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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 2023

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 2023 with comparative figures for the corresponding period in 2022 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023

		For the six months ended 30 June	
	Notes	2023 (Unaudited) US\$'000	2022 (Unaudited) US\$'000
REVENUE	3	115,339	124,540
Cost of sales		(92,323)	(100,196)
Gross profit		23,016	24,344
Other income and gains, net	4	2,147	3,125
Selling and distribution expenses		(5,476)	(6,984)
Administrative expenses		(8,693)	(8,533)
Other expenses, net		(1,160)	(3,935)
Finance costs		(151)	(227)
PROFIT BEFORE TAX	5	9,683	7,790
Income tax credit/(expense)	6	184	(378)
PROFIT FOR THE PERIOD ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY		9,867	7,412

	For the six months ended	
	30 June	
<i>Notes</i>	2023	2022
	(Unaudited)	(Unaudited)
	US\$'000	US\$'000
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
– Exchange differences on translation of foreign operations	<u>(1,483)</u>	<u>(2,214)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	<u>8,384</u>	<u>5,198</u>
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY		
Basic and diluted (US cent)	<u>0.88</u>	<u>0.66</u>

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

	<i>Notes</i>	As at 30 June 2023 (Unaudited) US\$'000	As at 31 December 2022 (Audited) US\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		15,263	16,478
Investment properties		9,245	9,649
Right-of-use assets		15,189	16,400
Intangible assets		139	178
Equity investment at fair value through other comprehensive income		2,102	2,102
Prepayments, deposits and other receivables		1,819	1,649
Deferred tax assets		299	202
		<hr/>	<hr/>
Total non-current assets		44,056	46,658
CURRENT ASSETS			
Inventories		23,191	43,744
Trade receivables	9	54,924	41,883
Prepayments, deposits and other receivables		10,089	8,880
Financial assets at fair value through profit or loss		773	4,592
Income tax recoverable		–	32
Cash and bank balances		52,464	44,042
		<hr/>	<hr/>
Total current assets		141,441	143,173
CURRENT LIABILITIES			
Trade and bills payables	10	10,414	20,502
Other payables and accruals		16,505	12,399
Lease liabilities		1,481	1,514
Income tax payables		8,502	8,425
		<hr/>	<hr/>
Total current liabilities		36,902	42,840
NET CURRENT ASSETS			
		<hr/> 104,539 <hr/>	<hr/> 100,333 <hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<hr/> 148,595 <hr/>	<hr/> 146,991 <hr/>

	<i>Notes</i>	As at 30 June 2023 (Unaudited) US\$'000	As at 31 December 2022 (Audited) US\$'000
NON-CURRENT LIABILITIES			
Other payables and accruals		131	132
Defined benefit obligations		215	248
Lease liabilities		2,850	3,615
Deferred tax liabilities		1,399	1,378
		<hr/>	<hr/>
Total non-current liabilities		4,595	5,373
		<hr/>	<hr/>
Net assets		144,000	141,618
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Issued capital		1,436	1,436
Reserves		142,564	140,182
		<hr/>	<hr/>
Total equity		144,000	141,618
		<hr/> <hr/>	<hr/> <hr/>

NOTES

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 2023, the Company and its subsidiaries (collectively, the “**Group**”) were principally involved in the manufacturing and sale of sports bags, handbags and luggage bags.

2.1 BASIS OF PREPARATION

The unaudited interim condensed consolidated financial information of the Group for the six months ended 30 June 2023 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 2022.

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 consolidated financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2022, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards (“**HKFRSs**”) for the first time for the current period’s financial information.

HKFRS 17	<i>Insurance Contracts</i>
Amendments to HKFRS 17	<i>Insurance Contracts</i>
Amendment to HKFRS 17	<i>Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information</i>
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i>
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to HKAS 12	<i>International Tax Reform – Pillar Two Model Rules</i>

The amendments did not have any impact on the financial position and performance of the Group.

3. REVENUE

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

Disaggregation of revenue

	For the six months ended 30 June	
	2023 (Unaudited) <i>US\$'000</i>	2022 (Unaudited) <i>US\$'000</i>
By geographical markets		
The USA	48,909	54,869
Belgium	13,988	11,116
Italy	8,213	2,087
Japan	7,182	9,676
Mainland China	6,997	15,499
Netherlands	6,169	6,813
Others	23,881	24,480
	<hr/>	<hr/>
Total revenue from contracts with customers	115,339	124,540
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By product category		
Outdoor and sporting bags	84,428	86,025
Functional bags	5,258	6,452
Fashion and casual bags	24,424	28,583
Others	1,229	3,480
	<hr/>	<hr/>
Total revenue from contracts with customers	115,339	124,540
	<hr/> <hr/>	<hr/> <hr/>

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	
	2023 (Unaudited) US\$'000	2022 (Unaudited) US\$'000
Other income		
Bank interest income	445	309
Other interest income from financial assets at fair value through profit or loss	134	146
Government grants*	11	64
Charges levied on customers	219	439
Rental income	410	426
Others	281	207
	<u>1,500</u>	<u>1,591</u>
Gains, net		
Foreign exchange difference, net	421	1,530
Gain on redemption of financial assets at fair value through profit or loss	224	–
Gain on sales of scrap materials	2	4
	<u>647</u>	<u>1,534</u>
Other income and gains, net	<u><u>2,147</u></u>	<u><u>3,125</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	
	2023 (Unaudited) US\$'000	2022 (Unaudited) US\$'000
Cost of inventories sold	90,542	98,271
Depreciation of property, plant and equipment	1,599	1,527
Less: Amount included in cost of inventories sold	(1,023)	(980)
	<u>576</u>	<u>547</u>
Depreciation of right-of-use assets	1,050	1,356
Less: Amount included in cost of inventories sold	(758)	(945)
	<u>292</u>	<u>411</u>
Loss/(gain) on disposal of property, plant and equipment	11	(17)
Amortisation of intangible assets	83	76
Research and development costs	1,129	1,290
Fair value loss on financial assets at fair value through profit or loss*	510	2,836
	<u>510</u>	<u>2,836</u>

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

6. INCOME TAX

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

	For the six months ended 30 June	
	2023 (Unaudited) US\$'000	2022 (Unaudited) US\$'000
Current:		
Charge for the period	1,403	1,331
Overprovision in prior years	(1,575)	(1,210)
Deferred tax	(12)	257
	<u>(184)</u>	<u>378</u>
Total tax expense/(credit) for the period	<u>(184)</u>	<u>378</u>

7. DIVIDENDS

	For the six months ended 30 June	
	2023 (Unaudited) US\$'000	2022 (Unaudited) US\$'000
Final dividend declared – HK4.2 cents (equivalent to approximately US0.54 cent) (2022: HK1 cent) per ordinary share	6,002	1,427
Special dividend declared – Nil (2022: HK2.5 cents) per ordinary share	–	3,569
	<u>6,002</u>	<u>4,996</u>

The Board of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: 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\$9,867,000 (six months ended 30 June 2022: US\$7,412,000), and the number of ordinary shares in issue of 1,120,000,000 (six months ended 30 June 2022: 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 2023 and 2022 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 2023 (Unaudited) US\$'000	As at 31 December 2022 (Audited) US\$'000
Trade receivables	55,801	42,239
Less: Impairment	(877)	(356)
	<u>54,924</u>	<u>41,883</u>

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

	As at 30 June 2023 (Unaudited) US\$'000	As at 31 December 2022 (Audited) US\$'000
Within 1 month	16,710	16,714
1 to 2 months	20,737	15,983
2 to 3 months	16,518	8,171
Over 3 months	959	1,015
	<hr/> 54,924 <hr/>	<hr/> 41,883 <hr/>

10. 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 2023 (Unaudited) US\$'000	As at 31 December 2022 (Audited) US\$'000
Within 1 month	7,653	13,487
1 to 2 months	2,208	6,932
2 to 3 months	147	33
Over 3 months	406	50
	<hr/> 10,414 <hr/>	<hr/> 20,502 <hr/>

MANAGEMENT DISCUSSION AND ANALYSIS

GENERAL OVERVIEW AND BUSINESS REVIEW

The Group is a leading manufacturer that designs, develops and manufactures recreational bags and packs, mainly backpacks, it also provides quality supply chain management services for renowned multinational sports and lifestyle brands. During the six months ended 30 June 2023 (the “**Period**”), the Group’s revenue was generated from sales of bags and packs manufactured for brand owner customers.

After a strong rebound in customer orders in 2022, high retailer inventory level in our end-consumer markets has led to a softer customer demand to start 2023. During the Period, the performance of the Group was affected by the ongoing inventory destocking cycle by our customers, as a result, revenue recorded for the Period has declined as compared to that of the six months ended 30 June 2022 (the “**Corresponding Period**”). Meanwhile, the Group continued to reallocate its production capacity from the PRC to Vietnam and Cambodia for catering the customer orders from overseas, as customer orders from the PRC markets continued to shrink during the Period. The Group’s Vietnam and Cambodia production bases accounted for more than 90% of the Group’s total production capacity for the Period.

OUTLOOK AND PROSPECTS

Entering the second half of 2023, order visibility continued to be limited amidst the ongoing inventory destocking cycle, persistent inflationary pressure, and rising interest rates. The Group remained cautiously optimistic about the long-term growth in its manufacturing business. To achieve a sustainable business growth in the ever-changing industry, the Group will continue to monitor the development in the macroeconomic environment, streamline its production procedures and leverage through its multi-regional manufacturing platform to strive for optimal efficiency.

FINANCIAL REVIEW

Total revenue of the Group for the Period was approximately US\$115.3 million, representing a decrease of approximately US\$9.2 million or 7.4% from approximately US\$124.5 million as recorded for the Corresponding Period. Sales quantity also decreased from approximately 12.1 million pieces for the Corresponding Period to approximately 10.9 million for the Period, representing a decline of approximately 1.2 million pieces or 9.9%. The revenue decrease was mainly caused by the softer customer demand amidst the inventory destocking cycle in the end-consumer markets. For the sales mix of different product category, outdoor and sporting category remained our core category which contributed more than 73% of the total revenue. The average selling price per piece improved from US\$10.3 to US\$10.6. 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 2023				Six months ended 30 June 2022			
	Revenue US\$'000	%	Sales quantity Pc'000	Average selling price US\$/pc	Revenue US\$'000	%	Sales quantity Pc'000	Average selling price US\$/pc
Outdoor & sporting	84,428	73.2	7,394	11.4	86,025	69.1	8,254	10.4
Functional	5,258	4.6	323	16.3	6,452	5.2	408	15.8
Fashion & casual	24,424	21.2	3,076	7.9	28,583	23.0	3,156	9.1
Others	1,229	1.0	110	11.2	3,480	2.7	293	11.9
Total	<u>115,339</u>	<u>100</u>	<u>10,903</u>	<u>10.6</u>	<u>124,540</u>	<u>100</u>	<u>12,111</u>	<u>10.3</u>

The Group's cost of sales for the Period amounted to approximately US\$92.3 million, representing a decrease of approximately US\$7.9 million or 7.9% from approximately US\$100.2 million for the Corresponding Period. The decrease is mainly due to the decrease in sales quantity and is generally in line with the decrease in revenue for the Period. Gross profit for the Period amounted to approximately US\$23.0 million, decreased from approximately US\$24.3 million for the Corresponding period, while the gross profit margin for the Period improved slightly from 19.5% to 20.0%.

Administrative expenses for the Period amounted to approximately US\$8.7 million, which was maintained at similar level as compared to the Corresponding Period.

Selling and distribution expenses for the Period amounted to approximately US\$5.5 million, representing a decrease of approximately US\$1.5 million or 21.6% from approximately US\$7.0 million for the Corresponding Period. The decrease is primarily due to the decrease in quantity shipped as well as the general decrease in freight costs across the globe during the Period.

Other expenses for the Period decreased significantly as compared to the Corresponding Period, largely due to the reduction in fair value loss of certain of the Group's investment in corporate bonds which are carried at fair value through profit and loss.

Profit attributable to shareholders of the Company increased by approximately US\$2.5 million or 33.1% to approximately US\$9.9 million for the Period, compared with approximately US\$7.4 million for the Corresponding Period. Earnings per share for the Period increased by 0.22 US cent to 0.88 US cent as compared to 0.66 US cent for the Corresponding Period.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL EXPENDITURE

The Group's financial position remained solid. As at 30 June 2023, the Group had cash and cash equivalents of approximately US\$52.5 million. The Group has no external borrowings as at 30 June 2023. As a result, the gearing ratio of the Group was zero (31 December 2022: zero), calculated as total debt, excluding lease liabilities, divided by total equity.

During the Period, the Group incurred capital expenditure of US\$0.8 million (2022: US\$1.0 million), mainly for acquisition of property, plant and equipment and intangible assets.

CONTINGENT LIABILITIES

As at 30 June 2023, the Group did not have any significant contingent liabilities (31 December 2022: Nil).

CAPITAL COMMITMENT

As at 30 June 2023, the Group did not have any significant capital commitments (31 December 2022: Nil).

SEGMENTAL INFORMATION

No operating segmental information of the Group was presented for the Period 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 2023, the Group had approximately 7,400 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 Period, no share options were granted by the Group to employees of the Group.

SIGNIFICANT INVESTMENTS HELD

As at 30 June 2023, there were no material investments held by the Group.

CHARGE ON THE GROUP'S ASSETS

As at 30 June 2023, the Group did not have any charges on its assets (31 December 2022: 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 and 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.

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 Part 2 of 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 Period, 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 Period.

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the Period (the Corresponding Period: Nil).

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.

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 Ms. Sze Tak On, Mr. Chiu Che Chung Alan and Mr. Yip Kwok Cheung. The Audit Committee is chaired by Ms. Sze Tak On 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 2023, 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 2023

In accordance with the requirements under the Listing Rules, this result announcement has been published on the websites of the Hong Kong Exchanges and Clearing Limited (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 2023 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, 28 August 2023

As at the date of this announcement, the Board of Directors of the Company comprises Mr. Yeung Shu Kin, Mr. Yeung Shu Kai and Mr. Yeung Wang Tony as executive Directors, Mr. Chau Chi Ming and Mr. Liao Yuang-Whang as non-executive Directors and Mr. Chiu Che Chung Alan, Ms. Sze Tak On and Mr. Yip Kwok Cheung as independent non-executive Directors.