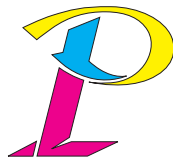


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Prosperous Printing Company Limited

萬里印刷有限公司

(incorporated in Hong Kong with limited liability)

(Stock code: 8385)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO 2021 ANNUAL REPORT OF THE COMPANY

Reference is made to the annual report for the year ended 31 December 2021 (the “**2021 Annual Report**”) of Prosperous Printing Company Limited (the “**Company**”, together with its subsidiaries, collectively, the “**Group**”).

The board (the “**Board**”) of directors (the “**Directors**”) of the Company would like to provide certain additional and update information in relation to the 2021 Annual Report.

BASIS FOR DISCLAIMER OF OPINION

The auditor of the Company, being Tandem (HK) CPA Limited (the “**Auditor**”) issued a disclaimer of opinion (the “**Disclaimer**”) on the Company’s financial statement for the year ended 31 December 2021 (“**FY2021**”) in relation to the material uncertainty related to going concern. For details, please refer to page 60 of the 2021 Annual Report.

On page 60 of the 2021 Annual Report, it was stated that:

“As discussed in Note 3.2 to the consolidated financial statements, the Group incurred a loss of approximately HK\$83,086,000 for the year ended 31 December 2021, and as of that date, the Group had net current liabilities of approximately HK\$72,595,000. Included in the bank loans and overdrafts as at 31 December 2021 are carrying amounts of approximately HK\$138,557,000 which may be immediately due for repayment following the breach of loan covenants as detailed in Note 25(v). 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.”

The directors of the Company have prepared a cash flow forecast which takes into account of certain assumptions as set out in Note 3.2 to the consolidated financial statements. Based on the directors' assessment, the Group is able to continue as a going concern and it is appropriate to prepare the consolidated financial statements on a going concern basis.

The appropriateness of the consolidated financial statements to be prepared on a going concern basis largely depends on whether those plans and measures involving assumptions as detailed in Note 3.2 can be successfully implemented including (i) successfully managing its profit margins on the Group's operations and implement cost control; (ii) the successful negotiations with the bankers to renew or/and extend its facilities; (iii) successful sales of certain properties; and (iv) successfully obtaining additional new sources of financing as and when needed.

The directors of the Company have not provided us with information that we consider sufficient to evaluate whether the above-mentioned plans and measures are feasible and assumptions applied are reasonable and supportable.

Due to the limitations on our scope of work as stated above, we were unable to obtain sufficient appropriate audit evidence to determine whether the directors' conclusion that the Group is able to continue as a going concern and the consolidated financial statements prepared on a going concern basis is appropriate.

Should the Group fail to continue as a going concern, adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities. The effects of these adjustments have not been reflected in the consolidated financial statements”

Note 3.2 (the “**Note 3.2**”) to the consolidated financial statements included in the 2021 Annual Report further stated that:

“The Group sustained a loss of approximately HK\$83,086,000 for the year ended 31 December 2021, and as of that date, the Group had net current liabilities of approximately HK\$72,595,000 and bank loans and overdrafts amounting to approximately HK\$147,756,000 which are due for repayment within one year and breach of loan covenants detailed in Note 25(v) may render the bank loans and overdraft of approximately HK\$138,557,000 becoming immediately due for repayment. The Group's pledged bank deposits and cash at bank amounted to approximately HK\$2,016,000 and HK\$2,048,000 respectively as at 31 December 2021. 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.

In order to improve the Group's financial position, the directors of the Company have undertaken and will implement various measures detailed as follows:

- (i) the directors of the Company have prepared and reviewed the Group's cash flows projections which included:
 - a) projecting revenue based on directors' experience and the business development of the Group, after taking into account of the current market conditions; and*
 - b) estimating gross margin and cash settlement pattern with reference to the historical results.**
- (ii) the Group will closely monitor its operations and implement cost control on operating costs and administrative expenses with an aim to attain positive and sustainable cash flow from operations;*
- (iii) the Group has been actively negotiating with its bankers to renew or/and extend its existing banking facilities, of which available of unutilised banking facilities to the amount of HK\$19,843,000 as at 31 December 2021;*
- (iv) the Group will dispose of certain properties; and*
- (v) the Group will actively and regularly review its capital structure and source additional capital by raising new debt financing or, issuing new shares, where appropriate."*

The Directors had reviewed the Group's cash flow projections prepared by the management (the "**Management**") of the Company that covered a period of not less than 12 months from 31 December 2021. Having taken into account the above-mentioned plans and measures, the Directors were of the opinion that the Group would have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from the date of the consolidated statement of financial position. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

The Directors have explained the above plans to Auditor that the Group is able to operate as a going concern and will be able to have sufficient working capital in the next twelve months from 31 December 2021 after taking into consideration of the factors in Note 3.2 to the consolidated financial statements in the 2021 Annual Report.

Despite the evidences and explanations provided to Auditor in relation to the Group's ability of going concern, Auditor still regarded that due to the uncertainty of the Group's ability to maintain adequate future cash flows, it was unable to ascertain whether the assumptions made by the Directors in preparing the consolidated financial statements on a going concern basis were proper and appropriate. The Directors have used their best endeavour to provide information and has explained the situation of the Group to Auditor.

For the reasons set out in "Proposed Action Plan For Addressing The Disclaimer, Management's Position, View And Assessment On The Disclaimer And The View Of The Audit Committee" below, the Directors understood the view of Auditor, while the Directors maintain their view that it was proper and appropriate to prepare the consolidated financial statements of the Company on a going concern basis. The audit committee of the Board (the "**Audit Committee**") understands the Disclaimer on going concern raised by Auditor and has discussed it with the Management and Auditor. The Audit Committee shared the same view with the Management.

PROPOSED ACTION PLAN FOR ADDRESSING THE DISCLAIMER, MANAGEMENT'S POSITION, VIEW AND ASSESSMENT ON THE DISCLAIMER AND THE VIEW OF THE AUDIT COMMITTEE

As at the date of publication of the 2021 Annual Report and also as at the date of this announcement, the Company is in the course of implementing the following action plans to address the Disclaimer as per items (ii) to (v) in the Notes 3.2.

1. the Group will closely monitor its operations and implement cost control on operating costs and administrative expenses with an aim to attain positive and sustainable cash flow from operations

As at the date of this announcement, the Group has implemented cost control on operating costs and administrative expenses:

- (a) the Group has cost control on operating costs by reducing sub-contracting fee and also adopted less aggressive pricing policy and more stringent credit control. The Group recorded gross profit of approximately HK\$54.2 million for FY2021 while recorded gross loss of approximately HK\$4.4 million for the year ended 31 December 2020 ("**FY2020**").
- (b) the Group has reduced employee headcount. As at 31 December 2021, the Group had 480 employees in total (2020: 669). The staff costs of the Group for FY2021 were approximately HK\$71.1 million (FY2020: HK\$76.4 million). As a result, the administrative expenses decreased from approximately HK\$60.3 million for FY2020 to HK\$54.5 million for FY2021.

The Management (together with the Audit Committee who concurred with Management) held discussion with Auditor and expressed its view that the Company will be able to continue to implement cost control so as to attain positive and sustainable cash flow from operations.

However, the Auditor considered that the global economy still remained uncertain for the year ending 31 December 2022 (“FY2022”), and therefore considered that not sufficient audit evidence has been provided to prove the Company will be able to sustain the improvement in FY2022.

2. the Group has been actively negotiating with its bankers to renew or/and extend its existing banking facilities

- (a) The Hong Kong Monetary Authority together with the Banking Sector SME Lending Coordination Mechanism (Mechanism) announced that the Pre-approved Principal Payment Holiday Scheme (the “Scheme”) will be extended for another six months to end-October 2022. The Scheme will also offer a one-year partial principal repayment option to those customers who are financially capable and willing to resume principal repayment gradually. The Company is optimistic that it can continue to benefit from the Scheme which will relieve the short-term repayment obligation. The Company has submitted application under the Scheme to relieve repayment obligation in 2022, and as at the date of this announcement, the loan application under the Scheme has been approved.
- (b) The Group is actively searching new debt financing opportunities. In 2022, two of the Group entities have submitted application for government-guaranteed loan under The SME Financing Guarantee Scheme which was launched by The Hong Kong Mortgage Corporation Limited.
- (c) Currently, the Company is negotiating with the bankers to renew and/or extend its existing banking facilities. The Company expects that it can renew the facility for a period to be determined with the principal bank.
- (d) As disclosed in the announcement dated 1 April 2022, the Company noted the potential breach of bank loan due to the tangible net worth of the Group falling below HK\$200,000,000 which was due to reasons such as impairment loss which took into consideration higher degree of recoverability uncertainties in light of economy uncertainty and COVID-19 pandemic. As at the date of this announcement, the Bank renewed the Facility. For details, please refer to the announcement dated 15 June 2022.

The Management (together with the Audit Committee who concurred with Management) held discussion with Auditor and expressed its view that the Company's financial stress as appeared as at 31 December 2021 and at the time of the publication of the annual report for FY2021 will benefit from the above development.

3. the Group intends to dispose of certain properties

- (a) As disclosed in the announcement dated 25 January 2021 and 25 March 2021, the Group disposed of properties at the price of at the aggregate consideration of HK\$13,500,000. As at the date of this announcement, the Group owned properties with carrying amount of approximately HK\$93,634,000. The Company has engaged property agent to source quote and expects to dispose of the same if there is any offer at fair price.
- (b) As disclosed in the announcement dated 26 April 2022, the Company has obtained lease financing by disposal and leaseback of machinery.

The Management (together with the Audit Committee who concurred with management) held discussion with Auditor and expressed its view that the Company is optimistic that it will receive an offer to purchase the properties at fair price when the economy recovers after the COVID-19 adverse impact eases.

However, the Auditor considered that there is no certainty of the Company being able to dispose of properties because there has not been concrete offer to purchase which meets the Company's target price.

4. the Group will actively and regularly review its capital structure and source additional capital by raising new debt financing or, issuing new shares, where appropriate.

- (a) The Company will continue to discuss with bankers to negotiate new debt financing opportunities so as to get prepared for any financial needs by the Group in the future.
- (b) While the rights issue as announced on 29 December 2021 did not proceed, the Company will continue to identify appropriate opportunity to issue shares during market window with better investor sentiment.

The Management (together with the Audit Committee who concurred with management) held discussion with Auditor and expressed its view that it expects the market sentiment to improve after the Russia Ukraine war (the "War") ends and the COVID-19 adverse impact starts to ease. With the economy improving generally, there should be more opportunities for the Group to source fundings, whether as equity or as debt.

However, the Auditor considered that, up to the date of this announcement, it is still uncertain as to when the War and the outbreak of COVID-19 would end and whether the market sentiment would improve thereafter.

The Board, the Audit Committee of the Board and the Management of the Group will maintain close communication with the Auditor. It is the target of the Board to remove the Disclaimer and to justify the appropriateness of the going concern assumption in the auditors' report for the forthcoming financial statements for FY2022. With the measures proposed and based on the improvements observed by the Board so far, the Board and the Audit Committee are optimistic on such removal and justification.

However, as the Management's assessment of the Group's ability to continue as a going concern for the purposes of preparing the Group's consolidated financial statements for FY2022 has to take into consideration of the then conditions and circumstances and could only be made at the end of the relevant reporting period, the Auditor is unable to ascertain at this moment whether the Disclaimer can be removed in FY2022 purely based on the Company's action plan above.

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

Hong Kong, 5 August 2022

As at the date of this announcement, the executive Directors are Mr. Lam Sam Ming, Ms. Chan Sau Po and Ms. Yao Yuan; and the independent non-executive Directors are Ms. Cheung Yin, Mr. Wong Hei Chiu and Mr. Leung Vincent Gar-Gen.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM ("GEM") of The Stock Exchange of Hong Kong Limited 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.

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