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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 2022

FINANCIAL HIGHLIGHTS

	Year ended 31 December		% change
	2022	2021	
	<i>HK\$'million</i>	<i>HK\$'million</i>	
Revenue	2,879.2	3,185.8	-9.6%
Gross profit	220.6	205.1	+7.6%
Gross margin	7.7%	6.4%	
Profit for the year	10.5	16.8	-37.5%
(Loss)/profit attributable to:			
Equity holders of the Company	(12.2)	2.6	
Non-controlling interests	22.7	14.2	
(Loss)/earnings per share attributable to owners (<i>HK cents</i>)	(1.52)	0.32	

	As at 31 December		% change
	2022	2021	
	<i>HK\$'million</i>	<i>HK\$'million</i>	
Total assets	4,894.0	4,436.9	+10.1%
Total equity	624.3	643.4	-3.0%
Equity per share (<i>HK\$</i>)	0.78	0.80	

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 2022 (the “Year 2022”) together with comparative figures for the year ended 31 December 2021 (the “Year 2021” or “Previous Year”) as set out below.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2022

	<i>Note</i>	2022 <i>HK\$’000</i>	2021 <i>HK\$’000</i>
Revenue	3	2,879,211	3,185,839
Cost of sales		<u>(2,658,592)</u>	<u>(2,980,749)</u>
Gross profit		220,619	205,090
Other gains, net		13,207	1,960
Provision for impairment losses on financial assets		(11,261)	(29,144)
Research and development expenses		(17,934)	(11,310)
Other administrative expenses		<u>(129,630)</u>	<u>(95,698)</u>
Operating profit		<u>75,001</u>	<u>70,898</u>
Finance income		3,487	886
Finance costs		<u>(58,734)</u>	<u>(40,589)</u>
Finance costs, net		<u>(55,247)</u>	<u>(39,703)</u>
Profit before income tax		19,754	31,195
Income tax expenses	4	<u>(9,216)</u>	<u>(14,433)</u>
Profit for the year		<u>10,538</u>	<u>16,762</u>
(Loss)/profit attributable to:			
Equity holders of the Company		(12,186)	2,581
Non-controlling interests		<u>22,724</u>	<u>14,181</u>
		<u>10,538</u>	<u>16,762</u>
(Loss)/earnings per share for profit attributable to the equity holders of the Company:			
Basic and diluted (loss)/earnings per share (HK cents)	5	<u>(1.52)</u>	<u>0.32</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Profit for the year	10,538	16,762
Other comprehensive (loss)/income <i>Item that will not be subsequently reclassified to profit or loss</i>		
Currency translation differences	(6,176)	–
<i>Item that may be subsequently reclassified to profit or loss</i>		
Currency translation differences	<u>(23,444)</u>	<u>6,111</u>
Other comprehensive (loss)/income for the year, net of tax	<u>(29,620)</u>	<u>6,111</u>
Total comprehensive (loss)/income for the year	<u>(19,082)</u>	<u>22,873</u>
Total comprehensive (loss)/income attributable to:		
Equity holders of the Company	(35,630)	7,828
Non-controlling interests	<u>16,548</u>	<u>15,045</u>
	<u>(19,082)</u>	<u>22,873</u>

CONSOLIDATED BALANCE SHEET

As at 31 December 2022

	<i>Note</i>	2022 HK\$'000	2021 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment		331,348	338,007
Investment properties		15,561	9,325
Right-of-use assets		68,078	66,971
Goodwill		39,990	43,310
Intangible assets		18,715	23,800
Deposits and prepayments		25,473	21,879
Deferred income tax assets		7,845	–
		507,010	503,292
Current assets			
Inventories		13,259	51,066
Trade, retention and notes receivables	7	860,176	555,893
Amounts due from fellow subsidiaries	7	1,056,869	1,439,642
Deposits, prepayments and other receivables		261,065	169,670
Contract assets	8	1,629,966	1,326,736
Time deposits with maturity over 3 months		204	22,294
Pledged bank deposits		236,978	71,717
Restricted cash		4,008	4,799
Cash and cash equivalents		324,459	291,838
		4,386,984	3,933,655
Total assets		4,893,994	4,436,947
EQUITY			
Capital and reserves			
Share capital	10	8,000	8,000
Reserves		499,792	535,422
		507,792	543,422
Non-controlling interests		116,525	99,977
Total equity		624,317	643,399

	<i>Note</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
LIABILITIES			
Non-current liabilities			
Borrowings		209,395	476,943
Loan from an intermediate holding company		130,000	100,000
Lease liabilities		3,348	912
Deferred income tax liabilities		9,435	9,886
		<u>352,178</u>	<u>587,741</u>
Current liabilities			
Trade, retention and notes payables	9	2,599,104	2,090,501
Accruals and other payables	9	294,219	217,980
Contract liabilities	8	7,646	22,838
Amounts due to fellow subsidiaries		35,536	64,435
Amount due to a related company		909	9
Loan from an intermediate holding company		15,852	–
Amount due to other partner of joint operation		–	67
Amounts due to non-controlling interests		47,163	42,721
Borrowings		883,171	731,572
Lease liabilities		2,088	3,849
Income tax payable		31,811	31,835
		<u>3,917,499</u>	<u>3,205,807</u>
Total liabilities		<u>4,269,677</u>	<u>3,793,548</u>
Total equity and liabilities		<u>4,893,994</u>	<u>4,436,947</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 provide marine construction services, auxiliary marine related services and general construction contracting services. The Company's shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by Hong Kong Institute of Certified Public Accountant ("HKICPA") and disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The accounting policies and methods of computation used in the preparation of the consolidated financial statements for the year ended 31 December 2022 are consistent with those used in the preparation of the Group's consolidated financial statements for the year ended 31 December 2021, except as described below.

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

The Group has adopted the following new standards, improvements, interpretation and amendments to standards which are relevant to the Group's operations and are mandatory for the financial year beginning on 1 January 2022:

Amendments to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKAS 37	Onerous Contracts – Costs of Fulfilling a Contract
Amendments to Accounting Guideline 5	Merger Accounting for Common Control Combinations
Annual Improvements to HKFRSs 2018- 2020 Cycle	Amendments to HKFRS 1, HKFRS 9, HKFRS 16 and HKAS 41

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, revised framework and amendments to standards that have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2023 or later periods, but have not been early adopted by the Group:

Amendments to HKAS1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ⁽¹⁾
Amendments to HKAS 8	Definition of Accounting Estimates ⁽¹⁾
Amendments to HKAS 12	Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction ⁽¹⁾
HKFRS 17 and Amendments to HKFRS 17	Insurance Contracts ⁽¹⁾
Amendments to HKAS 1	Classification of Liabilities as Current or Non-Current ⁽²⁾
Amendments to HKAS 1	Non-current Liabilities with Covenants ⁽²⁾
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback ⁽²⁾
Amendments to Hong Kong Interpretation 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ⁽²⁾
Amendments to HKFRS 10 and HKAS 28	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture ⁽³⁾

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

⁽²⁾ Effective for the accounting period beginning on 1 January 2024

⁽³⁾ Effective date to be determined

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

3 REVENUE

	2022	2021
	HK\$'000	HK\$'000
Rendering of services, recognised over time		
– Marine construction works	425,353	403,329
– Provision of auxiliary marine related services	34,190	105,772
– Provision of general construction contracting services	2,419,668	2,676,738
	2,879,211	3,185,839

4 INCOME TAX EXPENSES

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

	2022	2021
	HK\$'000	HK\$'000
Hong Kong profits tax		
Current income tax	19	86
People's Republic of China ("PRC") corporate income tax		
Current income tax	16,308	20,461
Indonesia income tax		
Withholding income tax	264	323
Macao complementary income tax		
Over provision in prior years	–	(2,171)
Current income tax	957	1,292
Deferred income tax	(8,332)	(5,558)
Income tax expenses	9,216	14,433

- (a) Hong Kong profits tax has been provided at the rate of 16.5% (2021: 16.5%) on the estimated assessable profit for the year.

- (b) Subsidiaries in the PRC are subject to corporate income tax (“CIT”) in accordance with the PRC CIT Law. According to the PRC CIT Law and the relevant regulations, the CIT tax rate applicable is 25% 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 2022, income tax has been provided at the rate of 3% (2021: none) of the construction revenue and 20% (2021: 20%) of the interest income from bank deposits.
- (d) Macao complementary income tax has been provided at the rate of 12% (2021: 12%) on the estimated assessable profit for the year.

5 (LOSS)/EARNINGS PER SHARE

(a) Basic

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

	2022	2021
(Loss)/profit attributable to equity holders of the Company (HK\$'000)	(12,186)	2,581
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share (in thousands)	800,000	800,000
Basic (loss)/earnings per share (HK cents)	<u>(1.52)</u>	<u>0.32</u>

(b) Diluted

Diluted (loss)/earnings per share is the same as the basic (loss)/earnings per share as there were no potential dilutive ordinary shares during the year (2021: same).

6 DIVIDENDS

There is no final dividend proposed to shareholders of the Company for the year ended 31 December 2022 (2021: Nil).

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade receivables	760,637	436,221
Less: Loss allowance	(30,272)	(19,723)
Trade receivables — net	730,365	416,498
Retention receivables	118,210	139,516
Less: Loss allowance	(8,122)	(8,351)
Retention receivables — net	110,088	131,165
Note receivables	19,980	8,355
Less: Loss allowance	(257)	(125)
Note receivables — net	19,723	8,230
Trade, retention and notes receivables, net	860,176	555,893
	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Amounts due from fellow subsidiaries – trade balances	1,057,612	1,442,672
Less: Loss allowance	(743)	(3,030)
Amounts due from fellow subsidiaries, net	1,056,869	1,439,642

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:

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 year	505,537	195,910
1 to 2 years	101,161	136,668
Over 2 years	123,667	83,920
	<u>730,365</u>	<u>416,498</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:

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 year	25,504	12,215
Between 1 and 5 years	64,814	91,221
Over 5 years	19,770	27,729
	<u>110,088</u>	<u>131,165</u>

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

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 year	19,723	8,230

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

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 year	840,870	1,439,642
1 to 2 years	215,999	–
	<u>1,056,869</u>	<u>1,439,642</u>

8 CONTRACT ASSETS AND CONTRACT LIABILITIES

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Contract assets		
Provision of construction services – third parties	892,694	957,907
Provision of construction services – fellow subsidiaries	758,221	391,114
Less: Loss allowance	<u>(20,949)</u>	<u>(22,285)</u>
	<u>1,629,966</u>	<u>1,326,736</u>
Contract liabilities		
Provision of construction services	<u>(7,646)</u>	<u>(22,838)</u>

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade payables	2,280,459	2,054,251
Notes payables	310,090	30,657
Retention payables	8,555	5,593
Accruals and other payables	<u>294,219</u>	<u>217,980</u>
	<u>2,893,323</u>	<u>2,308,481</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:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Within 1 year	1,980,958	1,891,692
Over 1 year	<u>299,501</u>	<u>162,559</u>
	<u>2,280,459</u>	<u>2,054,251</u>

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Within 1 year	<u>310,090</u>	<u>30,657</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:

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 year	3,162	1,818
Between 1 year and 2 years	1,619	3,465
Between 2 years and 5 years	3,774	310
	<u>8,555</u>	<u>5,593</u>

10 SHARE CAPITAL

	Number of shares	Share capital
		<i>HK\$'000</i>
Ordinary shares, authorised:		
At 31 December 2020, 2021 and 2022	4,000,000,000	40,000
	<u>4,000,000,000</u>	<u>40,000</u>
Ordinary shares, issued and fully paid:		
At 31 December 2020, 2021 and 2022	800,000,000	8,000
	<u>800,000,000</u>	<u>8,000</u>

11 CONTINGENT LIABILITIES AND DISPUTES

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

As at 31 December 2022, 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\$52.9 million (2021: HK\$51.9 million). The performance bonds as at 31 December 2022 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 (2021: 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 2022 (2021: same).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group's General Construction Business was adversely affected by movement control administered in the PRC during first half of the Year 2022, which caused interruption of current projects and delay in launch of new projects. Business and operation picked up in the second half of the year but revenue from this business segment for the Year 2022 overall recorded a decline from the Previous Year.

The Group's Marine Business was mainly driven by projects in Hong Kong, as overseas projects had substantially been completed prior to the Year 2022 and negotiations for new projects had been restricted during the past two years due to COVID outbreak. The Group's existing land reclamation project and trestle bridge project in Macao progressed to the final stage during Year 2022. Meanwhile 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 still pending for administrative clearance from project owner. Furthermore, given the relatively long lead time in completion of projects Macao, profitability were hampered by rising material prices and additional overhead costs.

A summary of the Group's revenue by geographic locations and major projects for the Year 2022 is set out below.

	Revenue recognised in Year 2022	Contribution to total revenue
	<i>HK\$'million</i>	
Marine construction works and auxiliary marine related services (collectively, the “Marine Business”)		
Hong Kong		
Rock placement for underwater pipeline	206.1	7.1%
Sheet pile cofferdam	26.4	0.9%
Others	49.9	1.7%
Macao		
Reclamation project	97.8	3.4%
Trestle bridge and dredging	35.7	1.2%
Others	30.5	1.4%
Other locations		
Marine construction works	7.8	0.3%
Auxiliary marine services	5.7	0.2%
General construction contracting services (the “General Construction Business”)		
Qingdao		
Technology personnel residential project	189.8	6.6%
Science and technology innovation centre project	156.1	5.4%
Arts and crafts college	221.1	7.7%
Residential development (zone B)	140.8	4.9%
Residential development	127.5	4.4%
Other smaller general construction projects	1,584.0	54.8%
Total	<u>2,879.2</u>	<u>100.0%</u>

As noted above, revenue from General Construction Business contributed approximately HK\$2,419.3 million or 84.0% of the Group’s revenue for the Year 2022.

Outlook and Prospects

After more than 2 years of restricted business activities since the COVID-19 outbreak, negotiation and planning for a number of projects which were previously halted has gradually resumed. The Group has recently been awarded an auxiliary marine related service project in the Philippines with an estimated contract sum of over HK\$400 million and our management team is closely monitoring the development of potential marine construction projects under planning by our target customers along the belt-and-road region where it has commendable business record, such as Pakistan and Indonesia.

As part of the governmental initiative for urban development of the Qingdao West Coast New Area, the Group expects a large number of projects to be launched in the foreseeable future. Our management team is currently in negotiation with central government controlled property development operators on potential construction projects and the Group's participation in construction projects related to the Company's controlling shareholder, the Haifa Group, will continue to rise. The Group is also assessing means to strengthen cooperation with architectural and design institutes with a view to enhance our competitiveness of our General Construction Business in bidding for both public and private sector projects.

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

Project(s) that have already commenced as at 31 December 2022	Estimated remaining contract value
Qingdao	
Industrial facility	RMB56 million
Commercial building	RMB53 million
Residential development	RMB158 million
Residential development	RMB117 million
Residential development	RMB82 million
Hong Kong	
Structural steel works for ecommerce centre	HK\$43.6 million
Project(s) commencing or newly awarded after 31 December 2022	Estimated remaining contract value
Philippines	
Provision of auxiliary marine related services	US\$55 million
Hong Kong	
Pier construction at outlying island	HK\$79.1 million

Financial Review

Revenue

The Group recorded revenue of HK\$2,879.2 million for the Year 2022, representing a decrease of approximately 9.6% from the year ended 31 December 2021 (“Year 2021” or “Previous Year”) as a combined result of (i) a decrease in revenue from General Construction Business by approximately HK\$257.1 million, mainly from projects in the PRC; (ii) a decrease in revenue from auxiliary marine related services by approximately HK\$71.6 million; (iii) an increase in revenue from Marine Construction Works approximately HK\$22.0 million. The drop in revenue from the General Construction Business segment was mainly attributable to travelling restrictions administered in the PRC during first half of the Year 2022 which caused interruption of current projects and delay in launch of new projects. Majority of revenue from the Marine Business for the Year 2022 was generated from marine construction projects in Hong Kong, which compensated for the drop in revenue from overseas projects, particularly from auxiliary marine related services, as negotiations for overseas projects had been restricted during the past two years due to COVID outbreak. A breakdown of the Group’s revenue from major projects and by geographic location is set out in the section headed “Business Review” above.

Cost of sales and gross profit

Cost of sales for the Year 2022 decreased by 10.8% to HK\$2,658.6 million, which is generally consistent with the drop in revenue. Gross profit margin in Year 2022 improved to 7.7%, as compared to 6.4% for Year 2021, which led to a rise in gross profit by 7.6% to HK\$220.6 million for Year 2022 despite the drop in revenue. Profit margin of the General Construction Business segment improved to 8.5% for Year 2022 (Year 2021: 6.1%), while on the other hand profit margin of the Marine Business segment decreased to 5.3% for Year 2022 (Year 2021: 8.4%). The rise in profit margin in General Construction business was attributable to new construction solution service introduced during the Year and successful negotiation of settlement compensation for a number of projects. The decline in profit margin in the Marine Business segment was mainly due to additional costs incurred on projects in Macao as a result of rise in material prices.

Provision for impairment losses on financial assets

The Group adopted a systematic approach in assessing the overall risk of default on its financial assets, which resulted in an additional provision of HK\$11.3 million made against the Group’s receivables and contract assets balances as at 31 December 2022.

Research and development expenses

Research and development expenses increased by HK\$6.6 million to HK\$17.9 million for the Year 2022 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, professional fees and bad debts written off. Other administrative expenses increased by HK\$33.9 million to HK\$129.6 million for the Year 2022 mainly as a result of increase in headcount and associated staff cost by HK\$17.6 million and rise in professional fees by HK\$8.0 million in relation to compliance and licensing matters.

Income tax expenses

Income tax expenses for the Year 2022 mainly comprised profits tax provision for operation in the PRC and provision of deferred tax credits 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 Year 2022 was hampered by rise in research and development expenses and other administrative expenses as mentioned above. Consequently, the Group's operating profit for Year 2022 grew by approximately HK\$4.1 million or 5.8% only.

Furthermore, interest rate was consistently on the rise in both the Hong Kong and the PRC capital market during the Year 2022, which led to an increase in net finance costs by HK\$15.5 million.

Overall, the Group recorded a profit before tax of HK\$19.8 million for Year 2022, as compared to HK\$31.2 million for Year 2021. As majority of the Group's profit was generated from its General Construction Business segment in the PRC through certain non-wholly owned subsidiaries, a portion of such profit is attributable to such non-controlling interest; consequently, the results attributable to equity holders of the Company recorded a loss of approximately HK\$12.2 million for the Year 2022, as compared to a profit of HK\$2.6 million for the Previous Year.

Property, plant and equipment

As at 31 December 2022, the Group owned a total of 44 units of marine vessels and 190 units of machinery and equipment and an office building in Qingdao, PRC.

The additions to property, plant and equipment during the Year 2022 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\$304.3 million to HK\$860.2 million as at 31 December 2022, of which approximately HK\$250.6 million pertained to the Marine Business segment while approximately HK\$609.6 million pertained to the General Construction Business segment.

The Group's amounts due from fellow subsidiaries decreased by approximately HK\$382.8 million to HK\$1,056.9 million as at 31 December 2022 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 2022 for the Marine Business and General Construction Business was approximately HK\$233.2 million and HK\$1,396.8 million respectively. Majority of the contract assets in the Marine Business was related to three completed projects in Hong Kong which were pending the finalisation of project account. The Group has commenced dispute resolution procedures for the aforesaid three completed projects and based on preliminary assessment by the Group's project legal consultant, the Group is expected to be able to recover not less than the carrying value of the contract assets as at 31 December 2022 for these projects.

Contract liabilities as at 31 December 2022 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 2022 was approximately HK\$469.5 million (31 December 2021: HK\$727.8 million) and HK\$672.8 million (31 December 2021: HK\$917.9 million) respectively. The Group's gearing ratio (calculated by dividing total debts by total equity) as at 31 December 2022 was 198.4% and remained relatively stable as compared to the Previous Year (31 December 2021: 203.4%). The Group did not have any unutilised banking facilities as at 31 December 2022 (31 December 2021: Nil).

- (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:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Within 1 year	883,171	731,572
Between 1 and 2 years	182,865	140,104
Between 2 and 5 years	26,530	336,839
	1,092,566	1,208,515

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

	2022	2021
Short-term bank loans	3.9%	3.6%
Long-term bank loans	5.1%	5.0%

Foreign Exchange

Operations of the Group was mainly conducted in Chinese Renminbi (“RMB”), Hong Kong dollars (“HK\$”), Macao Patacas (“MOP”), United States dollars (“US\$”) (together, the “Major Currencies”), Malaysian Ringgit (“MYR”) and Indonesian Rupiahs (“IDR”). The Group did not adopt any hedging policy and the Directors consider that the exposure to foreign exchange risks can be mitigated by using the Major Currencies (i) as principal currencies in the Group’s contracts with customers; and (ii) to settle payments with its suppliers and operating expenses where possible. In the event that settlement from the Group’s customer is received in MYR, IDR or a currency other than the Major Currencies, such currency will be retained for payment of operating expenditures only as required and the remaining foreign currency will be converted to HK\$ or US\$ promptly.

Capital Expenditures

The Group generally finances its capital expenditures by cash flows generated from its operation and long-term bank borrowings. During the Year 2022, the Group invested approximately HK\$12.5 million in overhaul and modification of vessels and approximately HK\$26.7 million in construction of building properties, among others.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

Other than the above, the Group had no material acquisitions or disposals of subsidiaries, associates and joint ventures during the Year 2022.

Significant Investments Held

The Group had not held any significant investments during the Year 2022.

Charges on Assets

As at 31 December 2022, deposits of HK\$42.1 million (2021: HK\$71.7 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 2022 and 2021 are as follows:

	As at 31 December	
	2022	2021
Management and administration	161	104
Accounting and finance	26	26
Human resources	7	9
Project management	97	147
Project execution	347	345
	<u>638</u>	<u>631</u>

The total staff costs of the Group (including Directors' emoluments, salaries to staff, direct wages and other staff benefits included provident fund contributions and other staff benefits) for the Year 2022 was approximately HK\$186.5 million (2021: HK\$154.8 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 2022.

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 2022.

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 2022 and up to the date of this announcement which would have a material effect on the Group.

Corporate Governance Practices

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

The Company has adopted the code provisions of the Corporate Governance Code (“CG Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) (“Listing Rules”) and has complied with the code provisions throughout the Year 2022.

Directors’ Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the “Model Code”) and all the Directors confirmed, upon specific enquiry made, that they complied with the Model Code throughout the Year 2022.

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 2022.

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 2022.

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 2022.

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 2022 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 2022.

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

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 21 June 2023 to Tuesday, 27 June 2023, both days inclusive, during which period no transfer of Shares will be effected. In order to qualify to attend and vote at the annual general meeting, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Tuesday, 20 June 2023.

REVIEW OF ANNUAL RESULTS

The audit committee of the Company (the "Audit Committee") comprises the three 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 2022.

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 2022 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers ("PwC"), to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PwC in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by PwC on the preliminary announcement.

PUBLICATION OF THE ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange and the Company, and the annual report of the Company for the Year 2022 containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company by end of April 2023.

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

Hong Kong, 29 March 2023

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