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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

		Unaudited	
		Six months ended 30 June	
	Note	2019	2018
		HK\$'000	HK\$'000
Revenue	5	171,759	257,683
Cost of sales		<u>(154,458)</u>	<u>(213,307)</u>
Gross profit		17,301	44,376
Other (losses)/gains, net	6	(1,721)	1,679
Other administrative expenses		<u>(10,150)</u>	<u>(12,089)</u>
Operating profit		5,430	33,966
Finance income	7	112	178
Finance costs	7	<u>(3,682)</u>	<u>(3,425)</u>
Finance costs, net		<u>(3,570)</u>	<u>(3,247)</u>
Profit before income tax	8	<u>1,860</u>	<u>30,719</u>
Income tax credit/(expense)	9	<u>5,135</u>	<u>(24)</u>
Profit for the period		6,995	30,695
Other comprehensive income/(loss)			
Item that may be reclassified subsequently to profit or loss			
Currency translation differences		<u>2,698</u>	<u>(6,840)</u>
Other comprehensive income/(loss) for the period		<u>2,698</u>	<u>(6,840)</u>
Profit and total comprehensive income attributable to equity holders of the Company		<u>9,693</u>	<u>23,855</u>
Basic and diluted earnings per share (HK cents)	11	<u>0.87</u>	<u>3.84</u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2019

		Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
	Note		
Assets			
Non-current assets			
Plant and equipment		213,518	217,620
Right-of-use assets		5,768	—
Deposits		<u>8,432</u>	<u>8,279</u>
		<u>227,718</u>	<u>225,899</u>
Current assets			
Trade and retention receivables	12	359,124	349,061
Deposits, prepayments and other receivables	12	29,225	26,280
Contract assets		75,161	78,143
Amounts due from the other partner of a joint operation		—	129
Income tax recoverable		3,885	3,631
Time deposits with maturity over 3 months		11,082	16,353
Pledged bank deposits		13,200	13,200
Cash and cash equivalents		<u>180,123</u>	<u>106,657</u>
		<u>671,800</u>	<u>593,454</u>
Total assets		<u>899,518</u>	<u>819,353</u>
Equity			
Capital and reserves			
Share capital		8,000	8,000
Reserves		<u>501,373</u>	<u>491,680</u>
Total equity		<u>509,373</u>	<u>499,680</u>

		Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
	Note		
Liabilities			
Non-current liabilities			
Borrowings	14	—	788
Lease liabilities		1,302	—
Deferred income tax liabilities		<u>11,655</u>	<u>11,655</u>
		<u>12,957</u>	<u>12,443</u>
Current liabilities			
Trade and retention payables	13	43,932	42,055
Accruals and other payables	13	6,503	16,295
Contract liabilities		199,682	100,900
Amount due to a related company		8,812	6,507
Borrowings	14	112,257	138,958
Lease liabilities		3,491	—
Income tax payable		<u>2,511</u>	<u>2,515</u>
		<u>377,188</u>	<u>307,230</u>
Total liabilities		<u>390,145</u>	<u>319,673</u>
Total equity and liabilities		<u>899,518</u>	<u>819,353</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Other reserves <i>HK\$'000</i>	Exchange reserves <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 31 December 2017 as originally presented (audited)	8,000	214,840	23,104	(177)	258,649	504,416
Change in accounting policy	—	—	—	—	(7,242)	(7,242)
At 1 January 2018 as restated	8,000	214,840	23,104	(177)	251,407	497,174
Comprehensive income	—	—	—	—	30,695	30,695
Profit for the period	—	—	—	—	—	—
Exchange differences	—	—	—	(6,840)	—	(6,840)
Contribution by and distribution to owner	—	—	—	—	—	—
Dividend declared (<i>Note 10</i>)	—	—	—	—	(16,000)	(16,000)
At 30 June 2018 (unaudited)	8,000	214,840	23,104	(7,017)	266,102	505,029
At 1 January 2019	8,000	214,840	23,104	(9,035)	262,771	499,680
Comprehensive income	—	—	—	—	6,995	6,995
Profit for the period	—	—	—	—	6,995	6,995
Exchange differences	—	—	—	2,698	—	2,698
At 30 June 2019 (unaudited)	8,000	214,840	23,104	(6,337)	269,766	509,373

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Cash flows from operating activities		
Net cash generated from operations	102,117	19,634
Interest received	112	176
Interest paid	(3,682)	(3,425)
Income tax refund/(paid)	<u>4,706</u>	<u>(1,321)</u>
Net cash generated from operating activities	<u>103,253</u>	<u>15,064</u>
Cash flows from investing activities		
Payments of plant and equipment	(4,630)	(9,581)
Increase in deposits for purchase of plant and equipment	(1,162)	—
Proceeds from disposal of plant and equipment	3	312
Decrease/(increase) in time deposits with maturity over 3 months	5,271	(3,989)
Decrease in pledged deposits	<u>—</u>	<u>11,051</u>
Net cash used in investing activities	<u>(518)</u>	<u>(2,207)</u>
Cash flows from financing activities		
Proceeds from borrowings	—	26,000
Repayments of borrowings	(27,489)	(31,683)
Payment for principal elements of lease liabilities	<u>(1,794)</u>	<u>—</u>
Net cash used in financing activities	<u>(29,283)</u>	<u>(5,683)</u>
Net increase in cash and cash equivalents	73,452	7,174
Cash and cash equivalents at beginning of the period	106,657	193,348
Effect of foreign exchange rate changes	<u>14</u>	<u>(198)</u>
Cash and cash equivalents at end of the period	<u><u>180,123</u></u>	<u><u>200,324</u></u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. GENERAL INFORMATION AND BASIS OF PRESENTATION

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, leasing and trading of vessels. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The interim condensed consolidated financial information is presented in Hong Kong dollars ("HK\$") unless otherwise stated.

The interim condensed consolidated financial information of the Group for the six months ended 30 June 2019 has not been audited.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those described in the annual financial statements for the year ended 31 December 2018 ("2018 Financial Statements").

2.1 Basis of preparation

This interim condensed consolidated financial information for the six months ended 30 June 2019 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This interim condensed consolidated financial information does not include all the notes of the type normally included in annual consolidated financial statements. Accordingly, the interim condensed consolidated financial information should be read in conjunction with the 2018 Financial Statements, which has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The preparation of this interim condensed consolidated financial information 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 areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the interim financial information, are disclosed in note 4 below.

2.2 Accounting policies

The accounting policies applied are consistent with those of the 2018 Financial Statements, as described in those annual consolidated financial statements, except for the estimation of income tax and the adoption of new and amended standards as set out below.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(a) *New and amended standards adopted by the Group*

A number of new or amended standards became applicable for the current reporting period, and the Group has changed its accounting policies and made retrospective adjustments as a result of adopting HKFRS 16 Leases (“HKFRS 16”).

The impact of the adoption of the leasing standard and the new accounting policy is disclosed below. The other standards did not have material impact on the Group’s accounting policies and did not require retrospective adjustments.

The below explains the impact of adoption of HKFRS 16 on the Group’s interim condensed consolidated financial information and also discloses the new accounting policy that has been applied from 1 January 2019.

(i) *Accounting policy applied from 1 January 2019*

From 1 January 2019, leases are recognised as right-of-use assets and corresponding liabilities at the date at which the leased assets are available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the interim condensed consolidated statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use assets are depreciated over the shorter of the assets’ useful lives and the lease terms on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed lease payments. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group’s incremental borrowing rate.

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability and any initial direct cost.

(ii) *Impact of adoption*

The Group has adopted HKFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The adjustments arising from the new leasing rules are therefore recognised in the opening of the interim condensed consolidated balance sheet on 1 January 2019.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as “operating leases” under the principles of HKAS 17 Leases (“HKAS 17”). These liabilities were measured at the present value of the remaining lease payments, discounted

using the lessee's incremental borrowing rate as of 1 January 2019 (date of initial application of HKFRS 16). The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.4%.

In applying HKFRS 16 for the first time, the Group has used a single discount rate to a portfolio of leases with reasonable similar characteristics, which is a practical expedient permitted by the standard.

The reconciliation between the operating lease commitments as disclosed by applying HKAS 17 as at 31 December 2018 and lease liabilities recognised in the opening of the interim condensed consolidated balance sheet as at 1 January 2019 (date of initial application of HKFRS 16) is as follows:

	Unaudited HK\$'000
Operating lease commitments disclosed as at 31 December 2018	<u>5,620</u>
Discounted using the lessee's incremental borrowing rate at the date of initial application	<u>5,405</u>
Lease liabilities recognised as at 1 January 2019	<u><u>5,405</u></u>
Of which are:	
— Current lease liabilities	3,037
— Non-current lease liabilities	<u>2,368</u>
	<u><u>5,405</u></u>

The associated right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised as at 1 January 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The change in accounting policy affected the right-of-use assets increased by HK\$6,348,000, deposits, prepayments and other receivables decreased by HK\$943,000 and lease liabilities increased by HK\$5,405,000 respectively in the opening of the interim condensed consolidated balance sheet on 1 January 2019.

The recognised right-of-use assets of HK\$6,348,000 are related to office premises and staff quarters.

(b) *Impact of standards issued but not yet applied by the Group*

Certain new accounting standards and interpretations have been published that are not mandatory for this reporting period and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risk: market risk (including foreign exchange risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of the financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the 2018 Financial Statements.

As a result of adoption of HKFRS 16, the Group recognised lease liabilities of HK\$5,405,000 as at 1 January 2019 and HK\$4,793,000 as at 30 June 2019. The table below analyses the Group's lease liabilities into relevant maturity grouping based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Unaudited	
	At 30 June 2019 HK\$'000	At 1 January 2019 HK\$'000
No Later than 1 year	3,620	3,194
Later than 1 year and no later than 5 years	<u>1,402</u>	<u>2,426</u>
Total	<u><u>5,022</u></u>	<u><u>5,620</u></u>

There have been no changes in the risk management or any risk management policies since the year end.

3.2 Fair value estimation

The carrying amount of the Group's financial assets and liabilities, including cash and cash equivalents, pledged bank deposits, time deposits, trade and retention receivables, deposits and other receivables, amounts due from the other partner of a joint operation, and trade and retention payables, other payables, amount due to a related company and borrowings approximate their fair values, which either due to their short-term maturities, or that they are subject to floating rates.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the interim condensed consolidated financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing this interim condensed consolidated financial information, the critical accounting estimates and judgments applied were consistent with those described in the 2018 Financial Statements.

5. REVENUE AND SEGMENT INFORMATION

(a) Revenue

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Rendering of services		
— Marine construction works	79,987	91,995
— Leasing of vessels and provision of auxiliary marine related services	91,772	165,688
	<u>171,759</u>	<u>257,683</u>

(b) Segment Information

The chief operating decision-maker has been identified as the executive directors of the Company. The executive directors regard the Group's business as two operating segments of marine construction works and the leasing of vessels and provision of auxiliary marine related services. They review financial information accordingly.

Segment revenue is measured in a manner consistent with that in the interim condensed consolidated statement of comprehensive income.

Segment assets mainly consist of current assets and non-current assets as disclosed in the interim condensed consolidated balance sheet except for unallocated cash and bank balances, income tax recoverable, and other corporate assets.

Segment liabilities mainly consist of current liabilities and non-current liabilities as disclosed in the interim condensed consolidated balance sheet except for income tax payable, deferred tax liabilities, borrowings, amounts due to related parties and certain corporate liabilities.

Profit or loss

	Marine construction works <i>HK\$'000</i>	Leasing of vessels and provision of auxiliary marine related services <i>HK\$'000</i>	Total <i>HK\$'000</i>
For the six months ended 30 June 2019 (unaudited)			
Segment results	2,541	12,160	14,701
Unallocated expenses			(7,909)
Depreciation			(2,066)
Finance costs, net			<u>(2,866)</u>
Profit before income tax			1,860
Income tax credit			<u>5,135</u>
Profit for the period			<u><u>6,995</u></u>
Included in segment results are:			
Depreciation	(7,072)	(1,651)	(8,723)
Finance costs	<u>(704)</u>	<u>—</u>	<u>(704)</u>
For the six months ended 30 June 2018 (unaudited)			
Segment results	1,679	40,199	41,878
Unallocated expense			(7,451)
Depreciation			(461)
Finance costs, net			<u>(3,247)</u>
Profit before income tax			30,719
Income tax expense			<u>(24)</u>
Profit for the period			<u><u>30,695</u></u>
Included in segment results are:			
Depreciation	(7,353)	(1,393)	(8,746)
Finance costs	<u>(691)</u>	<u>—</u>	<u>(691)</u>

Assets

	Marine construction works <i>HK\$'000</i>	Leasing of vessels and provision of auxiliary marine related services <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 30 June 2019 (unaudited)			
Segment assets	316,609	356,996	673,605
Unallocated assets			<u>225,913</u>
Total assets			<u><u>899,518</u></u>
Additions to non-current assets	<u><u>4,584</u></u>	<u><u>—</u></u>	<u><u>4,584</u></u>
At 31 December 2018 (audited)			
Segment assets	365,840	248,726	614,566
Unallocated assets			<u>204,787</u>
Total assets			<u><u>819,353</u></u>
Additions to non-current assets	<u><u>13,586</u></u>	<u><u>—</u></u>	<u><u>13,586</u></u>

The information provided to chief operating decision maker with respect to total assets are measured in a manner consistent with that of the interim condensed consolidated financial information. These assets are allocated based on the operations of the segment.

Liabilities

	Marine construction works HK\$'000	Leasing of vessels and provision of auxiliary marine related services HK\$'000	Total HK\$'000
At 30 June 2019 (unaudited)			
Segment liabilities	241,606	10,820	252,426
Borrowings			112,257
Income tax payable			2,511
Deferred tax liabilities			11,655
Unallocated liabilities			<u>11,296</u>
Total liabilities			<u><u>390,145</u></u>
At 31 December 2018 (audited)			
Segment liabilities	158,412	—	158,412
Borrowings			139,746
Income tax payable			2,515
Deferred tax liabilities			11,655
Unallocated liabilities			<u>7,345</u>
Total liabilities			<u><u>319,673</u></u>

The Group's revenue from external customers attributable to the countries from which the Group derives revenue and information about its non-current assets excluding financial instruments and deferred income tax assets, located in the country of domicile are detailed below:

Revenue from external customers

	Unaudited Six months ended 30 June	
	2019 HK\$'000	2018 HK\$'000
Hong Kong	31,193	56,531
Indonesia	—	309
Macao	60,269	42,444
Pakistan	61,389	158,399
Philippines	3,072	—
Vietnam	<u>15,836</u>	<u>—</u>
	<u><u>171,759</u></u>	<u><u>257,683</u></u>

Non-current assets

Based on countries of domicile of companies holding the assets:

	Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
Hong Kong	199,544	203,138
Indonesia	10,874	11,144
Macao	3,087	3,323
Malaysia	<u>13</u>	<u>15</u>
	<u>213,518</u>	<u>217,620</u>

Based on physical location of the assets:

	Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
Cambodia	—	6,905
Hong Kong	134,591	121,158
Indonesia	10,874	11,144
Macao	3,087	18,414
Mainland China	—	14,839
Malaysia	13	15
Pakistan	42,666	29,387
Philippines	15,318	15,758
Vietnam	<u>6,969</u>	<u>—</u>
	<u>213,518</u>	<u>217,620</u>

6 OTHER (LOSSES)/GAINS, NET

	Unaudited Six months ended 30 June 2019 HK\$'000	2018 HK\$'000
(Loss)/gain on disposal of plant and equipment	(6)	312
Foreign exchange (losses)/gains	<u>(1,715)</u>	<u>1,367</u>
	<u>(1,721)</u>	<u>1,679</u>

7 FINANCE COSTS, NET

Unaudited
Six months ended 30 June
2019 2018
HK\$'000 **HK\$'000**

Finance income		
— Interest income on bank balances	112	178
Finance costs		
— Interest expense on bank loans	(3,558)	(3,425)
— Interest expense on lease liabilities	(124)	—
	<u>(3,570)</u>	<u>—</u>
Finance costs, net	<u>(3,570)</u>	<u>(3,247)</u>

8 PROFIT BEFORE INCOME TAX

Unaudited
Six months ended 30 June
2019 2018
HK\$'000 **HK\$'000**

Staff costs including directors' emoluments (note)	28,759	30,681
Auditors' remuneration	29	—
Cost of sales excluding direct staff costs	130,333	188,755
Depreciation of plant and equipment	8,945	9,038
Depreciation of right-of-use assets	1,844	—
Operating lease rental in respect of office and staff quarters	—	1,438
Legal and professional fee	1,501	2,089
	<u>1,501</u>	<u>2,089</u>

Note:

Unaudited
Six months ended 30 June
2019 2018
HK\$'000 **HK\$'000**

Wages and salaries	27,529	29,138
Pension costs — defined contribution plans	1,158	1,194
Other employment benefits	72	349
	<u>28,759</u>	<u>30,681</u>
Less: amounts charged to cost of sales	(24,125)	(24,552)
Less: amounts charged to administrative expenses	(4,634)	(6,129)
	<u>—</u>	<u>—</u>
Amounts capitalised in contracting work-in-progress	<u>—</u>	<u>—</u>

9. INCOME TAX (CREDIT)/EXPENSE

The amount of income tax (credited)/charged to the interim condensed consolidated statement of comprehensive income represents:

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Hong Kong profits tax		
Current income tax	—	—
Over-provision in prior year	(5,502)	(176)
Indonesia income tax		
Withholding income tax	—	9
Interest income tax	—	1
Macao complementary income tax		
Current income tax	—	190
Malaysia corporate income tax		
Current income tax	—	—
Under-provision in prior year	<u>367</u>	<u>—</u>
	<u>(5,135)</u>	<u>24</u>

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits for the six months ended 30 June 2019 and 2018.

Macao complementary income tax has been provided at the rate of 12% on the estimated assessable profits for the six months ended 30 June 2018.

Indonesia income tax is charged through a system of withholding taxes. Companies are required to withhold final income tax for construction works performance and interest income from bank deposits. The income tax has been provided at the rate of 3% of the construction income and 20% of the interest income from bank deposits for the six months ended 30 June 2018.

Malaysia corporate income tax has been provided at the rate of 24% on the estimated assessable profits for the six months ended 30 June 2019.

10. DIVIDENDS

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2019 and 2018.

11. 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 periods.

	Unaudited	
	Six months ended 30 June	
	2019	2018
Profit attributable to equity holders of the Company (HK\$'000)	6,995	30,695
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share ('000)	<u>800,000</u>	<u>800,000</u>
Basic earnings per share (HK cents)	<u>0.87</u>	<u>3.84</u>

(b) Diluted

Diluted earnings per share is of the same amount as the basic earnings per share as there were no potential dilutive ordinary shares outstanding as at period end.

12. TRADE AND RETENTION RECEIVABLES, DEPOSITS, PREPAYMENT AND OTHER RECEIVABLES

	Unaudited	Audited
	30 June	31 December
	2019	2018
	HK\$'000	HK\$'000
Trade receivables	309,786	299,421
Less: provision for impairment	<u>(7,802)</u>	<u>(7,802)</u>
Trade receivables-net	301,984	291,619
Retention receivables	<u>57,140</u>	<u>57,442</u>
Trade and retention receivables	<u>359,124</u>	<u>349,061</u>
Deposits, prepayments and other receivables (<i>note</i>)	37,657	34,559
Less: non-current deposits	<u>(8,432)</u>	<u>(8,279)</u>
	<u>29,225</u>	<u>26,280</u>

Note: The balance mainly represents rental deposit, deposits for plant and equipment and other miscellaneous receivables.

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

	Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
Current	36,248	39,848
Up to 1 year	55,681	110,285
1 to 2 years	62,980	53,237
Over 2 years	<u>147,075</u>	<u>88,249</u>
	<u>301,984</u>	<u>291,619</u>

Retention receivables were classified as current assets. The ageing of the retention receivables based on invoice date was as follows:

	Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
Within 1 year	175	2,358
Between 1 and 5 years	32,923	31,042
Over 5 years	<u>24,042</u>	<u>24,042</u>
	<u>57,140</u>	<u>57,442</u>

The credit period granted to trade customers other than for retention receivables was within 30 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.

13. TRADE AND RETENTION PAYABLES, ACCRUALS AND OTHER PAYABLES

	Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
Trade payables	39,430	37,816
Retention payables	4,502	4,239
Accruals and other payables	<u>6,503</u>	<u>16,295</u>
	<u>50,435</u>	<u>58,350</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:

	Unaudited	Audited
	30 June	31 December
	2019	2018
	HK\$'000	HK\$'000
Current	8,397	460
1 to 30 days	—	1,670
31 to 60 days	—	1,180
61 to 90 days	—	1,799
91 to 180 days	—	639
181 to 365 days	—	—
More than 365 days	<u>31,033</u>	<u>32,068</u>
	<u>39,430</u>	<u>37,816</u>

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

	Unaudited	Audited
	30 June	31 December
	2019	2018
	HK\$'000	HK\$'000
Within 1 year	3,176	2,815
Between 1 and 2 years	874	972
Between 2 and 5 years	<u>452</u>	<u>452</u>
	<u>4,502</u>	<u>4,239</u>

14. BORROWINGS

	Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
Non-current:		
Long-term bank loans	<u>—</u>	<u>788</u>
Current:		
Long-term bank loans due for repayment within one year	8,581	15,543
Long-term bank loans due for repayment within one year which contain a repayment on demand clause	58,866	62,988
Long-term bank loans due for repayment after one year which contain a repayment on demand clause	14,810	30,427
Short-term bank borrowings	<u>30,000</u>	<u>30,000</u>
	<u><u>112,257</u></u>	<u><u>138,958</u></u>
Total borrowings	<u><u>112,257</u></u>	<u><u>139,746</u></u>

- (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 bank loans would be as follows:

	Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
Within 1 year	97,447	108,531
Between 1 and 2 years	14,810	27,687
Between 2 and 5 years	<u>—</u>	<u>3,528</u>
	<u><u>112,257</u></u>	<u><u>139,746</u></u>

- (b) The carrying amounts of the Group's borrowings were denominated in Hong Kong dollar.
- (c) The carrying amounts of the Group's borrowings approximated their fair value as the impact of discounting is not significant.
- (d) The Group's loan facilities are subject to annual review and secured or guaranteed by:
- (i) unlimited guarantees provided by the Company as at 30 June 2019 and 31 December 2018;

- (ii) vessels and machinery and equipment with carrying amounts of HK\$12,237,000 (31 December 2018: HK\$17,545,000) as at 30 June 2019;
- (iii) deposits of not less than HK\$13,200,000 (31 December 2018: HK\$13,200,000) as at 30 June 2019; and
- (iv) guarantees of HK\$133,495,000 (31 December 2018: HK\$133,495,000) from a subsidiary for a bank facility which covers a loan of HK\$24,272,000 (31 December 2018: HK\$24,272,000) and performance bond facility of HK\$97,087,000 (31 December 2018: HK\$97,087,000) as at 30 June 2019.

15. RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control, jointly control or exert significant influence over the other party in holding power over the investee; exposure, or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect the amount of the investor's returns. Parties are also considered to be related if they are subject to common control or joint control. Related parties may be individuals or other entities.

- (a) The directors of the Company are of the view that the following companies were related parties that had transactions or balances with the Group during the six months ended 30 June 2019 and 2018:

Name of the related party	Relationship with the Group
Star Harvest Enterprise Limited	A related company wholly owned by Mr. Cui Qi
Concentric-Hong Kong River Joint Venture ("CHKRJV")	A joint operation
中國土木工程(澳門)有限公司—香港瑞沃工程有限公司 合作經營 ("MCRJV")	A joint operation
香港瑞沃(澳門)工程有限公司—中基基礎工程有限公司 合作經營 ("MCJO")	A joint operation
Shenzhen Changsheng Marine Engineering Limited ("Shenzhen Changsheng")	A related company with 91% equity interest owned by Mr. Cui Qi

(b) Transactions

Save as disclosed elsewhere in the interim condensed consolidated financial information, the following transaction was carried out with related parties at terms mutually agreed by both parties:

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Continuing transaction		
Paid to a related party:		
Rental expenses to Shenzhen Changsheng (<i>note</i>)	<u>5,716</u>	<u>4,803</u>

Note: Rental expenses in relation to leasing of vessels are charged at terms pursuant to the agreement as entered into between the Group and the respective related party.

(c) Transactions with key management personnel

Key management includes directors (executive and non-executive). The compensation paid or payable to key management for employee services is shown below:

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Salaries, bonus and other allowances and benefits in kind	2,302	3,439
Pension costs — defined contribution plans	<u>14</u>	<u>53</u>
	<u>2,316</u>	<u>3,492</u>

(d) Balances

	Unaudited	Audited	
	30 June	31 December	
	2019	2018	Nature
	HK\$'000	HK\$'000	
Amount due to a related party:			
— Shenzhen Changsheng	<u>8,812</u>	<u>6,507</u>	Trade

MANAGEMENT DISCUSSION AND ANALYSIS

The board (the “**Board**”) of directors (the “**Directors**”) of Prosper Construction Holdings Limited (the “**Company**”) presents the unaudited consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2019 (the “**Period**”), together with the comparative figures for the corresponding period in 2018 (the “**Previous Period**”). These information should be read in conjunction with the annual report of the Company for the year ended 31 December 2018.

Business Review

A breakdown of the Group’s revenue by geographic location and major projects for the Period is set out in the table below.

	Revenue recognised for the Period <i>HK\$ million</i>	Contribution to total revenue	Current status
Macao			
Engineering, procurement and construction (“ EPC ”) contract for an electricity generation facility	23.6	13.8%	Ongoing and expecting completion in year 2022
Land reclamation	37.7	21.9%	Ongoing and expecting completion in year 2021
	<u> </u>	<u> </u>	
Pakistan			
Leasing of vessels and equipment and provision of auxiliary marine related services	25.1	14.6%	Completed
Leasing of vessels and equipment for transhipment	31.4	18.3%	Ongoing and expecting completion in year 2019
	<u> </u>	<u> </u>	

The four key projects listed above together contributed to approximately 68.6% of the Group’s revenue for the Period, while the remaining revenue was generated by various smaller marine construction projects in Hong Kong and leasing of vessels and equipment in Hong Kong, Vietnam and the Philippines.

The marine construction market in Hong Kong remained sluggish as public sector projects are being held up as a result of interruption of legislation council proceedings since last year. However, the Group was able to secure a relatively sizeable land reclamation project in Macao during the Period, the site work of which is expected to commence in the latter part of year 2019. Meanwhile, the Group is actively exploring business opportunities in the Southeast Asia region with a view to broaden its revenue base and counteract the impact of uncertainties in the Hong Kong market.

Outlook and Prospects

The status of the Group's key projects on hand as at 30 June 2019 is as below.

	Location	Estimated remaining contract value <i>HK\$ million</i>	Expected time of completion
Project(s) that have already commenced as at 30 June 2019			
EPC contract for an electricity generation facility	Macao	552.6	Q2/2022
Land reclamation	Macao	692.3	Q1/2021
Leasing of vessels and engineering for transshipment	Pakistan	21.7	Q4/2019

The Directors have been reviewing the Group's existing business and seeking opportunities that could diversify the Group's business coverage and broaden its source of income in order to maximize the return to the Company and its shareholders in the long run. During the Period, the Company entered into a non-legally binding memorandum of understanding on the possible acquisition of a target company in the People's Republic of China which is principally engaged in building construction, design and decoration construction, foundation construction, earthwork and landscaping construction. Due diligence review on the target company is currently underway and if the acquisition should proceed, it would allow the Group to tap into the construction market in the People's Republic of China and provide an additional source of income to the Group.

Financial Review

Revenue

The Group recorded revenue of HK\$171.8 million for the Period, representing a decline of approximately 33.3% from the Previous Period which is mainly attributable to (i) the decrease in revenue from leasing of vessels and equipment as the lease period of a key leasing project in Pakistan came to an end during the Period; and (ii) the slow down in the progress of the EPC project for an electricity generation facility in Macao as a result of certain change in the construction design by the project owner. A breakdown of the Group's revenue from major projects and by geographic location is set out in the section headed "Business Review" above and in note 5 of the interim condensed consolidated financial information.

Cost of sales and gross profit

Cost of sales for the Period decreased by 27.6% to HK\$154.5 million, which coincided with the reduction in revenue from both marine engineering works and leasing of vessels during the Period. However, the percentage decrease in cost of sales is less than the decrease in revenue as addition overhead costs were incurred in relation to the delay of the EPC project in Macao.

As a result, the gross profit margin of the Group declined to 10.1% for the Period, as compared to 17.2% for the Previous Period, while the gross profit for the Period decreased by HK\$27.1 million or approximately 61.0% to HK\$17.3 million.

Other administrative expenses

Other administrative expenses for the Period was approximately HK\$10.2 million and comparable to the Previous Period.

Income tax expense

The Group incurred relative low level of income tax expenses for the Period and Previous Period as majority of the Group's revenue was sourced from overseas locations where the applicable tax jurisdiction provided for favourable tax treatment or the Group's customer as lessee had agreed to take up the tax liability for the lessor. Furthermore, the Group concluded a tax treatment review during the Period with the relevant tax authority and successfully recovered HK\$5.5 million of income tax charged in respect of previous financial years.

Profit for the Period

As a results of all aforesaid factors, the Group's profit for the Period declined to HK\$7.0 million, which is a decrease of 77.2% from HK\$30.7 million for the Previous Period.

Plant and equipment

As at 30 June 2019, the Group owned a total of 45 units of construction vessels and 67 units of machinery and equipment. The Group did not carry out material acquisition or disposal of plant and equipment during the Period.

Trade and retention receivables

The Group's trade and retention receivables increased by approximately HK\$10.1 million to HK\$359.1 million as at 30 June 2019, which mainly comprised of receivables for works on projects already completed and pending settlement of final account. There is presently no indication of possible default on any of the Group's receivable balances.

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 reporting period, the majority of which was related to three previously projects in Hong Kong which were pending the finalisation of project account. According to the respective project work contract, where consensus cannot be reached between the employer and the subcontractor on interim certification of works performed, such discrepancy would be subject to assessment during the finalisation of project account, which is due to commence only when the main contract for the project as a whole (of which the Group's marine work contract forms part) is completed. Based on the preliminary assessment by the Group's project legal consultant, the Group would be able to recover not less than the carrying value of the amounts due from contract customers for the aforesaid three completed projects. The increase in contract assets during the Period was mainly attributable to the preliminary costs incurred on a recently awarded land reclamation project in Macao.

Contract liabilities represent amounts due to contract customers for payment received in excess of revenue recognisable by the Group according to the progress achieved on the contract works.

Liquidity, financial resources and capital structure

The Group maintained a healthy liquidity position with net current asset balance and net cash position of approximately HK\$294.6 million (31 December 2018: HK\$286.2 million) and HK\$92.1 million (31 December 2018: net debt position of approximately HK\$3.5 million) respectively as at 30 June 2019. The Group's gearing ratio (calculated by dividing total debts by total equity) as at 30 June 2019 was 22.0% (31 December 2018: 28.0%). The maturity profile of the Group's borrowings are set out in note 14 to the interim condensed consolidated financial information.

Foreign exchange

Operations of the Group are mainly conducted in Hong Kong dollars ("HK\$"), United States dollars ("US\$"), Macao Patacas ("MOP") (together, the "Major Currencies"), and Pakistani Rupee ("PKR"). 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 are received in PKR 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.

Employees and Remuneration Policies

The Group had 91 staff as at 30 June 2019 (31 December 2018: 93) and 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 Period was approximately HK\$28.8 million (Previous Period: HK\$30.7 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 by salary revision, bonus and promotion as suited. The Group maintains a good relationship with its employees and has not experienced any significant problems with its employees due to labour disputes nor has it experienced any difficulty in the recruitment and retention of experienced staff.

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 Period, the Group invested approximately HK\$4.6 million in the acquisition of plant and equipment, which comprised approximately HK\$4.3 million in vessels, approximately HK\$0.3 million in machinery and equipment.

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 Period.

Significant Investments Held

The Group had not held any significant investments during the Period.

Charges on Assets

As at 30 June 2019, plant and equipment with carrying value of (i) approximately HK\$12.2 million (31 December 2018: HK\$17.5 million) were pledged to secure for the Group's bank borrowings and (ii) approximately HK\$20.9 million (31 December 2018: HK\$21.9 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 30 June 2019, 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\$21.1 million (31 December 2018: HK\$21.1 million). Save for the guarantee given on these performance bonds, the Group has no material contingent liabilities.

Share Option Scheme

The Company adopted a share option scheme on 22 June 2016 to enable the Company to grant options to eligible participants as incentives and rewards for their contribution to the Group. No options have been granted, exercised or cancelled since then and up to 30 June 2019.

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 Period.

Corporate Governance Practices

The Company has adopted the code provisions of the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) and has complied with the code provisions throughout the Period.

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 have complied with the Model Code during the Period and up to the date of this announcement.

Sufficiency of Public Float

As disclosed in the Company's annual report for the year ended 31 December 2018, the Company did not satisfy the minimum public float requirement as set out under Rule 8.08(1)(a) of the Listing Rules and trading in the shares of the Company on the Stock Exchange had been suspended since 4 October 2018. The Company's controlling shareholder completed a further placing of 76,735,000 shares of the Company to third party placees who are independent of and not core connected persons (as defined under the Listing Rules) of the Company on 28 May 2019, upon which the public float of the issued share capital of the Company had been restored to the minimum of 25% as required under Rule 8.08(1)(a) of the Listing Rules.

Details of the public float of the Company were set out in the announcement of the Company dated 3 June 2019. Trading in the shares of the Company on the Stock Exchange has resumed with effect from 4 June 2019.

Dividend

The Board takes into account, among other factors, the Group's overall results of operation, financial position and capital requirements in considering the declaration of dividends. The Board does not recommend the payment of a dividend for the Period.

Events After End of the Period

No significant event has occurred subsequent to 30 June 2019 which would have material effect on the Group.

Audit Committee

The audit committee, comprising Mr. Cheung Chi Man Dennis (chairman of the audit committee), Mr. Wang Yaping and Mr. Cheng Xuezhao, each an independent non-executive Director, has reviewed the accounting standards and policies adopted by the Group and the unaudited interim condensed consolidated financial information of the Group for the Period.

By order of the Board
Prosper Construction Holdings Limited
Jiang Shuang
Executive Director

Hong Kong, 26 August 2019

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