



## Prosperous Printing Company Limited

萬里印刷有限公司

*(incorporated in Hong Kong with limited liability)*

**(Stock code: 8385)**

*Executive Directors:*

Mr. Lam Sam Ming (*Chairman*)

Ms. Yao Yuan

Ms. Chan Sau Po

*Registered Office and Principal Place of*

*Business in Hong Kong:*

3/F, Yip Cheung Centre,

10 Fung Yip Street,

Chai Wan, Hong Kong

*Independent non-executive Directors:*

Ms. Cheung Yin

Mr. Wong Hei Chiu

Mr. Leung Vincent Gar-Gene

26 January 2022

*To the Qualifying Shareholders, and for information only, to the Excluded Shareholders,*

Dear Sir or Madam,

**PROPOSED RIGHTS ISSUE ON THE BASIS OF  
THREE (3) RIGHTS SHARES FOR EVERY TWO (2) EXISTING SHARES  
HELD ON RECORD DATE;  
AND  
NOTICE OF GM**

**INTRODUCTION**

Reference is made to the Announcement of the Company in relation to, among other things, the Rights Issue. The Rights Issue is conditional upon the Underwriting Agreement having become unconditional and not being terminated in accordance with the terms thereof.

The purpose of this circular is to provide you with further details of the Rights Issue and the notice of GM.

## PROPOSED RIGHTS ISSUE

The Company proposes to implement the Rights Issue on the basis of three (3) Rights Shares for every two (2) existing Shares held on the Record Date at the Subscription Price of HK\$0.044 per Rights Share, to raise up to approximately HK\$52.8 million (before expenses) by issuing up to 1,200,000,000 Rights Shares to the Qualifying Shareholders.

On 29 December 2021 (after trading hours), the Company entered into the Underwriting Agreement with the Underwriter, pursuant to which the Underwriter has conditionally agreed to underwrite, on a best effort basis, the Underwritten Shares up to 660,000,000 (other than those agreed to be taken up by First Tech pursuant to the Irrevocable Undertakings), subject to the terms and conditions set out in the Underwriting Agreement, in particular the fulfilment of the conditions precedent contained therein. Details of the major terms and conditions precedent of the Underwriting Agreement are set out in the section headed "The Underwriting Agreement" in this circular.

Further details of the Rights Issue are set out below:

### Issue statistics

Basis of the Rights Issue	: three (3) Rights Shares for every two (2) existing Shares held on the Record Date
Subscription Price	: HK\$0.044 per Rights Share
Number of existing Shares in issue as at the Latest Practicable Date	: 800,000,000 Shares
Number of Rights Shares	: Up to 1,200,000,000 Rights Shares, assuming no further issue of new Share(s) and no repurchase of Share(s) on or before the Record Date
Number of Shares as enlarged by the allotment and issue of the Rights Shares	: Up to 2,000,000,000 Rights Shares, assuming no further issue of new Share(s) and no repurchase of Share(s) on or before the Record Date
Maximum funds to be raised before expenses	: Up to approximately HK\$52.8 million, assuming no further issue of new Share(s) and no repurchase of Share(s) on or before the Record Date
Right of excess applications	: Qualifying Shareholders may apply for Rights Shares in excess of their provisional allotment

The Company does not have any options outstanding under any share option scheme of the Company or any other derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into Shares as at the Latest Practicable Date.

The nil-paid Rights Shares proposed to be provisionally allotted pursuant to the terms of the Rights Issue represents 150.00% of the Company's issued share capital as at the Latest Practicable Date and 60.00% of the Company's issued share capital as enlarged by the allotment and issue of the Rights Shares immediately after completion of the Rights Issue assuming no further issue of new Share(s) other than the Rights Shares and no repurchase of Share(s) on or before completion of the Rights Issue.

**The Rights Issue is only underwritten on a best effort basis and there are no requirements for minimum levels of subscription in respect of the Rights Issue. Subject to fulfilment or satisfaction of the conditions precedent of the Rights Issue, the Rights Issue shall proceed regardless of its level of acceptances, and up to 1,200,000,000 Rights Shares can be subscribed subject, however, to any Scaling-down vis-a-vis the MGO Obligation.**

In the event of under-subscription, any Rights Shares not taken up by the Qualifying Shareholders whether under PAL(s) or EAF(s), or transferees of nil-paid Rights Shares, and not subscribed by subscribers procured by the Underwriter will not be issued, and hence, the size of the Rights Issue will be reduced accordingly. Investors are advised to exercise caution when dealing in the Shares.

#### **Irrevocable Undertakings**

As at the Latest Practicable Date, First Tech is interested in an aggregate of 480,000,000 Shares, representing 60.00% of the existing issued share capital of the Company. Pursuant to the Irrevocable Undertakings, First Tech has unconditionally and irrevocably undertaken to the Company, among other things, that (i) it shall accept and subscribe its entitlement to the provisional allotment of 540,000,000 Rights Shares; and (ii) it shall not sell, transfer or otherwise dispose of the Shares held by it in any manner before the completion or lapse of the Rights Issue. First Tech will subscribe the Rights Shares up to a level such that the Public Float Requirement will be complied with upon completion of the Rights Issue and will not subscribe any additional Rights Shares other than the aforesaid 540,000,000 Rights Shares.

#### **Subscription Price**

The Subscription Price is HK\$0.044 per Rights Share, payable in full upon acceptance of the relevant provisional allotment of Rights Shares and, where applicable, application for Excess Rights Shares under the Rights Issue or when a transferee of nil-paid Rights Shares applies for the Rights Shares.

The Subscription Price represents:

- (i) a discount of approximately 34.33% to the closing price of HK\$0.067 per Share as quoted on the Stock Exchange on the Last Trading Day;

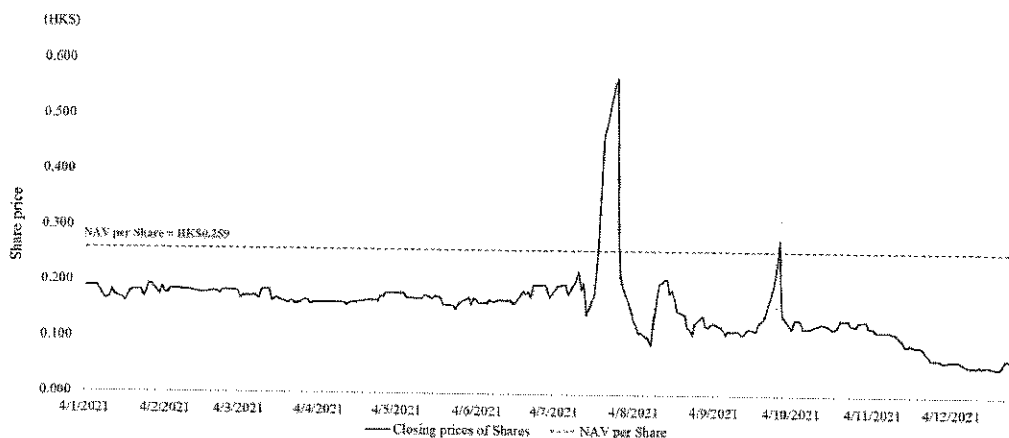
- (ii) a discount of approximately 31.25% to the average of the closing prices of approximately HK\$0.064 per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day;
- (iii) a discount of approximately 25.42% to the average of the closing prices of approximately HK\$0.059 per Share as quoted on the Stock Exchange for the ten consecutive trading days up to and including the Last Trading Day;
- (iv) a discount of approximately 33.33% to the average of the closing prices of approximately HK\$0.066 per Share as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the Last Trading Day;
- (v) a discount of approximately 16.98% to the theoretical ex-rights price of approximately HK\$0.053 per Share as adjusted for the effect of the Rights Issue, based on the closing price of HK\$0.067 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (vi) a discount of approximately 83.01% to the net asset value (“NAV”) per Share of approximately HK\$0.2590 as at 30 September 2021, based on the unaudited equity attributable to the Shareholders of approximately HK\$207.2 million as at 30 September 2021 and 800,000,000 issued Shares as at the Latest Practicable Date;
- (vii) a theoretical dilution effect (as defined under Rule 10.44A of the GEM Listing Rules) of approximately 20.60%; and
- (viii) a discount of approximately 8.33% to the closing price of HK\$0.048 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The net price per Rights Share (i.e. Subscription Price less cost and expenses incurred in the Rights Issue) upon full acceptance of the provisional allotment of Rights Shares will be approximately HK\$0.043.

As stated in the Company’s annual report for the year ended 31 December 2020 (the “**2020 Annual Report**”) and quarterly report for the nine months ended 30 September 2021 (the “**2021 Third Quarterly Report**”), the financial performance of the Group for the year ended 31 December 2020 and the nine months ended 30 September 2021 has been adversely affected by the prolonged COVID-19 pandemic and overall global economy uncertainty. For the year ended 31 December 2020, the Group recorded a net loss of approximately HK\$100.8 million as compared to a profit of approximately HK\$18.2 million for the year ended 31 December 2019, primarily attributable to (i) a decline in revenue by approximately 39.6% as a result of the COVID-19 pandemic and overall global economy uncertainty; (ii) a decrease in profit margin mainly due to the aggressive pricing strategy in the challenging business environment during the year; and (iii) impairment losses on certain inventories and accounts receivables. For the nine months ended 30 September 2021, the Group recorded a decrease in revenue by approximately 6.7% as compared to the corresponding period in 2020 due to a decrease in sales orders affected by the COVID-19 pandemic and overall global economy uncertainty and incurred a net loss of approximately HK\$4.5 million.

As at 30 June 2021, the Group had net current assets of approximately HK\$0.6 million, of which (i) pledged bank deposits and cash and cash equivalents were approximately HK\$5.2 million and HK\$9.6 million, respectively; and (ii) bank loans and overdrafts due within one year amounted to approximately HK\$148.5 million. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern, as stated in the interim report of the Company for the six months ended 30 June 2021 (the "2021 Interim Report").

As at 30 September 2021, the NAV per Share was approximately HK\$0.2590. As illustrated in the Share price chart below, the Shares have been traded at a discount to the NAV per Share (the "Discounts") in most of the time (i.e. 238 out of 245 trading days, or approximately 97.1% of the trading days) during the last 12 months from 4 January 2021 to 29 December 2021 (the "Review Period"). The Discounts ranged from approximately 10.04% to approximately 79.54% with an average and median of approximately 42.59% and 36.68%, respectively. Having considered (i) the financial performance of the Group for the year ended 31 December 2020 and the nine months ended 30 September 2021; (ii) the current financial position of the Group; and (iii) the prevailing market prices of the Shares which have been generally low during the last 12 months, the Directors (including the members of the Independent Board Committee) consider the discount represented by the Subscription Price to the NAV per Share to be fair and reasonable.



The Subscription Price was set at a discount to the recent closing prices of the Shares aiming at lowering the further investment cost of the Shareholders so as to encourage them to take up their entitlements to maintain their shareholdings in the Company, thereby minimising dilution impact. The Subscription Price was determined after arm's length negotiation between the Company and the Underwriter with reference to, among other things, (i) the market price of the Shares under the prevailing market conditions; (ii) the recent business performance and financial position of the Group; and (iii) the reasons for and benefits of Rights Issue as discussed in the section headed "Reasons for and benefits of the Rights Issue" in this circular.

The Directors (including the members of the Independent Board Committee) consider the terms of the Rights Issue, including the Subscription Price, to be fair and reasonable and in the best interests of the Company and the Shareholders as a whole, after taking into account that (i) the Qualifying Shareholders who do not wish to take up their provisional entitlements under the Rights Issue are able to sell the nil-paid rights in the market; (ii) the Rights Issue allows the Qualifying Shareholders to subscribe for their pro-rata Rights Shares for the purpose of maintaining their respective existing shareholding interests in the Company and apply for Excess Rights Shares subject to the level of acceptance; (iii) the proceeds from the Rights Issue can fulfil the working capital requirement and development plan of the Group; and (iv) the Subscription Price was determined with reference to the prevailing market prices and the recent business performance and financial position of the Group.

### **Qualifying Shareholders**

The Company will send the Prospectus Documents to the Qualifying Shareholders only. For the Excluded Shareholders, the Company will send copies of the Prospectus to them for their information only, but no PAL and EAF will be sent to the Excluded Shareholders. To qualify for the Rights Issue, a Shareholder must be registered as a member of the Company and not be an Excluded Shareholder on the Record Date.

Shareholders whose Shares are held by nominee companies (or which are deposited in CCASS) should note that the Board will regard a nominee company (including HKSCC Nominees Limited) as a single Shareholder according to the register of members of the Company. Shareholders with their Shares held by nominee companies (or which are deposited in CCASS) are advised to consider whether they would like to arrange for registration of the relevant Shares in the name of the beneficial owner(s) prior to the Record Date. Shareholders and investors of the Company should consult their professional advisers if they are in doubt.

In order to be registered as members of the Company on the Record Date, a Shareholder must lodge the relevant transfer(s) of Share(s) (with the relevant share certificates) with the Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:30 p.m. on Wednesday, 23 February 2022.

The last day of dealing in the Shares on cum-rights basis is Monday, 21 February 2022. The Shares will be dealt with on an ex-rights basis from Tuesday, 22 February 2022.

**Qualifying Shareholders who do not take up the Rights Shares to which they are entitled and Excluded Shareholders should note that their shareholdings in the Company will be diluted.**

### **Rights of Overseas Shareholders**

The Prospectus Documents are not intended to be registered under the applicable securities legislation of any jurisdiction other than Hong Kong. Overseas Shareholder(s) may not be eligible to take part in the Rights Issue as explained below.

In compliance with the necessary requirements of the GEM Listing Rules, the Company will make enquiries regarding the feasibility of extending the Rights Issue to the Overseas Shareholder(s) (if any). If based on legal opinions provided by the legal advisers to the Company, the Directors consider that it is necessary or expedient not to offer the Rights Shares to the Overseas Shareholder(s) on account either of the legal restrictions under the laws of the relevant place(s) or the requirements of the relevant regulatory body or stock exchange in that (those) place(s), the Rights Issue will not be extended to such Overseas Shareholder(s). As at the Latest Practicable Date, there is no Overseas Shareholder with registered addresses situated outside of Hong Kong.

The basis for excluding the Excluded Shareholder(s), if any, from the Rights Issue will be set out in the Prospectus. The Company will send the Prospectus only (without the PAL and the EAF) and a letter explaining the circumstances in which the Excluded Shareholders are not permitted to participate in the Rights Issue to the Excluded Shareholders for their information only.

Arrangements will be made for Rights Shares which would otherwise have been provisionally allotted to the Excluded Shareholder(s) to be sold in the market in their nil paid form as soon as practicable after dealings in the nil-paid Rights Shares commence, if a premium (net of expenses) can be obtained. The proceeds of such sale, less expenses and stamp duty, of more than HK\$100 will be paid pro rata to the relevant Excluded Shareholder(s). The Company will retain individual amounts of HK\$100 or less for the benefit of the Company. Any unsold entitlement of Excluded Shareholder(s) to the Rights Shares and any Rights Shares provisionally allotted but not accepted by the Qualifying Shareholders will be made available for excess applications by Qualifying Shareholders under the EAF(s).

**Overseas Shareholders should note that they may or may not be entitled to the Rights Issue subject to the results of the enquiries made by the Company pursuant to the GEM Listing Rules. Accordingly, Overseas Shareholders should exercise caution when dealing in the securities of the Company.**

#### **Closure of register of members**

The register of members of the Company will be closed from Thursday, 24 February 2022 to Wednesday, 2 March 2022 (both dates inclusive) for determining the Shareholders' entitlements to the Rights Issue.

No transfer of Shares will be registered during the above book closure periods.

#### **Basis of provisional allotments**

The basis of the provisional allotment shall be three (3) Rights Shares for every two (2) existing Shares in issue and held by the Qualifying Shareholders at the close of business on the Record Date at the Subscription Price payable in full on acceptance and otherwise on the terms and subject to the conditions set out in the Underwriting Agreement and the Prospectus Documents.

Application for all or any part of a Qualifying Shareholder's provisional allotment should be made by lodging a duly completed PAL and a cheque or a banker's cashier order for the sum payable for the Rights Shares being applied for with the Registrar on or before the Latest Time for Acceptance. Any holdings (or balance of holdings) of less than two (2) Shares will not entitle their holders to be provisionally allotted a Rights Share. Please refer to the arrangement as referred to in the paragraph headed "Fractional entitlements of the Rights Shares" below.

#### **Fractional entitlements of the Rights Shares**

In any event, fractions of the Rights Shares will not be provisionally allotted to any of the Qualifying Shareholders. Fractional entitlements will be rounded down to the nearest whole number of Rights Shares. Any Rights Shares created from the aggregation of fractions of the Rights Shares will be made available for excess application by the Qualifying Shareholders as described in the paragraph headed "Application for Excess Rights Shares" below. Should there be no excess application by the Qualifying Shareholders, those Rights Shares created from the aggregation of fraction of the Rights Shares may or may not be taken up by the Underwriter.

#### **Status of the Rights Shares**

The Rights Shares, when allotted and issued, shall rank *pari passu* in all respects with the Shares then in issue. Holders of fully-paid Rights Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of allotment of the Rights Shares in their fully-paid form.

#### **Share certificates and refund cheques for the Rights Issue**

Subject to the fulfillment of the conditions of the Rights Issue, certificates for all fully paid Rights Shares are expected to be posted to those entitled thereto by ordinary post at their own risk on or before Friday, 25 March 2022. Refund cheques in respect of wholly or partially unsuccessful applications for Excess Rights Shares (if any) are expected to be posted on or before Friday, 25 March 2022 by ordinary post to the applicants at their own risk, to their registered addresses.



### Application for Excess Rights Shares

The Company shall make the Excess Rights Shares available for subscription by the Qualifying Shareholders by means of EAF, and the Excess Rights Shares represent:

- (i) any nil-paid Rights Shares provisionally allotted but not accepted by any of the Qualifying Shareholders or otherwise subscribed for by transferees of nil-paid Rights Shares prior to the Latest Time for Acceptance;
- (ii) subject to the provisions of the Underwriting Agreement, any entitlements of the Excluded Shareholders provisionally allotted to a nominee of the Company which are left unsold;
- (iii) any of the Rights Shares created from the aggregation of fractions of the Rights Shares; and
- (iv) the Scale-down PAL Shares (if any) and the Scale-down EAF Shares (if any).

Application for Excess Rights Shares can be made by the Qualifying Shareholders only and by duly completing and signing an EAF (in accordance with the instructions printed therein) and lodging the same with a separate remittance for the Excess Rights Shares being applied for with the Registrar no later than 4:00 p.m. on Thursday, 17 March 2022.

- (i) The Directors will, upon consultation with the Underwriter, allocate any Excess Rights Shares at their discretion on a fair and equitable basis on the following principles:
- (ii) any Excess Rights Shares will be allocated to Qualifying Shareholders who apply for them on a pro rata basis by reference to the number of the Excess Rights Shares applied for;
- (iii) reference will only be made to the number of Excess Rights Shares being applied for but no reference will be made to the Rights Shares subscribed through applications by PALs or the existing number of Shares held by Qualifying Shareholders;
- (iv) if the aggregate number of Rights Shares not taken up by the Qualifying Shareholders and/or transferees of nil-paid Rights Shares under the PALs is greater than the aggregate number of Excess Rights Shares applied for through the EAFs, the Company will allocate to each Qualifying Shareholder who applies for Excess Rights Shares in full application; and
- (v) no preference will be given to topping up odd-lots to whole board lots.

Shareholders with their Shares held by a nominee company (or which are deposited in CCASS) should note that the Board will regard such nominee company (including HKSCC Nominees Limited) as a single Shareholder according to the register of members of the Company. Accordingly, Shareholders should note that the aforesaid arrangement in

relation to the allocation of the excess Rights Shares will not be extended to the relevant beneficial owners individually save and except for the beneficial owner(s) which the Company may permit in its absolute discretion. Shareholders with their Shares held by a nominee company (or which are held in CCASS) are advised to consider whether they would like to arrange for the registration of the relevant Shares under their own names on or prior to the Record Date for the purpose of the Rights Issue. Shareholders who would like to have their names registered on the register of members of the Company on the Record Date, must lodge all necessary documents with the Registrar for registration by no later than 4:30 p.m. on Wednesday, 23 February 2022. Shareholders and investors of the Company should consult their professional advisers if they are in doubt as to their status.

#### **Scale-down of subscriptions to avoid the triggering of the MGO Obligation**

Pursuant to the Underwriting Agreement, as the Rights Issue is only underwritten by the Underwriter on a best effort basis, and so as to avoid the unwitting triggering of the MGO Obligation, all applications for Rights Shares whether under the PAL(s) or the EAF(s), or by transferees of nil-paid Rights Shares, or by subscribers procured by the Underwriter will be made on the basis that the applications are to be scaled-down by the Company to a level which does not trigger an MGO Obligation on the part of the applicant or parties acting in concert with him/her/it. Any subscription monies for the Scale-down PAL Shares or the Scale-down EAF Shares will be refunded to the applicants, and the Scale-down PAL Shares and the Scale-down EAF Shares will be made available for subscription by other Qualifying Shareholders through the EAF(s).

In addition, under and/or pursuant to the Scaling-down, any application for Rights Shares, whether under PAL(s) or EAF(s), shall be subject to the scale-down mechanisms of the Rights Issue as determined by the Company to levels which do not trigger any MGO Obligation. Where the MGO Obligation is triggered by the exceeding of shareholding by certain Shareholder(s), the applications of these Shareholders shall be scaled down to levels which do not trigger any MGO Obligation.

#### **Arrangement on odd lots trading**

In order to facilitate the trading of odd lots (if any) of the Shares, the Company will appoint a designated broker to arrange for matching service on a best effort basis regarding the sale and purchase of odd lots of the Shares for a limited period of time. Shareholders should note that matching of the sale and purchase of odd lots of the Shares is not guaranteed. Any Shareholder who is in any doubt about the odd lots arrangement is recommended to consult his/her/its own professional advisers. Further details in respect of the odd lots trading arrangement will be set out in the Prospectus.

#### **Application for listing of the Rights Shares**

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and the permission to deal in, the Rights Shares, in both their nil-paid and fully-paid forms.

Subject to the granting of the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Rights Shares in both their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement dates of the dealings in the Rights Shares in both their nil-paid and fully-paid forms or such other dates as may be determined by HKSCC.

Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Dealing in the Rights Shares in both their nil-paid and fully-paid forms which are registered in the register of members of the Company in Hong Kong will be in the board lots of 10,000 Rights Shares and will be subject to the payment of stamp duty, Stock Exchange trading fee, SFC transaction levy, investor compensation levy or any other applicable fees and charges in Hong Kong.

Shareholders are advised to consult their professional advisers if they are in doubt as to the taxation implications of the receipt, purchase, holding, exercising, disposing of or dealing in, the nil-paid Rights Shares or the fully-paid Rights Shares and, regarding Excluded Shareholders, their receipt of the net proceeds, if any, from sales of the nil-paid Rights Shares on their behalf.

#### **Condition of the Rights Issue**

The Rights Issue is conditional upon the Underwriting Agreement having become unconditional and not being terminated in accordance with the terms thereof.

### **THE UNDERWRITING AGREEMENT**

#### **The Underwriting Agreement**

On 29 December 2021 (after trading hours), the Company entered into the Underwriting Agreement with the Underwriter, pursuant to which the Underwriter has conditionally agreed to underwrite, on a best effort basis, the Underwritten Shares up to 660,000,000 (other than those agreed to be taken up by First Tech pursuant to the Irrevocable Undertakings), subject to the terms and conditions set out in the Underwriting Agreement, in particular the fulfilment of the conditions precedent contained therein.

#### **Principal terms of the Underwriting Agreement**

Date : 29 December 2021 (after trading hours)  
Underwriter : Sorrento Securities Limited

- Number of Rights Shares to be underwritten : Up to 660,000,000 Rights Shares (other than those agreed to be taken up by First Tech pursuant to the Irrevocable Undertakings) underwritten by the Underwriter on a best effort basis pursuant to the terms and conditions of the Underwriting Agreement
- Underwriting Commission : 1% of the aggregate Subscription Price in respect of the Underwritten Shares actually procured by the Underwriter for subscription pursuant to the Underwriting Agreement

The Underwriter is a company incorporated in Hong Kong with limited liability and a corporation licensed to carry on Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the SFO whose ordinary course of business includes underwriting of securities. To the best of the Directors' knowledge, information and belief, the Underwriter and its ultimate beneficial owner(s) are Independent Third Parties.

The terms of the Underwriting Agreement, including the underwriting commission rate, were determined after arm's length negotiation between the Company and the Underwriter with reference to the existing financial position of the Group, the size of the Rights Issues, and the current and expected market condition. There is no minimum underwriting commission charged by the Underwriter. If no subscriber is procured by the Underwriter, the Company is not required to pay any commission fee to the Underwriter. Given (i) there is no minimum fee charged by the Underwriter; (ii) the underwriting commission fee of 1% is in line with the market rate; and (iii) it is difficult to identify underwriters which are willing to fully underwrite any unsubscribed Rights Shares under the current market conditions, the Directors (including the members of the Independent Board Committee) consider that it is in the interests of the Company to engage the Underwriter on a best-effort-underwritten basis.

The Directors (including the members of the Independent Board Committee) consider the terms of the Underwriting Agreement (including the underwriting commission) to be fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Save for the Underwriting Agreement, the Company has not entered into any agreement, arrangement, understanding or undertaking in regard of the Rights Issue with the Underwriter or any of its connected persons and their respective associate.

### Conditions of the Underwriting Agreement

The Underwriting Agreement is conditional upon the following conditions being fulfilled or waived (as appropriate):

- (i) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked the approval for the listing of, and permission to deal in, the Rights Shares (in their nil-paid and fully-paid forms) prior to the Latest Time for Termination;
- (ii) the filing and registration of all the Prospectus Documents (together with any other documents required by applicable law or regulation to be annexed thereto) with the Registrar of Companies in Hong Kong by no later than the Prospectus Posting Date;
- (iii) the posting of the Prospectus Documents to the Qualifying Shareholders and the posting of the Prospectus to the Excluded Shareholders for information only, if any, by no later than the Prospectus Posting Date;
- (iv) the Underwriting Agreement not being terminated by the Underwriter pursuant to the terms hereof on or before the Latest Time for Termination;
- (v) there being no breach of the undertakings and obligations of the Company under the terms of the Underwriting Agreement at the Latest Time for Termination;
- (vi) the Company having complied with all applicable laws and regulations;
- (vii) each party having obtained all necessary consent and/or approval for entering into the Underwriting Agreement or the transactions contemplated herein;
- (viii) the entering into of binding agreements by the Underwriter with certain subscriber(s) procured by the Underwriter and/or sub-underwriter(s), which shall be Independent Third Parties, for placing and/or sub-underwriting the Rights Shares, such that neither the Underwriter nor any of the subscriber(s) procured by the Underwriter and/or subunderwriter(s) and/or party or parties acting in concert (having the meaning as set out in the Takeovers Code) with the respective subscribers or any of the connected persons or associates of the respective subscribers shall be interested in 30% or more of the issued share capital of the Company as enlarged by the Rights Issue;
- (ix) each condition to enable the Rights Shares in their nil-paid or fully-paid forms to be admitted as eligible securities for deposit, clearance and settlement in CCASS having been satisfied on or before the Business Day prior to the commencement of trading of the Rights Shares (in their nil paid and fully-paid forms, respectively) and no notification having been received by the Company from HKSCC by such time that such admission or facility for holding and settlement has been or is to be refused;
- (x) there being no Specified Event occurring on or before the Latest Time for Termination;

(xi) the Underwriter having received from the Company all the documents required under the Underwriting Agreement in such form and substance satisfactory to the Underwriter; and

(xii) First Tech having provided the Irrevocable Undertakings.

Save for the conditions (v) and (xi) which can be waived by the Underwriter and the Company jointly, none of the above conditions can be waived. If any of the conditions referred to above is not fulfilled, or waived (where applicable) by the Latest Time for Termination, the Rights Issue will not proceed.

## **REASONS FOR AND BENEFITS OF THE RIGHTS ISSUE**

The Group is principally engaged in the provision 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 the U.K.). The Group's products comprise mainly books and other paper-related products.

### **Circumstances leading to the Rights Issue**

The financial performance of the Group for the year ended 31 December 2020 and the nine months ended 30 September 2021 has been adversely affected by the prolonged COVID-19 pandemic and overall global economy uncertainty.

For the year ended 31 December 2020, the Group recorded a net loss of approximately HK\$100.8 million, primarily attributable to (i) a decline in revenue by approximately 39.6% as a result of the COVID-19 pandemic and overall global economy uncertainty; (ii) a decrease in profit margin mainly due to the aggressive pricing strategy in the challenging business environment during the year; and (iii) impairment losses on certain inventories and accounts receivables, resulting in an operating cash outflow of approximately HK\$15.1 million. As at 31 December 2020, the Group had (i) pledged bank deposits and cash and cash equivalents of approximately HK\$9.1 million and HK\$1.6 million, respectively; (ii) bank loans and overdrafts of approximately HK\$159.6 million which were due for repayment within a year; and (iii) net current assets of approximately HK\$7.3 million. The auditors of the Company stated in the 2020 Annual Report that the above conditions indicated the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

As at 30 June 2021, the net current assets of the Group decreased to approximately HK\$0.6 million, of which (i) pledged bank deposits and cash and cash equivalents were approximately HK\$5.2 million and HK\$9.6 million, respectively; and (ii) bank loans and overdrafts due within one year amounted to approximately HK\$148.5 million. For the nine months ended 30 September 2021, the Group recorded a decrease in revenue by approximately 6.7% as compared to the corresponding period in 2020 due to a decrease in sales orders affected by the COVID-19 pandemic and overall global economy uncertainty and incurred a net loss of approximately HK\$4.5 million. All these indicate the Group is currently under liquidity pressure and facing a material uncertainty in relation to going concern.

As disclosed in the 2020 Annual Report and the 2021 Interim Report, to manage its liquidity needs and improve its financial position, the Group has taken or will take the following measures, including but not limited to: (i) the Group will continue to make use of its resources with an aim to attain positive and sustainable cash flow from operations; (ii) the Group is putting extra efforts on collecting its trade and other receivables; (iii) the Group entered into sale and leaseback arrangements in January 2021 to dispose of certain of its properties at a cash consideration of HK\$13.5 million with a view to improving cashflow and reducing the gearing and interest expenses of the Group, and is seeking for opportunities to dispose other properties; (iv) the Group is in discussions with its bankers to timely renew or extend its existing banking facilities; and (v) the Group will actively and regularly review its capital structure and source additional capital by raising new debt financing, issuing new shares or selling the Group's properties, where appropriate.

The financial performance of the Group largely hinges on its business growth in overseas markets where the COVID-19 pandemic is not under effective control. For the two years ended 31 December 2020 and six months ended 30 June 2021, revenue generated from overseas markets (excluding the PRC and Hong Kong) accounted for approximately 43.2%, 46.0% and 47.2% of the Group's total revenue. As at the Latest Practicable Date, Omicron, a new COVID-19 variant, has been found in many countries including the U.S. and the U.K. As a result, the performance of the Group in these markets may be adversely affected. As stated in the 2021 Third Quarterly Report, there are certain risks that the Group will face in further development such as challenges from the uncertainty of economies by reasons of, among others, COVID-19 and the U.S.-China trade dispute.

While the Group has been implementing various measures to ease its liquidity pressure and improve its financial position as mentioned above, it plans to implement the following business strategies with a view to improving its profitability, as stated in the 2021 Third Quarterly Report: (i) improving its equipment and the level of automation; (ii) expanding customer base and strengthening sales and marketing coverage; and (iii) continuing to attract and retain top talent in the industry.

Taking into account (i) the Group's material uncertainty in relation to going concern due to its loss-making position and current financial position; (ii) the worsening financial performance of the Group since the outbreak of COVID-19 in early 2020; and (iii) the risks and uncertainties associated with emerging COVID-19 variants in the Group's overseas markets, the Directors (including the members of the Independent Board Committee) consider that there is an imminent need for the Company to conduct the Rights Issue to (i) ease the liquidity pressure and improve the financial position of the Group; and (ii) implement its business strategies with a view to improving its profitability.

### **Alternative means of fund raising**

The Company have considered other alternative means of fund raising, such as debt financing/bank borrowings and placing of new Shares, before resolving to the Rights Issue. The Company has considered the pros and cons of different fund-raising options. In respect of debt financing, the Company considers it is difficult to obtain any debt financing at terms that are acceptable to the Company given its current financial performance and financial position. In addition, the Company does not consider debt financing to be desirable given the requirement of interest payments and the impact on the Group's gearing position. The gearing ratio of the Group, being total bank loans, overdrafts and lease liabilities divided by total equity, was approximately 0.94 as at 30 June 2021 (as at 31 December 2020; approximately 0.96). Placing of new Shares is not adopted as it does not allow the Qualifying Shareholders the rights to participate in the fund-raising exercise and their shareholdings in the Company would be diluted without being offered an opportunity to maintain their proportionate interests in the Company.

In comparison, the Rights Issue is pre-emptive in nature, allowing the Qualifying Shareholders to maintain their respective pro-rata shareholding through their participation in the Rights Issue. The Rights Issue allows the Qualifying Shareholders to (i) increase their respective interests in the shareholding of the Company by acquiring additional rights entitlement in the open market (subject to the availability); or (ii) reduce their respective interests in the shareholding of the Company by disposing of their rights entitlements in the open market (subject to the market demand). As an open offer does not allow the trading of rights entitlements, rights issue is preferred. Accordingly, the Directors (including the members of the Independent Board Committee) consider that fund raising through the Rights Issue is in the interests of the Company and the Shareholders as a whole.

As at the Latest Practicable Date, other than the Rights Issue, the Company did not have any other fund-raising plan.

### **INTENDED USE OF PROCEEDS**

Assuming full subscription under the Rights Issue, the net proceeds from the Rights Issue after deducting the expenses are estimated to be approximately HK\$51.4 million (assuming no further issue of new Share(s) and no repurchase of Share(s) on or before the Record Date).

The Company intends to apply the net proceeds from the Rights Issue as to:

- (i) approximately HK\$30.8 million (or approximately 60% of the net proceeds) for the development of the Group's existing printing business, including but not limited to (a) upgrading equipment with higher level of automation; (b) expanding customer base and strengthening sales and marketing coverage; and (c) attracting and retaining top talent in the industry; and



- (ii) approximately HK\$20.6 million (or approximately 40% of the net proceeds) for general corporate and working capital purposes, including but not limited to settling trade and other payables, staff salaries, wages and other benefits, rental expenses and interests on bank loans and overdrafts.

In the event that there is an under-subscription of the Rights Issue, the net proceeds of the Rights Issue will be applied in proportion to the above uses.

Provided that First Tech has taken up its Rights Share under the Irrevocable Undertakings and none of the other Qualifying Shareholders have taken up any of their entitled Rights Shares and the Underwriter does not take up any Rights Share, the number of Rights Share to be issued is 480,000,000 and the minimum net proceeds from the Rights Issue after deducting the expenses are estimated to be approximately HK\$19.7 million. For details, please refer to note 4 in the section headed "Change in the shareholding structure of the Company arising from the Rights Issue" below.

### CHANGE IN THE SHAREHOLDING STRUCTURE OF THE COMPANY ARISING FROM THE RIGHTS ISSUE

For illustration purposes only, set out below is the shareholding structure of the Company as at the Latest Practicable Date, and the effect on the shareholding structure of the Company upon completion of the Rights Issue in the manner contemplated under the Underwriting Agreement:

Name of the shareholders	As at the Latest Practicable Date		Immediately upon completion of the Rights Issue Provided that First Tech has taken up its Rights Share under the Irrevocable Undertakings and all other Shareholders have taken up all their entitled Rights Shares		Immediately upon completion of the Rights Issue Provided that First Tech has taken up its Rights Share under the Irrevocable Undertakings and none of the other Qualifying Shareholders have taken up any of their entitled Rights Shares with all the Underwritten Shares being subscribed for through the Underwriter		Immediately upon completion of the Rights Issue provided that First Tech has taken up its Rights Share under the Irrevocable Undertakings and none of the other Qualifying Shareholders have taken up any of their entitled Rights Shares and the Underwriter does not take up any Rights Share	
	Number of issued		Number of issued		Number of issued		Number of issued	
	Shares	Approximate %	Shares	Approximate %	Shares	Approximate %	Shares	Approximate %
First Tech (Note 1)	480,000,000	60.00%	1,020,000,000 (Note 2)	51.00%	1,020,000,000 (Note 2)	51.00%	960,000,000 (Note 4)	75.00%
The Underwriter and/ or its subscriber(s) procured by it	—	0.00%	180,000,000 (Note 3)	9.00%	660,000,000 (Note 3)	33.00%	—	0.00%
Public Shareholders	320,000,000	40.00%	800,000,000	40.00%	320,000,000	16.00%	320,000,000 (Note 4)	25.00%
<b>Total</b>	<b>800,000,000</b>	<b>100.00%</b>	<b>2,000,000,000</b>	<b>100.00%</b>	<b>2,000,000,000</b>	<b>100.00%</b>	<b>1,280,000,000</b>	<b>100.00%</b>

*Notes:*

1. First Tech is a company incorporated in the British Virgin Islands which is wholly and beneficially owned by Mr. Lam, an executive Director.

2. First Tech has provided the Irrevocable Undertakings to the Company to, among other things, accept and subscribe its entitlement to the provisional allotment of 540,000,000 Rights Shares. First Tech will not subscribe any additional Rights Shares other than the aforesaid 540,000,000 Rights Shares.
3. Pursuant to Rule 11.23 of the GEM Listing Rules, the Company has a responsibility to maintain the Public Float Requirement. As such, pursuant to the Underwriting Agreement, the Underwriter shall confirm with the Company the actual number of Untaken Shares as at the Latest Time for Acceptance, and shall procure for subscription therefor on a best effort basis whilst using its best endeavours to ensure that (i) each of the subscribers of the Untaken Shares procured by the Underwriter (or the Underwriter concerned, whichever shall be appropriate) shall be an Independent Third Party and not connected with the Company, any of the Directors or chief executive or substantial Shareholders or their respective associates; (ii) the Public Float Requirement be fulfilled by the Company upon completion of the Rights Issue; and (iii) the Underwriter or each subscriber procured by the Underwriter (together with parties acting in concert with the respective subscribers or any of the connected persons or associates of the respective subscribers) shall not hold in aggregate 30% or more of the voting rights of the Company immediately after the Rights Issue.
4. For illustrative purpose, if (i) First Tech has taken up its Rights Share of 540,000,000 under the Irrevocable Undertakings; (ii) none of the other Qualifying Shareholders have taken up any of their entitled Rights Shares; and (iii) the Underwriter does not take up any Rights Share, First Tech would be interested in an aggregate of 1,020,000,000 Shares, representing approximately 76.12% of the enlarged issued share capital of the Company, which would result in non-compliance with the Public Float Requirement on the part of the Company. Under such circumstance, First Tech shall reduce its subscription amount to a level which would not result in non-compliance with the Public Float Requirement on the part of the Company. As a result, First Tech shall only take up 480,000,000 Rights Shares and shall be interested in an aggregate of 960,000,000 Shares, representing approximately 75.00% of the enlarged issued share capital of the Company. After taking into account that First Tech would subscribe the Rights Shares up to a level such that the Public Float Requirement will be complied with upon completion of the Rights Issue, the Directors are of the view that the Company will fulfill its responsibility to maintain the Public Float Requirement upon completion of the Rights Issue.

Shareholders and public investors should note that the above shareholding changes are for illustration purposes only and the actual changes in the shareholding structure of the Company upon completion of the Rights Issue are subject to various factors, including the results of acceptance of the Rights Issue.

#### **PUBLIC FLOAT**

The Company and First Tech will take appropriate steps, to ensure that a sufficient public float exists upon completion of the Rights Issue. First Tech would subscribe the Rights Shares up to a level such that the Public Float Requirement will be complied with upon completion of the Rights Issue.

#### **FUND RAISING ACTIVITIES INVOLVING ISSUE OF SECURITIES IN THE PAST 12 MONTHS**

The Company has not conducted any fund-raising activities involving issue of its securities in the past 12 months immediately preceding the date of the Announcement.

## **GEM LISTING RULES IMPLICATIONS**

Since the Rights Issue will increase the issued share capital of the Company by more than 50%, in accordance with Rule 10.29(1) of the GEM Listing Rules, the Rights Issue must be made conditional on, among other things, the approval by the Independent Shareholders in general meeting by a resolution at which any controlling shareholders and their respective associates or, where there are no controlling shareholders, the Directors (excluding the independent non-executive Directors) and the chief executive of the Company, and their respective associates shall abstain from voting in favour of the Rights Issue.

As at the Latest Practicable Date, as Mr. Lam and First Tech are the controlling shareholders of the Company, Mr. Lam, First Tech and their respective associates shall abstain from voting in favour of the resolution(s) to approve the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder at the GM.

The Company has not conducted any rights issue, open offer or specific mandate placings within the 12-month period immediately preceding the date of the Announcement, or prior to such 12-month period where dealing in respect of the Shares issued pursuant thereto commenced within such 12-month period, nor has it issued any bonus securities, warrants or other convertible securities as part of any rights issue, open offer and/or specific mandate placings within such 12-month period.

The Rights Issue will not result in a theoretical dilution effect of 25% or more. As such, the theoretical dilution impact of the Rights Issue is in compliance with Rule 10.44A of the GEM Listing Rules.

## **GENERAL**

The GM will be convened for the Shareholders to consider and, if thought fit, approve the Rights Issue (including the Underwriting Agreement) and the transactions contemplated thereunder. As Mr. Lam and First Tech are the controlling shareholders of the Company, Mr. Lam, First Tech and their respective associates shall abstain from voting in favour of the resolution(s) to approve the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder at the GM.

The notice convening the GM to be held at Flat H, 4/F, Yip Cheung Centre, 10 Fung Yip Street, Chai Wan, Hong Kong at 11:30 a.m. on Friday, 18 February 2022 is set out on pages GM-1 to GM-3 of this circular.

A form of proxy for use at the GM is also enclosed. Whether or not you intend to attend the GM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, or via the designated URL (<https://spot-meeting.tricor.hk>) by using the username and password provided on the notification letter sent by the Company as soon as possible and in any event not later than 48 hours before the time appointed for holding the GM (i.e. 11:00 a.m. on Wednesday, 16 February 2022, Hong

Kong time) or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the GM or any adjournment thereof if you so wish.

Subject to the approval of the Rights Issue by the Independent Shareholders at the GM, the Prospectus containing further information regarding, among other things, the Rights Issue, including information on acceptances of the Rights Shares and other information in respect of the Group, and PAL(s) and EAF(s) are expected to be despatched to the Qualifying Shareholders on Thursday, 3 March 2022.

### **RECOMMENDATION**

The Independent Board Committee comprising all the independent non-executive Directors has been established to provide recommendations to the Independent Shareholders in connection with the Rights Issue (including the Underwriting Agreement). Donvex Capital has been appointed as the Independent Financial Adviser with the approval of the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Rights Issue (including the Underwriting Agreement), and as to voting.

Your attention is drawn to the letter from the Independent Board Committee set out on pages 32 to 33 of this circular which contains its recommendation to the Independent Shareholders in relation to the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder, and the letter from Donvex Capital set out on pages 34 to 55 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders.

The Directors (including the members of the Independent Board Committee) consider that the terms of the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Accordingly, the Directors (including the members of the Independent Board Committee) recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the GM.

### **ADDITIONAL INFORMATION**

Your attention is drawn to the additional information set out in the appendices to this circular.

### **WARNING OF THE RISKS OF DEALING IN SHARES AND THE NIL PAID RIGHTS SHARES**

Shareholders and potential investors of the Company should note that the Rights Issue is conditional upon, among other things, the Underwriting Agreement having become unconditional and the Underwriter not having terminated the Underwriting Agreement in

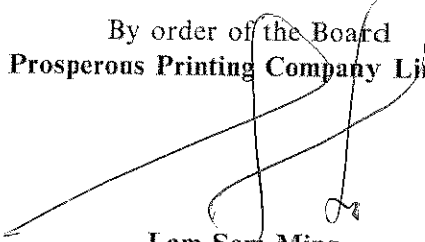
accordance with the terms thereof (a summary of which is set out in the paragraph headed "Termination of the Underwriting Agreement" under the section headed "The Underwriting Agreement"). Accordingly, the Rights Issue may or may not proceed.

The Shares are expected to be dealt in on an ex-rights basis from Tuesday, 22 February 2022. Dealings in the Rights Shares in nil-paid form are expected to take place from Monday, 7 March 2022 to Monday, 14 March 2022 (both days inclusive). Any Shareholder or other person contemplating transferring, selling or purchasing the Shares and/or Rights Shares in their nil-paid form is advised to exercise caution when dealing in the Shares and/or the nil-paid Rights Shares.

Any party who is in any doubt about his/her/its position or any action to be taken is recommended to consult his/her/its own professional adviser(s). Any Shareholder or other person dealing in the Shares or in the nil-paid Rights Shares up to the date on which all the conditions to which the Rights Issue is subject are fulfilled (and the date on which the Underwriter's right of termination of the Underwriting Agreement ceases) will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed.

Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

By order of the Board  
Prosperous Printing Company Limited



Lam Sam Ming  
Chairman and executive Director