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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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

INTERIM RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Prosperous Industrial (Holdings) Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2019 with comparative figures for the corresponding period in 2018 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

		For the six months ended 30 June	
		2019	2018
		(Unaudited)	(Unaudited)
	<i>Notes</i>	US\$'000	US\$'000
REVENUE	3	123,413	127,187
Cost of sales		(97,387)	(99,576)
Gross profit		26,026	27,611
Other income and gains, net	4	1,425	1,080
Selling and distribution expenses		(8,061)	(7,635)
Administrative expenses		(12,856)	(12,665)
Other expenses, net		(487)	(357)
Finance costs		(300)	(22)
PROFIT BEFORE TAX	5	5,747	8,012
Income tax	6	(1,680)	(1,632)
PROFIT FOR THE PERIOD ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY		4,067	6,380

		For the six months ended 30 June	
		2019	2018
		(Unaudited)	(Unaudited)
<i>Notes</i>		US\$'000	US\$'000
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			
		<u>98</u>	<u>(1,115)</u>
OTHER COMPREHENSIVE INCOME/(LOSS)			
FOR THE PERIOD			
		<u>98</u>	<u>(1,115)</u>
TOTAL COMPREHENSIVE INCOME			
FOR THE PERIOD ATTRIBUTABLE TO			
SHAREHOLDERS OF THE COMPANY			
		<u>4,165</u>	<u>5,265</u>
EARNINGS PER SHARE ATTRIBUTABLE TO			
SHAREHOLDERS OF THE COMPANY			
Basic and diluted (US cent)			
	8	<u>0.36</u>	<u>0.76</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

		As at 30 June 2019 (Unaudited) US\$'000	As at 31 December 2018 (Audited) US\$'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment		30,663	40,187
Right-of-use assets		28,006	–
Prepaid land lease payments		–	3,185
Intangible assets		797	831
Equity investment at fair value through other comprehensive income		2	2
Prepayments, deposits and other receivables		868	1,804
Deferred tax assets		540	832
Total non-current assets		60,876	46,841
CURRENT ASSETS			
Prepaid land lease payments		–	104
Inventories		27,420	34,924
Trade receivables	9	55,542	35,666
Prepayments, deposits and other receivables		12,237	8,694
Income tax recoverable		207	71
Cash and cash equivalents		36,808	63,772
Total current assets		132,214	143,231
CURRENT LIABILITIES			
Trade and bills payables	10	13,018	19,065
Other payables and accruals		14,307	17,865
Income tax payables		10,471	9,754
Lease liabilities		2,721	–
Total current liabilities		40,517	46,684

	As at 30 June 2019 (Unaudited) <i>US\$'000</i>	As at 31 December 2018 (Audited) <i>US\$'000</i>
<i>Notes</i>		
NET CURRENT ASSETS	<u>91,697</u>	<u>96,547</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>152,573</u>	<u>143,388</u>
NON-CURRENT LIABILITIES		
Defined benefit obligations	775	787
Lease liabilities	<u>12,166</u>	<u>–</u>
Total non-current liabilities	<u>12,941</u>	<u>787</u>
Net assets	<u><u>139,632</u></u>	<u><u>142,601</u></u>
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY		
Issued capital	1,436	1,436
Reserves	<u>138,196</u>	<u>141,165</u>
Total equity	<u><u>139,632</u></u>	<u><u>142,601</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2019

1. CORPORATE 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 six months ended 30 June 2019, 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

The unaudited interim condensed consolidated financial information of the Group for the six months ended 30 June 2019 has been prepared in accordance with HKAS 34 *Interim Financial Reporting* and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange.

The unaudited interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2018.

This interim condensed consolidated financial information is presented in the United States Dollar (“**US\$**”) and all values are rounded to the nearest thousand (“**US\$’000**”) except when otherwise indicated.

This interim condensed consolidated financial information has not been audited, but has been reviewed by the Company’s audit committee.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidation financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") effective as of 1 January 2019.

Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i>
HKFRS 16	<i>Leases</i>
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to HKAS 28	<i>Long-term interests in Associates and Joint Ventures</i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements</i> <i>2015-2017 Cycle</i>	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Other than as explained below regarding the impact of HKFRS 16 *Leases* and HK(IFRIC)-Int 23 *Uncertainty over Income Tax Treatments*, the new and revised standards are not relevant to the preparation of the Group's interim condensed consolidated financial information. The nature and impact of the new and revised HKFRSs are described below:

- (a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

New definition of lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of machinery, vehicles, leasehold land and buildings. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets (e.g., machinery and vehicles); and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. This includes the lease assets recognised previously under finance leases of US\$9,313,000 that were reclassified from property, plant and equipment and reclassification of prepaid land lease payments of US\$3,289,000 to right-of-use assets.

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease) US\$'000 (Unaudited)
Assets	
Increase in right-of-use assets	22,554
Decrease in property, plant and equipment	(9,313)
Decrease in prepaid land lease payments	(3,289)
Increase in total assets	9,952
Liabilities	
Increase in lease liabilities	9,952
Increase in total liabilities	9,952
Reserve	
Change in retained profits	–

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "inventories". The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

- (b) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any significant impact on the Group's interim condensed consolidated financial information.

3. REVENUE

Revenue represents sales of sports bags, handbags and luggage bags.

Disaggregation of revenue

	For the six months ended 30 June	
	2019 (Unaudited) US\$'000	2018 (Unaudited) US\$'000
By geographical markets		
The USA	51,671	53,679
Mainland China	21,708	20,041
Netherlands	6,825	11,097
Japan	8,729	8,218
Hong Kong	2,174	1,280
Others	32,306	32,872
Total revenue from contracts with customers	<u>123,413</u>	<u>127,187</u>
By product category		
Outdoor and sporting bags	80,933	79,913
Functional bags	17,811	21,206
Fashion and casual bags	21,307	23,056
Others	3,362	3,012
Total revenue from contracts with customers	<u>123,413</u>	<u>127,187</u>

4. OTHER INCOME AND GAINS, NET

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

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	US\$'000	US\$'000
Other income		
Bank interest income	240	130
Government grants*	165	17
Charges levied on customers	–	357
Others	645	110
	<u>1,050</u>	<u>614</u>
Gains, net		
Foreign exchange difference, net	63	395
Gain on sales of samples and mold	271	–
Gain on sales of scrap materials	41	71
	<u>375</u>	<u>466</u>
Other income and gains, net	<u><u>1,425</u></u>	<u><u>1,080</u></u>

* Subsidies are received by a subsidiary from various government authorities in Mainland China for the development of its business. The subsidies are interest-free and are recognised as “Other income” in profit or loss when they have become unconditional.

5. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	US\$'000	US\$'000
Cost of inventories sold	95,428	97,454
Depreciation of property, plant and equipment	2,463	2,658
Less: Amount included in cost of inventories sold	(1,911)	(2,122)
	<u>552</u>	<u>536</u>
Depreciation of right-of-use assets	1,217	–
Amortisation of prepaid land lease payments	–	56
Amortisation of intangible assets	245	95
Research and development costs	<u><u>1,787</u></u>	<u><u>1,911</u></u>

6. INCOME TAX

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

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	US\$'000	US\$'000
Current:		
Charge for the period	1,359	1,449
Underprovision in prior years	2	157
	<u>1,361</u>	<u>1,606</u>
Deferred tax	319	26
	<u>319</u>	<u>26</u>
Total tax expense for the period	<u>1,680</u>	<u>1,632</u>

7. DIVIDENDS

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	US\$'000	US\$'000
Final dividends declared and paid – HK1.5 cents (equivalent to approximately US0.19 cent) (2018: Nil) per ordinary share	2,140	–
Special dividends declared and paid – HK3.5 cents (equivalent to approximately US0.45 cent) (2018: Nil) per ordinary share	4,994	–
	<u>7,134</u>	<u>–</u>

The Board of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

8. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of the basic earnings per share for the period is based on the unaudited profit for the period attributable to shareholders of the Company of US\$4,067,000 (six months ended 30 June 2018: US\$6,380,000), and the weighted average number of ordinary shares in issue of 1,120,000,000 (six months ended 30 June 2018: 840,000,000) during the period as if the change in issued number of ordinary shares of the Company as disclosed in the consolidated financial statements of the Group for the year ended 31 December 2018 had been completed on 1 January 2017.

No adjustment has been made to the basic earnings per share presented for the six months ended 30 June 2019 and 2018 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during each of these periods.

9. TRADE RECEIVABLES

	As at 30 June 2019 (Unaudited) US\$'000	As at 31 December 2018 (Audited) US\$'000
Trade receivables	55,844	35,974
Bill receivable	–	–*
Impairment	(302)	(308)
	<u>55,542</u>	<u>35,666</u>

* Less than US\$500

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

	As at 30 June 2019 (Unaudited) US\$'000	As at 31 December 2018 (Audited) US\$'000
Within 1 month	22,881	17,499
1 to 2 months	22,285	9,868
2 to 3 months	8,192	4,977
Over 3 months	2,184	3,322
	<u>55,542</u>	<u>35,666</u>

The Group has entered into a trade receivable factoring arrangement (the “**Arrangement**”) and transferred certain trade receivables from a designated customer to a bank. Under the Arrangement, the Group will not be required to reimburse the bank for loss of interest if the trade debtor has late or default of payments. Since the trade receivables factored to the bank are non-recourse, the Group has transferred the significant risks and rewards relating to these receivables, the factored trade receivables met the criteria of derecognition. Therefore, the Group derecognised the full carrying amount of the trade receivables.

10. TRADE AND BILLS PAYABLES

Trade and bills payables of the Group are unsecured, interest-free, and are normally settled on 45 to 60 days terms.

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

	As at 30 June 2019 (Unaudited) US\$'000	As at 31 December 2018 (Audited) US\$'000
Within 1 month	9,884	15,097
1 to 2 months	2,423	3,339
2 to 3 months	606	215
Over 3 months	105	414
	<u>13,018</u>	<u>19,065</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business and financial 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. During the six months ended 30 June 2019 (the “**Period**”), over 99% of the Group’s revenue was generated from sales of bags and packs manufactured for brand owner customers.

During the Period, the Group faced a challenging business environment as global trade tension escalated and slowed down the world trade growth. Increasing production costs together with the impacts under the USA-China trade war (the “**Trade War**”) have caused significant operating pressure to the manufacturers in the PRC. The Group’s customers have been cautious in placing orders with the Group’s PRC production bases and at the same time requesting for more production capacity from the Group’s Vietnam and Cambodia production bases. The management of the Group, having reviewed its multi-regional manufacturing platform, decided to relocate the Group’s production capacity gradually by scaling down the operation of PRC production bases and continue to expand its Vietnam and Cambodia production bases. As a result, the Group has ceased the operation of production plants in Dongkeng, Dongguan and Xinfeng, Jiangxi in January and June 2019, respectively.

Total revenue for the six months ended 30 June 2019 was approximately US\$123.4 million, representing a slight decrease of approximately US\$3.8 million or 3.0% from approximately US\$127.2 million as recorded in the six months ended 30 June 2018 (the “**Corresponding Period**”). Although the sales quantity increased from approximately 12.2 million pieces for the Corresponding Period to approximately 13.3 million pieces for the Period, representing an increase of approximately 1.1 million pieces or 9.0%. The average selling price per piece declined while sales mix of different product category 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 below:

	Six months ended 30 June 2019				Six months ended 30 June 2018			
	Revenue <i>US\$'000</i>	%	Sales quantity <i>Pc'000</i>	Average selling price <i>US\$/pc</i>	Revenue <i>US\$'000</i>	%	Sales quantity <i>Pc'000</i>	Average selling price <i>US\$/pc</i>
Product category								
Outdoor & sporting	80,933	66	8,567	9.4	79,913	63	7,620	10.5
Functional	17,811	14	2,089	8.5	21,206	17	1,827	11.6
Fashion & casual	21,307	17	2,402	8.9	23,056	18	2,490	9.3
Others	3,362	3	250	13.4	3,012	2	270	11.2
Total	<u>123,413</u>	<u>100</u>	<u>13,308</u>	<u>9.3</u>	<u>127,187</u>	<u>100</u>	<u>12,207</u>	<u>10.4</u>

The Group's cost of sales for the Period amounted to approximately US\$97.4 million, representing a decrease of approximately US\$2.2 million or 2.2% from approximately US\$99.6 million for the Corresponding Period. The decrease was primarily due to the decrease in sales. However, rising labour cost across the regions 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 to a slight decrease in gross profit margin from 21.7% to 21.1%.

The Group's administrative expenses for the Period amounted to approximately US\$12.9 million (Corresponding Period: US\$12.7 million). There was non-recurring listing expenses of approximately US\$2.5 million in the Corresponding Period. While in the Period, there was one-off costs for the cessation of operation of production plants in Dongkeng, Dongguan and Xinfeng, Jiangxi amounting to approximately US\$2.9 million, thus leading to a slight increase in the administrative expenses.

Selling and distribution expenses for the Period amounted to approximately US\$8.1 million (Corresponding Period: US\$7.6 million), increased slightly by approximately US\$0.5 million or 6.6% from the Corresponding Period. The increase was mainly due to the increase in use of airfreight for delivering products to customers during the Period.

Profit attributable to shareholders of the Company declined by approximately US\$2.3 million or 35.9% to approximately US\$4.1 million for the Period, compared with approximately US\$6.4 million for the Corresponding Period. Basic earnings per share for the Period decreased by 0.40 US cent to 0.36 US cent as compared to 0.76 US cent for the Corresponding Period.

Liquidity, financial resources and capital expenditure

The Group's financial position remained solid. As at 30 June 2019, the Group had cash and cash equivalents of approximately US\$36.8 million. The Group had no external borrowings as at 30 June 2019. As a result, the gearing ratio of the Group was zero (31 December 2018: zero), calculated as total debt divided by total equity.

During the six months ended 30 June 2019, the Group incurred capital expenditure of US\$2.7 million, mainly attributable to the expansion in production bases in Cambodia and Vietnam, and acquisition of property, plant and equipment.

Memorandum of understanding on cooperative development

On 25 June 2019, Guangzhou Glorieux Traveling Articles Co., Ltd.* (廣州澤榮旅行用品有限公司) ("**Guangzhou Glorieux**"), a wholly owned subsidiary of the Company, entered into a memorandum of understanding (the "**MOU**") with Guangzhou Poly Urban Redevelopment Investment Company Limited* (廣州保利城改投資有限公司) ("**Poly Urban Redevelopment**"), an independent third party, in relation to the cooperative development of a parcel of land (the "**Land**") owned by Guangzhou Glorieux. Pursuant to the MOU, Guangzhou Glorieux and Poly Urban Redevelopment will cooperate to formulate a plan to redevelop the Land (the "**Redevelopment Project**"). The Land is located at the south side of Nancun Road, Xingye Road, Nancun Town, Panyu District, Guangzhou City, the PRC and is currently used as a factory site. The Redevelopment Project shall be subject to separate legally binding agreements on terms and conditions to be mutually agreed by the signing parties of the MOU.

* For identification purpose only

Up to the date of this announcement, no separate legally binding agreements have been entered into by the Group.

Contingent liabilities

As at 30 June 2019, the Group did not have any significant contingent liabilities (31 December 2018: nil).

Capital commitment

As at 30 June 2019, the Group did not have any significant capital commitments (31 December 2018: nil).

Segmental Information

No operating segmental information of the Group was presented for the six months ended 30 June 2019 as the Group only operates in one single operating segment, i.e. manufacturing and sale of sports bags, handbags and luggage bags.

Employee information

As at 30 June 2019, the Group had approximately 10,300 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 six months ended 30 June 2019, no share options were granted to employees of the Group.

Significant investments held

Save as disclosed in the section headed "Business and Financial Review", there were no material investments held by the Group as at 30 June 2019.

Charge on the Group's assets

As at 30 June 2019, the Group did not have any charges on its assets (31 December 2018: Nil).

Foreign currency exposure

The Group's purchases and operating costs are mainly denominated in Renminbi, 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, 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 arise.

Outlook and prospects

Looking ahead, the existing global trade tension is expected to continue, and the business environment is foreseen to remain challenging for the Group. The Group will continue to leverage through its multi-regional manufacturing platform by gradually relocating its production capacity to Vietnam and Cambodia from the PRC. The Group will closely monitor the macroeconomic and geopolitical situations, in order to adjust to market changes from time to time, with a view to achieving sustainable business growth and returns for the shareholders of the Company.

Use of proceeds from listing

On 13 July 2018, the issued shares of the Company were listed on the Main Board of the Stock Exchange. A total of 280,000,000 ordinary shares were issued to the public at a price of HK\$0.89 per share for a gross proceeds of approximately HK\$249.2 million. The net proceeds raised from the listing were approximately HK\$202.2 million after the deduction of related listing expenses. These proceeds were utilised in accordance with the proposed allocation set out in the prospectus of the Company dated 29 June 2018 (the “**Prospectus**”).

As at 30 June 2019, the amount of the net proceeds which remained unutilised amounted to approximately HK\$140.0 million.

Set out below are details of the allocation of the net proceeds, the utilised and unutilised amount of the net proceeds as at 30 June 2019:

		Allocation of net proceeds HK\$ million	Utilised amount up to 30 June 2019 HK\$ million	Unutilised amount as at 30 June 2019 HK\$ million
Further enhancement of manufacturing capacity and flexibility by expanding manufacturing platforms in Cambodia	67.0%	135.5	50.2	85.3
Enhancement of production efficiency and capabilities and enhancement of quality control by replacing and upgrading existing production machinery and acquisition of additional machinery, and setting up a research and development centre and additional testing laboratories	15.2%	30.8	7.4	23.4
Enhancing brand recognition for MAISON PROMAX and expansion of retail business	6.2%	12.5	3.9	8.6
Enhancing IT infrastructure	11.6%	23.4	0.7	22.7
	<u>100%</u>	<u>202.2</u>	<u>62.2</u>	<u>140.0</u>

OTHER INFORMATION

CORPORATE GOVERNANCE PRACTICES

The Company places high value on the corporate governance practice and is committed to achieving high standards of corporate governance with a view to safeguarding the interests of the shareholders of the Company as a whole.

The Company has adopted the principles and code provisions of the Corporate Governance Code (the “**CG Code**”) as the basis of the Company’s corporate governance practice, and the CG Code has been applicable to the Company. During the six months ended 30 June 2019, the Company has complied with the CG Code. The Board will continue to review and monitor the corporate governance status of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance of the Company.

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 for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”). 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 during the six months ended 30 June 2019.

INTERIM DIVIDEND

The Board does not recommend any interim dividend for the period ended 30 June 2019 (six months ended 30 June 2018: nil).

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as of the date of this announcement, the Company maintained the prescribed public float of no less than 25% as required under the Listing Rules.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the Period, there was no material acquisition or disposal of subsidiaries and associated companies by the Company.

SHARE OPTION SCHEME

The Company has conditionally adopted the share option scheme (the “**Scheme**”) on 19 June 2018 which is valid and effective for a period of 10 years from 13 July 2018. The purpose of the Scheme is to give the eligible persons an opportunity to have a personal stake in the Company and help motivate them to optimise their future contributions to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of executives, to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions. The principal terms of the Scheme are summarised in the paragraph headed “Share Option Scheme” in Appendix IV to the Prospectus.

No share option was granted, exercised or cancelled by the Company under the Scheme up to the date of this announcement and there was no outstanding share option as at the date of this announcement.

DIRECTORS’ AND CHIEF EXECUTIVE’S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 June 2019, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the “**SFO**”)) as recorded in the register required to be kept under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 to the Listing Rules, were as follows:

Long positions in the shares and underlying shares of associated corporation of the Company

Name of Director and Chief Executive	Name of associated corporation of the Company	Nature of interest	Number of ordinary shares held	Approximate % of total issued shares ¹
Mr. Yeung Shu Kin	Prosperous Holdings (Overseas) Limited (“ Prosperous BVI ”)	Personal interest	12	12%
Mr. Yeung Shu Kai	Prosperous BVI	Personal interest	6	6%
Mr. Yeung Shu Hung	Prosperous BVI	Personal interest	6	6%

Note:

1. As at 30 June 2019, the total number of issued shares of Prosperous BVI was 100.

Save as disclosed above, as at 30 June 2019, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register of interests required to be kept under Section 352 of the SFO or were otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTEREST AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

So far as known to the Directors or chief executive of the Company, as at 30 June 2019, the following corporates and persons (other than the Directors or chief executive of the Company) had interests or short positions in the shares of the Company and underlying shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO as follows:

Long Positions in Shares

Name	Capacity/Nature of interest	Number of shares	Approximate percentage of shareholding in the Company
Prosperous BVI	Beneficial Owner	588,000,000	52.5%
Mr. Yeung Ming Sum Richard ("Mr. Yeung") ⁽¹⁾	Interest in a controlled corporation	588,000,000	52.5%
Mrs. Yeung Wor Foon Stella ("Mrs. Yeung") ⁽¹⁾	Interest in a controlled corporation	588,000,000	52.5%
Great Pacific Investment Limited ("Great Pacific") ⁽²⁾	Beneficial Owner	252,000,000	22.5%
Pou Hing Industrial Co. Limited ("Pou Hing") ⁽²⁾	Interest in a controlled corporation	252,000,000	22.5%
Yue Yuen Industrial (Holdings) Limited ("Yue Yuen") ⁽²⁾	Interest in a controlled corporation	252,000,000	22.5%
Wealthplus Holdings Limited ⁽³⁾	Interest in a controlled corporation	252,000,000	22.5%
Pou Chen Corporation ⁽³⁾	Interest in a controlled corporation	252,000,000	22.5%

Notes:

- (1) Prosperous BVI is owned as to 23% by Mr. Yeung, 23% by Mrs. Yeung, 12% by Mr. Yeung Shu Kin, 12% by Mr. Yeung Wang Tony, 12% by Mr. Yeung Theodore Tat, 6% by Mr. Yeung Shu Hung, 6% by Mr. Yeung Shu Kai and 6% by Mr. Yeung Chak Fung. Prosperous BVI is the beneficial owner of 588,000,000 shares of the Company as at 13 July 2018 and Mr. Yeung is the spouse of Mrs. Yeung. By virtue of the SFO, Mr. Yeung and Mrs. Yeung together are deemed to be interested in all of the shares of the Company held by Prosperous BVI.
- (2) Great Pacific is a wholly-owned subsidiary of Yue Yuen and the beneficial owner of 252,000,000 shares of the Company. By virtue of the SFO, Yue Yuen is deemed to be interested in all of the shares of the Company held by Great Pacific as Great Pacific is a wholly-owned subsidiary of Pou Hing and Pou Hing is a wholly-owned subsidiary of Yue Yuen. Yue Yuen is a company incorporated in Bermuda with limited liability and whose shares are listed on the Stock Exchange.
- (3) Pou Chen Corporation is a shareholder of Yue Yuen and as at 13 July 2018, is interested as to 50.33% of Yue Yuen through its two wholly-owned subsidiaries, Wealthplus Holdings Limited (interested as to 47.22% of Yue Yuen as at 13 July 2018) and Win Fortune Investments Limited (interested as to 3.11% of Yue Yuen as at 13 July 2018). By virtue of the SFO and with reference to note (2), Pou Chen Corporation is deemed to be interested in the shares of the Company held by Great Pacific. Pou Chen Corporation is incorporated in Taiwan and is listed on the Taiwan Stock Exchange of the Taiwan Stock Exchange Corporation (stock code: 9904 TSE).

Save as disclosed above, and as at the date of this announcement, the Directors were not aware of any persons (other than the Directors and chief executive of the Company) who had any interests or short positions in the shares of the Company or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than the Scheme and as disclosed under the section "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or any Associated Corporation" above, at no time during the six months ended 30 June 2019 and up to the date of this announcement, was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executive of the Company or their respective associates (as defined in the Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) or to acquire benefits by means of acquisitions of shares in, or debentures of, the Company or any other body corporate.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2019, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the period under review.

AUDIT COMMITTEE AND REVIEW OF INTERIM FINANCIAL RESULTS

Pursuant to Rule 3.21 of the Listing Rules, the Company established an audit committee (the “**Audit Committee**”) with written terms of reference aligned with the CG Code. The Audit Committee comprises three independent non-executive Directors, namely Mr. Ko Siu Tak, Mr. Chiu Che Chung Alan and Mr. Yip Kwok Cheung. The Audit Committee is chaired by Mr. Ko Siu Tak and is responsible for assisting the Board in safeguarding the Group's assets by providing an independent review of the effectiveness of the financial reporting process and the internal controls and risk management systems of the Group. It also performs other duties and responsibilities as assigned by the Board.

The Audit Committee has discussed with the management of the Group and reviewed the unaudited interim financial results of the Group for the six months ended 30 June 2019, including the accounting principles and practices adopted by the Group, and discussed financial related matters. The Audit Committee is of the view that such statements have complied with the applicable accounting standards and that adequate disclosures have been made.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND THE INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2019

In accordance with the requirements under the Listing Rules, this result announcement has been published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.pihl.hk), respectively. In accordance with the requirements under the Listing Rules, the interim report for the six months ended 30 June 2019 containing information about the Company will be dispatched to the shareholders of the Company and published on the websites of the Stock Exchange and the Company, respectively, in due course.

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

Hong Kong, 23 August 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.