

Prosperous Printing Company Limited
萬里印刷有限公司

(incorporated in Hong Kong with limited liability)
Stock Code: 8385



Interim Report **2018**



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This report will remain on the GEM website with the domain name of www.hkgem.com on the “Latest Company Announcement” page for at least 7 days from the date of publication and on the website of the Company at www.prosperous-printing-group.com.hk.



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Lam Sam Ming (*Chairman*)
Ms. Yao Yuan
Ms. Chan Sau Po

Non-executive Director

Mr. Ong Chor Wei

Independent non-executive Directors

Ms. Cheung Yin
Mr. Wong Hei Chiu
Mr. Leung Vincent Gar-Gene

AUDIT COMMITTEE

Ms. Cheung Yin (*Chairman*)
Mr. Wong Hei Chiu
Mr. Leung Vincent Gar-Gene

REMUNERATION COMMITTEE

Mr. Wong Hei Chiu (*Chairman*)
Ms. Cheung Yin
Mr. Lam Sam Ming

NOMINATION COMMITTEE

Mr. Lam Sam Ming (*Chairman*)
Mr. Wong Hei Chiu
Ms. Cheung Yin

RISK MANAGEMENT COMMITTEE

Mr. Lam Sam Ming (*Chairman*)
Ms. Chan Sau Po
Ms. Yao Yuan

COMPANY SECRETARY

Mr. Ho Tai Wai David, *FCCA (Practising), ACIS*

AUTHORISED REPRESENTATIVES

Mr. Lam Sam Ming
Ms. Chan Sau Po

COMPLIANCE OFFICER

Ms. Chan Sau Po

REGISTERED OFFICE, HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

3/F, Yip Cheung Centre
10 Fung Yip Street
Chai Wan
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank (Hong Kong) Limited

COMPLIANCE ADVISER

Kingsway Capital Limited
7/F, Tower One, Lippo Centre
89 Queensway
Hong Kong

AUDITOR

Crowe Horwath (HK) CPA Limited
9/F Leighton Centre
77 Leighton Road
Causeway Bay
Hong Kong

COMPANY'S WEBSITE

www.prosperous-printing-group.com.hk

STOCK CODE

8385

HIGHLIGHTS

HIGHLIGHTS

- The revenue of our Group was approximately HK\$198.4 million for the six months ended 30 June 2018 representing a slight increase from approximately HK\$197.3 million for the same period ended 30 June 2017. Such increase was mainly due to increase of sales order.
- The gross profit was approximately HK\$59.5 million for the six months ended 30 June 2018, representing a slight increase as compared to HK\$57.3 million for the six months ended 30 June 2017 due to increase in revenue.
- The profit attributable to owners of our Company was approximately HK\$5.2 million for the six months ended 30 June 2018, as compared to the net profit of approximately HK\$1.7 million recorded for the same period ended 30 June 2017 which was mainly due to (i) the increase of gross profit; and (ii) our increased other income mainly from government subsidies and the sale of paper and scrap materials.
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2018 (for the same period ended 30 June 2017: nil).

The board of directors (the “**Board**”) of the Company is pleased to announce the unaudited condensed consolidated financial results of the Group for the six months ended 30 June 2018 (together with the comparative unaudited figures for the corresponding period in 2017) as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Note	Six months ended 30 June	
		2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
Revenue	3	198,398	197,337
Cost of sales		(138,914)	(140,072)
Gross profit		59,484	57,265
Other income/(losses)		2,958	(505)
Distribution costs		(14,402)	(11,881)
Administration expenses		(38,294)	(35,266)
Other expenses		—	(2,248)
Profit from operations		9,746	7,365
Finance costs		(3,560)	(3,291)
Profit before taxation		6,186	4,074
Income tax	4	(1,033)	(2,327)
Profit for the period		5,153	1,747
Attribution to:			
Equity shareholders of the Company		5,153	1,747
Non-controlling interests		—	—
Profit for the period		5,153	1,747
Earnings per share:		HK cents	HK cents
Basic	5	0.84	0.33
Diluted	5	0.84	0.27

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Note	Six months ended 30 June	
		2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
Profit for the period		5,153	1,747
Other comprehensive income for the period, net of nil tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of operation with functional currency other than Hong Kong dollars		4,642	1,963
Available-for-sale investments:			
Net movement in the fair value reserve		—	(14)
Total comprehensive income for the period		4,642	1,949
Attributable to:			
Equity shareholders of the Company		9,795	3,696
Non-controlling interests		—	—
Total comprehensive income for the period		9,795	3,696

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Note	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	7	271,936	259,265
Intangible assets		845	915
Available-for-sale investments		2,573	2,573
Investments in key management insurance		8,205	8,176
Deposits for acquisition of property, plant and equipment		3,233	3,533
		286,792	274,462
Current assets			
Inventories	8	89,429	76,139
Trade and other receivables	9	138,601	123,204
Current income tax recoverable		3,690	—
Pledged bank deposits		6,814	6,763
Cash and cash equivalents		4,289	49,375
		242,823	255,481
Total assets		529,615	529,943
EQUITY			
Equity attributable to owners of the Company			
Share capital		100,843	100,843
Reserves		177,559	167,764
Total equity attributable to equity shareholders of the Company		278,402	268,607
Non-controlling interests		—	—
Total equity		278,402	268,607

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Note	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
LIABILITIES			
Non-current liabilities			
Bank loans	10	39,450	41,425
Obligations under financial leases		4,150	4,893
Deferred tax liabilities		4,572	4,572
		48,172	50,890
Current liabilities			
Trade and other payables	11	51,991	68,660
Bank loans	10	148,740	138,386
Obligations under financial leases		2,310	2,105
Tax payable		—	1,295
		203,041	210,446
Total liabilities		251,213	261,336
Total equity and liabilities		529,615	529,943

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Attributable to equity shareholders of the Company					Total	Non-controlling interest	Total equity
	Share capital	Exchange reserve	Capital reserve	Fair value reserve	Retained profits			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2017								
(audited)	27,539	(10,606)	3,318	(83)	160,906	181,074	—	181,074
Change in equity for 2017:								
Profit for the period	—	—	—	—	1,747	1,747	—	1,747
Other comprehensive income for the period	—	1,963	—	(14)	—	1,949	—	1,949
Balance at 30 June 2017								
(unaudited)	27,539	(8,643)	3,318	(97)	162,653	184,770	—	184,770
Balance at 31 December 2017 and 1 January 2018 (audited)								
Change in equity for 2018:	100,843	(2,625)	3,318	(97)	167,168	268,607	—	268,607
Profit for the period	—	—	—	—	5,153	5,153	—	5,153
Other comprehensive income for the period	—	4,642	—	—	—	4,642	—	4,642
Balance at 30 June 2018								
(unaudited)	100,843	2,017	3,318	(97)	172,321	278,402	—	278,402

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	(Unaudited)	
	Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
Operating activities		
Cash used in operations	(27,708)	(37,771)
Tax paid		
PRC Enterprise Income Tax	—	—
Hong Kong Profits Tax	—	(1,123)
Tax refund		
Hong Kong Profits Tax	4,985	—
Net cash used in operating activities	(22,723)	(38,894)
Investing activities		
Payment for purchase of property, plant and equipment	(9,179)	(2,412)
Proceeds on disposal of property, plant and equipment	500	135
Decrease in amounts due to directors	—	(40,025)
Increase in amounts due from directors	—	(6,279)
(Increase)/decrease in pledged bank deposits	(51)	4,269
Upfront payment of investments in key management insurance policies	(29)	(3,130)
Payment for deposit for acquisition of property, plant and equipment	300	—
Interest received	218	—
Dividends received	—	246
Net cash (used in) investing activities	(8,241)	(47,196)
Financing activities		
Proceeds from new bank loans	229,639	268,641
Repayment of bank loans	(239,381)	(178,534)
Capital elements of finance lease rentals paid	(820)	(740)
Interest elements of finance lease rentals paid	(413)	(201)
Interest paid	(3,147)	(3,090)
Net cash (used in)/generated from financing activities	(14,122)	86,076

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	(Unaudited) Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
Net decrease in cash and cash equivalents	(45,086)	(14)
Effects of foreign exchange rate changes	—	—
Cash and cash equivalents at 1 January	49,375	(10,272)
Cash and cash equivalents at 30 June	4,289	(10,286)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Prosperous Printing Company Limited (the “Company”) was incorporated in Hong Kong on 23 December 1992 with limited liability under the laws of Hong Kong. The shares of the Company have been listed on GEM of The Stock Exchange of Hong Kong Limited since 13 December 2017.

The address of the Company’s registered office is 3/F., Yip Cheung Centre, 10 Fung Yip Street, Chai Wan, Hong Kong.

The Company and its subsidiaries (together referred to as the “Group”) are principally engaged in the production and trading of books and paper products.

2. BASIS OF PREPARATION

This condensed consolidated financial information for the six months ended 30 June 2018 has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure provisions of the GEM Listing Rules. The condensed consolidated financial information should be read in conjunction with the Company’s consolidated financial statements for the year ended 31 December 2017, which have been prepared in accordance with HKFRSs issued by the HKICPA.

3. REVENUE AND SEGMENT INFORMATION

	For the six months ended 30 June	
	2018	2017
	HKS’000	HKS’000
	(Unaudited)	(Unaudited)
Revenue		
The Group’s revenue is analysed as follows:		
Revenue arising from sales of books and paper products	180,919	194,340
Revenue arising from provision of sub-contracting services	17,479	2,997
	198,398	197,337

Segment reporting

HKFRS 8 “Operating Segments” requires identification and disclosure of operating segment information based on internal financial reports that are regularly reviewed by the Company’s executive directors, being the Group’s chief operating decision maker, for the purpose of resources allocation and performance assessment.

On this basis, the Group has determined that it only has one operating segment which is the production and sale of books and paper products.

4. INCOME TAX

	For the six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
INCOME TAX		
Current tax — Hong Kong Profits Tax Provision for the year	229	2,261
Current tax — PRC Enterprise Income Tax Provision for the year	—	—
Deferred tax: Origination and reversal of temporary difference	804	66
	1,033	2,327

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operates.

The provision for Hong Kong Profits Tax of the Company and subsidiaries established in Hong Kong are calculated at 16.5% of the estimated assessable profits for the reporting period.

The provision for the PRC Enterprise Income Tax of the subsidiary established in the PRC is calculated at 25% of the estimated taxable profits for the reporting period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK\$5,153,000 for the six months ended 30 June 2018 (for the six months ended 30 June 2017: HK\$1,747,000) and the weighted average of 610,411,000 (30 June 2017: 532,459,000) ordinary shares after taking into account the effect of issuance of shares upon the initial public offering on 13 December 2017 and the share subdivision on 14 September 2016, calculated as follows:

Weighted average number of ordinary shares (basic)

	For the six months ended 30 June	
	2018	2017
Issued ordinary shares at 1 January	610,411,000	532,459,000
Effect of convertible loan converted	—	—
Effect of shares subdivision	—	—
Effect of shares issued upon initial public offering	—	—
Weighted average number of ordinary shares at 30 June	610,411,000	532,459,000

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK\$5,153,000 for the six months ended 30 June 2018 (for the six months ended 30 June 2017: HK\$1,747,000) and the weighted average of 610,411,000 (30 June 2017: 637,966,000) ordinary shares after taking into account the effect of issuance of shares upon the initial public offering on 13 December 2017 and the share subdivision on 14 September 2016, calculated as follows:

(i) Profit attributable to ordinary equity shareholders of the Company (diluted)

	For the six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Profit attributable to ordinary equity shareholders After tax effect of effective interest on the liability component of convertible loan	5,153 —	1,747 —
Profit attributable to ordinary equity shareholders (diluted)	5,153	1,747

(ii) Weighted average number of ordinary shares (diluted)

	For the six months ended 30 June	
	2018	2017
Weighted average number of ordinary shares (basic) at 30 June	610,411,000	637,966,000
Effect of conversion of convertible loan	—	—
Weighted average number of ordinary shares (diluted) at 30 June	610,411,000	637,966,000

6. DIVIDEND

The Board does not recommend the payment of dividend for the six months ended 30 June 2018 (for the six months ended 30 June 2017: Nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7. PROPERTY, PLANT AND EQUIPMENT

(a) The Group's properties

The leasehold land and buildings are held in Hong Kong on long leases.

(b) Assets held under finance leases

In addition to the leasehold land and buildings classified as being held under a finance lease in note (a) above, the Group leases production plant and machinery under finance leases expiring three years. At the end of the lease term the Group has the option to purchase the leased machinery or equipment at a price deemed to be a bargain purchase option. None of the leases includes contingent rentals.

(c) Pledge of property, plant and equipment

At 30 June 2018, the Group's properties and machinery (as included in plant and equipment) with carrying amounts of HK\$123,589,518 (as at 31 December 2017: HK\$125,362,000) and HK\$4,191,873.12 (as at 31 December 2017: HK\$7,336,000), respectively, were pledged as collateral for the Group's banking facilities.

8. INVENTORIES

Inventories in the condensed consolidated statement of financial position comprise:

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Raw materials	59,393	57,224
Work-in-progress	23,717	16,037
Finished goods	6,319	2,878
	89,429	76,139

9. TRADE AND OTHER RECEIVABLES

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Trade debtors	118,713	123,439
Less: allowance for doubtful debts	(5,090)	(17,362)
	113,623	106,077
Advance to a sub-contractor	18,350	9,023
Other receivables	6,024	729
Loans and receivables	137,997	115,829
Other prepaid expenses	—	173
Utility and other deposits	604	604
Prepayment for acquisition of raw materials	—	2,715
Other tax recoverable	—	3,883
	138,601	123,204

The amount of utility and other deposits expected to be recovered or recognised as expense after more than one year is HK\$580,000 (at 31 December 2017: HK\$580,000). All of the other trade and other receivables are expected to be recovered or recognised as expense within one year.

An ageing analysis of the trade debtors (which are included in trade and other receivables) as at the end of the relevant period based on the invoice date and net of allowance for doubtful debts, is as follows:

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Within 1 month	35,296	36,654
1 to 3 months	32,285	29,032
3 to 6 months	32,489	31,315
6 to 12 months	12,213	7,506
Over 1 year	1,340	1,570
	113,623	106,077

Trade debtors are normally due within 180 days from the date of billing.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

10. BANK LOANS

At 30 June 2018, the bank loans were repayable as follows:

	As at 30 June 2018 HK\$'000 (Unaudited)	As at 31 December 2017 HK\$'000 (Audited)
Portion of bank loans due for repayment within one year	144,690	134,596
Portion of bank loans due for repayment after one year which contain a repayment on demand clause	4,050	3,790
Within 1 year or on demand under current liabilities	148,740	138,386
After 1 year but within 2 years	10,600	11,358
After 2 years but within 5 years	20,095	20,337
After 5 years	8,755	9,730
Bank loans under non-current liabilities	39,450	41,425
	188,190	179,811

At 30 June 2018, the bank loans and overdrafts were secured as follows:

	As at 30 June 2018 HK\$'000 (Unaudited)	As at 31 December 2017 HK\$'000 (Audited)
Bank loans		
— secured and guaranteed	188,190	179,811
	188,190	179,811

The effective interest rates of the Group's bank loans are as follows:

	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)
Effective interest rates: Bank loans and overdrafts	2.69%–5.25% per annum	2.69%–5.25% per annum

- (a) All of the bank loans and overdrafts are carried at amortised costs.
- (b) As at 30 June 2018, the bank loans and overdrafts of approximately HK\$8,580,000 (as at 31 December 2017: HK\$9,908,000) were denominated in USD.

As at 30 June 2018 and 31 December 2017, the bank facilities were secured by bank deposits of the Group, available-for-sales investments of the Group, the Group's trade debtors, the Group's property, plant and equipment, the assignment of rental proceeds of the Group's properties situated in Hong Kong, benefits of key management insurance policies and corporate guarantees from the Company and certain subsidiaries.

At the end of the relevant period, the directors of the Company do not consider it probable that a claim will be made against the Company and the Group under the corporate guarantees given by the Company and the Group, no liability is provided for in the financial statements of the Group and the Company. The Company and the Group have not recognised any deferred income in respect of these financial guarantees given by the Company and the Group as their fair values are insignificant.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The carrying amounts of assets pledged against bank loans and overdrafts as at the end of the relevant period were analysed as follows:

	As at 30 June 2018 HK\$'000 (Unaudited)	As at 31 December 2017 HK\$'000 (Audited)
Property, plant and equipment	129,554	132,698
Available-for-sale investments	2,573	2,573
Investments in key management insurance policies	7,213	7,213
Trade debtors	40,283	31,489
Bank deposits	6,814	6,763
	186,437	180,736
Less: Factoring trade receivables covered by insurance	(40,283)	(31,489)
	146,154	149,247

These banking facilities amounted to HK\$323,399,000 as at 30 June 2018 (as at 31 December 2017: HK\$323,399,000). These facilities were utilised to the extent of HK\$197,633,000 as at 30 June 2018 (as at 31 December 2017: HK\$179,633,000).

- (c) All of the Group's banking facilities are subject to the fulfilment of covenants based on the financial information of the Group and certain of its subsidiaries, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down facilities would become payable on demand. In addition, certain of the Group's banking facilities letters contain clauses which give the banks the right at its sole discretion to demand immediate repayment at any time irrespective of whether the Group has complied with the covenants and met the scheduled repayment obligations.

The Group regularly monitors its compliance with these covenants, is up to date with the scheduled repayments of bank loans and does not consider it probable that the banks will exercise its discretion to demand repayment for so long as the Group continues to meet these requirements. As at 30 June 2018, none of the covenants relating to drawn down facilities had been breached (as at 31 December 2017: Nil).

- (d) Notwithstanding the specified repayment schedules as stated in the facilities letters (“**specific repayment terms**”) which allow the loans to be repaid over a period of more than one year, certain banking facilities granted to the Group include a clause that gives the banks the unconditional rights to call the bank loans at any time (“**repayment on demand clause**”). These bank loans as at 30 June 2018 and 31 December 2017 were classified as current liabilities in the consolidated statement of financial position.

However, the directors of the Company expects that the bank loans and overdrafts are to be repaid as follows based on the specific repayment terms:

	As at 30 June 2018 HK\$'000 (Unaudited)	As at 31 December 2017 HK\$'000 (Audited)
Bank loans due for repayment within one year or on demand:		
Bank loans due for repayment within one year	148,740	134,596
Bank loans due for repayment after one year <i>(Note)</i>		
After 1 year but within 2 years	12,495	14,010
After 2 years but within 5 years	18,200	21,475
After 5 years	8,755	9,730
	39,450	45,215
	188,190	179,811

Note: The amounts due are based on the specific repayment terms set out in the banking facilities letters and ignore the effect of any repayment on demand clause.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11. TRADE AND OTHER PAYABLES

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Trade creditors	37,984	39,253
Accrued staff costs	6,426	6,377
Other accruals	—	2,816
Payables for listing expenses	—	11,388
Other payables	7,581	8,592
Receipts in advance	—	199
Other tax payable	—	35
	51,991	68,660

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

An ageing analysis of the trade creditors (which are included in trade and other payables), based on the invoice date, is as follows:

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Within 1 month	9,765	8,426
1 to 3 months	21,735	22,222
3 to 6 months	5,619	7,301
6 to 12 months	279	1,284
Over 1 year	586	20
	37,984	39,253

MANAGEMENT DISCUSSION AND ANALYSIS

Unless otherwise stated, the capitalized terms used in this report shall have the same meaning as those used in the prospectus (“**Prospectus**”) dated 29 November 2017.

BUSINESS REVIEW

We are a provider of printing products to Hong Kong-based print brokers with customers in overseas markets and to international publishers mainly located in the U.S., U.K., Australia and Europe (excluding U.K.). Our products comprise mainly books and other paper-related products. Paper and ink are our principal raw materials. Our two production sites were the Shenzhen Factory and the Hong Kong Factory. Each of these factories is a self-functioning printing and production arm of our Group, and they share the printing workload allocated by our management. Notwithstanding the intense market competition, we achieved a slight increase in revenue as a result of increase of sales order during six months ended 30 June 2018.

FUTURE PROSPECTS

Looking forward, there are certain risk that the Group will face in further development such as challenges from increase in paper cost and technological advancements in publishing and new forms of information dissemination. However, we remain cautiously optimistic of the second half of 2018 prospects and believe that the printing market will be sustainable in a steady and healthy way, and intend to continue to build our competitive strengths so as to increase market share and profitability. To achieve our goal, we plan to implement the following business strategies: improving our equipment and the level of automation, expanding customer base and strengthening sales and marketing coverage, and continuing to attract and retain top talent in the industry.

FINANCIAL REVIEW

Revenue

We generate revenue primarily from the provision of printing products to Hong Kong-based print brokers with customers in overseas markets and to international publishers mainly located in the U.S., U.K., Australia and Europe (excluding U.K.). Our revenue remained stable and slightly increased by approximately 0.5% from approximately HK\$197.3 million for the six months ended 30 June 2017, to approximately HK\$198.4 million for the six months ended 30 June 2018.

Costs of sales

Our cost of sales primarily consists of raw materials and consumables, staff costs, sub-contracting fees, depreciation and water and electricity. Our cost of sales remained stable and slightly decreased by approximately 0.8% from approximately HK\$140.0 million for the six months ended 30 June 2017 to approximately HK\$138.9 million for the six months ended 30 June 2018, which was mainly attributable to the decrease of our total sub-contracting fees as we obtained better pricing terms.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit and gross profit margin

Our gross profit was approximately HK\$57.3 million and HK\$59.5 million for the six months ended 30 June 2017 and 2018 respectively. Our gross profit margin was 29.0% and 30.0% respectively. The slight increase in our gross profit and gross profit margin was primarily due to (i) the increase in revenue and (ii) we recorded decreased total sub-contracting fees as we obtained better pricing terms.

Other income/(losses)

Other income/(losses) mainly consists of the gain on disposal of property, plant and equipment, exchange gain/loss, the profit arising from sale of paper and scrap materials and income received from government subsidies. We recorded other loss of approximately HK\$0.5 million during the six months ended 30 June 2017 and other income of HK\$3.0 million during the six months ended 30 June 2018. The increase was due to gain on disposal of machine and equipment, and increase in income received from government subsidies and increase in sale of paper and scrap materials during the six months ended 30 June 2018.

Administrative expenses

Administrative expense primarily consists of staff costs and benefits, directors' emoluments and rental and rates. The administrative expenses increased by approximately 8.5% from approximately HK\$35.3 million for the six months ended 30 June 2017 to approximately HK\$38.3 million for the six months ended 30 June 2018, which was mainly due to increase in directors' remuneration because of the increased number of directors and increase in professional fees following the listing.

Finance costs

We recorded finance costs of HK\$3.3 million during the six months ended 30 June 2017 and HK\$3.6 million during the six months ended 30 June 2018. Our finance costs increased by approximately 8.2% in the six months ended 30 June 2018 as compared to the same period in 2017, which was mainly due to increase in hire purchase loans.

Income tax

Income tax represents income tax paid or payable by us, at the applicable tax rates in accordance with the relevant laws and regulations in each tax jurisdiction our Group operates or domiciles. We had no tax payable in other jurisdiction other than Hong Kong and the PRC during the six months ended 30 June 2017 and 2018. Our operations in Hong Kong are subject to a statutory profit tax rate of 16.5%. Our operations in the PRC are subject to an enterprise income tax rate of 25.0%. We recorded income tax of HK\$1.0 million during the six months ended 30 June 2018, as compared to approximately HK\$2.3 million in the six months ended 30 June 2017 which decrease was mainly because we recorded higher income tax in the six months ended 30 June 2017 as we settled an under-provision of tax amounted to approximately HK\$1.0 million in April 2017 (details of which were set forth in the Prospectus).

Profit for the period

As a result of the foregoing, our profit for the period increased from approximately HK\$1.7 million during the six months ended 30 June 2017 to approximately HK\$5.2 million during the six months ended 30 June 2018, which was mainly due to (i) the increase of gross profit; and (ii) our increased other income mainly from government subsidies and the sale of paper and scrap materials.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2018, the Group had net current assets of approximately HK\$39.8 million (as at 31 December 2017: approximately HK\$45.0 million), of which the cash and cash equivalents were approximately HK\$4.3 million. The Group's current ratio as at 30 June 2018 is 1.2 (as at 31 December 2017: 1.2). The gearing ratio as at 30 June 2018 was 0.70 (as at 31 December 2017: 0.70) which is calculated on the basis of the Group's total bank loans, overdrafts and obligations under finance lease over the total equity.

Total bank borrowings, overdrafts and obligations under finance lease for the Group amounted to approximately HK\$194.7 million as at 30 June 2018 (as at 31 December 2017: approximately HK\$186.8 million). As at 30 June 2018, bank loans and overdrafts in the amounts of approximately HK\$148.7 million within one year while the amounts of approximately HK\$39.5 million are due after one year.

The Group adopts centralized financing and treasury policies in order to ensure the Group funding is utilized efficiently. The Group also regularly monitors its liquidity requirements, its compliance with lending covenants and its relationship with bankers to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long term.

CAPITAL STRUCTURE

The Group's shares were successfully listed on GEM on 13 December 2017 ("**Listing Date**"). There has been no change in the capital structure of the Group since the Listing Date and up to the date of this report.

CAPITAL EXPENDITURE

Our capital expenditure primarily comprised of purchase of property, plant and equipment such as machinery for production. Our capital expenditure was funded by net proceeds from the Listing, internal resources, finance leases and bank borrowings during the six months ended 30 June 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

The following sets forth our Group's capital expenditure as at the dates indicated:

	As at 30 June 2018 HK\$'000 (Unaudited)	As at 31 December 2017 HK\$'000 (Audited)
Property, plant and equipment	271,936	259,265
Intangible assets	845	915
Deposit for acquisition of property, plant and equipment	3,233	3,533
	276,014	263,713

CONTINGENT LIABILITIES


The Group is a party to a number of legal proceedings where the Group, as plaintiff, claims for unpaid fees with respect to the Group's printing services, all of which arose during the ordinary course of Group's business. Among such legal proceedings, the Group has been subject to a counterclaim by the Group's former customer in one legal proceeding as at 30 June 2018. Given that Mr. Lam and two former directors of the Company entered into arrangements in 2012 and 2013 to settle the unpaid trade receivable due and the legal advices, the counterclaim is not expected to have a significant impact on the consolidated financial statements.

COMMITMENTS

The total future minimum lease payments under non-cancellable operating leases payable within one year amounted to HK\$9.6 million as at 30 June 2018 (as at 31 December 2017: approximately HK\$10.3 million), while The total future minimum lease payments under non-cancellable operating leases payable after one year but within five years amounted to approximately HK\$14.1 million (as at 31 December 2017: approximately HK\$14.7 million).

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2018, the Group had 910 employees in total (as at 31 December 2017: 860).



The Directors and senior management receive compensation in the form of director fees, salaries, benefits in kind and/or discretionary bonuses with reference to those paid by comparable companies, time commitment and the performance of the Group. The Group also reimburses the Directors and senior management for expenses which are necessarily and reasonably incurred for the provision of services to the Group or executing their functions in relation to the operations of the Group. The Group regularly reviews and determines the remuneration and compensation packages of the Directors and senior management by reference to, among other things, market level of remuneration and compensation paid by comparable companies, the respective responsibilities of the Directors and the performance of the Group.

EVENTS AFTER THE REPORTING PERIOD

The Board is not aware of any events after the reporting period that requires disclosure.

MANAGEMENT DISCUSSION AND ANALYSIS

ACHIEVEMENT OF BUSINESS OBJECTIVES AS COMPARED WITH ACTUAL BUSINESS PROGRESS

Business objectives	Implementation plans	Actual business progress up to 30 June 2018
Improve our equipment and the level of automation	Upgrade other software and purchase accessory for machinery from time to time, so as to improve production efficiency.	Purchased one set of five-color press printing press and one set of hard-cover binding machine.
Expand customer base and strengthen sales and marketing coverages	<p>Implement the following measures from time to time:</p> <ul style="list-style-type: none"> • conduct site visits (through internal sales team or sales representatives) to at least ten potential international publishers and/or print brokers for business development in every calendar year; • conduct site visits (through internal sales team or sales representatives) to at least half of the top twenty customers to obtain after-sales feedback and maintain business contacts in every calendar year; • maintain and enhance our website to include more information of our printing capabilities; and • increase our exposure on the various online search platforms. 	<p>Upgraded website with more information of our printing capabilities.</p> <p>Conducted site visit to publisher, print broker and top ten customers who were based in Hong Kong and scheduled visits to more publisher, and customers.</p> <p>Engaged one additional external sales agent for overseas market.</p>
Attract and retain top talent in the industry	<ul style="list-style-type: none"> • Recruit one head of sales and customer services team, who will be responsible for developing clientele of publishers as well as print brokers. The candidate shall have at least ten years of experience in business development in printing industry. • Recruit two general sales staff to follow up with the potential client target identified by the head of sales team. The candidates shall have at least three years of experience in business development in printing industry. 	Recruited one head of sales and customer services team and two general sales staffs.

USE OF PROCEEDS

Based on the Offer Price of HK\$0.35 per Offer Share and 200,000,000 Shares offered by the Company, the net proceeds from the Share Offer to be received by the Company, after deducting the underwriting fees and commissions and estimated expenses paid and payable by the Company in relation to the Share Offer, are approximately HK\$34.7 million. Such net proceeds are intended to be or have been applied in accordance with the proposed applications as set out in the section headed “Use of Proceeds” in the Prospectus.

An analysis of the utilisation of the net proceeds from 1 January 2018 up to 30 June 2018 is set out below:

	Planned use of the net proceeds from 1 January 2018 to 30 June 2018 (HK\$ million)	Actual use of the net proceeds from 1 January 2018 to 30 June 2018 (HK\$ million)
Improve our equipment and level of automation	8.3	8.3
Expand customer base and strengthen sales and marketing coverages	0.3	0.3
Repayment of bank borrowings	12.2	12.2
Attract and retain top talent	0.3 <i>(Note)</i>	0.3
Total:	21.1	21.1

Note: We planned a total of HK\$1.5 million for use in attracting and retaining top talent from time to time for the three years of 2018, 2019 and 2020.

The business objectives, implementation plans and planned use of proceeds were based on the estimation and assumption of future market conditions made by the Group for the purpose of Listing. The actual use of proceeds was based on the Group’s business operations and development.

DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2018 (for the period ended 30 June 2017: Nil).

OTHER INFORMATION

CORPORATE GOVERNANCE PRACTICE

The Board is responsible for performing the corporate governance duties in the Corporate Governance Code and Corporate Governance Report (the “**CG Code**”) as set out in Appendix 15 of the GEM Listing Rules, which includes developing and reviewing the Company’s policies and practices on corporate governance, training and continuous professional development of Directors, and reviewing the Company’s compliance with the code provision in the CG Code and disclosures in this report.

The Company has complied with the principles and applicable code provisions of the CG Code for the six months ended 30 June 2018, except the deviation from CG Code provision A.2.1 as set out below.

Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

Mr. Lam Sam Ming (“**Mr. Lam**”) is the chairman and the chief executive officer of the Company. Mr. Lam has over 35 years of experience in the printing industry. Mr. Lam established our Group through L & L Limited in December 1992. Since then he has been in charge of the overall business strategies and operation of our Group. The Directors are of the view that it would be in the Group’s best interest for Mr. Lam to continue performing the two roles in terms of effective management and business development. The Directors further believe that the balance of power and authority is adequately ensured by the operations of the Board, which comprises experienced and high-caliber individuals, with three of them being independent non-executive Directors.

Based on the above factors, the Board considers that the deviation from the code provision A.2.1 of the CG Code is appropriate.

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

The Company has adopted Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct for securities transactions by the Directors in respect of the Shares (the “**Code of Conduct**”). Having made specific enquiries to all Directors, each of them has confirmed that he/she has fully complied with the required standard of dealings set out in the Code of Conduct during the six months ended 30 June 2018.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the “**Scheme**”), the principal terms of which are summarised in the sub-section headed “Appendix V — Statutory and General Information — D. Share Option Scheme” in the Prospectus.

No share option has been granted or exercised under the Scheme during the six months ended 30 June 2018. No share option was outstanding as at 30 June 2018.

PURCHASE, SALE OR REDEMPTION OF THE SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Shares for the six months ended 30 June 2018.

DISCLOSURE OF INTERESTS

(a) Interests and/or short positions of Directors in the Shares, underlying shares or debentures of our Company and its associated corporations

As at 30 June 2018, our Directors had the following interests and/or short positions in the shares, underlying shares or debentures of our Company and its associated corporations (within the meaning of Part XV the SFO) which will have to be notified to our 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 will be required pursuant to section 352 of the SFO to be entered in the register referred to therein, or pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by our Directors, will be required to be notified to our Company and the Stock Exchange:

(i) Interests in our Company

Name of Director	Capacity	Number of Shares (Note 1)	Percentage of interest in our Company
Mr. Lam (Note 2)	Interest of controlled corporation	480,000,000 (L)	60%
Ms. Yao (Note 3)	Interest of spouse	480,000,000 (L)	60%

Notes:

1. The letter "L" denotes the person's long positions in the Shares.
2. These 480,000,000 Shares are held by First Tech, which is wholly and beneficially owned by Mr. Lam. As such, Mr. Lam is deemed to be interested in these 480,000,000 Shares under the SFO.
3. Ms. Yao is the spouse of Mr. Lam. Under the SFO, Ms. Yao is deemed to be interested in the same number of Shares in which Mr. Lam is interested.

OTHER INFORMATION

Mr. Ong Chor Wei, our non-executive Director, is also a director of a Singapore listed company, Net Pacific Financial Holdings Limited. According to the annual report of Net Pacific Financial Holdings Limited for the financial year ended 31 December 2017, Mr. Ong Chor Wei is deemed to be interested in the shares held by Quad Sky Limited by virtue of him owning 100% of the equity interest in Head Quator Limited which in turn owns 50% of the equity interest in Quad Sky Limited, which owns approximately 10.22% of the issued share capital of Net Pacific Financial Holdings Limited. Together with the 0.60% of the issued share capital of Net Pacific Financial Holdings Limited directly owned by him, Mr. Ong Chor Wei has an approximately 10.82% deemed interest in the issued share capital of Net Pacific Financial Holdings Limited. Net Pacific Financial Holdings Limited wholly-owns Net Pacific Finance Group Limited.

Net Pacific Finance Group Limited has subscribed for 10,000,000 class A shares in Fine Time. Holders of class A shares in Fine Time do not have voting rights at general meetings of Fine Time but all shareholders of Fine Time share the profits and risks of Fine Time according to their respective total contribution in debt and equity to Fine Time. As Net Pacific Finance Group Limited contributed HK\$10,000,000 out of the total debt and equity contribution received by Fine Time of HK\$22,000,000, Net Pacific Finance Group Limited holds 45.4% of the economic interest in Fine Time. However, Net Pacific Finance Group Limited does not hold any voting rights in Fine Time and accordingly, Net Pacific Finance Group Limited is not the controlling shareholder of Fine Time.

(ii) *Interests in associated corporation of our Company*

Name of Director	Name of associated corporation	Capacity	Number of shares held	Percentage of shareholding interest
Mr. Lam	First Tech	Beneficial owner	50,000	100%

Save as disclosed above, as at 30 June 2018, none of our Directors had any interests and/or short position in the shares, underlying shares or debentures of our Company and its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our 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 will be required pursuant to section 352 of the SFO to be entered in the register referred to therein or pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors.

(b) Interests and/or short position of substantial shareholders in the Shares which are discloseable under Divisions 2 and 3 of Part XV of the SFO

So far as is known to our Directors, as at 30 June 2018, the following persons (not being a Director or chief executive of our Company) had an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be interested in 10% or more of the total number of issued Shares of share capital carrying rights to vote in all circumstances at general meetings of any other members of our Group:

Name of substantial shareholder	Capacity	Number of Shares (Note 1)	Percentage of interest in our Company
First Tech (Note 2)	Beneficial owner	480,000,000 (L)	60%
Fine Time (Note 3)	Beneficial owner	120,000,000 (L)	15%

Notes:

1. The letter “L” denotes the person’s long positions in the Shares.
2. First Tech is a company incorporated in the BVI which is wholly and beneficially owned by Mr. Lam, an executive Director.
3. For information regarding the shareholding structure of Fine Time, please refer to the sub-section headed “History, Reorganisation and Corporate Structure — Pre-IPO Investment — Information regarding Fine Time” in the Prospectus.

Save as disclosed above, so far as is known to our Directors, as at 30 June 2018, there are no other person (not being a Director or chief executive of our Company) who had an interest or a short position in the Shares or underlying shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be interested in 10% or more of the voting power at general meetings or any other members of our Group.

DIRECTORS’ INTERESTS IN COMPETING BUSINESS

Other than members of the Group, none of the Directors or their respective close associates (as defined in the GEM Listing Rules) has interest in any business which competes or is likely to compete, directly or indirectly, with the business of the Group.

OTHER INFORMATION

INTERESTS OF COMPLIANCE ADVISER

As notified by the compliance adviser of the Company, Kingsway Capital Limited (“**Kingsway**”), as at 30 June 2018, save as (1) Kingsway’s participation as the sole sponsor in relation to the Listing; (2) Kingsway’s affiliated company, Kingsway Financial Services Group Limited as one of the joint bookrunners and joint lead managers in relation to the Listing; and (3) the compliance adviser agreement entered into between the Company and Kingsway Capital Limited, neither Kingsway nor its directors, employees or associates had any interest in relation to the Group which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

AUDIT COMMITTEE

The Company established an audit committee (the “**Audit Committee**”) on 15 November 2017 with its written terms of reference in compliance with the GEM Listing Rules. The Audit Committee has reviewed the unaudited consolidated financial results of the Group for the six months ended 30 June 2018. The Audit Committee is of the opinion that such financial results comply with the applicable accounting standards and the GEM Listing Rules, and that adequate disclosures have been made.

By order of the Board of
Prosperous Printing Company Limited
Lam Sam Ming
Chairman and Executive Director

Hong Kong, 8 August 2018

As at the date of this report, the executive Directors are Mr. Lam Sam Ming, Ms. Chan Sau Po and Ms. Yao Yuan; the non-executive Director is Mr. Ong Chor Wei; and the independent non-executive Directors are Ms. Cheung Yin, Mr. Wong Hei Chiu and Mr. Leung Vincent Gar-Gene.