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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 AUDITED ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2023

FINANCIAL HIGHLIGHTS

	Year ended 31 December		% change
	2023	2022	
	<i>HK\$'million</i>	<i>HK\$'million</i>	
Revenue	2,125.9	2,879.2	↓ 26.2%
Gross profit	181.1	220.6	↓ 17.9%
Gross margin	8.5%	7.7%	
(Loss)/profit for the year	(181.6)	10.5	
(Loss)/profit attributable to:			
Equity holders of the Company	(188.9)	(12.2)	
Non-controlling interests	7.3	22.7	
(Loss)/earnings per share attributable to owners (<i>HK cents</i>)	(23.61)	(1.52)	

	As at 31 December		% change
	2023	2022	
	<i>HK\$'million</i>	<i>HK\$'million</i>	
Total assets	5,035.6	4,894.0	↑ 2.9%
Total equity	480.5	624.3	↓ 22.3%
Equity per share (<i>HK\$</i>)	0.60	0.78	

The board (the “Board”) of directors (the “Directors”) of Prosper Construction Holdings Limited (the “Company”, together with its subsidiaries, the “Group”) is pleased to present the audited consolidated results of the Group for the year ended 31 December 2023 (the “FY2023”) together with comparative figures for the year ended 31 December 2022 (the “FY2022” or “Previous Year”) as set out below.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2023

	<i>Note</i>	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Revenue	3	2,125,871	2,879,211
Cost of sales		<u>(1,944,774)</u>	<u>(2,658,592)</u>
Gross profit		181,097	220,619
Other gains, net		1,489	13,207
Provision for impairment losses on financial assets		(86,775)	(11,261)
Research and development expenses		(22,556)	(17,934)
Other administrative expenses		<u>(173,654)</u>	<u>(129,630)</u>
Operating (loss)/profit		<u>(100,399)</u>	75,001
Finance income		3,751	3,487
Finance costs		<u>(71,465)</u>	<u>(58,734)</u>
Finance costs, net		<u>(67,714)</u>	<u>(55,247)</u>
(Loss)/profit before income tax		(168,113)	19,754
Income tax expenses	4	<u>(13,522)</u>	<u>(9,216)</u>
(Loss)/profit for the year		<u>(181,635)</u>	<u>10,538</u>
(Loss)/profit attributable to:			
Equity holders of the Company		(188,898)	(12,186)
Non-controlling interests		<u>7,263</u>	<u>22,724</u>
		<u>(181,635)</u>	<u>10,538</u>
Loss per share for profit attributable to the equity holders of the Company:			
Basic and diluted loss per share (HK cents)	5	<u>(23.61)</u>	<u>(1.52)</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2023

	2023 HK\$'000	2022 <i>HK\$'000</i>
(Loss)/profit for the year	(181,635)	10,538
Other comprehensive income/(loss) <i>Item that will not be subsequently reclassified to profit or loss</i>		
Currency translation differences	5,156	(6,176)
<i>Item that may be subsequently reclassified to profit or loss</i>		
Currency translation differences	(3,831)	(23,444)
Other comprehensive income/(loss) for the year, net of tax	1,325	(29,620)
Total comprehensive loss for the year	(180,310)	(19,082)
Total comprehensive (loss)/income attributable to:		
Equity holders of the Company	(192,729)	(35,630)
Non-controlling interests	12,419	16,548
	(180,310)	(19,082)

CONSOLIDATED BALANCE SHEET

As at 31 December 2023

	<i>Note</i>	2023 HK\$'000	2022 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment		322,114	331,348
Investment properties		13,654	15,561
Right-of-use assets		64,457	68,078
Goodwill		39,010	39,990
Intangible assets		15,363	18,715
Deposits and prepayments		25,918	25,473
Financial asset at fair value through profit or loss		1,246	–
Deferred income tax assets		–	7,845
		<u>481,762</u>	<u>507,010</u>
Current assets			
Inventories		21,004	13,259
Trade, retention and notes receivables	7	1,188,649	860,176
Amounts due from fellow subsidiaries	7	1,173,138	1,056,869
Deposits, prepayments and other receivables		229,071	261,065
Contract assets	8	1,736,586	1,629,966
Time deposits with maturity over 3 months		8,384	204
Pledged bank deposits		31,053	236,978
Restricted cash		21,007	4,008
Cash and cash equivalents		144,950	324,459
		<u>4,553,842</u>	<u>4,386,984</u>
Total assets		<u>5,035,604</u>	<u>4,893,994</u>
EQUITY			
Capital and reserves			
Share capital	10	8,000	8,000
Reserves		314,326	499,792
		<u>322,326</u>	<u>507,792</u>
Non-controlling interests		<u>158,149</u>	<u>116,525</u>
Total equity		<u>480,475</u>	<u>624,317</u>

	<i>Note</i>	2023 HK\$'000	2022 HK\$'000
LIABILITIES			
Non-current liabilities			
Borrowings		78,423	209,395
Loan from an intermediate holding company		130,000	130,000
Lease liabilities		1,503	3,348
Deferred income tax liabilities		1,898	9,435
		<u>211,824</u>	<u>352,178</u>
Current liabilities			
Trade, retention and notes payables	9	2,366,505	2,599,104
Accruals and other payables	9	313,805	294,219
Contract liabilities	8	5,439	7,646
Amounts due to fellow subsidiaries		69,909	35,536
Amount due to a related company		386	909
Amount due to ultimate holding company		4,830	–
Loan from an intermediate holding company		15,852	15,852
Amounts due to non-controlling interests		11,045	47,163
Borrowings		1,534,260	883,171
Lease liabilities		2,345	2,088
Income tax payable		18,929	31,811
		<u>4,343,305</u>	<u>3,917,499</u>
Total liabilities		<u>4,555,129</u>	<u>4,269,677</u>
Total equity and liabilities		<u>5,035,604</u>	<u>4,893,994</u>

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 principal place of business of the Company in Hong Kong is located at Room 03-08, 24/F, Shui On Centre, 6-8 Harbour Road, Wan Chai.

The Company is an investment holding company and its subsidiaries (the "Group") 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 BASIS OF PREPARATION AND CHANGES IN 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 Hong Kong Financial Reporting Standards ("HKFRSs") issued by Hong Kong Institute of Certified Public Accountant ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). The consolidated financial statements have been prepared under the historical cost convention, except for financial asset at fair value through profit or loss ("FVPL"), which is measured at fair value.

Going concern basis

As at 31 December 2023, certain bank borrowings amounting to HK\$192,762,000 contained financial covenants and required the Group to meet certain financial ratio requirements. The Group has not complied with certain of these financial covenant requirements and resulted in these borrowings becoming immediately repayable if requested by the banks. Consequently, bank borrowings amounting to HK\$17,596,000 were classified as current liabilities as at 31 December 2023. The non-compliance of financial covenants triggered cross-defaults of certain other bank borrowings of the Group amounting to HK\$630,495,000 as at 31 December 2023. These borrowings were classified as current liabilities as at 31 December 2023 based on their original contractual maturity terms.

The directors have given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient funds to fulfil its financial obligations and continue as going concern. The Group has obtained a letter of undertaking from the ultimate holding company that it will provide financial support for the continuing operations of the Group so as to enable it to meet its liabilities as they fall due and carry on its business without a significant curtailment of operations in the twelve months from the approval date of these consolidated financial statements. The ultimate holding company can provide foreign currency funding from a cash pool which is under its control and has adequate facility to provide the necessary support to the Group. Accordingly, the directors consider that it is appropriate to prepare the Group's consolidated financial statements on a going concern basis.

The preparation of financial statements in conformity with HKFRSs 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 2023 are consistent with those used in the preparation of the Group's consolidated financial statements for the year ended 31 December 2022, except as described below.

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

The Group has adopted the following new and amended standards which are relevant to the Group's operations and are mandatory for the financial year beginning on 1 January 2023:

HKAS1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies (amendments)
HKAS 8	Definition of Accounting Estimates (amendments)
HKAS 12	Deferred tax related to assets and liabilities arising from a single transaction (amendments)
HKAS 12	International Tax Reform – Pillar Two Model Rules (amendments)
HKFRS 17	Insurance Contracts
HKFRS 17	Amendments to HKFRS 17
HKFRS 17	Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information

The adoption of the amendments listed 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 standards, and amendments to standards that have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2024 or later periods, and have not been early adopted by the Group:

		Effective for accounting periods beginning on or after
HKAS 1	Classification of Liabilities as Current or Non-current (amendments)	1 January 2024
HKAS 1	Non-current Liabilities with Covenants (amendments)	1 January 2024
HKFRS 16	Lease Liability in a Sale and Leaseback (amendments)	1 January 2024
Hong Kong Interpretation 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2024
HKAS 7 and HKFRS 7	Supplier Finance Arrangements (amendments)	1 January 2024
HKAS 21	Lack of Exchangeability (amendments)	1 January 2025
HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (amendments)	To be determined

The Group will apply the above new standards, and amendments to standards when they become effective. These new standards, and amendments to standards are not expected to have a material impact on the entity in the current or future reporting periods.

3 REVENUE

	2023	2022
	HK\$'000	HK\$'000
Rendering of services, recognised over time		
– Marine construction works	104,533	425,353
– Provision of auxiliary marine related services	69,528	34,190
– Provision of general construction contracting services	1,951,810	2,419,668
	<u>2,125,871</u>	<u>2,879,211</u>

4 INCOME TAX EXPENSES

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

	2023	2022
	HK\$'000	HK\$'000
Hong Kong profits tax		
Current income tax	–	19
People's Republic of China ("PRC") corporate income tax		
Current income tax	7,312	16,308
Indonesia income tax		
Withholding income tax	214	264
Macao complementary income tax		
Current income tax	–	957
Deferred income tax	<u>5,996</u>	<u>(8,332)</u>
Income tax expenses	<u>13,522</u>	<u>9,216</u>

- (a) Hong Kong profits tax has been provided at the rate of 8.25% on assessable profit up to HK\$2 million and 16.5% thereafter on the estimated assessable profit for the years ended 31 December 2023 and 2022.

- (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% except for subsidiaries which qualify as High-New Technology Enterprises which are subject to a tax rate of 15%.
- (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 2023, income tax has been provided at the rate of 3% (2022: 3%) of the construction revenue and 20% (2022: 20%) of the interest income from bank deposits.
- (d) Macao complementary income tax has been provided at the rate of 12% on the estimated assessable profit for the years ended 31 December 2023 and 2022.

5 LOSS PER SHARE

(a) Basic

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

	2023	2022
Loss attributable to equity holders of the Company (HK\$'000)	(188,898)	(12,186)
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share (in thousands)	800,000	800,000
Basic loss per share (HK cents)	<u>(23.61)</u>	<u>(1.52)</u>

(b) Diluted

Diluted loss per share is the same as the basic loss per share as there were no potential dilutive ordinary shares during the year (2022: same).

6 DIVIDENDS

There is no final dividend proposed to shareholders of the Company for the year ended 31 December 2023 (2022: Nil).

7 TRADE, RETENTION AND NOTES RECEIVABLES AND AMOUNTS DUE FROM FELLOW SUBSIDIARIES

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Trade receivables	1,073,911	760,637
Less: Loss allowance	(97,566)	(30,272)
Trade receivables — net	976,345	730,365
Retention receivables	100,045	118,210
Less: Loss allowance	(6,138)	(8,122)
Retention receivables — net	93,907	110,088
Note receivables	119,650	19,980
Less: Loss allowance	(1,253)	(257)
Note receivables — net	118,397	19,723
Trade, retention and notes receivables, net	1,188,649	860,176
	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Amounts due from fellow subsidiaries – trade balances	1,178,116	1,057,612
Less: Loss allowance	(4,978)	(743)
Amounts due from fellow subsidiaries, net	1,173,138	1,056,869

The credit period granted to trade customers other than for retention receivables was within 30 days to 90 days for marine construction works and auxiliary marine related services whereas there is generally no credit period granted to the customers for general construction services in the PRC. 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:

	2023	2022
	HK\$'000	HK\$'000
Within 1 year	722,566	505,537
1 to 2 years	189,299	101,161
Over 2 years	64,480	123,667
	<u>976,345</u>	<u>730,365</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:

	2023	2022
	HK\$'000	HK\$'000
Within 1 year	3,715	25,504
Between 1 and 5 years	68,590	64,814
Over 5 years	21,602	19,770
	<u>93,907</u>	<u>110,088</u>

The ageing of the notes receivables based on invoice date as follows:

	2023	2022
	HK\$'000	HK\$'000
Within 1 year	117,551	19,723
Between 1 and 5 years	–	–
Over 5 years	846	–
	<u>118,397</u>	<u>19,723</u>

The ageing analysis of the amounts due from fellow subsidiaries based on invoice date was as follows:

	2023	2022
	HK\$'000	HK\$'000
Within 1 year	678,155	840,870
1 to 2 years	366,507	215,999
Over 2 years	128,476	–
	<u>1,173,138</u>	<u>1,056,869</u>

8 CONTRACT ASSETS AND CONTRACT LIABILITIES

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

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Contract assets		
Provision of construction services – third parties	1,153,936	892,694
Provision of construction services – fellow subsidiaries	624,277	758,221
Less: Loss allowance	<u>(41,627)</u>	<u>(20,949)</u>
	<u>1,736,586</u>	<u>1,629,966</u>
Contract liabilities		
Provision of construction services	<u>(5,439)</u>	<u>(7,646)</u>

9 TRADE, RETENTION AND NOTES PAYABLES, ACCRUALS AND OTHER PAYABLES

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Trade payables	2,345,891	2,280,459
Notes payables	13,114	310,090
Retention payables	7,500	8,555
Accruals and other payables	<u>313,805</u>	<u>294,219</u>
	<u>2,680,310</u>	<u>2,893,323</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:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Within 1 year	2,164,385	1,980,958
Over 1 year	<u>181,506</u>	<u>299,501</u>
	<u>2,345,891</u>	<u>2,280,459</u>

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

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Within 1 year	<u>13,114</u>	<u>310,090</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:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Within 1 year	1,562	3,162
Between 1 year and 2 years	3,052	1,619
Between 2 years and 5 years	2,886	3,774
	7,500	8,555

10 SHARE CAPITAL

	Number of shares	Share capital <i>HK\$'000</i>
Ordinary shares, authorised:		
At 31 December 2021, 2022 and 2023	4,000,000,000	40,000
Ordinary shares, issued and fully paid:		
At 31 December 2021, 2022 and 2023	800,000,000	8,000

11 CONTINGENT LIABILITIES AND DISPUTES

(a) Contingent liabilities in relation to performance bonds of construction contracts

As at 31 December 2023, certain subsidiaries of 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\$4.9 million (2022: HK\$52.9 million). The performance bonds as at 31 December 2023 as expected to be released in accordance with the terms of the respective construction contracts.

(b) Involvement in litigation

Two subsidiaries of the Group are two of the three defendants to a litigation in which they are alleged to have caused damage to certain facilities of the plaintiff during a typhoon in 2018. The plaintiff is claiming damages for HK\$112 million (2022: HK\$112 million) subject to adjustments. As advised by the Group's independent legal advisor, the case is at an early stage before exchanging evidence and it is not possible to give a firm evaluation of the likelihood of the outcome or estimate the possible amount of loss, if any. Consequently, no provision in relation to the litigation has been made in the consolidated financial statements as at 31 December 2023 (2022: same).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group took to expedite negotiation on a number of potential overseas projects since travel restrictions were lifted in year 2022 and secured an auxiliary marine related service project in the Philippines, which commenced in FY2023 but was subsequently temporarily suspended since August 2023; we understand from the project owner that there is further administrative clearance pending from local governmental body before the project may be resumed. Albeit the Group had successfully negotiated compensation for the temporary suspension, there will be delay in the generation of revenue and recovery of costs from the project and thus negatively impacted the operating results of the Group for the FY2023. Locally in Hong Kong, the Group was recently awarded a relatively sizeable pier construction project and a jetty repairs project, both of which remained in the preliminary stage and did not generate any substantial revenue during FY2023. Meanwhile, the Group's key marine construction projects in Macao from prior years had been substantially completed by end of year 2022. All the aforesaid factors led to a trough in the operation cycle of its marine construction business segment during the FY2023 with relatively low revenue.

The Group's general construction business segment also experienced a slowdown during the FY2023, as a few relatively large scale projects were at early stage and not yet in full progress during the FY2023. Furthermore, amidst uncertain outlooks of the PRC real estate market, the launch of potential projects has been delayed pending decision and administrative procedures from project owners. Management considers the drop in revenue during the FY2023 is temporary in nature which coincides with the current macroeconomic conditions.

A summary of the Group's revenue by geographic locations and major projects for the FY2023 is set out below.

	Revenue recognised in FY2023 <i>HK\$'million</i>	Contribution to total revenue
Marine construction works and auxiliary marine related services (collectively, the “Marine Business”)		
Hong Kong		
Structural steel works for a products distribution facility	48.5	2.3%
Pier construction at outlying island	15.8	0.8%
Construction of public shore landing facility	8.3	0.4%
Other small projects	28.7	1.3%
The Philippines		
Auxiliary marine related services project	58.1	2.7%
Other locations		
Marine construction works	3.2	0.2%
Auxiliary marine services	11.5	0.5%
General construction contracting services (the “General Construction Business”)		
Qingdao		
College student residence	119.8	5.6%
Residential development project	101.1	4.8%
Land development	100.4	4.7%
Chemical supply chain facility	71.3	3.4%
Arts and crafts college	60.5	2.8%
Technology personnel residence	58.9	2.8%
Residential block of financial complex	55.2	2.6%
Others	1,384.6	65.1%
Total	<u>2,125.9</u>	<u>100.0%</u>

Outlook and Prospects

We noticed the launch of marine construction and related projects in Hong Kong has been on the rise since year 2022 and the Group is currently preparing to bid for two ample-sized projects in Hong Kong, including a marine construction project and a marine dumping project. The long term outlook of the local marine construction market remains promising and will be driven by the Lantau Tomorrow Vision blueprint promulgated by the Hong Kong government, which aimed to develop Lantau Island into a local hub as part of the larger Greater Bay Area megalopolis development. We understand certain on-site investigation and assessment works on Lantau have already been rolled out, to be followed by planning for detailed infrastructure and there will be tremendous business opportunities to the Group in the medium to long term. The Group's new auxiliary marine related service project in the Philippines has been temporarily suspended since August 2023; we understand from project owner that clearance procedures are achieving progress and project resumption is hopeful in the near future. Meanwhile in Macao, the Group had entered into a cooperation agreement with the main contractor of a new land reclamation project in Macao, the commencement of which is pending for administrative clearance. The Group is also closely monitoring and assessing the viability of potential marine construction projects under planning by our target customers along the belt-and-road region, including a number of projects in Indonesia where it has commendable business record and a large scale infrastructure project in a Middle East country.

Performance of the Group's General Construction business is largely hinged on the economics environment and the real estate market of mainland PRC. The national government has in the second half of year 2023 announced various policies to support the continuous healthy development of the property market. Meanwhile, the Group has also been proactive in broadening its customer base by extending its business coverage to locations in the Guangdong and Hainan provinces to mitigate business risks associated with concentration in customer and region-specific economic conditions.

Overall, the Group expects the various challenges in both its Marine Business and General Construction Business segments will continue into year 2024, rendering unfavourable outlook for the Group's revenue and profitability in the short term. The immediate focus of the Group is to expedite recovery its overdue receivables and the realisation of contract assets in order to improve its gearing position and reduce financing costs. Looking beyond the current uncertain macroeconomic conditions, the Group shall follow the strong national development roadmap and is well-positioned to take on opportunities available on the national or cross-nation level in the post-pandemic period brought on by governmental policies to stimulate economy rebound and is confident that its business strategies will drive the Group towards becoming a well-respected integrated construction and engineering solution provider.

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

Project(s) that have already commenced as at 31 December 2023	Estimated remaining contract value
Hong Kong	
Pier construction at outlying island	HK\$139 million
Jetty repairs	HK\$86 million
Philippines	
Provision of auxiliary marine related services	US\$50 million
Project(s) commencing or newly awarded after 31 December 2023	Estimated remaining contract value
Guangzhou	
Old complex redevelopment	RMB398 million
Linyi	
Land development	RMB318 million
Qingdao	
Lingshan residential project	RMB117 million
Heze	
Media centre curtain wall	RMB107 million
Haikou	
Land development	RMB113 million

Financial Review

Revenue

The Group recorded revenue of HK\$2,125.9 million for the FY2023, representing a decrease of approximately 26.2% from the year ended 31 December 2022 (“FY2022” or “Previous Year”) as a combined result of (i) a decrease in revenue from the Marine Business segment by approximately HK\$285.5 million or 62.1% and (ii) a decrease in revenue from the General Construction Business segment by approximately HK\$467.9 million or 19.3%.

The underlying reasons for the reduction in revenue in both the Marine Business and General Construction Business segments are discussed in the Business Review section of this report, which also set out a breakdown of the Group’s revenue from major projects and by geographic location.

Cost of sales and gross profit

Cost of sales for the FY2023 decreased by 26.8% to HK\$1,944.8 million, which is generally consistent with the drop in revenue. Gross profit margin in FY2023 improved to 8.5%, as compared to 7.7% for Year 2022. Profit margin of the General Construction Business segment improved to 9.0% for FY2023 (FY2022: 8.5%), while on the other hand profit margin of the Marine Business segment decreased to 1.7% for FY2023 (FY2022: 3.4%). The rise in profit margin in General Construction business was attributable to relatively higher proportion of revenue was derived from curtain wall projects which generally yield a higher profit margin than general contracting projects. The decline in profit margin in the Marine Business segment was mainly due to the need to adjust for profits taken up in prior year from a project as a result of unfavourable outcome in negotiation of settlement of variation works.

Provision for impairment losses on financial assets

The Group adopted a systematic approach in assessing the overall risk of default on its financial assets. Owing to uncertain economic conditions in the PRC and deteriorating credit outlooks in the real estate market, the Group adopted a relatively more conservative approach and higher default risk in assessment of impairment of its financial assets for the FY2023. Based on aforesaid assessment, a provision for impairment losses of HK\$86.8 million was recorded for the FY2023, which consisted of HK\$23.3 million for the General Construction Business segment and HK\$63.5 million for the Marine Business segment. The provision for impairment losses is estimation in nature and may be written back in future years upon realisation of underlying assets into cash and does not prejudice the Group’s rights and position in respect of such assets.

Research and development expenses

Research and development expenses increased by HK\$4.7 million to HK\$22.6 million for the FY2023 as more resources were allocated to the research and development of curtain wall engineering and construction technology.

Other administrative expenses

Other administrative expenses mainly comprised of staff costs, depreciation and amortisation and professional fees. Other administrative expenses increased by HK\$44.3 million to HK\$173.7 million for the FY2023 mainly as a result of increase in headcount and associated staff cost by HK\$22.9 million and rise in maintenance and idling costs associated with idled vessels and equipment.

Income tax expenses

Income tax expenses for the FY2023 mainly comprised profits tax provision for operation in the PRC and reversal for the provision of deferred income tax for operation in Macao.

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% except for a subsidiary which qualify as High-New Technology Enterprises which are subject to a tax rate of 15%.

Operating profit, finance costs and profit before tax

Operating results for the FY2023 was hampered by the drop in revenue, substantial rise in provision for impairment of financial assets, and increase in costs associated with idled vessels and equipment. Consequently, the Group's operating results for FY2023 dipped to a loss of HK\$100.4 million from a profit of HK\$75.0 million for the FY2022.

Furthermore, interest rate was consistently on the rise in the Hong Kong capital market during the FY2023, which led to an increase in net finance costs by HK\$12.5 million.

Overall, the Group recorded a loss before tax of HK\$168.1 million for FY2023, as compared to a profit of HK\$19.8 million for FY2022.

Property, plant and equipment

As at 31 December 2023, the Group owned a total of 40 units of marine vessels and 195 units of machinery and equipment and an office building in Qingdao, PRC.

The additions to property, plant and equipment during the Year 2023 were mainly related to (i) the construction of a building in Qingdao being used as the operating headquarter for curtain wall business division and (ii) overhaul and modification works on the Group's fleet of vessel.

Trade, retention and notes receivables and amounts due from fellow subsidiaries

The Group's trade, retention and notes receivables increased by approximately HK\$328.5 million to HK\$1,188.6 million as at 31 December 2023, of which approximately HK\$224.9 million pertained to the Marine Business segment while approximately HK\$963.7 million pertained to the General Construction Business segment.

The Group's amounts due from fellow subsidiaries increased by approximately HK\$116.2 million to HK\$1,173.1 million as at 31 December 2023 and pertained to the General Construction Business segment which comprised of receivables for works on projects pending settlement by the fellow subsidiaries.

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 2023 for the Marine Business and General Construction Business was approximately HK\$233.7 million and HK\$1,502.9 million respectively. Majority of the contract assets in the Marine Business was related to three completed projects which were pending the finalisation of project account. Based on preliminary assessment by the Group's project claims and 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 2023 for these projects.

Contract liabilities as at 31 December 2022 and 2023 represent amounts due to contract customers for payment received in excess of revenue recognisable by the Group according to the progress achieved.

Liquidity, Capital Structure and Gearing

The Group's net current asset balance and net debt position as at 31 December 2023 was approximately HK\$210.5 million (31 December 2022: HK\$469.5 million) and HK\$1,553.1 million (31 December 2022: HK\$672.8 million) respectively. The Group's gearing ratio (calculated by dividing total debts by total equity) as at 31 December 2023 increased to 366.0% as compared to the Previous Year (31 December 2022: 198.4%).

- (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:

	2023	2022
	HK\$'000	HK\$'000
Within 1 year	1,534,260	883,171
Between 1 and 2 years	663	182,865
Between 2 and 5 years	77,760	26,530
	<u>1,612,683</u>	<u>1,092,566</u>

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

	2023	2022
Short-term bank loans	5.2%	3.9%
Long-term bank loans	5.0%	5.1%
	<u>5.0%</u>	<u>5.1%</u>

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”) 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.

Capital Expenditures

The Group generally finances its capital expenditures by cash flows generated from its operation and long-term bank borrowings. During the Year 2023, the Group invested approximately HK\$54.5 million in overhaul and modification of vessels.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

The Group had no material acquisitions or disposals of subsidiaries, associates and joint ventures during the Year 2023.

Significant Investments Held

The Group had not held any significant investments during the Year 2023.

Charges on Assets

As at 31 December 2023, deposits of HK\$31.1 million (2022: HK\$42.1 million) were pledged to secure for the Group's bank borrowings.

Contingent Liabilities

Save for the disclosure set out in note 11 to this announcement, 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 2023 and 2022 are as follows:

	As at 31 December	
	2023	2022
Management and administration	93	161
Accounting and finance	25	26
Human resources	6	7
Project management	318	97
Project execution	218	347
	660	638

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 2023 was approximately HK\$180.0 million (2022: HK\$186.5 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 recommend payment of a dividend for the Year 2023.

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 2023.

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

No significant event has occurred after 31 December 2023 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 C1 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 2023, except that the role of chairman of the Board and chief executive officer of the Group were not segregated and are taken up by the same person, Mr. Jiang Hongchang since 28 June 2022. The Board is of the view that having the same person as the chairman of the Board and the chief executive officer can ensure unified leadership within the Group and render the overall strategic planning of the Group more effective and efficient. The Board believes that the current arrangement will not impair the balance of power and authority within the Group, and the current structure will enable the Company to make and implement decisions more quickly and effectively.

Directors’ Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix C3 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 2023.

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 2023.

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 2023.

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 2023.

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 2023 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 recommend the payment of a dividend for the Year 2023.

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 Company (the "Audit Committee") comprises the four independent non-executive Directors and is chaired by Mr. Cheung Chi Man Dennis who has appropriate professional qualifications and experience as required by Rule 3.10(2) of the Listing Rules.

The Audit Committee has reviewed this annual results announcement, the consolidated financial statements and the accounting policies adopted by the Group for the year ended 31 December 2023.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated balance sheet, consolidated statement of profit or loss and consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2023 as set out in this preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by PricewaterhouseCoopers 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 2023 containing all the information required by the Listing Rules will be despatched to the shareholders of the Company by electronic means (or in printed copy upon request) and published on the respective websites of the Stock Exchange and the Company by end of April 2024.

By order of the Board of
Prosper Construction Holdings Limited
Ni Chuchen
Executive Director

Hong Kong, 28 March 2024

As at the date of this announcement, the Board comprised executive Directors Mr. JIANG Hongchang, (chairman of the Board), Mr. LIU Yutao, Mr. YANG Honghai, Mr. NI Chuchen, Mr. DU Jianzhi; and independent non-executive Directors Mr. CHEUNG Chi Man Dennis, Mr. WANG Yaping, Mr. CHENG Xuezhao and Ms. CHEN Yan.