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Prosperous Printing Company Limited

萬里印刷有限公司

(incorporated in Hong Kong with limited liability)

(Stock code: 8385)

ANNOUNCEMENT

As disclosed in the announcement dated 29 May 2020 and 5 June 2020, on 29 May 2020, the Tenant (a wholly-owned subsidiary of the Company) and the Previous Landlord entered into the Previous Lease Agreement to rent the New Shenzhen Warehouse with effect from 1 June 2020. The New Shenzhen Warehouse has been mainly for use as warehouse.

Subsequently, as agreed among the Previous Landlord, the New Landlord and Tenant, on 28 December 2020, the Tenant and the Previous Landlord entered into the Termination Agreement to terminate the Previous Lease Agreement with effect on 30 September 2020, and the Tenant entered into the New Lease Agreement with the New Landlord to rent the New Shenzhen Warehouse with effect from 1 October 2020, and the Tenant entered into the New Management Service Agreement with the Previous Landlord with effect from 1 October 2020.

The termination of the Previous Lease Agreement and commencement of the New Lease Agreement and the New Management Agreement are proposed by the Previous Landlord and New Landlord to the Group as tenant. There is no material difference between the aggregate amount payable by the Tenant under the Previous Lease Agreement and the aggregate amount payable by the Tenant under the New Lease Agreement and the New Management Service Agreement.

GEM LISTING RULES IMPLICATIONS

In accordance with HKFRS 16 “Leases”, the Company will recognize a right-of-use asset on its balance sheet in connection with the lease of the New Shenzhen Warehouse under the New Lease Agreement. Accordingly, the entering into the New Lease Agreement by the Tenant will be regarded as an acquisition of a capital asset for the purposes of the GEM Listing Rules.

As one or more of the applicable ratios (as defined in the GEM Listing Rules) for the respective transaction contemplated under the Termination Agreement and the New Lease Agreement exceeds 5% but is less than 25%, each of these transactions constitutes a discloseable transaction of the Company under Chapter 19 of the GEM Listing Rules and is subject to the reporting and announcement requirements but exempt from the Shareholders’ approval requirement under the GEM Listing Rules.

A. INTRODUCTION

As disclosed in the announcements of the Company dated 29 May 2020 and 5 June 2020, the Tenant (i.e. Prosperous (SZ), a wholly-owned subsidiary of the Company) and the Previous Landlord entered into the Previous Lease Agreement on 29 May 2020 to rent the New Shenzhen Warehouse with effect from 1 June 2020, the details of which have already been disclosed in the said announcements. Unless otherwise specified, capitalised terms used herein shall have the same meanings as defined in the announcements of the Company dated 29 May 2020 and 5 June 2020.

The New Shenzhen Warehouse has been mainly for use as warehouse.

Subsequently, as agreed among the Previous Landlord, the New Landlord (on behalf of the New Landlord) and Tenant, on 28 December 2020, the Tenant and the Previous Landlord entered into the Termination Agreement to terminate the Previous Lease Agreement with effect on 30 September 2020, and the Tenant entered into the New Lease Agreement with the New Landlord to rent the New Shenzhen Warehouse with effect from 1 October 2020, and the Tenant entered into the New Management Service Agreement with the Previous Landlord with effect from 1 October 2020.

The termination of the Previous Lease Agreement and commencement of the New Lease Agreement and the New Management Agreement are proposed by the Previous Landlord and New Landlord to the Group as tenant.

B. KEY TERMS OF THE TERMINATION AGREEMENT

- Date : 28 December 2020
- Parties : (1) Prosperous (SZ); and
(2) the Previous Landlord
- Key Terms : (1) The Previous Lease Agreement shall be terminated with effect from 30 September 2020.
(2) The security deposit previously paid to the Previous Landlord under the Previous Lease Agreement, shall be returned to the Tenant after execution of the Termination Agreement.
- Remarks : The Tenant and the Previous Landlord are not required to pay any other compensation to the other party under the Termination Agreement.

C. KEY TERMS OF THE NEW LEASE AGREEMENT

- Date : 28 December 2020
- Parties : (1) Prosperous (SZ) (as tenant); and
(2) New Landlord
- Term : With effect from 1 October 2020 to 30 March 2022
- Early Termination : It is not permitted under the New Lease Agreement.
- Location of the lease premise : 1F-4F, Dadi Factory Block A, Ao Bei Factory Zone, Ci Chang Road No. 8, Bao An Community, Yuan Shan Jie Dao, Long Gang District, Shenzhen, Guangdong, the PRC* (中國廣東省深圳市龍崗區園山街道保安社區賜昌路8號坳背廠區大底廠A棟1F-4F). The Dadi Factory Block A has 4 floors in total, hence the premise leased is the whole block.
- Security deposit : The Tenant shall pay RMB561,000 to the New Landlord as security deposit.

Term and monthly rental for the New Shenzhen Warehouse : Under the New Lease Agreement, the term of the lease of the New Shenzhen Warehouse is from 1 October 2020 to 30 March 2022.

The monthly rental is RMB280,500 for the period commencing from 1 October 2020 to 31 December 2021, and RMB294,525 for the period commencing from 1 January 2022 to 30 March 2022.

The monthly rental is determined with reference to the Previous Lease Agreement.

Gross floor area and usage : 12,750m² for factory or warehouse use

D. KEY TERMS OF THE NEW MANAGEMENT SERVICE AGREEMENT

Date : 28 December 2020

Parties : (1) Prosperous (SZ); and
(2) the Previous Landlord

Key Terms : The Previous Landlord will continue to provide management service for the New Shenzhen Warehouse (including costs of the lifts and utilities, security services and maintenance) to the Tenant from 1 October 2020 to 31 March 2022.

Management Fee : Under the New Management Service Agreement, the monthly management fee for the period commencing from 1 October 2020 to 31 December 2021 shall be RMB89,500.

The monthly management service fee for the period commencing from 1 January 2022 to 31 March 2022 will be changed to RMB75,475.

E. GEM LISTING RULES IMPLICATIONS

In accordance with HKFRS 16 “Leases”, the Company will recognize a right-of-use asset on its balance sheet in connection with the lease of the New Shenzhen Warehouse under the New Lease Agreement. Accordingly, the entering into the New Lease Agreement by the Tenant will be regarded as an acquisition of a capital asset for the purposes of the GEM Listing Rules.

As one or more of the applicable ratios (as defined in the GEM Listing Rules) for the respective transaction contemplated under the Termination Agreement and the New Lease Agreement exceeds 5% but is less than 25%, each of these transactions constitutes a discloseable transaction of the Company under Chapter 19 of the GEM Listing Rules and is subject to the reporting and announcement requirements but exempt from the Shareholders’ approval requirement under the GEM Listing Rules.

F. REASONS FOR AND BENEFITS OF THE TERMINATION OF THE PREVIOUS LEASE AGREEMENT, AND THE ENTERING INTO OF THE NEW LEASE AGREEMENT AND THE NEW MANAGEMENT SERVICE AGREEMENT

As disclosed in the announcement of the Company dated 29 May 2020, as the Group completed relocation to the New Shenzhen Factory in December 2019 and that the Previous Shenzhen Warehouse’s tenancy had expired on 31 May 2020, accordingly, the Group has been searching for a suitable venue as replacement near the New Shenzhen Factory. The New Shenzhen Warehouse is near the New Shenzhen Factory and the Group would save transportation cost and have better efficiency for having a warehouse near the New Shenzhen Factory. As such, the Directors were of the view that the New Shenzhen Warehouse is a suitable venue as replacement for the Previous Shenzhen Warehouse.

The Previous Landlord is a tenant of the New Shenzhen Warehouse and hence has been effectively sub-leasing the New Shenzhen Warehouse to the Group under the Previous Lease Agreement. The New Landlord is nominated and authorized by the Registered Owner (who is the registered owner of the New Shenzhen Warehouse) to lease the New Shenzhen Warehouse to the Group under the New Lease Agreement. To the Directors’ knowledge and belief, the arrangement of terminating the Previous Lease Agreement, as well as the entering to the New Management Agreement and the New Lease Agreement is an arrangement agreed among the Registered Owner, Previous Landlord and New Landlord. The aforesaid arrangement was proposed collectively by the Registered Owner, New Landlord, Previous Landlord to the Group.

The New Lease Agreement and the Previous Lease Agreement contain similar terms:

- (a) There is no material difference between the aggregate amount payable by the Tenant under the Previous Lease Agreement and the aggregate amount payable by the Tenant under the New Management Agreement and the New Lease Agreement:

New Lease Agreement Period	Aggregate of rent and management fee
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1 October 2020 to 31 December 2021	RMB369,500
1 January 2022 to 31 March 2022	RMB370,000

Previous Lease Agreement Period	Aggregate of rent and management fee
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1 June 2020 to 31 July 2022	RMB370,000
1 August 2022 to 31 December 2024	RMB396,000

- (b) The tenure of New Lease Agreement ending on 31 March 2022 is shorter than the tenure of Previous Lease Agreement ending on 31 December 2024. The Directors are of the view that, in light of the global economic uncertainty and COVID-19, a shorter tenancy tenure would allow flexibility for the Group to adjust operation model or scale which is in the interest of the Group.

Hence, the Directors (including the independent non-executive Directors) are of the opinion that (1) the transactions under the Termination Agreement, the New Lease Agreement and the New Management Service Agreement are on normal commercial terms and in the ordinary and usual course of business of the Group; and (2) that the terms of the Termination Agreement, the New Lease Agreement and the New Management Service Agreement are fair and reasonable and in the interests of the Company and its shareholders as a whole.

With regard to the termination of the Previous Lease Agreement, given the short duration of the Previous Lease Agreement, the lease of the New Shenzhen Warehouse under the Previous Lease Agreement would now not be recognized as a right of use asset on the balance sheet of the Company under HKFRS 16 “Leases”.

G. INFORMATION ON THE GROUP AND THE PREVIOUS LANDLORD AND THE NEW LANDLORD AND THE REGISTERED OWNER

The Group is principally engaged in the production and trading of books and paper products.

As disclosed in the announcement of the Company dated 29 May 2020, the Previous Landlord is Shenzhen Bai Ma Jin An Technology Company Limited* (深圳白馬金鞍科技有限公司), being a limited liability company established in the PRC, and is held as to 51% by Zhou Tao (周濤) and as to 49% by Xie Yuan (謝淵). The Previous Landlord is principally engaged in, among others, automatic vehicle washing service. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Previous Landlord and its ultimate beneficial owner are Independent Third Parties.

The Registered Owner is Freetrend Industrial Limited, being a company incorporated in Hong Kong with limited liability, which is a wholly-owned subsidiary of Freetrend Industrial Ltd., a company incorporated in the British Virgin Islands. To the best of the Directors' knowledge, information and belief, the New Landlord is principally engaged in, among others, investment holding.

The New Landlord is Longyi Shoes (Shenzhen) Company Limited* (隆禕鞋業(深圳)有限公司), being a limited liability company established in the PRC. The New Landlord is also the landlord which entered into the New Shenzhen Factory Agreement with the Group. The Registered Owner has authorized the New Landlord to enter into the New Shenzhen Factory Lease and the New Shenzhen Warehouse Lease. To the best of the Directors' knowledge, information and belief, the New Landlord, the Registered Owner and its ultimate beneficial owners are Independent Third Parties.

H. DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meaning:

“Board”	the board of Directors
“Company”	Prosperous Printing Company Limited, a limited liability company incorporated in Hong Kong, the shares of which are listed on the GEM of the Stock Exchange (stock code: 8385)
“Directors”	the directors of the Company
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM on the Stock Exchange
“Group”	the Company and its subsidiaries
“HKFRS”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants

“Independent Third Party”	a party independent of and not connected with (within the meaning of the GEM Listing Rules) the Company and its connected persons
“New Landlord” or “Longyi”	Longyi Shoes (Shenzhen) Company Limited* (隆禕鞋業(深圳)有限公司), a limited liability company established in the PRC and is an Independent Third Party
“New Lease Agreement”	the lease agreement entered into between the Tenant and the New Landlord on 28 December 2020 for the lease of the New Shenzhen Factory
“New Management Service Agreement”	the management service agreement entered into between the Tenant and the Previous Landlord on 28 December 2020 for the management service to be provided by the Previous Landlord to the Tenant
“New Shenzhen Factory”	the production site located at Ci Chang Road No. 8, Bao An Qu, Yuan Shan Jie Dao, Long Gang District, Shenzhen, Guangdong, the PRC* (中國廣東省深圳市龍崗區園山街道保安區賜昌路8號)
“New Shenzhen Factory Lease Agreement”	the lease agreement dated 25 March 2019 entered into between the New Landlord and Prosperous (SZ) as tenant in relation to the lease of the New Shenzhen Factory, the details of which is disclosed in the announcement of the Company dated 25 March 2019
“New Shenzhen Warehouse”	the property rented under the Previous Lease Agreement and the New Lease Agreement
“PRC”	the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Previous Landlord”	Shenzhen Bai Ma Jin An Technology Company Limited* (深圳白馬金鞍科技有限公司), a limited liability company established in the PRC and is an Independent Third Party
“Previous Lease Agreement”	the lease agreement entered into between the Tenant and the Previous Landlord on 29 May 2020 for the lease of the New Shenzhen Warehouse

“Previous Shenzhen Warehouse”	Block#5, 9 & 10, Henggang Industrial Zone#228, Henggang Town, Longgang District, Shenzhen, Guangdong Province, the PRC
“Prosperous (SZ)” or “Tenant”	Prosperous Printing (Shenzhen) Co., Ltd. (中萬印刷(深圳)有限公司), a wholly foreign-owned limited liability company established in the PRC and a wholly-owned subsidiary of the Company
“Registered Owner”	Freetrend Industrial Limited, a company incorporated in Hong Kong with limited liability and is an Independent Third Party
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	the shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

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

* *For identification purpose only*

Hong Kong, 28 December 2020

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

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that, to the best of their knowledge and belief, the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will remain on the GEM website (www.hkgem.com) on the “Latest Company Announcements” page for at least seven days from the day of its posting. This announcement will also be published on the Company’s website at www.prosperous-printing-group.com.hk.