PROSPEROUS INDUSTRIAL (HOLDINGS) LIMITED
其利工業集團有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1731)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

ANNUAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Prosperous Industrial (Holdings) Limited (the "**Company**") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2018, together with comparative figures for the year ended 31 December 2017, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
Year ended 31 December 2018

	Notes	**2018** **US$'000**	2017 US$'000
REVENUE	*4*	**221,849**	258,498
Cost of sales		**(172,374)**	(195,683)
Gross profit		**49,475**	62,815
Other income and gains, net	*5*	**2,291**	2,211
Selling and distribution expenses		**(15,401)**	(14,914)
Administrative expenses		**(26,348)**	(23,530)
Other expenses, net		**(887)**	(952)
Finance costs	*6*	**(63)**	–
PROFIT BEFORE TAX	*7*	**9,067**	25,630
Income tax	*8*	**(1,697)**	(4,548)
PROFIT FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY		**7,370**	21,082
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods – Exchange differences on translation of foreign operations		**(2,101)**	2,209
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:			
Defined benefit plan:			
Actuarial gain/(loss)		**288**	(172)
Income tax effect		**(48)**	29
		240	(143)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF INCOME TAX		**(1,861)**	2,066
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY		**5,509**	23,148
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	*10*		
Basic and diluted *(US cent)*		**0.76**	2.51

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	**2018**	2017
		US$'000	*US$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**40,187**	36,438
Prepaid land lease payments		**3,185**	3,478
Intangible assets		**831**	874
Equity investment at fair value through other comprehensive income		**2**	–
Available-for-sale investment		**–**	2
Prepayments, deposits and other receivables		**1,804**	3,540
Deferred tax assets		**832**	195
Total non-current assets		**46,841**	44,527
CURRENT ASSETS			
Prepaid land lease payments		**104**	110
Inventories		**34,924**	33,132
Trade and bills receivables	*11*	**35,666**	44,360
Prepayments, deposits and other receivables		**8,694**	6,491
Income tax recoverable		**71**	–
Cash and bank balances		**63,772**	71,321
Total current assets		**143,231**	155,414
CURRENT LIABILITIES			
Trade and bills payables	*12*	**19,065**	23,347
Other payables and accruals		**17,865**	23,207
Dividend payable		**–**	35,000
Income tax payables		**9,754**	8,958
Total current liabilities		**46,684**	90,512
NET CURRENT ASSETS		**96,547**	64,902
TOTAL ASSETS LESS CURRENT LIABILITIES		**143,388**	109,429
NON-CURRENT LIABILITIES			
Defined benefit obligations		**787**	1,104
Net assets		**142,601**	108,325
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY			
Issued capital	*13*	**1,436**	1,000
Reserves		**141,165**	107,325
Total equity		**142,601**	108,325

1. CORPORATE AND GROUP INFORMATION

Prosperous Industrial (Holdings) Limited (the "**Company**") is a limited liability company incorporated in the Cayman Islands and the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands, and the principal place of business of the Company is located at Unit 1-2, 1/F, Join-In Hang Sing Centre, 71-75 Container Port Road, Kwai Chung, New Territories, Hong Kong.

The Company is an investment holding company. During the year, the Company and its subsidiaries (collectively the "**Group**") were principally involved in the manufacturing and sale of sports bags, handbags and luggage bags.

In the opinion of the directors of the Company, the immediate holding company and the ultimate holding company of the Company is Prosperous Holdings (Overseas) Limited, which is incorporated in the British Virgin Islands (the "**BVI**").

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for (i) equity investment at fair value through other comprehensive income which has been measured at fair value; and (ii) defined benefit obligations which have been measured in accordance with the accounting policy for "Defined benefit plan" set out in the financial statements. These financial statements are presented in the United States dollar (the "**US$**") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Profit or loss and each component of other comprehensive income are attributed to the shareholders of the Company. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements:

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Other than as explained below regarding the impact of HKFRS 9, HKFRS 15 and HK(IFRIC)-Int 22, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

(a) HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the consolidated statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("**ECLs**").

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

	HKAS 39 measurement				HKFRS 9 measurement	
	Category	Amount *US$'000*	Re-classification *US$'000*	ECL *US$'000*	Amount *US$'000*	Category
Financial assets						
Equity investment at fair value through other comprehensive income	N/A	–	2	–	2	FVOCI[1] (equity)
From: Available-for-sale investment *(note)*			2	–		
Available-for-sale investment	AFS[2]	2	(2)	–	N/A	
To: Equity investment at fair value through other comprehensive income *(note)*			(2)	–		
Trade and bills receivables	L&R[3]	44,360	–	(302)	44,058	AC[4]
Financial assets included in prepayments, deposits and other receivables	L&R	8,106	–	–	8,106	AC
Cash and bank balances	L&R	71,321	–	–	71,321	AC
			–	(302)		
Financial liabilities						
Trade and bills payables	AC	23,347	–	–	23,347	AC
Financial liabilities included in other payables and accruals	AC	22,837	–	–	22,837	AC
			–	–		

1 FVOCI: Financial asset at fair value through other comprehensive income

2 AFS: Available-for-sale investment

3 L&R: Loans and receivables

4 AC: Financial assets or financial liabilities at amortised cost

Note: The Group has elected the option to irrevocably designate its previous available-for-sale equity investment as equity investment at fair value through other comprehensive income.

Impairment

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9.

	Impairment allowances under HKAS 39 at 31 December 2017	Re-measurement	ECL allowances under HKFRS 9 at 1 January 2018
	US$'000	*US$'000*	*US$'000*
Trade and bills receivables	38	302	340

Impact on retained profits

The impact of transition to HKFRS 9 on retained profits is as follows:

	Retained profits
	US$'000
Balance as at 31 December 2017 under HKAS 39	85,812
Recognition of expected credit losses for trade and bills receivables under HKFRS 9	(302)
Balance as at 1 January 2018 under HKFRS 9	85,510

(b) HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The Group was principally involved in the manufacturing and sale of sports bags, handbags and luggage bags. Prior to the adoption of HKFRS 15, revenue arising from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

The Group has assessed that, based on the terms of the sale agreements entered into between the Group and customers, the Group does not have an enforceable right to payment for performance completed to date. Accordingly, the criteria set out in HKFRS 15 for recognising revenue over time are not met for the sale of goods. On account of this, the Group continues to recognise the sale of goods until the point in time at which the Group delivers the goods to the customers. Therefore, the adoption of HKFRS 15 did not have an impact on the timing of revenue recognition, the financial position and results of operations of the Group, but resulting in more disclosures in the current year's financial statements.

(c) HK(IFRIC)-Int 22 provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

3. OPERATING SEGMENT INFORMATION

Operating segment information

No operating segment information is presented as more than 90% of the Group's revenue and reported results, and more than 90% of the Group's total assets as at the end of the reporting period was derived from one single operating segment, i.e., manufacturing and sale of sport bags, handbags and luggage bags.

Geographical information

(a) Revenue from external customers

	2018	2017
	US$'000	*US$'000*
The United States of America (the "**USA**")	**87,062**	115,396
Mainland China	**38,279**	40,875
Netherlands	**18,306**	31,371
Japan	**16,333**	15,631
Hong Kong	**3,528**	8,058
Others	**58,341**	47,167
	221,849	258,498

The revenue information above is based on the destination of goods delivered, irrespective of the origin of the goods.

(b) Non-current assets

	2018	2017
	US$'000	*US$'000*
Mainland China	**17,753**	21,256
Vietnam	**14,584**	15,243
Cambodia	**6,701**	1,076
Taiwan	**3,687**	4,032
Others	**1,699**	1,085
	44,424	42,692

The non-current asset information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

Information about major customers

During the year, the Group had transactions with three (2017: three) external customers which individually contributed over 10% of the Group's total revenue. The revenue generated from sales to each of these customers is set out below:

	2018	2017
	US$'000	*US$'000*
Customer A	**47,134**	70,286
Customer B	**43,797**	45,574
Customer C	**42,509**	38,198

4. REVENUE

Revenue represents the sale of sport bags, handbags and luggage bags.

5. OTHER INCOME AND GAINS, NET

An analysis of the Group's other income and gains, net is as follows:

	2018	2017
	US$'000	*US$'000*
Other income		
Bank interest income	**462**	521
Dividend income from equity investment at fair value through other comprehensive income	**3**	–
Subcontracting services income	**81**	–
Government grants*	**128**	267
Compensation income	**22**	46
Charges levied on customers	**620**	748
Others	**283**	274
	1,599	1,856
Gains, net		
Foreign exchange differences, net	**494**	160
Gain on sale of scrap materials	**198**	195
	692	355
Other income and gains, net	**2,291**	2,211

* *The amounts represented subsidies received from various government authorities in Mainland China during the year for the development of the Group's business. There are no unfulfilled conditions or contingencies relating to these grants.*

6. FINANCE COSTS

Finance costs for the current year represent factoring fees on certain designated trade receivables.

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2018	2017
	US$'000	*US$'000*
Cost of inventories sold	**169,218**	192,654
Depreciation	**5,243**	4,368
Less: Amount included in cost of inventories sold	**(3,120)**	(2,978)
	2,123	1,390
Amortisation of prepaid land lease payments	**109**	106
Amortisation of intangible assets*	**180**	239
Minimum lease payments under operating leases	**3,064**	2,744
Employee benefit expense (including directors' remuneration):		
Salaries, allowances and benefits in kind	**65,217**	61,879
Defined contribution scheme contributions	**2,100**	3,190
Net benefit expense of a defined benefit plan	**17**	20
	67,334	65,089
Research and development costs	**3,907**	3,335
Write-off of obsolete inventories	**526**	325
Reversal of impairment of trade receivables**	**(32)**	(22)
Loss on disposal of items of property, plant and equipment, net**	**79**	123
Impairment of items of property, plant and equipment**	**382**	–
Listing expenses	**2,488**	746

* *The amortisation of intangible assets are included in the following line items on the face of the consolidated statement of profit or loss and other comprehensive income:*

	2018	2017
	US$'000	*US$'000*
Cost of sales	**36**	51
Selling and distribution expenses	**37**	25
Administrative expenses	**107**	163
	180	239

** *These amounts are included in "Other expenses, net" on the face of the consolidated statement of profit or loss and other comprehensive income.*

8. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year ended 31 December 2018 (2017: 16.5%).

The Group's subsidiary in Macau is exempt from Macau profit tax under the relevant law and regulations in Macau.

The corporate income tax rate in Vietnam is 20% during the year ended 31 December 2018 (2017: 20%). In accordance with the relevant tax rules and regulations in Vietnam, the Group's subsidiary in Vietnam enjoys a concessionary corporate income tax rate of 7.5% for certain of its assessable income during the year.

The income tax provisions in respect of operations in Mainland China and elsewhere are calculated at the applicable tax rates on the estimated assessable profits for the year based on the prevailing legislation, interpretations and practices in respect thereof.

The corporate income tax rate in Cambodia is 20% during the year ended 31 December 2018. In accordance with the relevant tax rules and regulations in Cambodia, the Group's subsidiary in Cambodia enjoys an income tax exemption during the year.

An analysis of the Group's income tax is as follows:

	2018	2017
	US$'000	*US$'000*
Current:		
Charge for the year	**2,264**	4,342
Underprovision in prior years	**133**	61
Withholding tax on undistributed profits	**–**	13
Withholding tax on interest income from intercompany loans	**22**	22
	2,419	4,438
Deferred tax	**(722)**	110
Total tax expense for the year	**1,697**	4,548

9. DIVIDENDS

	2018	2017
	US$'000	*US$'000*
Interim – Nil (2017: US$35) per ordinary share	**–**	35,000
Proposed final – HK1.5 cents (equivalent to approximately US0.19 cents) (2017: Nil) per ordinary share	**2,168**	–
Proposed special – HK3.5 cents (equivalent to approximately US0.45 cents) (2017: Nil) per ordinary share	**5,058**	–
	7,226	35,000

The proposed final and special dividends for the year are subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

10. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to shareholders of the Company of US$7,370,000 (2017: US$21,082,000), and the weighted average number of ordinary shares in issue of 972,712,329 (2017: 840,000,000) during the year, as if the change in issued number of ordinary shares of the Company as disclosed in notes 13(b) and (c), had been completed on 1 January 2017.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2018 and 2017 in respect of a dilution as the Company had no potentially dilutive ordinary shares in issue during each of these years.

11. TRADE AND BILLS RECEIVABLES

An ageing analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2018	2017
	US$'000	*US$'000*
Within 1 month	**17,499**	25,729
1 to 2 months	**9,868**	13,974
2 to 3 months	**4,977**	3,370
Over 3 months	**3,322**	1,287
	35,666	44,360

12. TRADE AND BILLS PAYABLES

An ageing analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2018	2017
	US$'000	*US$'000*
Within 1 month	**15,097**	18,058
1 to 2 months	**3,339**	3,703
2 to 3 months	**215**	854
Over 3 months	**414**	732
	19,065	23,347

13. SHARE CAPITAL

	2018	2017
Authorised:		
– 1,000,000 ordinary shares of US$1 each	**N/A**	US$1,000,000
– 100,000,000,000 ordinary shares of HK$0.01 each	**HK$1,000,000,000**	N/A

	2018	2017
	US$'000	*US$'000*
Issued and fully paid:		
– 1,000,000 ordinary shares of US$1 each	**N/A**	1,000
– 1,120,000,000 ordinary shares of HK$0.01 each	**1,436**	N/A
	1,436	1,000

	Number of ordinary shares in issue		**Issued capital**	**Share premium amount**
	US$1 each	*HK$0.01 each*	*US$'000*	*US$'000*
Issued and fully paid:				
At 1 January 2018	1,000,000	–	1,000	–
Issuance of shares on 19 June 2018 *(note (b))*	–	780,000,000	1,000	–
Repurchase and cancellation of shares on 19 June 2018 *(note (b))*	(1,000,000)	–	(1,000)	–
Capitalisation issue on 12 July 2018 *(note (c))*	–	60,000,000	77	(77)
Issuance of shares on 12 July 2018 *(note (d))*	–	280,000,000	359	31,790
Expenses incurred in connection with issue of new shares under Global Offering *(note (d))*	–	–	–	(3,080)
At 31 December 2018	–	1,120,000,000	1,436	28,633

The movements in share capital of the Company during the year were as follows:

(a) On 19 June 2018, the authorised share capital of the Company was increased by HK$1,000,000,000 divided by the creation of 100,000,000,000 ordinary shares of HK$0.01 each, ranking pari passu in all respects with the then existing ordinary shares of US$1 each. Immediately following such increase, the authorised share capital of the Company was US$1,000,000 divided into 1,000,000 ordinary shares of US$1 each and HK$1,000,000,000 divided into 100,000,000,000 ordinary shares of HK$0.01 each.

(b) On 19 June 2018, the Company allotted and issued 780,000,000 ordinary shares of HK$0.01 each to its then shareholders at par value which were used for the repurchase on the same day of 1,000,000 ordinary shares of US$1 each from its then shareholders with no consideration received or transferred.

Following the said repurchase, all authorised but unissued share capital of the Company with par value of US$1 each was diminished by cancellation of all the unissued share capital of the Company with par value of US$1 each in the share capital of the Company. After such cancellation, the authorised share capital of the Company was HK$1,000,000,000 divided into 100,000,000,000 ordinary shares of HK$0.01 each.

(c) On 12 July 2018, the Company issued additional 60,000,000 ordinary shares of HK$0.01 each to its then existing shareholders by way of a capitalisation issue.

(d) On 12 July 2018, 280,000,000 ordinary shares of HK$0.01 each were issued in connection with the listing of the shares of the Company on the Stock Exchange at an issue price of HK$0.89 per share. The proceeds from the issue of new shares, net of issuance expenses of US$3,080,000, amounted to HK$225,328,000 (approximately US$29,069,000), of which HK$2,800,000 (approximately US$359,000) and HK$222,528,000 (approximately US$28,710,000) were credited to issued share capital and share premium account of the Company, respectively.

14. EVENT AFTER THE REPORTING PERIOD

The Group has the following significant events occurred subsequent to the end of the reporting period:

(i) In January 2019, the Group has ceased the operation of a production plant located in Mainland China due to a change in business plan. The costs for the closure of the factory, including compensation to the landlord of the production plant and employees, are estimated to be RMB9,675,000 (equivalent to approximately US$1,464,000).

(ii) In January 2019, the Group entered into several lease agreements with an independent third party, pursuant to which the Group shall lease certain lands in Phnom Penh, Cambodia with lease terms of approximately 10 years for the expansion of the Group’s production facilities in Cambodia.

MANAGEMENT DISCUSSION AND ANALYSIS

GENERAL OVERVIEW AND BUSINESS REVIEW

The Group is a leading manufacturer that designs, develops and manufactures recreational bags and packs, mainly backpacks, it also provides quality supply chain management services for renowned multinational sports and lifestyle brands. The Group is also engaged in sales of a proprietary brand of bags and packs, MAISON PROMAX, an entry-level luxury fashion brand with elements inspired by French design. The shares of the Company have been successfully listed on the Main Board of the Stock Exchange (the "**Listing**") since 13 July 2018 (the "**Listing Date**"). The Listing not only benefited the Group with easier access to capital and fund raising, but also implied recognition of the Group's leading position and sustainability in the global bags and packs manufacturing industry, thus enhanced the Group's visibility and prestige.

In 2018, rising global trade tensions and tighter credit market conditions were resulted from a series of global economic challenges, such as the USA-China trade war (the "**Trade War**") and uncertainties surrounding Brexit, the global economic growth was therefore slowed down. According to the statistics from World Trade Organisation, the growth in global merchandise trade volume tapered from 5.3% in 2017 to anticipated 3.9% for 2018. The Trade War imposed negative impacts on the merchandise trade, affecting business confidence and decisions, compromising the trade volume growth. With the risk of additional tariffs on goods exported to the USA from the People's Republic of China (the "**PRC**"), the Group's customers have hence been cautious in placing orders with the Group's PRC production bases.

Despite the slowing global trade growth, the PRC's Gross Domestic Product grew 6.6% in 2018, according to the National Bureau of Statistics of China, signaling continuous increase in labour cost and other industrial production cost in the region. Such persistently high production cost, together with the impacts under the Trade War caused significant operating pressure to the manufacturers in the PRC. In view of this, the Group continued to leverage on its multi-regional manufacturing platform, preferential import tariffs and international trading benefits, by consolidating its production plants in the PRC and speeding up its expansion plan into Cambodia. Plant One of Cambodia production base commenced operation in February 2018 and housed 48 production lines by the end of 2018. Plant Two of Cambodia production base is currently being established and is expected to ramp up the production capacity for the peak season in 2020. Meanwhile, the Group ceased the operation of Dongkeng Plant in Dongguan, and relocated the workforce to Liaobu Plant, which is also located in Dongguan, in January 2019 as a move to consolidate the Group's production plants in the PRC. By gradually diversifying the Group's production among its multinational production facilities in the PRC, Vietnam and Cambodia, the Group is committed to provide more comprehensive solutions to its customers, and enhance its market position and profitability.

OUTLOOK AND PROSPECTS

The existing global trade tensions and tighten credit conditions are expected to continue; furthermore, the manufacturing cost in the PRC maintains at a persistently high level, the business environment is foreseen to remain challenging for the Group in 2019, especially for its production bases in the PRC. The Group's management has been forward-thinking and focusing on expanding the Group's production platform to Vietnam and Cambodia over the last decade, diversifying the operational risks.

The Group's manufacturing capacity and flexibility have been enhanced since its production bases in Vietnam and Cambodia commenced operation in 2008 and 2018 respectively. The Group aims to shift more production from the PRC to Vietnam and Cambodia gradually, while its production capacity expansion in Cambodia continues. The combination of different geographic regions not only provides the Group's customers with more comprehensive shipment options, but also has been benefiting the Group from the lower labour cost and various favourable export policies. The Group will closely monitor the macroeconomic and geopolitical situations, in order to adjust to market changes from time to time.

Sports fashion trend is foreseen to continue, luxury fashion brands are found cooperating with the famous international sports brands in launching cross-over activewear and accessories, contributing to the growing demand in high quality sports products. The Group is devoted to design and manufacture high quality recreational bags and packs, with the development capabilities and manufacturing knowhow accumulated over 20 years, the Group has been working closely with the renowned multinational sports and lifestyle brands for years. The customer trust built long-term provides the cornerstone for the Group to grasp the opportunities from the sports fashion trend to expand the products and customers range. The Group will maintain close communication with the customers to understand their needs, as well as to strive for more business opportunities.

Having adopted the effective risk management system, the Group has been maintaining an adequate level of cash flow, providing a strong financial foundation to the Group's business development. Upon the Listing, the Group's capital structure was further strengthened. The transparency and recognition as a listed company also give the Group more negotiating power with the banks and suppliers. In addition, the Group attaches great importance to its corporate governance, and will strengthen its internal control management continuously, including but not limited to enhancing operational efficiency, stringent cost control, and up-to-date product development, which would in turn enhance the Group's corporate profile and customer trust, thereby delivering a sustainable business growth and returns for the shareholders of the Company (the "**Shareholders**") in the long run.

FINANCIAL REVIEW

During the year under review, over 98% of the Group's revenue was generated from sales of bags and packs manufactured for brand owner customers. Total revenue for the year was approximately US$221.8 million, representing a decrease of approximately US$36.7 million or 14.2% from approximately US$258.5 million as recorded in 2017. The decrease was mainly a result from the decrease in purchases orders from a number of major customers. Sales quantity decreased from approximately 24.6 million pieces for the year ended 31 December 2017 to approximately 20.8 million pieces for 2018, representing a decrease of approximately 3.8 million pieces or 15.4%. The average selling price per piece slightly improved while the sales mix of different product categories remained stable with outdoor & sporting bags and packs continued to contribute over 60% of the total revenue. The breakdown of the revenue, sales quantity and average selling price by product category are set out as below:

	2018				2017			
	Revenue		**Sales quantity**	**Average selling price**	Revenue		Sales quantity	Average selling price
	US$'000	*%*	***Pc'000***	***US$/pc***	*US$'000*	*%*	*Pc'000*	*US$/pc*
Product category								
Outdoor & sporting	**137,348**	**61.9**	**13,364**	**10.3**	155,327	60.1	15,389	10.1
Functional	**47,252**	**21.3**	**3,838**	**12.3**	60,963	23.6	5,004	12.2
Fashion & casual	**31,765**	**14.3**	**3,132**	**10.1**	34,514	13.3	3,520	9.8
Others	**5,484**	**2.5**	**490**	**11.2**	7,694	3.0	681	11.3
Total	**221,849**	**100**	**20,824**	**10.7**	258,498	100	24,594	10.5

The Group's cost of sales for the year ended 31 December 2018 amounted to approximately US$172.4 million, representing a decrease of approximately US$23.3 million or 11.9% from approximately US$195.7 million for 2017. The decrease was primarily attributable to the decrease in sales quantity for the year. Rising labour cost in the PRC and Vietnam continued to exert pressure on the Group's gross profit margin. In addition, the Group's Cambodia production base was still in its ramp-up period and has not achieved a desirable production efficiency comparing to other production plants of the Group, thus leading a decrease in gross profit margin from 24.3% to 22.3%.

The Group's administrative expenses increased by approximately US$2.8 million or 11.9% from approximately US$23.5 million for 2017 to approximately US$26.3 million for 2018. This was mainly attributable to the non-recurring listing expenses in connection with the Listing of approximately US$2.5 million and the operating cost of plant one of Cambodia production base incurred since it has been put into operation in February 2018.

Selling and distribution expenses for the year ended 31 December 2018 amounted to approximately US$15.4 million (2017: approximately US$14.9 million), slightly increased by approximately US$0.5 million or 3.4% as compared to 2017.

Profit attributable to Shareholders declined by approximately US$13.7 million or 64.9% to approximately US$7.4 million for the year ended 31 December 2018, compared with approximately US$21.1 million for 2017. Basic earnings per share for the year ended 31 December 2018 decreased by 1.75 US cents to 0.76 US cent as compared to 2.51 US cents for 2017.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL EXPENDITURE

The Group has solid financial position and continued to maintain a strong and steady cash inflow from operating activities. During the year ended 31 December 2018, the Group's primary sources of funding included cash generated from operating activities and net proceeds from the Listing. As at 31 December 2018, the Group had cash and cash equivalents of approximately US$63.8 million and no external borrowings. The gearing ratio of the Group was zero (31 December 2017: Nil) as at 31 December 2018, calculated as total debt divided by total equity.

During the year ended 31 December 2018, the Group incurred capital expenditure of US$11 million, mainly attributable to the set up of Cambodia production base and acquisition of property, plant and equipment.

LISTING EXPENSES

Listing expenses represented fees to various professional parties in connection with the Listing. Listing expenses recognised in profit or loss for the year ended 31 December 2018 were approximately US$2.5 million (2017: approximately US$0.7 million).

EVENTS AFTER THE REPORTING PERIOD

Details of events after the end of reporting period are set out in the note 14 to financial statements.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any significant contingent liabilities (31 December 2017: Nil).

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group had no material acquisitions or disposals of subsidiaries or associates during the period from the Listing Date up to 31 December 2018.

EMPLOYEE INFORMATION AND REMUNERATION POLICY

As at 31 December 2018, the Group had approximately 10,800 employees. Salaries and benefits of the Group's employees were kept at a market level and employees were rewarded on a performance-related basis. Remuneration is reviewed annually. Staff benefits include contribution to mandatory contribution fund, discretionary bonus and share options. During the year ended 31 December 2018, no share options were granted to employees of the Group.

The emolument of the Directors are determined by the Remuneration Committee, having regard to the Company's operating results, individual performance, experience, responsibility, workload and time devoted to the Company and comparable market statistics.

SIGNIFICANT INVESTMENTS HELD

As at 31 December 2018, there were no material investments held by the Group (31 December 2017: Nil).

CHARGE ON THE GROUP'S ASSETS

As at 31 December 2018, the Group did not have any charges on its assets (31 December 2017: Nil).

FOREIGN CURRENCY EXPOSURE

The Group's purchases and operating costs are mainly denominated in Renminbi and Vietnamese Dong while most of the Group's sales proceeds are received in US$. As such, the Group is exposed to foreign currency risk. Any appreciation of Renminbi or Vietnamese Dong against US$ may adversely affect the profitability. The Group currently does not have a foreign currency hedging policy. The Group will continue to monitor its foreign currency exposure closely and consider hedging significant foreign currency exposure should the need arises.

DIVIDENDS

The Directors have resolved to recommend the payment of a final dividend of HK1.5 cents per share (the "**Final Dividend**") and a special dividend of HK3.5 cents per share (the "**Special Dividend**") (2017: Nil) to the Shareholders whose names appear on the register of members of the Company (the "**Register of Members**") on 5 June 2019.

The proposed Final Dividend and Special Dividend are subject to the approval by the Shareholders at the forthcoming annual general meeting of the Company (the "**2019 AGM**"). It is expected that the Final Dividend and Special Dividend would be paid to the Shareholders on or around 20 June 2019.

ANNUAL GENERAL MEETING

The 2019 AGM is scheduled to be held on 27 May 2019. A notice convening the 2019 AGM will be issued and sent to the Shareholders on or around 24 April 2019.

CLOSURE OF REGISTER OF MEMBERS

To determine the eligibility of the Shareholders to attend the 2019 AGM, the register of members will be closed from Wednesday, 22 May 2019 to Monday, 27 May 2019, both days inclusive, during which no transfer of shares will be effected. In order to be entitled to attend and vote at the 2019 AGM, all completed transfer forms accompanied with the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 21 May 2019.

For the purpose of ascertaining Shareholders' entitlement for the Final Dividend and the Special Dividend, the register of members will be closed from Monday, 3 June 2019 to Wednesday, 5 June 2019, both days inclusive. To qualify for the Final Dividend and the Special Dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Friday, 31 May 2019.

SHARE CAPITAL

As of 31 December 2018, the total amount of the issued share capital of the Company was HK$11,200,000, divided into 1,120,000,000 shares of HK$0.01 per share. Details of movements in the Company's share capital during the year are set out in the note 13 to financial statements.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2018.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions set out in the Corporate Governance Code as stated in Appendix 14 to the Listing Rules from the Listing Date to 31 December 2018. The Board and the management of the Group consider that maintaining a well-established corporate governance practices and procedures is the key to success, and firmly believe that the principles of transparency, accountability and independence are essential for upholding the interests of the stakeholders and maximizing Shareholders' value.

The Board is committed to excellence in corporate governance. It is responsible for developing and reviewing the Company's policies and practices on corporate governance as well as compliance with legal and regulatory requirements.

MODEL CODE OF CONDUCT OF DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' transactions in securities of the Company (the "**Company's Code**") on terms no less exacting than the required standard set out in the Model Code as set out in Appendix 10 to the Listing Rules. After specific enquiry made by the Company, all of the Directors confirmed that they have complied with the required standard set out in the Model Code and the Company's Code throughout the period commencing from the Listing Date to 31 December 2018.

AUDIT COMMITTEE

The Audit Committee has discussed with the management and the external auditor of the Group and reviewed the annual results of the Group for the year ended 31 December 2018, including the accounting principles and practices adopted by the Group, and discussed financial related matters.

SCOPE OF WORK OF THE COMPANY'S AUDITOR

The figures set out in the preliminary announcement of the Group's results for the year ended 31 December 2018 in respect of the Group's consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position have been agreed by the Company's auditor, to the amounts set out in the Group's draft consolidated financial statements for the year ended 31 December 2018. The work performed by the Company's auditor in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the Company's auditor on the preliminary announcement.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND 2018 ANNUAL REPORT ON WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This annual results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and on the website of the Company at www.pihl.hk, respectively. The 2018 annual report containing all the information required by the Listing Rules will be dispatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

By Order of the Board
Prosperous Industrial (Holdings) Limited
Yeung Shu Kin
Chairman

Hong Kong, 27 March 2019

As at the date of this announcement, the Board of Directors comprises Mr. Yeung Shu Kin, Mr. Yeung Shu Kai and Mr. Duong Stephen Dien Sieu as executive Directors, Mr. Lu Chin-Chu and Mr. Tsai Nai-Yung as non-executive Directors and Mr. Chiu Che Chung Alan, Mr. Ko Siu Tak and Mr. Yip Kwok Cheung as independent non-executive Directors.