year as there is higher risk that a prolonged pandemic could lead to increased credit default rates. The information about the ECL and the Group's trade receivables are disclosed in notes 36 and 20 respectively.

5. REVENUE

DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

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

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

All revenue is recognised at a point in time.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

6. SEGMENT INFORMATION

The chief executive officer of the Company, being the chief operating decision maker (“**CODM**”), regularly reviews revenue analysis by types of products, including wigs, hair accessories and others, high-end human hair extensions and Halloween products when making decisions about allocating resources and assessing performance of the Group. Other than revenue analysis, the CODM reviews the profit for the year of the Group as a whole to make decisions about performance assessment and resources allocation. The operation of the Group constitutes one single operating segment under HKFRS 8 “Operating Segments” and accordingly, no separate segment information is prepared.

No analysis of segment assets and segment liabilities is presented as the Group’s CODM does not regularly review such information.

GEOGRAPHICAL INFORMATION

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

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

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6. SEGMENT INFORMATION (CONTINUED)

GEOGRAPHICAL INFORMATION (CONTINUED)

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

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

¹ The owner of Customer A is a relative of the owner of Customer B.

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

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

Note: Non-current assets excluded financial assets at FVTPL and property rental deposits.

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For the year ended 31 December 2020

7. OTHER INCOME

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

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

8. OTHER GAINS AND LOSSES

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

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

9. OTHER EXPENSES

	2020 HK\$'000	2019 HK\$'000
Donation expense	253	729
	253	729

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

10. FINANCE COSTS

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

11. (LOSS) PROFIT BEFORE TAX

	2020 HK\$'000	2019 HK\$'000
(Loss) profit before tax has been arrived at after charging:		
Depreciation of property, plant and equipment	38,254	38,573
Depreciation of right-of-use assets	3,520	4,572
Total depreciation and amortisation	41,774	43,145
Directors' emoluments (<i>note 12</i>)		
– fee	1,022	1,168
– salaries and other benefits	4,905	3,780
– equity settled share-based expenses	985	984
– retirement benefits scheme contributions	95	93
	7,007	6,025
Staff's salaries and other benefits	281,987	293,925
Staff's equity settled share-based expenses	324	2,543
Staff's retirement benefits scheme contributions	15,415	19,217
Total staff costs	304,733	321,710
Auditor's remuneration	1,871	1,410
Cost of inventories recognised as expense (included in cost of goods sold)	737,546	520,397

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For the year ended 31 December 2020

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and the Hong Kong Companies Ordinance, is as follows:

	2020					2019				
	Fees	Salaries and other benefits	Equity settled share-based expenses	Retirement benefits scheme contributions	Total	Fees	Salaries and other benefits	Equity settled share-based expenses	Retirement benefits scheme contributions	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Executive directors <i>(note iv)</i>										
Mr. Chang Yoe Chong										
<i>Felix (note vii)</i>	117	1,500	-	13	1,630	200	-	-	10	210
Mr. Kwok Yau Lung Anthony	-	757	167	18	942	-	744	167	18	929
Mr. Chan Kwok Keung	-	1,206	375	18	1,599	-	1,518	375	18	1,911
Mr. Hui Wing Ki	-	705	167	18	890	-	696	167	18	881
Ms. Jia Ziying	-	217	201	15	433	-	221	200	16	437
Mr. Li Yan Bo	-	215	75	13	303	-	201	75	13	289
Non-executive directors <i>(note v)</i>										
Mr. Chan Lau Yui Kevin	-	200	-	-	200	-	200	-	-	200
Mr. Chan Hoi Sing										
<i>Harold (note ii)</i>	-	105	-	-	105	-	200	-	-	200
Independent non-executive directors <i>(note vi)</i>										
Mr. Lau Ip Keung Kenneth	200	-	-	-	200	200	-	-	-	200
Mr. Sin Hendrick	200	-	-	-	200	200	-	-	-	200
Dr. Yung Bruce Pak Keung										
<i>(note iii)</i>	105	-	-	-	105	200	-	-	-	200
Mr. Szeto Yuk Ting	200	-	-	-	200	200	-	-	-	200
Ir. Cheung Siu Wa <i>(note i)</i>	200	-	-	-	200	168	-	-	-	168
	1,022	4,905	985	95	7,007	1,168	3,780	984	93	6,025

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (CONTINUED)

Notes:

- (i) Ir. Cheung Siu Wa was appointed as an independent non-executive director of the Company on 18 February 2019.
- (ii) Mr. Chan Hoi Sing Harold resigned as a non-executive director of the Company on 12 July 2020.
- (iii) Dr. Yung Bruce Pak Keung resigned as an independent non-executive director of the Company on 12 July 2020.
- (iv) The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.
- (v) The non-executive directors' emoluments shown above were for their service in connection with management of the affairs of the Company and the Group.
- (vi) The independent non-executive directors' emoluments shown above were for their services as directors of the Company.
- (vii) Mr. Chang Yoe Chong Felix acts as an executive director, Chief Executive Officer and also the Chairman of the Company and the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (CONTINUED)

The five highest paid individuals included 3 directors (2019: 3 directors) of the Company for the year ended 31 December 2020, details of whose emoluments are included above. The emoluments of the remaining highest paid individual(s) during the year were as follows:

	2020 HK\$' 000	2019 HK\$' 000
Employees		
– salaries and other benefits	1,925	1,642
– equity settled share-based expenses	90	561
– retirement benefits scheme contributions	33	36
	2,048	2,239

Their emoluments were within the following bands:

	2020 No. of employees	2019 No. of employees
Nil to HK\$1,000,000	1	1
HK\$1,000,001 to HK\$1,500,000	1	1
	2	2

No emoluments were paid by the Group to the directors and five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office for both years. None of the directors has waived or agreed to waive any emoluments for both years.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

13. INCOME TAX EXPENSE

	2020 HK\$' 000	2019 HK\$' 000
The income tax expense comprises:		
Current tax:		
Hong Kong	22	–
The PRC Enterprise Income Tax (“EIT”)	74	184
Bangladesh	223	–
Other jurisdictions	307	622
	626	806
Deferred tax (<i>note 30</i>):		
Current year	6	(212)
	632	594

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

Accordingly, the Hong Kong Profits Tax is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million.

The Group is engaged in the manufacturing of certain hair products through several processing factories in the PRC under contract and import processing arrangement which is effective for both years. Accordingly, under such 50:50 onshore/offshore arrangement between the Group and the contract processing factories, certain profits of the Group are not taxable under Hong Kong Profits Tax for both years.

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

The subsidiaries operating in Bangladesh are subject to income tax rate of 35% on the assessable profit for both years. Evergreen Products Factory (BD) Limited operating in Bangladesh is exempted from income tax for 10 financial years from the date of commencement of commercial operations (i.e. 10 May 2010) up to April 2020. Master Purple (BD) Limited operating in Bangladesh is exempted from income tax for 3 financial years from the date of commencement of commercial operation (i.e. 9 March 2020) up to 8 March 2023, afterwards with 3 financial years of 50% exemption and subsequently with 1 financial year of 25% exemption.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

13. INCOME TAX EXPENSE (CONTINUED)

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

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

Details of the deferred taxation are set out in note 30.

The income tax expense for the year can be reconciled to the (loss) profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2020 HK\$'000	2019 HK\$'000
(Loss) profit before tax	(17,350)	86,794
Tax at the Hong Kong Profits Tax rate of 16.5% (2019: 16.5%)	(2,863)	14,321
Tax effect of expenses not deductible for tax purpose	10,813	6,924
Tax effect of income not taxable for tax purpose	(100)	(69)
Tax effect of tax exemptions granted to a subsidiary operated in Bangladesh	(49,714)	(39,078)
Tax effect of tax losses not recognised	37,107	13,493
Tax effect of deductible temporary differences not recognised	(90)	663
Effect of different tax rate applicable to subsidiaries operating in the other jurisdictions	3,546	283
Effect of loss under 50:50 arrangement	2,083	4,150
Others	(150)	(93)
Income tax expense for the year	632	594

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

14. DIVIDENDS

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

15. (LOSS) EARNINGS PER SHARE

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Freehold land and factory buildings HK\$'000 <i>(note)</i>	Construction in progress HK\$'000	Machinery and equipment HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Leasehold improvements HK\$'000	Total HK\$'000
COST OR VALUATION								
At 1 January 2019	128,339	227,219	190,365	106,199	6,374	19,744	21,733	699,973
Additions	-	9,255	173,987	12,370	201	318	1,832	197,963
Disposals	-	(461)	-	(118)	(11)	(635)	-	(1,225)
Transfers to freehold land and factory buildings	-	16,367	(16,367)	-	-	-	-	-
Revaluation increase arising on revaluation	7,813	-	-	-	-	-	-	7,813
Exchange adjustments	2,096	(3,179)	(3,326)	(1,105)	(62)	(195)	565	(5,206)
At 31 December 2019	138,248	249,201	344,659	117,346	6,502	19,232	24,130	899,318
Additions	-	4,567	21,993	8,931	157	18	3,729	39,395
Disposals	-	(30)	-	(2,787)	-	(422)	-	(3,239)
Written off	-	-	-	(986)	(586)	-	-	(1,572)
Transfers to freehold land and factory buildings	-	38,819	(38,819)	-	-	-	-	-
Revaluation decrease arising on revaluation	(4,488)	-	-	-	-	-	-	(4,488)
Exchange adjustments	(1,212)	1,264	(1,420)	366	42	229	(372)	(1,103)
At 31 December 2020	132,548	293,821	326,413	122,870	6,115	19,057	27,487	928,311
Comprising								
At cost	-	293,821	326,413	122,870	6,115	19,057	27,487	795,763
At professional valuation	132,548	-	-	-	-	-	-	132,548
At 31 December 2020	132,548	293,821	326,413	122,870	6,115	19,057	27,487	928,311
DEPRECIATION								
At 1 January 2019	-	65,453	-	51,390	3,530	14,014	11,895	146,282
Provided for the year	4,626	14,260	-	15,690	535	2,310	1,152	38,573
Disposals	-	-	-	(118)	(11)	(635)	-	(764)
Eliminated on revaluation	(4,669)	-	-	-	-	-	-	(4,669)
Exchange adjustments	43	(1,006)	-	(525)	(42)	(172)	(82)	(1,784)
At 31 December 2019	-	78,707	-	66,437	4,012	15,517	12,965	177,638
Provided for the year	5,028	13,055	-	16,138	500	1,445	2,088	38,254
Disposals	-	-	-	(2,576)	-	(422)	-	(2,998)
Written off	-	-	-	(986)	(586)	-	-	(1,572)
Eliminated on revaluation	(5,039)	-	-	-	-	-	-	(5,039)
Exchange adjustments	11	1,113	-	442	48	217	280	2,111
At 31 December 2020	-	92,875	-	79,455	3,974	16,757	15,333	208,394
Carrying values representing								
Cost	-	200,946	326,413	43,415	2,141	2,300	12,154	587,369
Valuation	132,548	-	-	-	-	-	-	132,548
At 31 December 2020	132,548	200,946	326,413	43,415	2,141	2,300	12,154	719,917
Carrying values representing								
Cost	-	170,494	344,659	50,909	2,490	3,715	11,165	583,432
Valuation	138,248	-	-	-	-	-	-	138,248
At 31 December 2019	138,248	170,494	344,659	50,909	2,490	3,715	11,165	721,680

Note: HK\$25,726,000 (2019: HK\$21,914,000) of freehold land is included in the freehold land and factory buildings.

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16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The above items of property, plant and equipment other than freehold land and construction in progress are depreciated on a straight-line basis, after taking into account the estimated residual value, at the following rates per annum:

Factory buildings, leasehold land and buildings	4% to 6% or over the term of the lease, which is shorter
Machinery and equipment, furniture and fixtures	20%
Leasehold improvements	Over the respective lease term
Motor vehicles	25%

FAIR VALUE MEASUREMENT OF THE GROUP'S LEASEHOLD LAND AND BUILDINGS

In estimating the fair value of the Group's leasehold land and buildings by applying the appropriate valuation techniques and inputs for fair value measurements, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuer to perform the valuation. The directors of the Company work closely with qualified external valuer to establish the appropriate valuation techniques and inputs to the model.

The leasehold land and buildings, office premises and car parks of the Group, in Hong Kong and the PRC, as at 31 December 2020 and 31 December 2019 and the buildings and office premises of the Group in the USA, Japan, Thailand and Ukraine as at 31 December 2020 and 31 December 2019 were revalued by Roma Appraisals Limited ("**ROMA**") of which the registered office is at 22/F, China Overseas Building, 139 Hennessy Road, Wan Chai, Hong Kong, an independent qualified professional valuers. ROMA, which is not connected with the Group, is a member of Hong Kong Institute of Surveyors. The valuations, which conform to the Royal Institute of Chartered Surveyors Valuation Standards 2019 published by the Royal Institute of Chartered Surveyors and the International Valuation Standards published by the International Valuation Standards Council, were arrived at using the market approach. There has been no change from the valuation technique used in the prior years. The valuation has been adopted by the directors in the consolidated financial statements and the property revaluation increase of HK\$551,000 (2019: HK\$12,482,000) have been credited to the property revaluation reserve for the year ended 31 December 2020.

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16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

FAIR VALUE MEASUREMENT OF THE GROUP'S LEASEHOLD LAND AND BUILDINGS (CONTINUED)

The fair value measurements of the Group's leasehold land and buildings as at 31 December 2020 and 31 December 2019 using significant unobservable input (Level 3) are disclosed as below.

Description	Fair value at		Valuation techniques	Significant unobservable inputs	Sensitivity
	31.12.2020	31.12.2019			
	HK\$'000	HK\$'000			
Leasehold land and industrial buildings in Hong Kong	85,000	87,190	Market approach	Market unit rate, mainly taking into account the time, location, quality, floor level and size, between the comparables, which is ranging from HK\$3,906 to HK\$3,991 (2019: HK\$3,538 to HK\$5,000) per square foot	An increase in the market unit rate used would result in an increase in the fair value of the properties, and vice versa.
Car parks in Hong Kong	900	990	Market approach	Market unit rate, mainly taking into account the time, location and floor level, between the comparables, which is ranging from HK\$850,000 to HK\$930,000 (2019: HK\$980,000 to HK\$1,000,000) per slot	An increase in the market unit rate used would result in an increase in the fair value of the car parks, and vice versa.
Residential buildings in the PRC	8,111	7,882	Market approach	Market unit rate, mainly taking into account the time, location, quality, floor level and size, between the comparables, which is ranging from Renminbi ("RMB") 7,510 to RMB65,000 (2019: RMB9,664 to RMB70,833) per square meter	A significant increase in the market unit rate used would result in a significant increase in the fair value of the properties, and vice versa.
Offices in the PRC	2,944	2,861	Market approach	Market unit rate, mainly taking into account the time, location, quality, floor level and size, between the comparables, which is ranging from RMB15,000 to RMB55,034 (2019: RMB16,010 to RMB62,802) per square meter	A significant increase in the market unit rate used would result in an increase in the fair value of the properties, and vice versa.
Car parks in the PRC	119	112	Market approach	Market unit rate, mainly taking into account the time, location and floor level, between the comparables, which is ranging from RMB180,000 to RMB190,000 (2019: RMB180,000 to RMB186,000) per slot	An increase in the market unit rate used would result in an increase in the fair value of the car parks, and vice versa.

Notes to the Consolidated Financial Statements

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16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

FAIR VALUE MEASUREMENT OF THE GROUP'S LEASEHOLD LAND AND BUILDINGS (CONTINUED)

Description	Fair value at		Valuation techniques	Significant unobservable inputs	Sensitivity
	31.12.2020	31.12.2019			
	HK\$'000	HK\$'000			
Offices in the Japan	2,080	2,090	Market approach	Market unit rate, including time, location, quality, floor level and size, between the comparables, which is ranging from YEN167,840 to YEN273,682 (2019: YEN167,840 to YEN273,681) per square meter	An increase in the market unit rate used would result in an increase in the fair value of the properties, and vice versa.
Office in the USA	17,056	18,611	Market approach	Market unit rate, including time, location, quality, floor level and size, between the comparables, which is ranging from US\$250 to US\$375 (2019: US\$50 to US\$447) per square foot	An increase in the market unit rate used would result in an increase in the fair value of the properties, and vice versa.
Office in the Thailand	7,060	7,127	Market approach	Market unit rate, including time, location, quality, floor level and size, between the comparables, which is ranging from Baht 40,000 to Baht 41,401 (2019: Baht 43,404 to Baht 61,250) per square meter	An increase in the market unit rate used would result in an increase in the fair value of the properties, and vice versa.
Office in the Ukraine	9,278	11,385	Market approach	Market unit rate, including time, location, quality, floor level and size, between the comparables, which is ranging from US\$1,076 to US\$1,081 (2019: US\$1,297 to US\$1,492) per square meter	An increase in the market unit rate used would result in an increase in the fair value of the properties, and vice versa.
	132,548	138,248			

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16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

FAIR VALUE MEASUREMENT OF THE GROUP'S LEASEHOLD LAND AND BUILDINGS (CONTINUED)

There were no transfers into or out of Level 3 during both years.

If the leasehold land and buildings of the Group had not been revalued, they would have been included in these consolidated financial statements at historical cost less accumulated depreciation and their carrying amount would have been approximately HK\$54,670,000 (2019: HK\$58,819,000) as at 31 December 2020.

17. RIGHT-OF-USE ASSETS

	Leasehold lands <i>HK\$'000</i>	Leasehold land and buildings <i>HK\$'000</i> <i>(note)</i>	Motor vehicles <i>HK\$'000</i>	Factory buildings <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 31 December 2020					
Carrying amount	26,493	187	307	–	26,987
As at 31 December 2019					
Carrying amount	26,503	2,432	–	106	29,041
For the year ended 31 December 2020					
Depreciation charge	1,154	2,245	15	106	3,520
Exchange adjustment	(1,145)	–	–	–	(1,145)
For the year ended 31 December 2019					
Depreciation charge	2,195	2,244	27	106	4,572

Note: The leases include both leasehold land and buildings which cannot be separated.

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For the year ended 31 December 2020

17. RIGHT-OF-USE ASSETS (CONTINUED)

	2020 HK\$'000	2019 HK\$'000
Expense relating to short-term leases and/or other leases with lease terms end within 12 months of the date of initial application of HKFRS 16	38	398
Total cash outflow for leases	3,872	4,241
Additions to right-of-use assets	322	5,547
Disposal of right-of-use assets	–	(233)
Early termination of lease	(1)	–

The right-of-use assets are depreciated on a straight-line base on the respective lease term.

For both years, the Group leases leasehold lands, leasehold land and buildings, motor vehicles and factory buildings for its operations. Lease contracts are entered into for fixed term of 2 to 49 years (2019: 2 to 49 years). Leases of motor vehicles was accounted for as finance lease during the year ended 31 December 2020 and carried interest at 2.75% to 7.20% (2019: 4.75% to 7.20%). Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

In addition, the Group owns several industrial buildings where its manufacturing facilities are primarily located and office buildings. The Group is the registered owner of these property interests, including the underlying leasehold lands. Lump sum payments were made upfront to acquire these property interests. The leasehold land components of these owned properties are presented separately only if the payments made can be allocated reliably.

The Group regularly entered into short-term leases for leased for staff quarters and drainage construction. As at 31 December 2020 and 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.

RESTRICTIONS OR COVENANTS ON LEASES

In addition, lease liabilities of HK\$8,876,000 (2019: HK\$11,618,000) are recognised with related right-of-use assets of HK\$8,821,000 (2019: HK\$11,682,000) as at 31 December 2020. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group entered into certain life insurance contracts for Mr. Chang Yoe Chong Felix, a director of the Company. Under the policies, Evergreen Factory, being the beneficiary and policy holder, is required to pay an upfront payment for the contracts. Evergreen Factory may request a partial surrender or full surrender of the contracts at any time and receive cash back based on the value of the contracts at the date of withdrawal, which is determined by the gross premium paid at inception plus accumulated guaranteed interest earned and minus insurance premium charged. If such withdrawal is made at any time during the first to the eighteenth policy year, as appropriate, a pre-determined specified surrender charge would be imposed.

The deposits placed for the life insurance contracts carries guaranteed interests at interest rates ranging from 3.68% to 5.00% (2019: 3.65% to 5.00%) per annum plus a premium determined by counterparty during the tenures of the contracts.

Particulars of the insurance contracts are as follows:

Insured sum <i>HK\$' 000</i>	Upfront payment <i>HK\$' 000</i>	Interest rates
2020		
4,588 to 23,340	406 to 6,849	3.68% to 5.00% per annum
2019		
4,588 to 35,100	406 to 7,761	3.65% to 5.00% per annum

In the opinion of the directors, the carrying amount of the life insurance contracts approximates its fair value as at the end of the reporting period.

19. INVENTORIES

	2020 <i>HK\$' 000</i>	2019 <i>HK\$' 000</i>
Raw materials	367,380	366,957
Work in progress	60,095	51,756
Finished goods	59,042	57,900
	486,517	476,613

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20. TRADE AND OTHER RECEIVABLES

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

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For the year ended 31 December 2020

20. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

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

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

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

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

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

The Group does not hold any collateral over the balances.

Details of impairment assessment of trade and other receivables are set out in note 36.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

21. PLEDGED BANK DEPOSITS

The amounts represent deposits pledged for banking facilities granted to the Group and are therefore classified as current assets.

Included in pledged bank deposits are the following amounts denominated in currency other than functional currencies of the relevant group entities:

	2020 HK\$'000	2019 HK\$'000
Hong Kong dollars	35,532	12,911

The deposits carry fixed interest rate ranging from 0.001% to 1.69% (2019: 0.001% to 1.97%) per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

Details of impairment assessment of pledged bank deposits are set out in note 36.

22. BANK BALANCES AND CASH

Included in bank balances and cash are the following amounts denominated in currency other than functional currency of the relevant group entities:

	2020 HK\$'000	2019 HK\$'000
Hong Kong dollars	11,495	8,844

Bank balances and cash comprise cash held by the Group and short-term bank deposits which carry interest at prevailing market rates of 0% to 0.002% (2019: 0% to 1.9%) per annum.

Details of impairment assessment of bank balances are set out in note 36.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

23. TRADE AND OTHER PAYABLES

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

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

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

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

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

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

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24. CONTRACT LIABILITIES

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

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

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

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

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

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

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

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

25. AMOUNTS DUE TO A RELATED COMPANY/A NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY

The amounts are non-trade nature, unsecured, interest-free and repayable on demand for both years.

Amount due to a related company represented the amount due to Hopcom Software Company Limited of which Mr. Chang Chih Lung and Mr. Chang Yoe Chong Felix are also the directors and shareholders of the Company.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

26. SECURED BANK BORROWINGS/BANK OVERDRAFTS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Bank overdrafts	44,774	41,500
Trust receipts loans and discounted bills	338,672	297,000
Mortgage and short-term loans	390,963	380,345
	774,409	718,845

The carrying amounts of the borrowings are analysed as follows:

Denominated in	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	Interest rate
HK\$	365,899	409,029	Hong Kong Dollar Prime Rate minus 1.5% to Hong Kong Dollar Prime Rate or HIBOR plus 1.2% to HIBOR plus 3.5% or fixed interest rate at 5.65% (2019: Hong Kong Dollar Prime Rate minus 1.85% to Hong Kong Dollar Prime Rate plus 5% or HIBOR plus 1.2% to HIBOR plus 3.5% or fixed interest rate at 5.65%)
US\$	332,883	309,816	LIBOR plus 1.5% (2019: LIBOR plus 2.5% to LIBOR plus 4%)
RMB	64,362	–	HIBOR plus 1% to HIBOR plus 1.375%
JYP\$	11,265	–	Fixed interest at 1.19% or 1.78%

Bank borrowings with repayment on demand clause are classified as current liabilities on the consolidated statement of financial position.

Notes to the Consolidated Financial Statements

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26. SECURED BANK BORROWINGS/BANK OVERDRAFTS (CONTINUED)

The Group's bank loans are payable as follows:

	2020 HK\$'000	2019 HK\$'000
Bank overdrafts	44,774	41,500
Bank borrowings are repayable (<i>Note</i>)		
Within 1 year	634,906	617,084
After 1 year but within 2 years	26,949	26,232
After 2 years but within 5 years	54,451	22,123
After 5 years	13,329	11,906
Total bank borrowings	729,635	677,345
Total	774,409	718,845
Bank borrowings comprising:		
Amounts due within one year shown under current liabilities and containing a repayment on demand clause	634,906	617,084
Amounts that are not repayable within one year from the end of the reporting period but containing a repayment on demand clause (shown under current liabilities)	83,464	55,360
	718,370	672,444
Amounts due within one year shown under current liabilities		
Comprising:		
Bank overdrafts	44,774	41,500
Secured bank borrowings	718,370	672,444
	763,144	713,944
Amounts shown under non-current liabilities		
Comprising:		
Secured bank borrowings	11,265	4,901
Total	774,409	718,845

Notes to the Consolidated Financial Statements

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26. SECURED BANK BORROWINGS/BANK OVERDRAFTS (CONTINUED)

The exposure of the Group's borrowings are as follows:

	2020 HK\$'000	2019 HK\$'000
Fixed-rate borrowings	11,265	122,645
Variable-rate borrowings	763,144	596,200
	774,409	718,845

Note: The amounts due are based on the scheduled repayment dates set out in the bank borrowings agreements.

Bank overdrafts carry interest at market rates which range from 5.00% to 6.27% and are repayable on demand (2019: 4.50% to 5.50%).

The bank borrowings arranged at floating rates are with average effective interest rates ranging from 1.47% to 6.20% (2019: 3.60% to 6.21%) per annum. The bank borrowings arranged at fixed rate is ranging from 1.19% to 1.78% (2019: 5.65%) per annum.

As at 31 December 2020 and 2019, the Group's banking facilities were secured by:

- (a) pledge of the Group's bank deposits of approximately HK\$122,009,000 (2019: HK\$93,097,000);
- (b) the Group's land and buildings and carparks in Hong Kong of approximately HK\$85,900,000 (2019: HK\$88,180,000);
- (c) negative pledge on the assets of certain subsidiaries in the PRC and Bangladesh; and
- (d) financial assets at FVTPL of the Group.

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27. DERIVATIVE LIABILITIES

	2020 <i>HK\$' 000</i>	2019 <i>HK\$' 000</i>
Derivative liabilities		
Interest rate swap contract	273	345

Interest rate swap contract:

Notional amount at each maturity date	Maturity	Interest rate
As at 31 December 2020 and 2019		
HK\$15,000,000	From July 2016 to July 2021	Fixed rate at 3.28% to be swapped with floating HIBOR

28. LEASE LIABILITIES

	2020 <i>HK\$' 000</i>	2019 <i>HK\$' 000</i>
Lease liabilities payable:		
Within one year	708	3,024
After 1 year but within 2 years	288	658
After 2 years but within 5 years	706	568
After 5 years	7,174	7,368
	8,876	11,618
Less: Amount due for settlement with 12 months shown under current liabilities	(708)	(3,024)
Amount due for settlement after 12 months shown under non-current liabilities	8,168	8,594

The weighted average incremental borrowing rates applied to lease liabilities from 2.75% to 7.20% (2019: from 4.75% to 7.20%).

Notes to the Consolidated Financial Statements

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29. SHARE CAPITAL OF THE COMPANY

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

Shown in the consolidated financial statements as:

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

Notes:

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

29. SHARE CAPITAL OF THE COMPANY (CONTINUED)

Notes: (Continued)

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

30. DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset.

	31/12/2020 HK\$'000	31/12/2019 HK\$'000
Deferred tax assets	1,657	1,663
Deferred tax liabilities	(6,845)	(7,033)
	(5,188)	(5,370)

	Revaluation of land and buildings HK\$'000	Accelerated accounting depreciation HK\$'000	Total HK\$'000
At 1 January 2019	6,154	(1,451)	4,703
Charge to equity	879	–	879
Credit to profit or loss	–	(212)	(212)
At 31 December 2019	7,033	(1,663)	5,370
Charge to equity	(188)	–	(188)
Credit to profit or loss	–	6	6
At 31 December 2020	6,845	(1,657)	5,188

The Group has unused tax losses of approximately HK\$424,558,000 (2019: HK\$199,667,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

31. SHARE BASED PAYMENT TRANSACTIONS

SHARE OPTION SCHEMES

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

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

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

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

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

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

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For the year ended 31 December 2020

31. SHARE BASED PAYMENT TRANSACTIONS (CONTINUED)

SHARE AWARD SCHEME

The Group adopted a share award scheme on 11 December 2017 ("**Share Award Scheme**"). The specific objectives of the Share Award Scheme are (i) to recognise the contributions by certain employees and to provide them with incentives in order to retain them for the continual operation and development of the Group; and (ii) to attract suitable personnel for further development of the Group.

The result in the number of the shares awarded shall not exceeding 5% of the number of the issued shares of the Company from time to time. The maximum number of shares which may be awarded to a selected employee under the Share Award Scheme shall not exceed 1% of the number of the issued shares of the Company from time to time.

During the year ended 31 December 2018, 5,334,000 ordinary shares of the Company have been acquired at an aggregate cost of HK\$8,000,000. On 16 January 2018, certain directors and employees of the Group have been awarded for 5,333,334 ordinary shares under the Share Award Scheme.

As at 31 December 2020, the award shares have been vested to the selected participants in first three tranches with 1,333,000 ordinary shares of the Company vested in July 2018, 1,735,000 ordinary shares of the Company vested in July 2019 and 1,910,667 ordinary shares of the Company vested in July 2020. The award shares will be vested to Selected Participants in next tranche with 250,000 ordinary shares of the Company to be vested in July 2021.

The fair value of the shares awards determined based on share price at grant date amounting to HK\$1,310,000 is recognised as staff costs in the profit or loss for the year ended 31 December 2020 (31 December 2019: HK\$3,527,000). As at 31 December 2020, 355,333 (31 December 2019: 2,266,000) ordinary shares of the Company were held by the trustee of the Share Award Scheme, of which 250,000 (31 December 2019: 2,194,667) shares remained unvested and 105,333 (31 December 2019: 71,333) shares remained ungranted or lapsed. The ungranted or lapsed shares remain as trust fund and will be used for grant of share awards in future.

The closing price of the shares of the Company immediately before the grant of awarded shares was HK\$1.50 per share.

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31. SHARE BASED PAYMENT TRANSACTIONS (CONTINUED)

SHARE AWARD SCHEME (CONTINUED)

The following table discloses movements of the shares award during the year are as follows:

Outstanding awarded shares as at 1 January 2019	Number of awarded shares vested during the year	Number of awarded shares lapsed during the year	Outstanding awarded shares as at 31 December 2019
3,996,334	(1,735,000)	(66,667)	2,194,667

Outstanding awarded shares as at 1 January 2020	Number of awarded shares vested during the year	Number of awarded shares lapsed during the year	Outstanding awarded shares as at 31 December 2020
2,194,667	(1,910,667)	(34,000)	250,000

32. RETIREMENT BENEFITS SCHEME

DEFINED CONTRIBUTION SCHEME

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “**MPF Scheme**”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance. Under the MPF Scheme, the employees are required to contribute 5% of their monthly salaries or up to a maximum of HK\$1,500 and they can choose to make additional contributions. The employer’s monthly contributions are calculated at 5% of the employee’s monthly salaries or up to a maximum of HK\$1,500 (the “**Mandatory Contributions**”). The employees are entitled to 100% of the employer’s Mandatory Contributions upon their retirement at the age of 65, death or total incapacity.

The 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. The Group are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

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32. RETIREMENT BENEFITS SCHEME (CONTINUED)

DEFINED CONTRIBUTION SCHEME (CONTINUED)

Provident fund in Bangladesh is not mandatory but the Group is required to create such a fund once half of the employees demand so. The employees of the Group's factories in Bangladesh are covered by a company self-managed provident fund operated by respective subsidiaries of the Group in Bangladesh. Relevant subsidiaries are required to contribute a minimum specified percentage of payroll costs to the provident fund to fund the benefits. The minimum contribution for voluntary workers are 8.33% of their basic salaries. Those subsidiaries are obliged to set up the trustee board for managing the contribution to the provident fund with participation from both of the company management team and the employees.

Provident fund in other jurisdictions is based on the local government policy.

33. CAPITAL COMMITMENT

	2020 HK\$'000	2019 HK\$'000
Contracted but not provided in the consolidated financial statements in respect of the acquisition of land for construction	974	117

34. RELATED PARTY TRANSACTIONS

Other than the transaction and balances disclosed elsewhere in the consolidated financial statements, the Group had the following transactions with related parties during the year:

(A)	Note	2020 HK\$'000	2019 HK\$'000
Computer products and service expenses	(i)	1,080	1,080

Note:

- (i) The Group entered into transactions with Hopcom Software Company Limited of which Mr. Chang Chih Lung and Mr. Chang Yoe Chong Felix are also the directors and shareholders of these companies.

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34. RELATED PARTY TRANSACTIONS (CONTINUED)

(B) COMPENSATION OF KEY MANAGEMENT PERSONNEL

The remuneration of key management personnel (including certain executive directors and other members) during the year were as follows:

	2020 HK\$'000	2019 HK\$'000
Salaries and other benefits	4,592	4,600
Equity settled share-based expenses	799	1,269
Retirement benefits scheme contributions	87	90
	5,478	5,959

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

35. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debts which includes secured bank borrowings disclosed in note 26, lease liabilities disclosed in note 28, net of cash and cash equivalents and equity attributable to owners of the Group, comprising issued share capital, other reserves and retained profits.

The directors of the Group review the capital structure on a semi-annual basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

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36. FINANCIAL INSTRUMENTS

(A) CATEGORIES OF FINANCIAL INSTRUMENTS

	2020 HK\$'000	2019 HK\$'000
Financial assets		
Financial assets at amortised cost	437,970	359,616
FVTPL	16,773	25,761
	454,743	385,377
Financial liabilities		
Amortised cost	827,913	808,113
Derivative liabilities	273	345
	828,186	808,458

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables, financial assets at FVTPL, pledged bank deposits, bank balances and cash, trade payables, secured bank borrowings, bank overdrafts, derivative liabilities, lease liabilities, amount due to a non-controlling shareholder of a subsidiary and amount due to a related company. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

The Group has sales and purchases that are transacted in foreign currencies, which expose the Group to foreign currency risk. In order to reduce the risks associated with foreign currency fluctuations, the Group has entered into certain foreign currency forward contracts to manage their exposures to changes of foreign exchange rate. However, as these foreign currency forward contracts do not qualify for hedge accounting, they are deemed as liabilities held for trading.

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For the year ended 31 December 2020

36. FINANCIAL INSTRUMENTS (CONTINUED)

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Market risk (Continued)

Currency risk (Continued)

At the end of the reporting period, the carrying amounts of monetary assets (including intra-group balances) and monetary liabilities denominated in currencies other than the respective group entities' functional currencies are as follows:

	Liabilities		Assets	
	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000
Australian dollars	–	–	725	656
Canadian dollars	–	–	1,203	1,183
Euro dollars	–	–	1,539	1,415
Great British Pound	–	–	821	844
RMB	2,696	1,304	624	314
HK\$	395,556	395,556	180,998	165,335

The directors of the Company consider that the Group is exposed to minimal currency risk as HK\$ is pegged to US\$ which is the functional currency of certain group entities, and the exposure to other foreign currencies is not significant. Sensitivity on foreign currency risk is therefore not presented.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see note 26 for these borrowings), lease liabilities (see note 28 for details), contract liabilities (see note 24 for details) and pledged bank deposits (see note 21 for details) which carried fixed interest rate.

The Group is exposed to cash flow interest rate risk in relation to bank balances (see note 22 for details) and variable-rate bank borrowings (see note 26 for details of these borrowings). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk. From time to time, if interest rate fluctuates significantly, interest rate swaps may be used to convert some of the floating interest rates borrowings to fixed rates, to manage interest rate exposure. The Group has entered into interest rate swap contract with details set out in note 27 for both years.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

36. FINANCIAL INSTRUMENTS (CONTINUED)

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Market risk (Continued)

Interest rate risk (Continued)

The Group's exposures to interest rates on financial liabilities is detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Dollar Prime Rate, HIBOR and LIBOR, arising from the Group's HK\$, RMB and US\$ borrowings.

Cash flow interest rate risk in relation to variable-rate bank balances is considered insignificant as minimal taking into account the minimal fluctuation on market interest rate. Accordingly, no interest rate sensitivity analysis is prepared.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For variable-rate bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis points (2019: 50 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2019: 50 basis points) higher/lower and all other variables were held constant, the Group's loss for the year ended 31 December 2020 would increase/decrease by approximately HK\$3,816,000 (2019: profit to the year would decrease/increase by approximately HK\$2,981,000) respectively.

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For the year ended 31 December 2020

36. FINANCIAL INSTRUMENTS (CONTINUED)

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk and impairment assessment

At the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

Pledged bank deposits and bank balances

The credit risk on pledged bank deposits and bank balances are limited because the counterparties are banks with sound credit ratings Aa – B (2019: Aa – Baa) assigned by international credit-rating agencies. The Group assessed 12m ECL for bank balances and pledged bank deposits by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies. Based on the average loss rates, the Group assessed that the 12m ECL on bank balances and pledged bank deposits were insignificant and thus no loss allowance was recognised.

Trade receivables

The Group has concentration of credit risk as 35% (2019: 33%) and 83% (2019: 80%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively within the hair products business segment.

In addition, the Group's concentration of credit risk by geographical location as is mainly in the USA, which account for 94% (2019: 84%) of the total trade receivables as at 31 December 2020. In order to minimise the credit risk, the directors of the Company has delegated the management to be responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

Notes to the Consolidated Financial Statements

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36. FINANCIAL INSTRUMENTS (CONTINUED)

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk and impairment assessment (Continued)

Trade receivables (Continued)

The tables below detail the credit risk exposures of the Group's trade receivables which are subject to ECL assessment:

	Note	Internal management assessment	12m or lifetime ECL	Gross carrying amount	
				2020	2019
				HK\$'000	HK\$'000
Trade receivables	20	Note 1	Lifetime ECL (not credit-impaired)	195,070	183,607
		Note 2	Lifetime ECL (credit-impaired)	1,650	–

Notes:

- (1) In respect of these trade receivables, it represents debtors that have frequently repaid within due dates and management expects the balances will be fully settled. These amounts are assessed individually by applying lifetime ECL approach based on historical default and loss data and adjusted for forward-looking factors.
- (2) In respect of these trade receivables, there is evidence indicating these assets are credit-impaired. These amounts are assessed individually by applying lifetime ECL approach based on historical default and loss data and adjusted for forward-looking factors.

Notes to the Consolidated Financial Statements

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36. FINANCIAL INSTRUMENTS (CONTINUED)

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk and impairment assessment (Continued)

Trade receivables (Continued)

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit- impaired) HK\$'000	Lifetime ECL (credit- impaired) HK\$'000	Total HK\$'000
As at 1 January 2019 and 31 December 2019	–	–	–
Changes due to financial instruments recognised as at 1 January 2020:			
– Impairment losses recognised	76	1,650	1,726
New financial assets originated	974	–	974
As at 31 December 2020	1,050	1,650	2,700

Due to greater financial uncertainty triggered by the COVID-19 pandemic, the Group has increased the expected loss rates in the current year as there is higher risk that a prolonged pandemic could led to increased credit default rates.

Other receivables

For other receivables and deposits, in order to minimise the credit risk, directors of the Company continuously monitor the settlement status and the level of exposure to ensure that follow-up action is taken to recover overdue debts. For the purposes of internal credit management, the Group use past due information and external credit ratings to assess whether credit risk has increased significantly since initial recognition. In the opinion of the directors of the Company, the internal credit rating of other receivable is at low risk. The Group assessed that the 12m ECL with the 0.11% (2019: 0.01%) average loss rate, on other receivables and deposits with a total gross carrying amount of HK\$51,708,000 as at 31 December 2020 (2019: HK\$46,803,000) are insignificant and thus no impairment loss allowance was recognised.

Notes to the Consolidated Financial Statements

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36. FINANCIAL INSTRUMENTS (CONTINUED)

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

Liquidity risk reflects the risk that the Group will have insufficient resources to settle its financial liabilities as they fall due. In managing liquidity risk, the Group monitors and maintains sufficient funds to meet all its potential liabilities as they fall due. It is applicable to normal market conditions as well as negative projections against expected outcomes, so as to avoid any risk of incurring contractual penalties or damaging the Group's reputation.

Liquidity forecasts are produced on a monthly basis, to ensure that utilisation of current facilities is optimised; on a quarterly basis to ensure that covenant compliance targets and medium-term liquidity is maintained; and on a long-term projection basis, for the purpose of identifying long-term strategic funding requirements. The board of directors also continuously assesses the balance of capital and debt funding of the Group.

The board of directors continuously manages liquidity risk on a regular basis and will increase the frequencies of such assessment should need arise. Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves of cash and banking facilities and by continuously monitoring the utilisation of bank borrowings and ensuring compliance with loan covenants.

The Group's holdings of cash and short-term deposits, together with net cash flows from operations and proceeds from issue of new shares, are expected to be sufficient to cover the operating cost of the Group in the next financial year. The management considers that the Group expects to have adequate source of funding to finance the Group and manage the liquidity position.

The following tables detail the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank borrowings with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity analysis for other non-derivative financial liabilities is prepared based on the scheduled repayment dates. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

36. FINANCIAL INSTRUMENTS (CONTINUED)

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (Continued)

In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash outflows on derivative financial instruments that settle on a net basis. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities as the management manages that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

	Weighted average interest rate %	On demand HK\$'000	Within 1 year HK\$'000	1 – 5 years HK\$'000	Over 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
At 31 December 2020							
Financial liabilities							
Non-interest bearing							
Trade payables	N/A	-	46,513	-	-	46,513	46,513
Derivative liabilities							
– interest rate swap	N/A	-	273	-	-	273	273
Amount due to a non-controlling shareholder of a subsidiary	N/A	2,941	-	-	-	2,941	2,941
Amount due to a related company	N/A	4,050	-	-	-	4,050	4,050
Interest bearing							
Secured bank borrowings	4.12	718,370	312	4,605	7,347	730,634	729,635
Bank overdrafts	6.04	44,774	-	-	-	44,774	44,774
Lease liabilities	6.87	-	1,391	3,243	13,000	17,634	8,876
		770,135	48,489	7,848	20,347	846,819	837,062

Notes to the Consolidated Financial Statements

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36. FINANCIAL INSTRUMENTS (CONTINUED)

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (Continued)

	Weighted average interest rate %	On demand HK\$'000	Within 1 year HK\$'000	1 – 5 years HK\$'000	Over 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
At 31 December 2019							
Financial liabilities							
Non-interest bearing							
Trade payables	N/A	-	36,568	-	-	36,568	36,568
Derivative liabilities							
- interest rate swap	N/A	-	-	345	-	345	345
Amount due to a non-controlling shareholder of a subsidiary	N/A	2,700	-	-	-	2,700	2,700
Amount due to a related company	N/A	50,000	-	-	-	50,000	50,000
Interest bearing							
Secured bank borrowings	4.35	672,444	-	-	7,608	680,052	677,345
Bank overdrafts	4.74	41,500	-	-	-	41,500	41,500
Lease liabilities	6.57	-	3,698	3,429	13,700	20,827	11,618
		766,644	40,266	3,774	21,308	831,992	820,076

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

36. FINANCIAL INSTRUMENTS (CONTINUED)

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (Continued)

Bank borrowings with a repayment on demand clause are included in the “on demand” time band in the above maturity analysis. As at 31 December 2020, the aggregate carrying amounts of these bank borrowings amounted to approximately HK\$718,370,000 (2019: HK\$672,444,000). Taking into account the Group’s financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank borrowings will be repaid in accordance with the scheduled repayment dates set out in the loan agreements, details of which are set out in the table below:

Maturity analysis – Bank borrowings with a repayment on demand clause based on scheduled repayments

	Interest rate %	Less than 1 year HK\$'000	1 – 2 years HK\$'000	2 – 5 years HK\$'000	Over 5 years HK\$'000	Total undiscounted cash flow HK\$'000	Carrying amount HK\$'000
31 December 2020	4.12	638,111	29,001	53,060	6,566	726,738	718,370
31 December 2019	4.35	620,965	26,908	23,269	7,446	678,588	672,444

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

36. FINANCIAL INSTRUMENTS (CONTINUED)

(C) FAIR VALUE INSTRUMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial investments that are measured at fair value on a recurring basis

Some of the Group's financial investments are measured at fair value as at year end. The following table gives information about how the fair values of these financial investments are determined (in particular, the valuation techniques and inputs used).

Financial assets and liabilities	Fair value		Fair value hierarchy	Valuation techniques and key inputs
	2020 HK\$'000	2019 HK\$'000		
Derivative liability – interest rate swap	Liabilities – 273	Liabilities – 345	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.
Financial assets at FVTPL	Assets – 16,773	Assets – 25,761	Level 2	Values quoted by insurance companies.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

37. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Amount due to a related company <i>HK\$'000</i>	Amount due to a non-controlling shareholder of a subsidiary <i>HK\$'000</i>	Secured bank borrowings <i>HK\$'000</i>	Dividend payable <i>HK\$'000</i>	Bank overdrafts <i>HK\$'000</i>	Lease liabilities <i>HK\$'000</i>	Interest payable (included in other payable) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2019	30,000	8,845	646,788	-	-	9,177	-	694,810
Finance costs	-	-	-	-	-	829	19,848	20,677
Interest capitalised in the cost of qualified assets	-	-	-	-	-	-	15,853	15,853
New lease entered	-	-	-	-	-	5,455	-	5,455
Capital contribution from non-controlling shareholder of a subsidiary (note 38)	-	(7,835)	-	-	-	-	-	(7,835)
Dividends recognised	-	-	-	21,857	-	-	-	21,857
Financial cash flows	20,000	1,690	30,557	(21,857)	41,500	(3,843)	(35,701)	32,346
At 31 December 2019	50,000	2,700	677,345	-	41,500	11,618	-	783,163
Finance costs	-	-	-	-	-	771	20,928	21,699
Interest capitalised in the cost of qualified assets	-	-	-	-	-	-	10,596	10,596
New lease entered	-	-	-	-	-	322	-	322
Early termination of lease	-	-	-	-	-	(1)	-	(1)
Dividends recognised	-	-	-	13,222	-	-	-	13,222
Financial cash flows	(45,950)	241	52,290	(13,222)	3,274	(3,834)	(31,524)	(38,725)
At 31 December 2020	4,050	2,941	729,635	-	44,774	8,876	-	790,276

38. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2019, capital contribution by a non-controlling shareholder of a subsidiary was settled by waiver of debt through amount due to non-controlling shareholder of a subsidiary amounting to HK\$7,835,000.

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

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39. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Particulars of the Company's principal subsidiaries at 31 December 2020 and 2019 are as follows:

Name	Issued and fully paid-up capital/ contributed capital	Attributable equity interest indirectly held by the Company		Place of registration/ incorporation	Principal activities
		2020	2019		
昆明訓修髮製品有限公司 Kunming Evergreen Hair Products Co., Ltd.*	HK\$45,526,000	100%	100%	The PRC	Manufacturing and trading of hair products
訓修實業(禹州)有限公司 Evergreen Products Factory (YZ) Co., Ltd.*	US\$2,000,000	100%	100%	The PRC	Manufacturing and trading of hair products
訓修實業(深圳)有限公司 Evergreen Products Factory (SZ) Co., Ltd.*	US\$2,400,000	100%	100%	The PRC	Technological development of hair products and property investment
東莞訓修髮製品有限公司 Evergreen Products Factory (DG) Co., Ltd.*	US\$1,500,000	100%	100%	The PRC	Property holding
深圳訓修髮製品有限公司 Shenzhen Evergreen Hair Products Co., Ltd.*	HK\$3,000,000	100%	100%	The PRC	Manufacturing and trading of hair products
廣州市東珍纖維有限公司 Guangzhou Dong Jin Industrial Co., Ltd.*	US\$350,000	100%	100%	The PRC	Manufacturing and trading of hair products
Evergreen Products Factory (BD) Limited	Taka1,000,050,000	100%	100%	Bangladesh	Manufacturing and trading of hair products
EPF Global Enterprises Limited	HK\$10,000	100%	100%	Hong Kong	Trading of hair products
EPF International Limited	HK\$10,000	100%	100%	Hong Kong	Trading of hair products
Gold Timing Manufacture (BD) Limited	Taka100,000	100%	100%	Bangladesh	Manufacturing and trading of hair products
Wisdom Ocean Limited	HK\$10,000	100%	100%	Hong Kong	Trading of hair products through internet
EPF Carton Limited	Taka100,000	100%	100%	Bangladesh	Carton business
Dong Jin Industrial Company Limited	HK\$1,955,000	100%	100%	Hong Kong	Trading of fibres and investment holding

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

Name	Issued and fully paid-up capital/ contributed capital	Attributable equity interest indirectly held by the Company		Place of registration/ incorporation	Principal activities
		2020	2019		
Gold Rocket Limited	Taka100,000	100%	100%	Bangladesh	Provision of logistic services to group companies
Trillion Gold Limited	Taka100,000	100%	100%	Bangladesh	Construction of NPT-05 Factory
Dong Jin Industrial (BD) Company Limited	Taka100,000	100%	100%	Bangladesh	Manufacturing, export and import of hair products
I-Corporation	YEN3,000,000	100%	100%	Japan	Trading of hair products
Golden Chance Limited	YEN3,000,000	100%	100%	Japan	Trading of hair products through internet
E5 Co., Ltd.	YEN9,000,000	51%	51%	Japan	Trading of hair products
Purple Stone Inc.	US\$1,000	100%	100%	The USA	Property holding
Purple Star Inc.	US\$1,000	100%	100%	The USA	Trading of hair products through internet
Red Stone Inc.	US\$50,000	100%	100%	The USA	Property holding
Evergreen Factory	HK\$3,000,000	100%	100%	Hong Kong	Manufacturing and trading of hair products and investment holdings
Master Purple (BD) Limited	Taka10,000,000	100%	100%	Bangladesh	Manufacturing, export and import of hair products
Million Gold Limited	Taka100,000	100%	100%	Bangladesh	Manufacturing and trading of hair products

* Limited liability company (solely invested by Taiwan, Hong Kong or Macao legal person) established in the PRC.

Limited liability company (solely invested by Hong Kong legal person) established in the PRC.

None of the subsidiaries had issued any debt securities at the end of the year.

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40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	2020 <i>HK\$' 000</i>	2019 <i>HK\$' 000</i>
Non-current asset		
Investment in a subsidiary	545,072	545,072
Current assets		
Amount due from a subsidiary	7,739	40,000
Prepayments and other receivables	4,521	4,113
Bank balances and cash	1,510	461
	13,770	44,574
Current liabilities		
Accruals and other payables	2,318	2,960
Secured bank borrowings	27,577	63,872
	29,895	66,832
Net current liabilities	(16,125)	(22,258)
	528,947	522,814
Capital and reserves		
Share capital	53,377	51,432
Reserves	475,570	471,382
Equity attributable to owners of the Company	528,947	522,814

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41. RESERVES OF THE COMPANY

MOVEMENT IN THE COMPANY'S RESERVES

	Share premium <i>HK\$'000</i>	Shares award reserve <i>HK\$'000</i>	Shares held for share award scheme <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2019	366,950	919	(6,000)	34,154	396,023
Profit for the year and total comprehensive income	-	-	-	26,597	26,597
Employee share award scheme:					
– Value of employee services	-	3,527	-	-	3,527
– Vesting of shares of share award scheme	-	(2,603)	2,603	-	-
Dividends recognised as distribution	-	-	-	(21,857)	(21,857)
New ordinary shares issue by way of placing	48,848	-	-	-	48,848
New ordinary shares issue under specific mandate	18,994	-	-	-	18,994
Transaction costs attributable to issue of new ordinary shares	(750)	-	-	-	(750)
At 31 December 2019	434,042	1,843	(3,397)	38,894	471,382
Loss for the year and total comprehensive expense	-	-	-	(16,629)	(16,629)
Employee share award scheme:					
– Value of employee services	-	1,309	-	-	1,309
– Vesting of shares of share award scheme	-	(2,866)	2,866	-	-
Dividends recognised as distribution	-	-	-	(13,222)	(13,222)
New ordinary shares issue by way of placing	33,805	-	-	-	33,805
Transaction costs attributable to issue of new ordinary shares	(1,075)	-	-	-	(1,075)
At 31 December 2020	466,772	286	(531)	9,043	475,570

Five-Year Financial Summary

Results	2016	2017	2018	2019	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	595,682	647,343	732,170	777,405	890,201
Gross profit	211,253	230,220	255,765	257,008	152,655
Profit (loss) before tax	37,017	110,415	110,972	86,794	(17,350)
Profit (loss) for the year	32,757	109,464	110,611	86,200	(17,982)
Attributable to:					
Owners of the Company	32,970	110,151	110,975	90,328	(16,176)
Non-controlling interests	(213)	(687)	(364)	(4,128)	(1,806)
Basic earnings (losses) per share (HK cents)	0.10	0.24	0.18	0.15	(0.02)
Dividends	50,000	50,000	41,205	19,704	-
Assets and liabilities					
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets	353,809	432,995	618,450	796,052	776,970
Current assets	630,687	800,597	855,839	925,928	980,220
Current liabilities	633,389	558,047	758,562	837,219	859,614
Net current (liabilities) assets	(2,702)	242,550	97,277	88,709	120,606
Non-current liabilities	207,990	3,743	4,859	18,865	24,621
Net assets	143,117	671,802	710,868	865,896	872,955