



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



Interim Report
2020



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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Yeung Shu Kin (*Chairman*)
Mr. Yeung Shu Kai
Mr. Yeung Wang Tony

NON-EXECUTIVE DIRECTORS

Mr. Chau Chi Ming
Mr. Tsai Nai-Yung

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chiu Che Chung Alan
Mr. Ko Siu Tak
Mr. Yip Kwok Cheung

AUDIT COMMITTEE

Mr. Ko Siu Tak (*Committee Chairman*)
Mr. Chiu Che Chung Alan
Mr. Yip Kwok Cheung

NOMINATION COMMITTEE

Mr. Yip Kwok Cheung (*Committee Chairman*)
Mr. Chiu Che Chung Alan
Mr. Yeung Shu Kin

REMUNERATION COMMITTEE

Mr. Chiu Che Chung Alan
(*Committee Chairman*)
Mr. Ko Siu Tak
Mr. Yeung Shu Kin

COMPANY SECRETARY

Ms. Zhang Xiao

AUTHORISED REPRESENTATIVES

Mr. Yeung Wang Tony
Ms. Zhang Xiao

AUDITOR

Ernst & Young

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1-2, 1/F, Join-In Hang Sing Centre
71-75 Container Port Road
Kwai Chung, New Territories
Hong Kong

COMPANY'S WEBSITE

www.pihl.hk

PRINCIPAL SHARE REGISTRAR

Conyers Trust Company (Cayman) Limited

HONG KONG BRANCH SHARE REGISTRAR

Tricor Investor Services Limited

PRINCIPAL BANKER

Shanghai Commercial Bank Limited

STOCK CODE

1731

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 2020 with comparative figures for the corresponding period in 2019 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

		For the six months ended 30 June	
	Notes	2020 (Unaudited) US\$'000	2019 (Unaudited) US\$'000
REVENUE	4	98,493	123,413
Cost of sales		(77,949)	(97,387)
Gross profit		20,544	26,026
Other income and gains, net	5	1,129	1,425
Selling and distribution expenses		(5,559)	(8,061)
Administrative expenses		(9,866)	(12,856)
Other expenses, net		(216)	(487)
Finance costs	6	(290)	(300)
PROFIT BEFORE TAX	7	5,742	5,747
Income tax	8	(712)	(1,680)
PROFIT FOR THE PERIOD ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY		5,030	4,067

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	For the six months ended 30 June	
Notes	2020 (Unaudited) US\$'000	2019 (Unaudited) US\$'000
OTHER COMPREHENSIVE INCOME		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	(747)	98
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:		
Revaluation surplus	5,214	–
Deferred tax debited to asset revaluation reserve	(1,304)	–
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	3,910	–
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	3,163	98
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	8,193	4,165
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY		
Basic and diluted (US cents)	10 0.45	0.36

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Notes	As at 30 June 2020 (Unaudited) US\$'000	As at 31 December 2019 (Audited) US\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	22,372	28,306
Investment property		9,436	–
Right-of-use assets		20,141	21,878
Intangible assets		478	502
Equity investment at fair value through other comprehensive income		2	2
Prepayments, deposits and other receivables		1,671	1,931
Deferred tax assets		435	209
Total non-current assets		54,535	52,828
CURRENT ASSETS			
Inventories		19,204	33,339
Trade and bills receivables	12	46,394	42,252
Prepayments, deposits and other receivables		8,400	9,012
Income tax recoverable		71	71
Cash and bank balances		56,770	51,060
Total current assets		130,839	135,734
CURRENT LIABILITIES			
Trade and bills payables	13	9,155	17,620
Other payables and accruals		12,342	15,968
Lease liabilities		1,892	1,893
Income tax payables		10,584	10,223
Total current liabilities		33,973	45,704

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Notes	As at 30 June 2020 (Unaudited) US\$'000	As at 31 December 2019 (Audited) US\$'000
NET CURRENT ASSETS		96,866	90,030
TOTAL ASSETS LESS CURRENT LIABILITIES		151,401	142,858
NON-CURRENT LIABILITIES			
Defined benefit obligations		752	749
Lease liabilities		6,673	7,664
Deferred tax liabilities		1,338	–
Total non-current liabilities		8,763	8,413
Net assets		142,638	134,445
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY			
Issued capital	14	1,436	1,436
Reserves		141,202	133,009
Total equity		142,638	134,445

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Issued capital (Unaudited) US\$'000	Share premium (Unaudited) US\$'000	Capital reserve (Unaudited) US\$'000	Statutory reserves (Unaudited) US\$'000	Defined benefit plan reserve (Unaudited) US\$'000	Exchange fluctuation reserve (Unaudited) US\$'000	Asset revaluation reserve [#] (Unaudited) US\$'000	Retained profits (Unaudited) US\$'000	Total equity (Unaudited) US\$'000
At 1 January 2020	1,436	28,633*	19,052*	274*	391*	(509)*	-	85,168*	134,445
Profit for the period	-	-	-	-	-	-	-	5,030	5,030
Other comprehensive income/(loss) for the period:									
- Revaluation surplus	-	-	-	-	-	-	5,214	-	5,214
- Deferred tax debited to asset revaluation reserve	-	-	-	-	-	-	(1,304)	-	(1,304)
- Exchange differences on translation of foreign operations	-	-	-	-	-	(747)	-	-	(747)
Total comprehensive income/(loss) for the period	-	-	-	-	-	(747)	3,910	5,030	8,193
At 30 June 2020	1,436	28,633*	19,052*	274*	391*	(1,256)*	3,910*	90,198*	142,638

* These reserve accounts comprise the consolidated reserves of US\$141,202,000 (31 December 2019: US\$133,009,000) in the condensed consolidated statement of financial position as at 30 June 2020.

The asset revaluation reserve arose from a change in use from an owner-occupied building and the related prepaid land lease payment to an investment property carried at fair value during the period ended 30 June 2020.

For the six months ended 30 June 2019

	Issued capital (Unaudited) US\$'000	Share premium (Unaudited) US\$'000	Capital reserve (Unaudited) US\$'000	Statutory reserves (Unaudited) US\$'000	Defined benefit plan reserve (Unaudited) US\$'000	Exchange fluctuation reserve (Unaudited) US\$'000	Retained profits (Unaudited) US\$'000	Total equity (Unaudited) US\$'000
At 1 January 2019	1,436	28,633	19,052	262	366	(28)	92,880	142,601
Profit for the period	-	-	-	-	-	-	4,067	4,067
Other comprehensive income for the period:								
- Exchange differences on translation of foreign operations	-	-	-	-	-	98	-	98
Total comprehensive income for the period	-	-	-	-	-	98	4,067	4,165
Final and special 2018 dividends (note 9)	-	-	-	-	-	-	(7,134)	(7,134)
At 30 June 2019	1,436	28,633	19,052	262	366	70	89,813	139,632

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	For the six months ended 30 June	
	2020 (Unaudited) US\$'000	2019 (Unaudited) US\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net cash flows from/(used in) operating activities	7,974	(15,305)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	(550)	(2,677)
Proceeds from disposal of items of property, plant and equipment	266	2
Additions to intangible assets	(39)	(7)
Decrease in time deposits with maturity of more than three months when acquired	12,851	4,505
Interest received	192	240
Net cash flows from investing activities	12,720	2,063
CASH FLOWS FROM FINANCING ACTIVITIES		
Finance costs paid	(290)	(300)
Dividends paid	–	(7,134)
Principal portion of lease payments	(929)	(1,733)
Net cash flows used in financing activities	(1,219)	(9,167)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	19,475	(22,409)
Cash and cash equivalents at beginning of period	38,209	59,267
Effect of foreign exchange rate changes, net	(914)	(50)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	56,770	36,808
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances as stated in the condensed consolidated statement of financial position	56,770	36,808

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

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 2020, 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 2020 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 2019.

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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

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 2019, except for the adoption of accounting policy for investment properties and the following revised Hong Kong Financial Reporting Standards ("HKFRSs") for the first time for the current period's financial information.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

The nature and impact of the revised HKFRSs are described below:

- (a) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedge relationships.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

- (c) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

Accounting policy for investment property

Investment properties are interests in land and buildings (including the leasehold property held as a right-of-use asset which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the accounting policy under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is dealt with as movements in the asset revaluation reserve.

3. OPERATING SEGMENT INFORMATION

No operating segment information is presented as the Group only operates in one single operating segment, i.e., manufacturing and sale of sports bags, handbags and luggage bags.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

4. REVENUE

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

Disaggregation of revenue

	For the six months ended 30 June	
	2020 (Unaudited) US\$'000	2019 (Unaudited) US\$'000
By geographical markets		
The USA	35,405	51,671
Mainland China	14,396	21,708
Belgium	12,135	9,220
Netherlands	8,886	6,825
Japan	6,865	8,729
Hong Kong	1,910	2,174
Others	18,896	23,086
Total revenue from contracts with customers	98,493	123,413
By product category		
Outdoor and sporting bags	71,445	80,933
Functional bags	10,154	17,811
Fashion and casual bags	15,079	21,307
Others	1,815	3,362
Total revenue from contracts with customers	98,493	123,413

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

5. 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	
	2020 (Unaudited) US\$'000	2019 (Unaudited) US\$'000
Other income		
Bank interest income	192	240
Government grants*	119	165
Charges levied on customers	202	–
Rental income	64	–
Others	292	645
	869	1,050
Gains, net		
Foreign exchange difference, net	243	63
Gain on sales of samples and mold	–	271
Gain on sales of scrap materials	17	41
	260	375
Other income and gains, net	1,129	1,425

* 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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

6. FINANCE COSTS

	For the six months ended 30 June	
	2020 (Unaudited) US\$'000	2019 (Unaudited) US\$'000
Factoring charges on certain designated trade receivables (note 12)	10	1
Interest on lease liabilities	267	299
Others	13	–
	290	300

7. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2020 (Unaudited) US\$'000	2019 (Unaudited) US\$'000
Cost of inventories sold	75,674	95,428
Depreciation of property, plant and equipment	2,340	2,463
Less: Amount included in cost of inventories sold	(1,386)	(1,911)
	954	552
Depreciation of right-of-use assets	1,309	1,217
Less: Amount included in cost of inventories sold	(889)	(539)
	420	678
Amortisation of intangible assets	191	245
Research and development costs	1,300	1,787
Reversal of impairment of trade receivables*	(17)	–

* The amount is included in "Other expenses, net" on the face of the condensed consolidated statement of profit or loss and other comprehensive income.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

8. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

	For the six months ended 30 June	
	2020 (Unaudited) US\$'000	2019 (Unaudited) US\$'000
Current:		
Charge for the period	899	1,359
Underprovision in prior years	–	2
	899	1,361
Deferred tax	(187)	319
Total tax expense for the period	712	1,680

9. DIVIDENDS

	For the six months ended 30 June	
	2020 (Unaudited) US\$'000	2019 (Unaudited) US\$'000
Final dividend declared and paid – Nil (2019: HK1.5 cents (equivalent to approximately US0.19 cents) per ordinary share	–	2,140
Special dividend declared and paid – Nil (2019: HK3.5 cents (equivalent to approximately US0.45 cents) per ordinary share	–	4,994
	–	7,134

The Board of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

10. 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\$5,030,000 (six months ended 30 June 2019: US\$4,067,000), and the weighted average number of ordinary shares in issue of 1,120,000,000 (six months ended 30 June 2019: 1,120,000,000) during the period.

No adjustment has been made to the basic earnings per share presented for the six months ended 30 June 2020 and 2019 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during each of these periods.

11. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

During the period, the Group spent approximately US\$550,000 (six months ended 30 June 2019: US\$2,677,000) on property, plant and equipment, disposed of property, plant and equipment with a total net carrying amount of approximately US\$587,000 (six months ended 30 June 2019: US\$556,000) and wrote off property, plant and equipment with a total net carrying amount of nil (six months ended 30 June 2019: US\$380,000).

During the period, the Group rented out one of its occupied properties to an independent third party for earning rental income. At the date of change in use, this property became an investment property. Upon the transfer from property, plant and equipment of US\$3,913,000 and the related right-of-use land of US\$308,000 to investment property, this property was revalued at US\$9,436,000 with a revaluation surplus of US\$5,214,000 (six months ended 30 June 2019: Nil) credited to the asset revaluation reserve.

12. TRADE AND BILLS RECEIVABLES

	As at 30 June 2020 (Unaudited) US\$'000	As at 31 December 2019 (Audited) US\$'000
Trade receivables	47,513	43,395
Bills receivable	13	6
Less: Impairment	(1,132)	(1,149)
	46,394	42,252

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

12. TRADE AND BILLS RECEIVABLES *(continued)*

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 2020 (Unaudited) US\$'000	As at 31 December 2019 (Audited) US\$'000
Within 1 month	18,228	26,738
1 to 2 months	21,936	9,677
2 to 3 months	4,230	4,834
Over 3 months	2,000	1,003
	46,394	42,252

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. During the six months ended 30 June 2020, trade receivables with an aggregate amount of US\$4,542,000 (31 December 2019: Nil) were factored to the bank and were fully derecognised.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

13. TRADE AND BILLS PAYABLES

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

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 2020 (Unaudited) US\$'000	As at 31 December 2019 (Audited) US\$'000
Within 1 month	3,597	13,432
1 to 2 months	2,342	3,622
2 to 3 months	2,810	528
Over 3 months	406	38
	9,155	17,620

14. SHARE CAPITAL

	As at 30 June 2020 (Unaudited) HK\$'000	As at 31 December 2019 (Audited) HK\$'000
Authorised: 100,000,000,000 ordinary shares of HK\$0.01 each	HK\$1,000,000,000	HK\$1,000,000,000
Issued and fully paid: 1,120,000,000 ordinary shares of HK\$0.01 each	1,436	1,436

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

15. RELATED PARTY DISCLOSURES

- (a) The Group entered into the following material transactions with related parties during the period:

		For the six months ended 30 June	
	Notes	2020 (Unaudited) US\$'000	2019 (Unaudited) US\$'000
A company beneficially owned by certain directors of the Company			
Lease payment	(i)	124	124
Subsidiaries of a company with significant influence over the Company			
Public facility maintenance expenses	(iii)	79	78
Utility expenses and other charges	(iii)	258	266
Shuttle bus service expenses	(i)	125	177
Building management expenses	(ii)	72	70

Notes:

- (i) These transactions were determined with reference to prevailing market rates.
- (ii) These transactions were carried out at mutually-agreed prices.
- (iii) The public facility maintenance expenses and utilities expenses were reimbursed to the related parties on an actual cost basis.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

15. RELATED PARTY DISCLOSURES *(continued)*

- (b) The compensation of the key management personnel of the Group is summarised as follows:

	For the six months ended 30 June	
	2020 (Unaudited) US\$'000	2019 (Unaudited) US\$'000
Short term employee benefits	609	662
Defined contribution scheme contributions	18	18
Total compensation paid/payable to key management personnel	627	680

16. APPROVAL OF THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The interim condensed consolidated financial information was approved and authorised for issue by the board of directors of the Company on 28 August 2020.

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. During the six months ended 30 June 2020 (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 manufacturing and retail industry faced challenges arose from the outbreak of COVID-19, in addition to the persisting USA-China trade tension. Lockdowns, travel restrictions, social distancing and other public health measures as implemented by local governments around the world have hampered the consumer spending globally. Entering the second quarter of 2020, some shipments to the USA and Europe have been deferred at the request of the Group’s customers. Furthermore, while it remains uncertain as to the time of recovery of the retail industry from the COVID-19 pandemic, some of the Group’s customers have cut back on their order estimates.

Facing this challenging business environment, the Group reacted by adjusting its production capacity downward, temporarily suspending its production base in Cambodia which mainly caters for orders from the USA. The Group also took a more prudent approach towards its capital expenditure, including suspending its expansion of production facilities in Cambodia, to mitigate the impact of the COVID-19 pandemic on the Group’s cash flows.

Total revenue of the Group for the Period was approximately US\$98.5 million, representing a decrease of approximately US\$24.9 million or 20.2% from approximately US\$123.4 million as recorded in the six months ended 30 June 2019 (the “Corresponding Period”). The decrease was mainly due to the cut back in sales order as a result of the weakened consumer spending due to the outbreak of COVID-19. Sales quantity decreased from approximately 13.3 million pieces for the Corresponding Period to approximately 11.1 million pieces for the Period, representing a decrease of approximately 2.2 million pieces or 16.5%. The average selling price per piece declined and the sales mix of different product category concentrated more towards outdoor & sporting bags and packs while shifting away from functional bags and packs in order to better utilise production capacity of the Group’s multi-regional manufacturing platform. The breakdown of the revenue, sales quantity and average selling price by product category are set out below:

Product category	Six months ended 30 June 2020				Six months ended 30 June 2019			
	Revenue		Sales	Average	Revenue		Sales	Average
	US\$'000	%	quantity	selling	US\$'000	%	quantity	selling
		Pc'000	price			Pc'000	price	
			US\$/pc				US\$/pc	
Outdoor & sporting	71,445	73	7,530	9.5	80,933	66	8,567	9.4
Functional	10,154	10	1,686	6.0	17,811	14	2,089	8.5
Fashion & casual	15,079	15	1,707	8.8	21,307	17	2,402	8.9
Others	1,815	2	167	10.9	3,362	3	250	13.4
Total	98,493	100	11,090	8.9	123,413	100	13,308	9.3

The Group’s cost of sales for the Period amounted to approximately US\$77.9 million, representing a decrease of approximately US\$19.5 million or 20.0% from approximately US\$97.4 million for the Corresponding Period. The decrease was in line with the decrease of sales and the Group’s gross profit margin remained stable at 20.9% as compared 21.1% for the Corresponding Period.

The Group’s administrative expenses for the Period amounted to approximately US\$9.9 million, decreased by approximately US\$3.0 million or 23.3% from approximately US\$12.9 million for Corresponding Period as 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 in the Corresponding Period.

Selling and distribution expenses for the Period amounted to approximately US\$5.6 million, decreased by approximately US\$2.5 million or 30.9% from approximately US\$8.1 million for the Corresponding Period. The decrease was mainly due to the drop in sales quantity and decreased use of airfreight for shipping products to customers during the Period.

Profit attributable to shareholders of the Company increased by approximately US\$0.9 million or 22.0% to approximately US\$5.0 million for the Period, compared with approximately US\$4.1 million for the Corresponding Period. Basic earnings per share for the Period increased by 0.09 US cent to 0.45 US cent as compared to 0.36 US cent for the Corresponding Period.

Liquidity, financial resources and capital expenditure

The Group's financial position remained solid. As at 30 June 2020, the Group had cash and cash equivalents of approximately US\$56.8 million. The Group had no external borrowings as at 30 June 2020. As a result, the gearing ratio of the Group was zero (31 December 2019: zero), calculated as total debt, excluding lease liabilities, divided by total equity.

During the six months ended 30 June 2020, the Group incurred capital expenditure of US\$0.6 million, mainly attributable to 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.

As no separate legally binding agreements were entered into between the parties and the MOU has lapsed on 24 June 2020.

Contingent liabilities

As at 30 June 2020, the Group did not have any significant contingent liabilities (31 December 2019: Nil).

* For identification purpose only

Capital commitment

As at 30 June 2020, the Group did not have any significant capital commitments (31 December 2019: Nil).

Segmental Information

No operating segmental information of the Group was presented for the six months ended 30 June 2020 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 2020, the Group had approximately 8,500 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 2020, no share options were granted to employees of the Group.

Significant investments held

As at 30 June 2020, there were no material investments held by the Group.

Charge on the Group's assets

As at 30 June 2020, the Group did not have any charges on its assets (31 December 2019: 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 uncertainties surrounding the COVID-19 pandemic will continue to affect the global economic activities, and will inevitably have negative impact on the Group's performance for the months to come. Nevertheless, the Group is positioned to participate in the eventual recovery of customer demand. The operation of its Cambodia production base is expected to resume gradually in mid-September 2020, subject to the availability of the workers and orders from customers. And the Group will reconsider to resume the remaining Phase 2 expansion should the business environment improves. Meanwhile, the Group will continue to monitor the situation and work closely with its partners to mitigate the adverse impact arising from the COVID-19 pandemic.

Use of proceeds from listing

The Company raised approximately HK\$202.2 million from the listing in July 2018. On 20 December 2019, the Directors resolved to change the use and allocation of the net proceeds as disclosed in the section headed "Future Plans and Use of Proceeds" of the prospectus dated 29 June 2018 (the "**Prospectus**") (the "**First Revised Use of Net Proceeds**") in order to reallocate the Group's production capacity by scaling down the operation in the PRC production bases and expanding its Vietnam and Cambodia production bases. On 22 May 2020, the Directors further resolved to change the use and allocation of the net proceeds (the "**Second Revised Use of Net Proceeds**") in order to strengthen its working capital position and liquidity by deferring its further expansion plan in Cambodia and retail business in MAISON PROMAX and instead apply the unutilised amount to general working capital. The Directors considered the aforementioned changes were in the best interest of the Company and the Shareholders as a whole. The Change would allow the Company to deploy its financial resources more effectively. For details, please refer to the announcements of the Company dated 20 December 2019 and 22 May 2020, respectively.

As at 30 June 2020, the amount of the net proceeds which remained unutilised amounted to approximately HK\$55.5 million. The remaining unutilised net proceeds are expected to be utilised within 3 years up to 2023.

Set out below are details of the use of proceeds up to 30 June 2020:

	Original allocation of net proceeds HK\$ million	First Revised Use of Net Proceeds HK\$ million	Second Revised Use of Net Proceeds HK\$ million	Utilised amount up to 30 June 2020 HK\$ million	Unutilised amount up to 30 June 2020 HK\$ million
Further enhancement of manufacturing capacity and flexibility by expanding manufacturing platforms in Cambodia	135.5	135.5	77.2	77.2	–
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	30.8	14.5	14.5	14.5	–
Enhancing brand recognition for MAISON PROMAX and expansion of retail business	12.5	12.5	5.8	5.8	–
Enhancing IT infrastructure	23.4	8.7	8.7	1.9	6.8
Reallocation of production capacity	–	31.0	31.0	21.4	9.6
General working capital	–	–	65.0	25.9	39.1
Total	202.2	202.2	202.2	146.7	55.5

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 set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) 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 2020, 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 2020.

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the period ended 30 June 2020 (six months ended 30 June 2019: 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 report, the Company maintained the prescribed public float of no less than 25% as required under the Listing Rules.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the Period, there was no material acquisition or disposal of subsidiaries, associates or joint ventures 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 report and there was no outstanding share option as at the date of this report.

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 2020, 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 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 2020, the total number of issued shares of Prosperous BVI was 100.

Save as disclosed above, as at 30 June 2020, none of the Directors or chief executive 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 2020, 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 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, is interested as to 51.11% of Yue Yuen through its two wholly-owned subsidiaries, Wealthplus Holdings Limited (interested as to 47.95% of Yue Yuen) and Win Fortune Investments Limited (interested as to 3.16% of Yue Yuen). 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 report, 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 2020 and up to the date of this report, 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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Period.

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 2020, 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

On behalf of the Board

Prosperous Industrial (Holdings) Limited

Yeung Shu Kin

Chairman

Hong Kong

28 August 2020