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瑞港建設控股有限公司
PROSPER CONSTRUCTION HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6816)

**ANNOUNCEMENT OF RESULTS FOR
 THE YEAR ENDED 31 DECEMBER 2020**

FINANCIAL HIGHLIGHTS

	Year ended 31 December	
	2020	2019
	<i>HK\$ million</i>	<i>HK\$ million</i>
Revenue	1,465.7	515.1
Profit for the year	16.0	12.1
Profit attributable to:		
Equity holders of the Company	13.6	12.1
Non-controlling interests	2.4	—
Earnings per share for profit attributable to owners (HK cents)	1.70	1.51
	As at 31 December	
	2020	2019
	<i>HK\$ million</i>	<i>HK\$ million</i>
Total assets	1,753.8	928.4
Total equity	554.9	517.0
Equity per share (HK\$)	0.69	0.65

The board (the “Board”) of directors (the “Directors”) of Prosper Construction Holdings Limited (the “Company”) is pleased to present the consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2020 (the “Year 2020”) together with comparative figures for the year ended 31 December 2019 (the “Year 2019” or “Previous Year”) as set out below.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

	<i>Note</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Revenue	3	1,465,696	515,077
Cost of sales		<u>(1,379,071)</u>	<u>(465,231)</u>
Gross profit		86,625	49,846
Other gains/(losses), net		262	(5,131)
Reversal of/(provision for) impairment losses on financial assets		2,970	(2,043)
Other administrative expenses		<u>(51,713)</u>	<u>(27,441)</u>
Operating profit		<u>38,144</u>	<u>15,231</u>
Finance income		2,177	418
Finance costs		<u>(11,942)</u>	<u>(6,781)</u>
Finance costs, net		<u>(9,765)</u>	<u>(6,363)</u>
Profit before income tax		28,379	8,868
Income tax (expenses)/credit	4	<u>(12,332)</u>	<u>3,220</u>
Profit for the year		<u>16,047</u>	<u>12,088</u>
Profit attributable to:			
Equity holders of the Company		13,591	12,088
Non-controlling interests		<u>2,456</u>	<u>—</u>
		<u>16,047</u>	<u>12,088</u>
Earnings per share for profit attributable to the owners:			
Basic and diluted earnings per share (HK cents)	5	<u>1.70</u>	<u>1.51</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	<i>Note</i>	2020 HK\$'000	2019 HK\$'000
Profit for the year		16,047	12,088
Other comprehensive income			
<i>Item that may be subsequently reclassified to profit or loss</i>			
Currency translation differences		<u>6,047</u>	<u>5,234</u>
Total comprehensive income for the year		<u>22,094</u>	<u>17,322</u>
Profit attributable to:			
Equity holders of the Company		18,190	17,322
Non-controlling interests		<u>3,904</u>	<u>—</u>
		<u>22,094</u>	<u>17,322</u>

CONSOLIDATED BALANCE SHEET

As at 31 December 2020

	Note	2020 HK\$'000	2019 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment		240,568	204,657
Investment properties		9,707	—
Investment in an associate		—	—
Right-of-use assets		39,049	4,113
Goodwill		16,395	—
Intangible assets		9,138	—
Deposits and prepayments		23,414	15,953
		<u>338,271</u>	<u>224,723</u>
Current assets			
Inventory		2,574	—
Trade and retention receivables	7	403,764	245,365
Amounts due from fellow subsidiaries		50,305	—
Deposits, prepayments and other receivables		64,829	15,708
Contract assets	8	616,206	71,106
Income tax recoverable		—	3,810
Time deposits with maturity over 3 months		23,847	8,351
Pledged bank deposits		23,700	23,200
Restricted cash		1,513	—
Cash and cash equivalents		228,821	336,164
		<u>1,415,559</u>	<u>703,704</u>
Total assets		<u>1,753,830</u>	<u>928,427</u>
EQUITY			
Capital and reserves			
Share capital	10	8,000	8,000
Reserves		527,192	509,002
		535,192	517,002
Non-controlling interests		<u>19,680</u>	<u>—</u>
Total equity		<u>554,872</u>	<u>517,002</u>

	<i>Note</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
LIABILITIES			
Non-current liabilities			
Borrowings		34,147	—
Loan from an intermediate holding company		100,000	—
Lease liabilities		918	147
Deferred income tax liabilities		16,118	9,156
		151,183	9,303
Current liabilities			
Trade and retention payables	9	652,222	53,982
Accruals and other payables	9	60,493	7,551
Contract liabilities	8	9,209	91,387
Loan from an intermediate holding company		—	100,000
Amount due to a related company		98	4,882
Amount due to non-controlling interests		1,043	—
Borrowings		311,699	135,483
Lease liabilities		1,130	3,006
Income tax payable		11,881	5,831
		1,047,775	402,122
Total liabilities		1,198,958	411,425
Total equity and liabilities		1,753,830	928,427

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 6 October 2015 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company and its subsidiaries provide marine construction services, auxiliary marine related services and general construction contracting services. The Company's shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The consolidated financial statements are presented in Hong Kong dollars ("HK\$") unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") and requirements of the Hong Kong Companies Ordinance (Cap. 622). The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The accounting policies and methods of computation used in the preparation of the consolidated financial statements for the year ended 31 December 2020 are consistent with those used in the preparation of the Group's audited financial statements for the year ended 31 December 2019, except as described below.

(a) *Adoption of new standards, interpretation and amendments to standards*

The Group has adopted the following new standard, improvements, interpretation and amendments to standards which are relevant to the Group's operations and are mandatory for the financial year beginning on 1 January 2020:

Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting
HKAS 1 and HKAS 8 (Amendments)	Definition of Material
HKAS 39, HKFRS 7 and HKFRS 9 (Amendments)	Hedge Accounting
HKFRS 3 (Amendments)	Definition of a Business
HKFRS 16 (Amendments)	Covid-19 Related Rent Concession

The adoption of the above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(b) New standards, revised framework and amendments to standards which are not yet effective

The following are new standard, revised framework and amendments to standards that have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2021 or later periods, but have not been early adopted by the Group:

HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16 (Amendments)	Interest Rate Benchmark Reform—Phase 2 ⁽¹⁾
Accounting Guideline 5 (Revised)	Revised Accounting Guideline 5 Merger Accounting for Common Control Combinations ⁽²⁾
Annual Improvements Project (Amendments)	Annual Improvements to HKFRSs 2018–2020 ⁽²⁾
HKAS 16 (Amendments)	Property, Plant and Equipment — Proceeds before Intended Use ⁽²⁾
HKAS 37 (Amendments)	Onerous contracts — Costs of Fulfilling a Contract ⁽²⁾
HKFRS 3 (Amendments)	Reference to the Conceptual Framework ⁽²⁾
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current ⁽³⁾
Hong Kong Interpretation 5 (2020)	Hong Kong Interpretation 5 (2020) Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause (HK Int 5 (2020)) ⁽³⁾
HKFRS 17	Insurance Contracts ⁽³⁾
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁽⁴⁾

⁽¹⁾ Effective for the accounting period beginning on 1 January 2021

⁽²⁾ Effective for the accounting period beginning on 1 January 2022

⁽³⁾ Effective for the accounting period beginning on 1 January 2023

⁽⁴⁾ Effective date to be determined

The Group will apply the above new standard, revised framework and amendments to standards when they become effective. No new standard, revised framework and amendments to standards is expected to have a significant effect on the consolidated financial statements of the Group.

3 REVENUE AND SEGMENT INFORMATION

(a) Revenue

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Rendering of services, recognised over time		
— Marine construction works	470,773	308,368
— Provision of auxiliary marine related services	257,402	206,709
— Provision of general construction contracting services	<u>737,521</u>	<u>—</u>
	<u><u>1,465,696</u></u>	<u><u>515,077</u></u>

4 INCOME TAX EXPENSES/(CREDIT)

The amount of income tax charged/(credited) to the consolidated statement of profit or loss represents:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Hong Kong profits tax		
Under/(over) provision in prior years	2,616	(5,502)
Deferred income tax	(1,335)	(2,499)
People's Republic of China ("PRC") corporate income tax		
Current income tax	4,544	—
Deferred income tax	(679)	—
Indonesia income tax		
Withholding income tax	32	15
Macao complementary income tax		
Current income tax	7,314	4,402
Deferred income tax	(160)	—
Malaysia corporate income tax		
Under-provision in prior years	—	364
Income tax expenses/(credit)	<u>12,332</u>	<u>(3,220)</u>

- (a) Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profit for the year.
- (b) Subsidiaries in the PRC are subject to corporate income tax ("CIT") in accordance with the PRC CIT Law. According to the PRC CIT Law and the relevant regulations, the CIT tax rate applicable is 25% unless preferential rates are applicable in the cities where the subsidiaries are located.
- (c) Indonesia income tax is charged through a system of withholding taxes. Companies are required to withhold final income tax for income of construction works performed and interest income from bank deposits. For the year ended 31 December 2020, income tax has been provided at the rate of 20% (2019: 20%) of the interest income from bank deposits.
- (d) Macao complementary income tax has been provided at the rate of 12% (2019: 12%) on the estimated assessable profit for the year.

5 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the respective years.

	2020	2019
Profit attributable to equity holders of the Company (HK\$'000)	13,591	12,088
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share (in thousand)	<u>800,000</u>	<u>800,000</u>
Basic earnings per share (HK cents)	<u>1.70</u>	<u>1.51</u>

(b) Diluted

Diluted earnings per share is the same as the basic earnings per share as there were no potential dilutive ordinary shares during the year (2019: same).

6 DIVIDENDS

There is no final dividend proposed to shareholders of the Company for the year ended 31 December 2020 (2019: Nil).

7 TRADE AND RETENTION RECEIVABLES

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	294,877	192,540
Less: Loss allowance	<u>(5,688)</u>	<u>(5,581)</u>
Trade receivables — net	<u>289,189</u>	<u>186,959</u>
Retention receivables	116,822	61,700
Less: Loss allowance	<u>(2,247)</u>	<u>(3,294)</u>
Retention receivables — net	<u>114,575</u>	<u>58,406</u>
Trade and retention receivables, net	<u>403,764</u>	<u>245,365</u>

The credit period granted to trade customers other than for retention receivables was within 30 days to 90 days. The terms and conditions in relation to the release of retention vary from contract to contract, which may be subject to practical completion, the expiry of the defect liability period or a pre-agreed time period. The Group does not hold any collateral as security.

The ageing analysis of the trade receivables based on invoice date was as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within 1 year	158,616	100,670
1 to 2 years	105,530	3,518
Over 2 years	<u>25,043</u>	<u>82,771</u>
	<u>289,189</u>	<u>186,959</u>

In the consolidated balance sheet, retention receivables were classified as current assets. The ageing of the retention receivables based on invoice date was as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within 1 year	24,302	331
Between 1 and 5 years	61,979	35,305
Over 5 years	<u>28,294</u>	<u>22,770</u>
	<u>114,575</u>	<u>58,406</u>

8 CONTRACT ASSETS AND CONTRACT LIABILITIES

The Group has recognised the following assets and liabilities related to contracts with customers:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Contract assets		
Provision of construction services	624,079	75,356
Less: Loss allowance	<u>(7,873)</u>	<u>(4,250)</u>
	<u>616,206</u>	<u>71,106</u>
Contract liabilities		
Provision of construction and auxiliary marine related services	<u>(9,209)</u>	<u>(91,387)</u>

9 TRADE AND RETENTION PAYABLES, ACCRUALS AND OTHER PAYABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade payables	648,002	50,893
Retention payables	4,220	3,089
Accruals and other payables	<u>60,493</u>	<u>7,551</u>
	<u><u>712,715</u></u>	<u><u>61,533</u></u>

The credit period granted for trade payables and other payables was within 30 to 90 days.

The ageing analysis of the trade payables based on invoice date was as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Current	165,054	2,429
1 to 30 days	1,524	20,139
31 to 60 days	101,891	—
61 to 90 days	62,782	—
91 to 180 days	79,514	—
181 to 365 days	90,731	5,385
More than 365 days	<u>146,506</u>	<u>22,940</u>
	<u><u>648,002</u></u>	<u><u>50,893</u></u>

In the consolidated balance sheet, retention payables were classified as current liabilities. The ageing of the retention payables based on invoice date was as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within 1 year	4,108	578
Between 1 year and 2 years	—	1,947
Between 2 years and 5 years	<u>112</u>	<u>564</u>
	<u><u>4,220</u></u>	<u><u>3,089</u></u>

10 SHARE CAPITAL

	Number of shares	Share capital <i>HK\$'000</i>
Ordinary shares, authorised:		
At 31 December 2018, 2019 and 2020	<u>4,000,000,000</u>	<u>40,000</u>
Ordinary shares, issued and fully paid:		
At 31 December 2018, 2019 and 2020	<u>800,000,000</u>	<u>8,000</u>

11 BUSINESS COMBINATION

Summary of acquisition

The Group completed the acquisition of 80% equity interests in Qingdao Dongjie Construction Engineering Co., Ltd. (青島東捷建設工程有限公司) (“Dongjie Construction”) on 17 January 2020, upon which Dongjie Construction has become an indirect non-wholly owned subsidiary of the Company. Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	<i>HK\$'000</i>
Consideration	78,240
Fair value of non-controlling interests	<u>15,776</u>
	<u>94,016</u>
Recognised amounts of identifiable assets acquired and liabilities assumed:	
— Property, plant and equipment	10,817
— Right-of-use assets	35,079
— Investment properties	9,226
— Intangible assets	8,995
— Trade and retention receivables	260,149
— Contract assets	108,009
— Deposits, prepayments and other receivables	39,622
— Restricted cash	11,440
— Cash and cash equivalents	15,424
— Short-term borrowings	(25,001)
— Trade and retention payables	(334,145)
— Accruals and other payables	(52,266)
— Deferred tax liabilities	<u>(8,470)</u>
Total identifiable net assets	<u>78,879</u>
Goodwill	<u>15,137</u>

12 EVENTS AFTER THE REPORTING PERIOD

On 13 January 2021, Dongjie Construction acquired 34% of equity interests in Qingdao Honghai Curtain Wall Co., Ltd (“Honghai Curtain Wall”), a limited liability company established in the PRC and is principally engaged in design and implementation of construction and decoration works, design, production and installation of curtain walls, doors and windows, steel structure works, landscaping and municipal construction, for a consideration of RMB49,898,000 (approximately HK\$59,261,000). The acquisition is expected to create synergy from combining the capabilities of both the Group and Honghai Curtain Wall in providing construction services in the PRC.

The financial effects of this transaction have not been recognised at 31 December 2020. The Group is entitled to appoint a majority number of directors of Honghai Curtain Wall and will be able to control the management and operation of Honghai Curtain Wall. Accordingly, Honghai Curtain Wall will become an indirect non-wholly owned subsidiary of the Company and the operating results and assets and liabilities of Honghai Curtain Wall will be consolidated from 13 January 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group has completed acquisition of 80% equity interests in Qingdao Dongjie Construction Engineering Co., Ltd.* (青島東捷建設工程有限公司) (“Dongjie Construction”), which is principally engaged in general construction contracting business in the People’s Republic of China (the “PRC”), in January 2020 and the Group has since expanded its operations into the construction market in the PRC. A breakdown of the Group’s revenue by geographic location and major projects for the Year 2020 is set out in the table below.

	Revenue recognised in Year 2020 <i>HK\$'million</i>	Contribution to total revenue	Current status
Marine construction works and auxiliary marine related services (collectively, the “Marine Business”)			
Macao			
Two land reclamation projects	308.1	21.0%	On-going and expecting completion in Q2/2022
Engineering, procurement and construction (“EPC”) contract for electricity generation facility	123.3	8.4%	On-going and expecting completion in Q1/2023
Trestle bridge and dredging in relation to cross-harbour bridge project	26.1	1.8%	On-going and expecting completion by mid-2023
Others	12.2	0.8%	
Vietnam			
Auxiliary marine related services for electricity generating facility	173.4	11.8%	Substantially completed
Pakistan			
Auxiliary marine related services for port authority	28.3	1.9%	Substantially completed
Other locations			
Marine construction works	1.1	0.2%	
Auxiliary marine related services	55.7	3.8%	Various projects in Cambodia, Hong Kong and Bangladesh
General construction contracting services (the “General Construction Business”)			
Qingdao			
Landong & Lanxi re-development projects	470.2	32.1%	On-going and expecting completion in Q1/2023
Other smaller general construction projects	<u>267.3</u>	<u>18.2%</u>	
Total	<u><u>1,465.7</u></u>	<u><u>100.0%</u></u>	

As noted above, revenue derived from Qingdao, PRC contributed approximately HK\$737.5 million or 50.3% of the Group's revenue for the Year 2020 since the acquisition of Dongjie Construction; in particular, the two key projects undertaken by the Group in Qingdao during the Year 2020, namely the Landong and Lanxi re-development projects, were derived from companies controlled by the Company's controlling shareholder Qingdao West Coast Development (Group) Limited* (青島西海岸發展(集團)有限公司) ("Qingdao West Coast Development", together with its subsidiaries and/or affiliated companies, the "Qingdao West Coast Group").

The Group also achieved favourable progress in its reclamation project in Macao and has been awarded various new marine projects in Macao during the Year 2020, including two contracts for the design and construction of a steel trestle bridge and platform and dredging works in relation to a cross-harbour bridge project, a pipe-laying project and a dumping project. Meanwhile, marine construction activities in Hong Kong remained at low level and exploration and negotiation of overseas projects, such as in Pakistan, Indonesia and the Philippines, have reduced owing to the prolonged period of coronavirus disease ("COVID-19") outbreak and travel restrictions at various countries and locations.

Outlook and prospects

The status of the Group's key projects on hand is set out below.

	Location	Estimated remaining contract sum <i>HK\$'million</i>	Expected time of completion
Project(s) that have already commenced as at 31 December 2020			
EPC contract for an electricity generation facility	Macao	392.9	First quarter of year 2023
Land reclamation projects	Macao	202.2	Second quarter of year 2022
Trestle bridge and dredging in relation to a cross-harbour bridge project	Macao	85.3	Mid-2023
The Landong and Lanxi re-development projects	Qingdao West Coast New Area	747.3	First quarter of 2023
Film and television office building project	Qingdao West Coast New Area	184.9	Third quarter of year 2021
Residential development project	Qingdao City	220.5	End of year 2022

	Location	Estimated remaining contract sum <i>HK\$'million</i>	Expected time of completion
Project(s) commencing or that are newly awarded after 31 December 2020			
Marine dumping project	Macao	54.5	End of year 2022
Science and technology innovation center project	Qingdao West Coast New Area	1,208.5	Third quarter of year 2023
Educational facilities and neighbourhood development	Qingdao West Coast New Area	607.1	Second quarter of year 2023

With its established business track record, the Group further strengthened its business presence in Macao and the number and value of projects on hand in Macao achieved a new high during the Year 2020. Meanwhile, the Group's newly acquired general construction contracting operation in Qingdao had an encouraging start during the Year 2020 with the support from the Qingdao West Coast Group. Given that the Qingdao West Coast Group is principally engaged in infrastructure construction, land development, real estate development and other industrial investment and operations, it is anticipated that the Group's general construction contracting operation will continue to enjoy synergy and benefit from potential new development projects to be launched by the Qingdao West Coast Group. Furthermore, the Group has completed the acquisition of a 34% equity interest in an advanced curtain wall manufacturing and installation company, namely 青島宏海幕牆有限公司 (Qingdao Honghai Curtain Wall Co., Ltd.*) ("Honghai Curtain Wall"), in Qingdao, PRC in January 2021, which enabled the Group to develop into a comprehensive construction services provider in the PRC in order to enhance the Group's competitiveness in bidding for building construction projects, including but not limited to leveraging on the Group's business network with the Qingdao West Coast Group.

Going forward, the Group's Marine Business will focus on exploring opportunities in overseas, Macao and Hong Kong while simultaneously support the development and technical diversification of its General Construction Business in the PRC; as such, it is envisaged that the General Construction Business will continue to be the key revenue driver for the Group, with a significant portion of revenue sourced through the Qingdao West Coast Group. Overall, the Group will remain dedicated to cultivate growth in both its General Construction Business and Marine Business by capturing business opportunities in both public and private sectors in the PRC, particularly in the greater Qingdao area and Macao, and overseas locations.

Financial Review

Revenue

The Group recorded revenue of HK\$1,465.7 million for the Year 2020, representing an increase of approximately 184.6% from the year ended 31 December 2019 ("Year 2019" or "Previous Year") as a combined effect of (i) an increase in revenue from marine construction works by approximately HK\$162.4 million, mainly from projects in Macao; (ii) an increase in revenue from auxiliary marine

related services by approximately HK\$50.7 million, mainly from Vietnam; (iii) new source of revenue from General Construction Business generated from Qingdao amounting to approximately HK\$737.5 million for the Year. A breakdown of the Group's revenue from major projects and by geographic location is set out in the section headed "Business Review" above.

The Group's revenue from marine construction works for the Year 2020 increased by approximately 52.7% to HK\$470.8 million from HK\$308.4 million for the Year 2019, which was mainly attributable to the revenue of approximately HK\$308.1 million derived from two new land reclamation projects and approximately HK\$123.3 million from the EPC project in Macao. Furthermore, the Group was awarded four new marine construction projects in Macao during the Year 2020, which are expected to render a steady stream of revenue for the Marine Business segment for the years 2021 and 2022.

Cost of sales and gross profit

Cost of sales for the Year 2020 increased by 196.4% to HK\$1,379.1 million; the percentage increase in cost of sales is higher than the increase in revenue as (i) a lower proportion of revenue was derived from auxiliary marine services, which generally yields a higher profit margin as less direct costs are required as compared to marine construction works; (ii) additional costs incurred owing to delay or temporary suspension of projects and extra site management procedures as a result of the COVID-19 outbreak; and (iii) the nature of Group's newly acquired general construction contracting business in Qingdao required a high proportion of subcontracting works and therefore yielded a relatively lower profit margin as compared to marine construction business.

As a result, while the gross profit for the Year 2020 increased by HK\$36.8 million or approximately 73.8% to HK\$86.6 million driven by the growth in revenue, the gross profit margin of the Group declined to 5.9% for the Year 2020, as compared to 9.7% for the Previous Year.

Reversal of/(provision for) impairment losses on financial assets

The Group recorded a reversal of provision for expected credit loss amounting to HK\$3.0 million for the Year 2020 based on the management's latest assessment of risk of default in general on the Group's financial assets, as compared to a provision for impairment of HK\$2.0 million for the Previous Year as a result of certain aged receivables being settled during Year 2020 and an improvement in aging profile of receivable balances.

Other administrative expenses

Other administrative expenses for the Year 2020 increased to approximately HK\$51.7 million as compared to approximately HK\$27.4 million for the Year 2019 as a result of (i) administrative expenses in the ordinary operation of the newly acquired Dongjie Construction, which mainly comprised staff costs; and (ii) increase in legal and professional fees by HK\$3.4 to HK\$8.6 for Year 2020, mainly due to fees incurred for the acquisition of Dongjie Construction, Honghai Curtain Wall and handling of connected transactions entered into during the Year 2020.

Income tax (expenses)/credit

The Group incurred income tax expenses of HK\$12.3 million for the Year 2020 mainly due to the profits derived from the projects in the PRC and Macao, as compared with the relative low level of income tax expenses for the Year 2019 as revenue sourced from certain overseas locations qualified for favourable tax treatment or the Group's customer had agreed to take up the tax liability and as the Group concluded a tax treatment review with the relevant tax authority and successfully recovered HK\$5.5 million of income tax during the Year 2019.

The Group's marine construction business in Macao is subject to Macao complementary income tax at a rate of 12%.

The Group's general construction contracting business in Qingdao is subject to PRC corporate income tax at a rate of 25%.

Profit for the year

The Group's profit for the Year 2020 increased by 32.8% to HK\$16.0 million as compared to HK\$12.1 million for the Previous Year as a result of the combined effect of (i) the increase in revenue and gross profit; (ii) the change in revenue mix; (iii) reversal of impairment losses on financial assets; and (iv) the increase in income tax expenses.

Property, plant and equipment

As at 31 December 2020, the Group owned a total of 40 units of marine vessels and 84 units of machinery and equipment and an office building located in Qingdao, PRC.

The additions to plant and equipment during the Year 2020 were mainly related to improvement and repairs and maintenance works on vessels.

Trade and retention receivables

The Group's trade and retention receivables increased by approximately HK\$158.4 million to HK\$403.8 million as at 31 December 2020, of which approximately HK\$273.8 million pertained to the Marine Business segment while approximately HK\$130.0 million pertained to the General Construction Business segment. Trade and retention receivables in the Marine Business mainly comprised of receivables for works on projects already completed and pending settlement of final accounts. Trade receivables in the General Construction Business mainly comprised works performed pending certification and settlement by customers.

While there is currently no indication of possible default on any of the Group's receivable balances, the management acknowledges there is certain default risks associated with receivables balances in general and has adopted a systematic approach in assessing the overall risk of default and appropriate provision for expected credit loss has been made against the Group's receivable balances as at 31 December 2020.

Contract assets/liabilities

Contract assets represent amounts due from customers for contract works performed which had not been billed as at the end of the year. The balance of contract assets as at 31 December 2020 for the Marine Business and General Construction Business was approximately HK\$121.5 million and HK\$494.7 million respectively. Majority of the contract assets in the Marine Business was related to three completed projects in Hong Kong which were pending the finalisation of project account. The Group has commenced dispute resolution procedures for the aforesaid three completed projects and based on preliminary assessment by the Group's project legal consultant, the Group is expected to be able to recover not less than the carrying value of the contract assets as at 31 December 2020 for these projects.

Contract liabilities as at 31 December 2020 represent amounts due to contract customers for payment received in excess of revenue recognisable by the Group according to the progress achieved, mainly in relation to the Group's land reclamation project in Macao.

Liquidity, Capital Structure and Gearing

The Group maintained a healthy liquidity position with net current asset balance and net debt position of approximately HK\$367.8 million (31 December 2019: HK\$301.6 million) and HK\$168.0 million (31 December 2019: net cash position of HK\$132.2 million) respectively as at 31 December 2020. The Group's gearing ratio (calculated by dividing total debts by total equity) as at 31 December 2020 was 80.4% (31 December 2019: 45.5%). The increase in gearing during the Year 2020 was due to (i) funds used in the acquisition of Qingdao Dongjie; (ii) funds used for the improvement and repairs and maintenance works on vessels; and (iii) drawdown of loans to finance for working capitals to support business growth. The Group did not have any unutilised banking facilities as at 31 December 2020 (31 December 2019: Nil). The maturity and interest rate profile of the Group's borrowings are set out below.

- (a) Borrowings due for repayment after one year which contain repayment on demand clause were classified as current liabilities.

Based on the scheduled repayment terms set out in the loan agreements and ignoring the effect of any repayment on demand clause, the maturity of borrowings would be as follows:

	2020	2019
	HK\$'000	HK\$'000
Within 1 year	311,699	131,958
Between 1 and 2 years	11,877	3,525
Between 2 and 5 years	22,270	—
	<u>345,846</u>	<u>135,483</u>

- (b) The weighted average interest rate during the year were as follows:

	2020	2019
Short-term bank loans	3.7%	3.2%
Long-term bank loans	5.0%	4.8%

Foreign Exchange

Operations of the Group was mainly conducted in Chinese Renminbi ("RMB"), Hong Kong dollars ("HK\$"), Macao Patacas ("MOP"), United States dollars ("US\$") (together, the "Major Currencies"), Malaysian Ringgit ("MYR") and Indonesian Rupiahs ("IDR"). The Group did not adopt any hedging policy and the Directors consider that the exposure to foreign exchange risks can be mitigated by using the Major Currencies (i) as principal currencies in the Group's contracts with customers; and (ii) to settle payments with its suppliers and operating expenses where possible. In the event that settlement

from the Group's customer is received in MYR, IDR or a currency other than the Major Currencies, such currency will be retained for payment of operating expenditures only as required and the remaining foreign currency will be converted to HK\$ or US\$ promptly.

Capital Expenditures and Commitments

The Group generally finances its capital expenditures by cash flows generated from its operation and long-term bank borrowings. During the Year 2020, the Group invested approximately HK\$43.5 million in acquisition of vessels and approximately HK\$9.1 million in machinery and equipment, among others.

The Group's fleet of vessels for marine construction works reduced by 2 units during the Year 2020 to a total of 40 units as at 31 December 2020, with order placed for 1 further vessel which is yet to be delivered.

The Group's committed orders for capital equipment as at 31 December 2020 amounted to approximately HK\$11.5 million and it is intended that such purchases will be financed by bank borrowings.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

The Group completed the acquisition of 80% equity interest in Dongjie Construction on 17 January 2020 at a consideration of approximately RMB71.4 million (subject to adjustment), the details of which have been disclosed in the announcement dated 23 September 2019 and the circular dated 29 November 2019 published by the Company. Furthermore, the Group has entered into an agreement for the acquisition of 34% equity interest in 青島宏海幕牆有限公司 (Qingdao Honghai Curtain Wall Co., Ltd.*) at a consideration of approximately RMB49.9 million, the details of which have been disclosed in the announcement dated 16 November 2020 and the circular dated 18 December 2020 published by the Company. The acquisition of Honghai Curtain Wall was subsequently completed on 13 January 2021.

Other than the above, The Group had no material acquisitions or disposals of subsidiaries, associates and joint ventures during the Year 2020.

Significant Investments Held

The Group had not held any significant investments during the Year 2020.

Charges on Assets

As at 31 December 2020, plant and equipment with carrying value of (i) approximately HK\$6.2 million (2019: HK\$6.7 million) and deposits of not less than HK\$23.7 million (2019: HK\$23.2 million) were pledged to secure for the Group's bank borrowings; and (ii) approximately HK\$44.4 million (2019: HK\$18.5 million) were pledged as security for provision of a performance bond and a prepayment surety bond for the Group's project in Macao.

Contingent Liabilities

As at 31 December 2020, the joint operations held by the Group have given guarantees on performance bonds in respect of construction contracts in the ordinary course of business, and the amounts shared by the Group were HK\$128.8 million (2019: HK\$21.1 million). The performance bonds as at 31 December 2020 are expected to be released in accordance with the terms of the respective construction contracts. Save for the guarantee given on these performance bonds, the Group has no material contingent liabilities.

Relationships with Employees, Customers and Suppliers

The Directors recognise that employees, customers and business partners are the keys to the sustainable development of the Group. The Group is committed to building a close and caring relationship with its employees and business partners and improving the quality of services to the customers.

Employees and remuneration policies

Employees are regarded as the most important and valuable assets of the Group. The Group ensures all staff is reasonably remunerated and its workers are provided with regular training courses on operation of different types of machinery, as well as work safety. The Group strives to motivate its employees with a clear career path and opportunities for advancement and improvement of their skills.

The number of staff of the Group by functions as at 31 December 2020 and 2019 are as follows:

	As at 31 December	
	2020	2019
Management and administration	53	16
Accounting and finance	11	3
Human resources	4	1
Project management	152	8
Project execution	78	64
	<u>298</u>	<u>92</u>

The total staff costs of the Group (including Directors' emoluments, salaries to staff, direct wages and other staff benefits included provident fund contributions and other staff benefits) for the Year 2020 was approximately HK\$227.2 million (2019: HK\$64.3 million). The Group determines the salary of its employees mainly based on each employee's qualifications, relevant experience, position and seniority. The Group monitors the performance of individual employee on a continuous basis and rewards outstanding performance of the employees by salary revision, bonus and promotion where suitable. The Group maintains a good relationship with its employees and has not experienced any significant problems with its employees due to labour disputes nor any difficulty in the recruitment and retention of experienced staff.

Customers and suppliers

The executive Directors and the Group's management team maintain frequent contact with both public and private sector participants in the construction industry in Hong Kong, Macao and overseas to keep abreast of market developments and potential business opportunities. Having been in operation in Hong Kong since 2001, and with the prior experience of the Group's senior management members in managing similar projects overseas, the Group has developed a good reputation in the construction industry. With the Group's experience in working with PRC state-owned construction enterprises and their branch offices in Hong Kong and overseas, the Group has up-to-date information regarding new business opportunities in infrastructure projects to be undertaken or tendered by such construction enterprises in Hong Kong, Macao and Southeast Asia. The Directors believe that the Group has maintained and will be able to continue to maintain good relationships with customers, potential customers, suppliers, subcontractors and other parties involved in the business. The Group also stays connected with its customers and suppliers and has ongoing communication with the customers and suppliers through various channels such as telephone, electronic mails and physical meetings to obtain their feedback and suggestions.

Dividend

The board of Directors do not recommended the payment of a dividend for the Year 2020.

Environmental Policies

The Group is committed to environment conservation when undertaking its operation and has implemented various systems and measures to minimise the possibility of pollution and to preserve the marine ecological environment, which include but are not limited to the following:

- (i) identifying environmental protection requirements in project tender documents and assessing whether the Group has the capability to meet such requirements;
- (ii) taking into consideration the environmental impacts in project planning and the design of work method statements;
- (iii) equipping all of the Group's vessels with fuel leakage defence equipment for suppressing the spread of floating fuel spills in case of leakage;
- (iv) installing facilities as required to prevent contamination, such as silt curtains to prevent sediment pollution when carrying out land reclamation works and underwater bubble curtains to act as a noise barriers to reduce noise level from marine piling works; and
- (v) sorting excavated materials from dredging and excavation works for recycling use or disposal, and in case of contaminated sediment, disposing of the excavated materials at designated dumping area according to the relevant regulations.

The Group is accredited with ISO14001 and follows the procedures and requirements of the environmental management system in its operation. There had been no sanctions or penalties imposed on the Group for violation of any environmental laws or regulations during the Year 2020.

Principal Risk and Uncertainty

The Group's operation is subject to general economic and market risks which may affect the competition and profitability of marine construction projects. Furthermore, the Group's ability to successfully bid for or execute projects is dependent on its ability to devise effective and efficient work methods and the availability of vessels and equipment. The Group's operation at overseas locations is susceptible to potential political unrests, changes in business, foreign investment, taxation and currency control regulations at such jurisdictions.

Significant Events After the Financial Year

The Group has on 16 November 2020 entered into an agreement for the acquisition of 34% equity interest in Honghai Curtain Wall at a consideration of approximately RMB49.9 million, the details of which have been disclosed in the announcement dated 16 November 2020 and circular dated 18 December 2020 published by the Company. The acquisition of Honghai Curtain Wall was subsequently completed on 13 January 2021, upon which the Group gained control over the board of directors of Honghai Curtain Wall and it had become a subsidiary of the Company.

Other than the above, no significant event has occurred after 31 December 2020 and up to the date of this announcement which would have a material effect on the Group.

Corporate Governance Practices

The Company is committed to maintain a high standard of corporate governance and considers that conducting business in an ethical and responsible manner will generate the highest level of benefits to its shareholders and the Group in the long term. The Board will continuously review and improve the Group's corporate governance practices in order to uphold a transparent and effective corporate governance function for the Group.

The Company has adopted the code provisions of the Corporate Governance Code ("CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules") and has complied with the code provisions throughout the Year 2020.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code") and all the Directors confirmed, upon specific enquiry made, that they complied with the Model Code throughout the Year 2020.

The Company has also established guidelines no less exacting than the Model Code for securities transactions by employees who are likely to be in possession of inside information of the Company and there is no incident of non-compliance with such guidelines by the relevant employees throughout the Year 2020.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company, nor any of its subsidiaries, had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2020.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2020.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the minimum public float required under the Listing Rules throughout the Year 2020 and up to the date of this announcement.

Dividend Policy and Dividends

The Directors acknowledge the importance of stakeholders' engagement and would contemplate at least two times a year (prior to the announcement of annual and interim results) on the distribution of a dividend. While the Directors endeavour to share the Group's results with shareholders by way of a dividend, the portion and actual amount of distribution out of profits will be determined by the Directors having regard to a variety of factors, including but not limited to the Group's actual and expecting operating results and conditions, gearing level, general financial condition, availability of cash, future plans and funding needs for expansion.

The Directors do not recommended the payment of a dividend for the Year 2020.

As at the date of this announcement, the Board is not aware of any shareholders who have waived or agreed to waive any dividends.

REVIEW OF ANNUAL RESULTS

The audit committee of the Board has reviewed the consolidated financial statements of the Group for the Year 2020 and this announcement. The figures in respect of this announcement for the Group's consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated balance sheet and the related notes thereon for the year ended 31 December 2020 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers ("PwC"), to the amounts set out in the Group's draft financial statements for the year ended 31 December 2020. The work performed by PwC in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong

Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by PwC on the preliminary announcement.

PUBLICATION OF THE ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange and the Company, and the annual report of the Company for the Year 2020 containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

By order of the Board of
Prosper Construction Holdings Limited
Wang Xuejun
Chairman and Executive Director

Hong Kong, 29 March 2021

As at the date of this announcement, the Board comprised executive Directors Mr. WANG Xuejun (chairman of the Board), Mr. CUI Qi, Mr. DING Hongbin, Mr. YANG Zhenshan, Mr. JIANG Shuang and Mr. YANG Honghai; and independent non-executive Directors Mr. CHEUNG Chi Man Dennis, Mr. WANG Yaping and Mr. CHENG Xuezhao.