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Prosperous Printing Company Limited
萬 里 印 刷 有 限 公 司

(Incorporated in Hong Kong with limited liability)

(Stock code: 8385)

ANNOUNCEMENT OF UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

CHARACTERISTICS OF THE GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

*This announcement, for which the directors (the "**Directors**", each a "**Director**") of Prosperous Printing Company Limited (the "**Company**") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "**GEM Listing Rules**") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

FINANCIAL HIGHLIGHTS

- The revenue increased by approximately 6.7% from approximately HK$432.5 million for year ended 31 December 2018, to approximately HK$461.6 million for the year ended 31 December 2019. The increase was primarily due to the increase in orders from the customers for leisure and lifestyle books.

- The gross profit was approximately HK$127.3 million and HK$133.4 million for the year ended 31 December 2018 and 2019 respectively. The gross profit margin was 29.4% and 28.9% respectively. The increase in gross profit was primarily due to the increase in sales order.

- The profit for the year decreased from approximately HK$24.3 million for the year ended 31 December 2018 to approximately HK$17.9 million for the year ended 31 December 2019, representing a decrease of 26.6%, which was mainly due to increase in other operating expenses and provision of PRC Corporate Income Tax, partially offset by the compensation received for the Shenzhen Factory relocation.

- The Board has resolved not to declare the payment of any dividend for the year ended 31 December 2019 (2018: nil).

UNAUDITED CONSOLIDATED RESULTS

For the reasons explained below under "Review of Unaudited Annual Results", the auditing process for the annual results of Prosperous Printing Company Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") has not been completed. In the meantime, the board (the "**Board**") of directors (each, a "**Director**") of the Company is pleased to announce the unaudited consolidated results of the Group for the year ended 31 December 2019 as follows:

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2019
(Expressed in Hong Kong dollars)

	Note	**2019** *HK$'000* **(Unaudited)**	2018 *HK$'000* (Audited)
Revenue	*4(a)*	**461,561**	432,538
Cost of sales		**(328,147)**	(305,250)
Gross profit		**133,414**	127,288
Other income	*5*	**24,076**	10,554
Distribution costs		**(28,431)**	(27,955)
Administrative expenses		**(74,724)**	(70,897)
Other operating expenses		**(16,747)**	—
Profit from operations		**37,588**	38,990
Finance costs	*6(a)*	**(8,803)**	(8,221)
Profit before taxation	*6*	**28,785**	30,769
Income tax	*7*	**(10,926)**	(6,434)
Profit for the year		**17,859**	24,335
		HK Cents	*HK Cents*
Earnings per share			
Basic and diluted	*8*	**2.23**	3.04

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 3.

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2019
(Expressed in Hong Kong dollars)

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Profit for the year	**17,859**	24,335
Other comprehensive loss for the year, net of Nil tax		
Items that may be reclassified subsequently to profit or loss		
Exchange differences arising on translation of foreign operations	**(3,003)**	(6,551)
Total comprehensive income for the year	**14,856**	17,784

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 3.

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

(Expressed in Hong Kong dollars)

	Note	2019 HK$'000 (Unaudited)	2018 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment		**236,326**	252,951
Intangible assets		**627**	755
Financial assets at fair value through profit or loss		**2,407**	2,433
Investments in key management insurance policies		**8,536**	8,343
Deposits for acquisition of property, plant and equipment		**2,369**	—
		250,265	264,482
Current assets			
Inventories		**73,030**	86,318
Trade and other receivables	*10*	**179,227**	143,789
Pledged bank deposits		**8,908**	6,843
Cash and cash equivalents		**29,116**	35,448
		290,281	272,398
Current liabilities			
Trade and other payables	*11*	**44,563**	58,961
Bank loans and overdrafts		**138,059**	142,470
Lease liabilities		**13,543**	5,282
Tax payable		**8,366**	1,473
		204,531	208,186
Net current assets		**85,750**	64,212

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

As at 31 December 2019

(Expressed in Hong Kong dollars)

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Total assets less current liabilities	**336,015**	328,694
Non-current liabilities		
Bank loans	**20,227**	30,243
Lease liabilities	**9,327**	7,045
Deferred tax liabilities	**5,873**	5,674
	35,427	42,962
NET ASSETS	**300,588**	285,732
CAPITAL AND RESERVES		
Share capital	**100,843**	100,843
Reserves	**199,745**	184,889
TOTAL EQUITY	**300,588**	285,732

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 3.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Hong Kong dollars)

1. GENERAL INFORMATION

Prosperous Printing Company Limited (the "**Company**") was incorporated in Hong Kong on 23 December 1992 with limited liability under the Hong Kong Companies Ordinance. The shares of the Company were listed on GEM of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 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

The preliminary announcement of the Company's annual results has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited. It was authorised for issue on 31 March 2020.

This financial information has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the requirements of the Companies Ordinance. This financial information is presented in Hong Kong dollars ("**HK$**") and all values are rounded to the nearest thousand ("**HK$'000**") except when otherwise indicated.

The unaudited financial information relating to the year ended 31 December 2019 and the financial information relating to the year ended 31 December 2018 included in this preliminary announcement of annual results does not constitute the Company's statutory annual consolidated financial statements for those years but, in respect of the year ended 31 December 2018, is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance ("**Companies Ordinance**") is as follows:

- The financial statements for the year ended 31 December 2019 have yet to be reported on by the Company's auditor and will be delivered to the Registrar of Companies in due course. As of the date of this announcement, the Company's auditors have yet to report on these financial statements.

- The Company has delivered the financial statements for the year ended 31 December 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

- The Company's auditor, Crowe (HK) CPA Limited, has reported on these financial statements for the year ended 31 December 2018. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

3. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of these developments have had a material effect on how the Group's results and the financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, Leases

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases — incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("**short-term leases**") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(a) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(b) Lessee accounting

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment.

(c) Transitional impact

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 4.65%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019
	HK$'000
Operating lease commitments at 31 December 2018 *(Audited)*	13,929
Less: commitments relating to leases exempt from capitalisation:	
– short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(9,454)
Less: total future interest expenses	(135)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	4,340
Add: finance lease liabilities recognised as at 31 December 2018	12,327
Total lease liabilities recognised at 1 January 2019 *(Unaudited)*	16,667

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of HKFRS 16, other than changing the captions for the balances. Accordingly, instead of "obligations under finance leases", these amounts are included within "lease liabilities", and the depreciated carrying amount of the corresponding leased asset is identified as a right-of-use asset. There is no impact on the opening balance of equity.

The Group presents right-of-use assets in 'property, plant and equipment' and presents lease liabilities separately in the statement of financial position.

4. REVENUE AND SEGMENT REPORTING

(a) Revenue

Revenue represents the amounts received and receivable from sales of books and paper products and provision of sub-contracting services.

(b) 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 makers ("**CODM**"), for the purpose of resource 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.

(i) Information about major customers

The Group's customer base is diversified and includes two customers (2018: two) with whom transactions have exceeded 10% of the Group's revenue for the year ended 31 December 2019. Revenue arising from sales of books and paper products to these customers, including sales to entities which are known to the Group to be under common control with each of these customers, for the year ended 31 December 2019 was HK$105,405,000 (2018: HK$105,309,000) and HK$83,099,000 (2018: HK$64,707,000) respectively.

(ii) Information about geographical areas

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, intangible assets and deposits for acquisition of property, plant and equipment ("**specified non-current assets**"). The geographical location of customers is based on the location of external customers. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, and the location of the operation to which they are allocated, in the case of intangible assets.

	Revenue from external customers		**Specified non-current assets**	
	2019	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)
Hong Kong (place of domicile)	**245,823**	213,089	**139,354**	139,443
Mainland China	**16,255**	27,336	**99,968**	114,263
United States	**189,397**	142,242	**—**	—
United Kingdom ("**UK**")	**4,666**	27,965	**—**	—
Australia	**908**	3,315	**—**	—
Other countries	**4,512**	18,591	**—**	—
	461,561	432,538	**239,322**	253,706

Revenue from the individual countries included in other countries is not significant.

5. OTHER INCOME

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Bank interest income	**378**	426
Interest income from investments in key management insurance policies	**348**	281
Profit arising from sales of scrap materials	**3,098**	3,172
Government grants		
— compensation for relocation of factory in the PRC	**16,165**	—
— other government subsidies	**1,472**	2,681
Net foreign exchange gain	**2,285**	3,638
Loss on disposal of property, plant and equipment	**—**	(877)
Change in fair value of financial assets at fair value through profit or loss	**26**	(140)
Bad debt recovery	**—**	1,009
Sundry income	**304**	364
	24,076	10,554

6. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
(a) Finance costs		
Interest on bank loans and overdrafts	**7,081**	7,004
Interest on lease liabilities	**1,016**	504
Other borrowing costs	**706**	713
Total interest expense on financial liabilities not at fair value through profit or loss	**8,803**	8,221
(b) Staff costs (including directors' emoluments)		
Contribution to defined contribution retirement plans	**9,222**	9,677
Salaries, wages and other benefits	**84,382**	92,080
	93,604	101,757
(c) Other items		
Auditors' remuneration — audit services	**1,200**	1,170
Amortisation cost of intangible assets	**113**	118
Depreciation charge#		
— owned property, plant and equipment*	**10,753**	12,253
— right-of-use assets*	**13,018**	6,175
	23,771	18,428
Impairment losses on trade receivables	**1,599**	407
Total minimum lease payments for leases previously classified as operating lease under HKAS 17*#	**—**	9,707
Expense relating to short-term leases with remaining lease term ending on or before 31 December 2019	**5,852**	—
Professional fee for application for transfer of listing^	**3,846**	—
Factory relocation expenses^		
— loss on disposal of property, plant and equipment	**10,668**	—
— others	**2,233**	—
	12,901	—
Cost of finished goods#	**328,147**	305,250

* The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. The depreciated carrying amount of the finance lease assets which were previously included in property, plant and equipment is also identified as a right-of-use asset. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. The Group has also applied one of the practical expedients permitted by HKFRS 16 to account for lease with remaining lease term ended on or before 31 December 2019 as short-term lease. See Note 3.

^ Professional fee for application for transfer of listing and factory relocation expenses were presented in "Other operating expenses" in the consolidated statement of profit or loss.

Cost of finished goods includes HK$74,157,000 (2018: HK$81,906,000) relating to staff costs, lease liabilities and depreciation expenses, which are also included in the respective total amounts disclosed separately above or in Note 6(b) for each of these types of expenses.

7. INCOME TAX

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Current tax — Hong Kong Profits Tax		
Provision for the year	**2,716**	2,874
Under/(over)-provision in respect of prior years	**1,006**	(363)
Current tax — PRC Corporate Income Tax		
Provision for the year	**6,991**	2,535
Under-provision in respect of prior years	**14**	92
Deferred tax	**199**	1,296
	10,926	6,434

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

Pursuant to the rules and regulations of the British Virgin Islands, the Group is not subject to any income tax in the jurisdiction.

For the year ended 31 December 2019 and 2018, Hong Kong Profits Tax of the qualified entity of the Group is calculated in accordance with the two-tiered profits tax rates regime. Under the two-tiered profits tax rate regime, the first HK$2 million of profits of a qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of other group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at the flat rate of 16.5%.

8. 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$17,859,000 (unaudited) (2018: HK$24,335,000 (audited)) and weighted average of 800,000,000 (unaudited) (2018: 800,000,000 (audited)) ordinary shares of the Company in issue throughout the year.

(b) Diluted earnings per share

There were no dilutive potential ordinary shares during the years ended 31 December 2019 and 2018, and therefore, diluted earnings per share is the same as the basic earnings per share.

9. DIVIDEND

The board of directors of the Company has resolved not to declare a dividend for the year ended 31 December 2019 (2018: Nil).

10. TRADE AND OTHER RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables	**175,899**	147,854
Less: loss allowance	**(14,022)**	(12,423)
Trade receivables, net of loss allowance	**161,877**	135,431
Other receivables	**2,209**	643
Financial assets measured at amortised cost	**164,086**	136,074
Prepayments	**10,802**	4,356
Utility and other deposits	**1,487**	593
Other tax recoverable	**2,852**	2,766
	179,227	143,789

Depending on the requirements of the market and business, the Group may extend credit to its customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by management and interest may be charged by the Group for overdue trade receivable balances at rates determined by the Group with reference to market practice. In the opinion of the directors, there is no significant concentration of credit risk. An aging analysis of the Group's trade receivables, based on the invoice date and net of loss allowance, is as follows:

	2019 *HK$'000* (Unaudited)	2018 *HK$'000* (Audited)
Within 1 month	**34,207**	44,197
1 to 3 months	**65,263**	40,984
3 to 6 months	**41,832**	31,407
6 to 12 months	**12,679**	16,095
Over 1 year	**7,896**	2,748
	161,877	135,431

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

11. TRADE AND OTHER PAYABLES

	2019 *HK$'000* (Unaudited)	2018 *HK$'000* (Audited)
Trade creditors	**18,573**	37,582
Accrued staff costs	**5,585**	6,649
Other accruals	**1,615**	1,675
Other payables	**16,724**	12,807
Other tax payable	**54**	106
Receipts in advance	**2,012**	142
	44,563	58,961

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

	2019 *HK$'000* (Unaudited)	2018 *HK$'000* (Audited)
Within 1 month	**6,286**	10,114
1 to 3 months	**9,773**	22,371
3 to 6 months	**2,322**	4,837
6 to 12 months	**49**	197
Over 1 year	**143**	63
	18,573	37,582

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a provider of printing products to Hong Kong-based print brokers with customers in overseas markets and to international publishers mainly located in the United States of America (the "**U.S.**"), the United Kingdom (the "**U.K.**"), Australia and Europe (excluding U.K.). The products comprise mainly books and other paper-related products. Paper and ink are the principal raw materials of the Group. The 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 the Group, and they share the printing workload allocated by the management. Notwithstanding the intense market competition, the Group achieved a slight increase in revenue as a result of increase of sales order for the year ended 31 December 2019. We have completed the relocation of Shenzhen Factory as of 10 December 2019. We experienced Labour Strike during the reporting period and the participating workers have incrementally resumed duty afterwards. For further details, please refer to the announcements dated 25 June 2019 and 15 July 2019 respectively. The Company submitted a formal application to the Stock Exchange on 25 October 2019 for the Proposed Transfer of Listing from GEM to Main Board, and further update announcement will be made in this regard as and when appropriate.

OUTLOOK

Looking forward, there are certain risks that the Group will face in further development such as challenges from the uncertainty of economies by reason of, among others, the U.S.-China trade dispute, an increase in paper cost and technological advancements in publishing and new forms of information dissemination. However, we remain cautiously optimistic of the prospects and believe that the printing market will be sustainable in a steady and healthy way, and intend to continue to build the Group's competitive strengths so as to increase market share and profitability. To achieve its goal, the Group plans to implement the following business strategies: improving the its 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.

An outbreak of respiratory illness caused by a novel coronavirus ("**COVID-19**") was first emerged in Wuhan city, Hubei province, China in late 2019 and which continues to expand within the PRC and globally. The new strain of COVID-19 is considered highly contagious and may pose a serious public health threat. On 23 January 2020, the PRC government announced the lockdown of Wuhan city in an attempt to quarantine the city. Since then, certain measures including travel restrictions had been imposed in other major cities in the PRC in an effort to contain the COVID-19 outbreak. The World Health Organization ("**WHO**") is closely monitoring and evaluating the situation. On 30 January 2020, the WHO declared the outbreak of COVID-19 a Public Health Emergency of International Concern (PHEIC). As at the date of this announcement, the virus had spread across China and to over 50 countries and territories globally, and death toll and number of infected cases continued to rise. The outbreak, which may result in a high number of fatalities, is likely to have an adverse impact on the livelihood of the people in and the economy of the PRC, the United States, South Korea, northern Italy and Iran, where community transmission of COVID-19 is active, as well as other countries and territories if the situation escalates. As the WHO has recognized the outbreak as a pandemic on 11 March 2020, the global economic environment may be adversely impacted, with the possibility of the PRC, the U.S. and other global economies falling into recession. The spreading coronavirus may have serious implications for the global economy due to a slowdown at manufacturing sites in the PRC as well as reduced demand by PRC consumers or customers of other countries/territories being affected. The COVID-19 outbreak may have a severe impact on the production industry, as employees and staff may be required to stay home due to the coronavirus and the demand for production may also be adversely due to economy slowdown, resulting in less orders for the Group's products from its customers.

Since late-January 2020, the Group has implemented several measures including epidemic prevention and control, cancellation and rescheduling visits of customers in accordance with relevant national and local regulations on epidemic prevention and control, to ensure the health and safety of customers and employees and customer. The Group's specific prevention measures include (i) rescheduled the date of resumption of work of the Shenzhen Factory after Chinese New Year to 17 February 2020; and (ii) requesting the employees who have been to Hubei Province since 22 January 2020 to report for duty upon further notice from the Group; (iii) requesting each employee to report his/her travel history and any symptoms; and (iv) maintaining a safe and hygienic workplace. The Board pays great attention to the development of the COVID-19 and makes every effort on epidemic prevention and control and daily operation management. Despite that the uncertainty of the COVID-19 still subsists, the Group currently does not expect material adverse impact on its business operations and financial performance of the Group.

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 increased by approximately 6.7% from approximately HK$432.5 million for the year ended 31 December 2018, to approximately HK$461.6 million for the year ended 31 December 2019. The increase was primarily due to the increase in orders from the customers for leisure and lifestyle books.

Cost of Sales

The cost of sales primarily consists of raw materials and consumables, staff costs, sub-contracting fees, depreciation and water and electricity. The cost of sales increased by approximately 7.5% from approximately HK$305.3 million for the year ended 31 December

2018 to approximately HK$328.1 million for the year ended 31 December 2019. The increase was primarily attributable to the increase in costs of raw materials and consumables and sub-contracting fees to support the increase in revenue and also driven by the increase in average costs of paper used.

Gross profit and gross profit margin

The gross profit was approximately HK$127.3 million and HK$133.4 million for the year ended 31 December 2018 and 2019 respectively. The gross profit margin was 29.4% and 28.9% respectively. The increase in gross profit primarily due to the increase in the sales order. The Group's gross profit margin decreased from 29.4% for the year ended 31 December 2018 to 28.9% for the year ended 31 December 2019. The decrease was primarily attributable to the increase in the cost of sales which was driven by the increase in the average cost of paper used.

Other income

Other income mainly consists of the foreign exchange gain/loss, the profit arising from sales of scrap materials and government grants. The other income increased by approximately 128.1% from approximately HK$10.6 million for the year ended 31 December 2018 to HK$24.1 million for the year ended 31 December 2019. The increase was due to the one-off received for compensation for relocation of the Shenzhen Factory.

Other operating expenses

Other operating expenses primarily consist of professional fee incurred for the proposed transfer of listing to the Main Board and Shenzhen Factory relocation expenses. Our other operating expenses amounted to nil for the year ended 31 December 2018 and become HK$17.0 million for year ended 31 December 2019, which is mainly due to professional fee for the Group's proposed transfer to Main Board and expenses relating to relocation of Shenzhen Factory (such as disposal of machinery and furniture) recorded as other operating expenses during 2019.

Administrative expenses

Administrative expense primarily consists of staff costs and benefits, directors' emoluments and depreciation. The administrative expenses increase by approximately 5.4% from approximately HK$70.9 million for the year ended 31 December 2018 to HK$74.7 million for the year ended 31 December 2019 mainly due to increase in rental expenses of new factory and increase in provision of expected credit loss.

Finance costs

The Group recorded finance costs of approximately HK$8.2 million for the year ended 31 December 2018 and HK$8.8 million for the year ended 31 December 2019. The finance costs increased by approximately 7.1% in the year ended 31 December 2019 as compared to the same period in 2018. The increase in finance costs was primarily due to increase in lease liabilities.

Income tax

Income tax represents income tax paid or payable by the Group, at the applicable tax rates in accordance with the relevant laws and regulations in each tax jurisdiction the Group operates or domiciles. The Group had no tax payable in other jurisdiction other than Hong Kong and the PRC for the year ended 31 December 2018 and 2019. The operations in Hong Kong are subject to the two-tiered profits tax rate regime, which the first HK$2 million of profits of qualifying entity will be taxed at 8.25% and profits above HK$2 million will be taxed at 16.5%. The operations in the PRC are subject to a corporate income tax rate of 25.0%. The Group recorded income tax of approximately HK$10.9 million for the year ended 31 December 2019 and approximately HK$6.4 million for the year ended 31 December 2018. The increase was primarily due to increase in provision of PRC Corporate Income Tax due to the increase in other income arising from the compensation for the relocation of Shenzhen Factory.

Profit for the year

As a result of the foregoing, the profit for the year decreased from approximately HK$24.3 million during the year ended 31 December 2018 to approximately HK$17.9 million for the year ended 31 December 2019, representing a decrease of 26.6%, which was mainly due to increase in other operating expenses and provision of PRC corporate income tax as a result of increase in other income arising from the compensation for the relocation of Shenzhen Factory, partially offset by the compensation received for the Shenzhen Factory relocation.

Liquidity, Financial Resources and Capital Structure

As at 31 December 2019, the Group had net current assets of approximately HK$85.8 million (31 December 2018: net current assets of HK$64.2 million), of which the cash and cash equivalents were approximately HK$29.1 million (31 December 2018: HK$35.4 million). The Group's current ratio is 1.4 (31 December 2018: 1.3). Total bank borrowings, overdrafts and lease liabilities for the Group amounted to HK$181.2 million as at 31 December 2019 (31 December 2018: HK$185.0 million). As at 31 December 2019, bank borrowings of HK$154.3 million are denominated in Hong Kong dollars while bank borrowings of HK$4.0 million were denominated in US Dollars. The effective interest rates are in the range of 3.00%-6.50% per annum. The gearing ratio as at 31 December 2019 was 0.60 (31 December 2018: 0.65) which is calculated on the basis of the Group's total bank loans, overdrafts and lease liabilities over the total equity. As at 31 December

2019, bank loans and overdrafts in the amounts of HK$138.1 million within one year while the amounts of HK$20.2 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. The Shares were listed on GEM on 13 December 2017. There has been no change in the capital structure of the Group since then. The capital structure of the Company comprised ordinary shares only.

Foreign Currency Management

We are exposed to currency risk primarily through our sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily U.S. dollars, Renminbi, GBP and JPY. We have not entered into or transacted any other financial instruments for hedging purpose during the year ended 31 December 2019. Our Directors will determine by reference to our currency risk management policies, assess our exposure to foreign exchange risk, consider whether or not and to what extent we should enter into similar forward foreign exchange contracts and monitor them in line with our currency risk management policies.

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 internal resources, finance leases and bank borrowings during the year ended 31 December 2019.

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

	As at 31 December	
	2019	2018
	HK$'000	*HK$'000*
Property, plant and equipment	**236,326**	252,951
Intangible assets	**627**	755
Deposit for acquisition of property, plant and equipment	**2,369**	—
	239,322	253,706

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 31 December 2019. 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.

Significant investments, material acquisitions and disposals of subsidiaries, associates and joint ventures

There was no significant investment held by the Group nor any material acquisition or disposal of subsidiary, associate and joint venture for the year ended 31 December 2019.

Future plans for material investments or capital assets

As at the date of this announcement, the Board does not have any plan for material investments or additions of capital assets.

CHARGE ON GROUP ASSETS

As at 31 December 2019, the bank facilities were secured by bank deposits of the Group, financial assets at fair value through profit or loss, the Group's trade receivables, 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. These banking facilities amounted to HK$329,781,000 (2018: HK$314,781,000) as at 31 December 2019. These facilities were utilized to the extent of HK$158,286,000 (2018: HK$172,713,000) as at 31 December 2019. Pledged bank deposits are HK$8.9 million as at 31 December 2019 (31 December 2018: HK$6.8 million). As at 31 December 2019, the Group's properties and machinery (as included in plant and equipment) with carrying amounts of HK$116,272,000 (2018: HK$120,817,000) and HK$5,517,000 (2018: HK$6,263,000), respectively, were pledged as collateral for the Group's banking facilities.

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 announcement.

COMMITMENTS

The capital commitments outstanding as at 31 December 2019 not provided for in the financial statements were HK$2.0 million (2018: Nil) for purchase of property, plant and equipment.

Treasury policy

The Group adopted a prudent financial management approach towards its treasury policies and maintained a healthy liquidity position throughout the Reporting Period. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements from time to time.

Employees and remuneration policy

As at 31 December 2019, the Group had 781 employees in total. The staff costs of the Group (including directors' emoluments, and management, administrative and operational staff costs) for the year ended 31 December 2019 were approximately HK$93.6 million (2018: HK$101.8 million). 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. For long-term incentive scheme, the Company adopted a share option scheme on 15 November 2017 and it aims to provide additional incentive to any eligible persons of the Group and to promote the success of the Group's business.

Events after the Reporting Period

In January 2020, COVID-19 was emerged in China. For details, please refer to "Management Discussion and Analysis – Outlook" in this announcement.

Subsequent to the year ended 31 December 2019, Great Wall Printing Company Limited, a wholly-owned subsidiary of the Company, as purchaser, entered into a purchase agreement with Komori Hong Kong Limited, as vendor, dated 26 February 2020 in relation to the sale and purchase of a sheet fed offset press with UV preparation at the consideration of US$1,570,000. Such transaction constituted a discloseable transaction of the Company under the GEM Listing Rules. Please refer to the announcements of the Company dated 26 February 2020 and 27 February 2020 for further details.

DIVIDENDS

The Board does not recommend the payment of a final dividend for the year ended 31 December 2019 (for the year ended 31 December 2018: Nil).

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 announcement.

The Company has complied with the principles and applicable code provisions of the Corporate Governance Code contained in Appendix 15 to the Rules Governing the Listing of Securities on GEM (the "**GEM Listing Rules**") for the year ended 31 December 2019, save and except that 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 the Group through L & L in December 1992. Since then he has been in charge of the overall business strategies and operation of the 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.

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 36 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 for the year ended 31 December 2019.

PURCHASE, SALE OR REDEMPTION OF THE SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Shares during the year ended 31 December 2019.

REVIEW OF UNAUDITED ANNUAL RESULTS

The Group's unaudited consolidated results for the year ended 31 December 2019 have been reviewed and agreed by the audit committee of the Board. The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2019 have not been agreed by the Group's auditor, Crowe (HK) CPA Limited ("**Auditors**") as required under Rule 18.49 of the GEM Listing Rules. An announcement relating to the Group's audited results for the year ended 31 December 2019 will be published when the auditing process has been completed in accordance with Hong Kong Standards on Auditing issued by HKICPA.

DELAY IN PUBLICATION OF AUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019 AND DELAY IN DESPATCH OF THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

The preliminary financial results of the Group for the year ended 31 December 2019 have not been agreed by the Auditors.

As a result of the outbreak of the novel coronavirus epidemic, the ability to conduct an audit of the Group's consolidated financial statements has been affected, mainly as a result of the travel restrictions and quarantine measures. The Company currently expects that more time will be required to complete the audit work in the PRC.

It is therefore expected that more time will be required to complete the audit work of the Group's consolidated financial statements and there will be a delay in the publication of audited annual results announcement of the Group for the year ended 31 December 2019 and the despatch of the Company's annual report for the year ended 31 December 2019.

Based on preliminary agreement with the Auditors and having considered the current progress of the audit work, it is currently expected that, barring unforeseen circumstances, the audit of the final results for the year ended 31 December 2019 will be completed in April 2020. The Company currently expects that the audited annual results announcement of the Group and the annual report of the Company for the year ended 31 December 2019 will be published by 30 April 2020.

The financial information contained herein in respect of the annual results of the Group have not been audited and have not been agreed with the auditors. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

By Order of the Board
Prosperous Printing Company Limited
Lam Sam Ming
Executive Director

Hong Kong, 31 March 2020

As at the date of this announcement, 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.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that, to the best of their knowledge and belief, the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will remain on the GEM website (www.hkgem.com) for at least seven days from the day of its posting. This announcement will also be published on the Company's website at www.prosperous-printing-group.com.hk.