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

ANNUAL REPORT 2023






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Corporate Information

Executive Directors

Mr. Jiang Hongchang
(Chairman and Chief Executive Officer)
Mr. Liu Yutao *(Chief Operating Officer)*
Mr. Yang Honghai
Mr. Ni Chuchen
Mr. Du Jianzhi

Independent Non-executive Directors

Mr. Cheung Chi Man Dennis
Mr. Wang Yaping
Mr. Cheng Xuezhan
Ms. Chen Yan

Audit Committee

Mr. Cheung Chi Man Dennis *(Chairman)*
Mr. Wang Yaping
Mr. Cheng Xuezhan
Ms. Chen Yan

Nomination Committee

Mr. Jiang Hongchang *(Chairman)*
Mr. Yang Honghai
Mr. Ni Chuchen
Mr. Cheung Chi Man Dennis
Mr. Wang Yaping
Mr. Cheng Xuezhan
Ms. Chen Yan

Remuneration Committee

Mr. Wang Yaping *(Chairman)*
Mr. Cheung Chi Man Dennis
Mr. Cheng Xuezhan
Ms. Chen Yan
Mr. Jiang Hongchang
Mr. Yang Honghai
Mr. Ni Chuchen

Risk Management Committee

Mr. Jiang Hongchang *(Chairman)*
Mr. Yang Honghai
Mr. Du Jianzhi
Mr. Cheung Chi Man Dennis
Mr. Wang Yaping
Mr. Cheng Xuezhan
Ms. Chen Yan

Strategy and Investment Committee

Mr. Jiang Hongchang *(Chairman)*
Mr. Yang Honghai
Mr. Ni Chuchen
Mr. Cheung Chi Man Dennis
Mr. Wang Yaping
Mr. Cheng Xuezhan
Ms. Chen Yan

Company Secretary

Mr. Lee Baldwin

Authorised Representative in Hong Kong

Mr. Ni Chuchen

Registered Office

Cricket Square, Hutchins Drive
P. O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Head Office and Principal Place of Business in Hong Kong

Rooms 03-08, 24/F, Shui On Centre,
6-8 Harbour Road, Wanchai,
Hong Kong

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
17/F, Far East Finance Centre,
16 Harcourt Road,
Hong Kong

Principal Share Registrar and Transfer Office

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
P. O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Auditor

PricewaterhouseCoopers
Certified Public Accountants
Registered Public Interest Entity Auditor

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
Bank of Communications (Hong Kong) Limited

Stock code

6816

Company Website

www.prosperch.com

Chairman's Statement

On behalf of the board of directors ("Board") of Prosper Construction Holdings Limited ("Company"), I present the annual report of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2023 ("FY2023" or "Year").

The Group was faced with challenging operating conditions in both its marine construction business segment and general construction business segment during FY2023. Our marine construction business started off hopeful for FY2023 with a sizeable project in the Philippines, but the project was subsequently temporarily suspended from August 2023; we currently understand from project owner that administrative clearance for project resumption is imminent. Moreover, the outlook of the Group's business in Pakistan remained uncertain for the past few years and accordingly, the local operation setup is being discontinued, with only selected few vessels and equipment remained in the area for leasing, in order to minimise overhead costs. Overall, the Group's marine engineering business segment is experiencing a trough in its operation cycle as majority of projects were completed by the end of year 2022 and no key new projects have been launched in FY2023; meanwhile, the Group's fleet of vessels and equipment would require general and routine maintenance and up-keeping, which resulted in a relatively high level of equipment idling related expenditures. Based on the progress of the Group's projects on hand and new projects expected to be launched, we foresee improvement in business activity and reduction in equipment idling related costs in the marine construction business segment in year 2024.

The performance of our general construction business in FY2023 was affected by the unfavourable conditions of the general economic environment and real estate property sector. The Group has acted to curtail exposure to external risk factors by enhancing internal control on project management, receivable management, and project pricing etc. We also worked on expanding our customer base and geographic coverage to reduce reliance on projects from our controlling shareholder; thus far, the Group has already secured a few relatively sizeable projects in area outside Qingdao in the Shandong province, the Guangdong province and Hainan province.

To tackle the present uncertain macro-economic condition and operating environment in both business segments, the Group will incessantly monitor and adjust its business strategy as applicable, while simultaneously exert additional effort on recovery of receivables and contract assets.

On behalf of the Board, I would like to express our heart-felt gratitude to our business partners, shareholders and staff members for their confidence and unwavering support through the particularly harsh operating environment in the past few years. We are confident the Company can overcome the turbulence and steer into smooth sailing in the near future.

JIANG Hongchang
Chairman and Executive Director

28 March 2024

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 HK$'million	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%

	Revenue recognised in FY2023 HK$'million	Contribution to total revenue
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	2,125.9	100.0%

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 HK$'000	2022 HK$'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
	1,612,683	1,092,566

(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%

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 31 to the consolidated financial statements, 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$188.6 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 report which would have a material effect on the Group.

Corporate Governance Report

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 FY2023, except that the role of chairman of the Board and chief executive officer of the Group were not segregated since 28 June 2022 and have been taken up by the same person, Mr. Jiang Hongchang. 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 FY2023.

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 FY2023.

Board of Directors

The Board is responsible for leading and directing the Group's business through formulation of overall strategies and policies, evaluation of performance and overseeing the management function. In discharging its duties, the Board acts in good faith with due diligence and care, and makes decisions objectively in the best interests of the Company and its shareholders. The execution of strategies and implementation of policies in the Group's daily operations are delegated to the management team.

The composition of the Board during the FY2023 and the attendance record of each Director at board meetings and general meetings held during the FY2023 are set out below.

	Attendance/ Board meetings held	Attendance/ General meetings held
Executive Directors		
Mr. Jiang Hongchang *(Chairman and Chief Executive Officer)*	6/9	1/2
Mr. Liu Yutao *(Chief Operating Officer)*	5/9	1/2
Mr. Yang Zhenshan *(Retired on 27 June 2023)*	2/3	0/1
Mr. Yang Honghai	3/9	1/2
Mr. Ni Chuchen	9/9	1/2
Mr. Du Jianzhi *(Appointed on 27 June 2023)*	4/6	1/1
Non-executive Director		
Mr. Cui Qi *(Honorary President) (Resigned on 23 May 2023)*	2/3	0/0
Independent Non-executive Directors		
Mr. Cheung Chi Man Dennis	9/9	2/2
Mr. Wang Yaping	8/9	2/2
Mr. Cheng Xuezhan	9/9	2/2
Ms. Chen Yan *(Appointed on 20 December 2023)*	0/0	1/1

Biographic details of and the relationship amongst the Directors are presented in the "Directors and Senior Management" section of this annual report. Each of the executive Directors has entered into a service contract with the Company for an initial term of three years, while each of the non-executive and independent non-executive Directors has been appointed for an initial term of one year except Mr. Cheung Chi Man Dennis, who has been appointed for an initial term of two years. Notwithstanding the specific term of appointment, provisions of the Company's articles of associations require that every Director is subject to retirement by rotation at least once every three years and any new Director appointed by the Board to fill a casual vacancy or as an addition to the Board shall hold office only until the next following general meeting of the Company.

Each of the Directors has participated in continuous professional development seminar organised by the Company or studied the seminar materials to develop their knowledge and skills during the FY2023.

The Company has received from each of the independent non-executive Directors an annual confirmation of independence and considers that each of them to be independent by reference to the Rule 3.13 of the Listing Rules.

The composition of the Board provides sufficient balance of skills, experience and diversity of perspectives in leading the Company to achieve its goal and the independent non-executive Directors provide independent judgment in the Board's overall decision making process.

Board Committee

As an integral part of good corporate governance, the Board has established five committees for overseeing the performance of specific functions which are set out in written terms of reference for each committee. The summary of their work during the FY2023 is as follows:

— developed and reviewed the Company's policies and practices on corporate governance and make recommendations;

— reviewed and monitored the training and continuous professional development of Directors and senior management of the Group;

— reviewed and monitored the Company's policies and practices on compliance with legal and regulatory requirements;

— developed, reviewed and monitored the code of conduct and compliance manual applicable to employees of the Group and the Directors; and

— reviewed the Company's compliance with CG Code and disclosure in the corporate governance report.

The composition of each committee and attendance of members at committee meeting held during the FY2023 are as follow.

Composition of Board committees	Audit Committee	Remuneration Committee	Nomination Committee	Risk Management Committee	Strategy and Investment Committee
	Attendance/Number of meetings held (C=Chairman; M=Member of the committee)				
Independent Non-executive Directors					
Mr. Cheung Chi Man Dennis	3/3 (C)	2/2 (M)	2/2 (M)	1/1 (M)	0/0 (M)
Mr. Wang Yaping	3/3 (M)	2/2 (C)	2/2 (M)	1/1 (M)	0/0 (M)
Mr. Cheng Xuezhan	3/3 (M)	2/2 (M)	2/2 (M)	1/1 (M)	0/0 (M)
Ms. Chen Yan *(appointed to the committee on 20 December 2023)*	0/0 (M)	0/0 (M)	0/0 (M)	0/0 (M)	0/0 (M)
Executive Directors					
Mr. Jiang Hongchang	N/A	2/2 (M)	2/2 (C)	1/1 (C)	0/0 (C)
Mr. Yang Honghai	N/A	0/2 (M)	0/0 (M)	0/0 (M)	0/0 (M)
Mr. Ni Chuchen *(appointed to the committee on 27 June 2023)*	N/A	0/0 (M)	0/0 (M)	N/A	0/0 (M)
Mr. Du Jianzhi *(appointed to the committee on 27 June 2023)*	N/A	N/A	N/A	0/0 (M)	N/A
Non-executive Director					
Mr. Cui Qi *(ceased on 23 May 2023)*	N/A	N/A	N/A	1/1(M)	N/A

Audit committee

The audit committee is primarily responsible for the engagement of the auditor, review of financial information, overseeing the financial reporting system, risk management and internal control systems. Members of the audit committee also acted as members of an independent board committee and provided their advice to the Company's independent shareholders on how to vote on connected transaction and continuing connected transactions entered into during the FY2023. The audit committee has met with the Company's management to review its interim and final consolidated financial statements for the FY2023 and met the Company's auditor to discuss auditor's independence, audit approach, key audit matters, results of audit and review on continuing connected transactions for the FY2023. The audit committee has met with the chairman of the Board and the auditor, separately and without the presence of management, for discussion of matters which may be of sensitive nature. Further information on the Group's risk management and internal control is set out in the section headed "Risk Management and Internal Control" of this report.

Nomination committee

The nomination committee is responsible for reviewing the structure, size and composition of the Board, identifying suitably qualified individuals to become Board members, assessing the independence of independent non-executive Directors, making recommendations to the board on the appointment or reappointment of Directors and assessing the diversity of Directors. The Company has a policy on diversity of Directors to ensure that the Board has the appropriate mix of expertise and experience, and collectively possesses the necessary core competence for informed decision-making and effective functioning. In determining the Board's composition and selection of candidates to the Board, the nomination committee will consider factors including but not limited to gender, age, cultural and education background, or professional experience. It will also ensure that the Board shall comprise members with the following attributes in order to achieve a sufficient balance of knowledge and perspectives in discharging the Board's duties:

— management skills and experience;

— industry specific knowledge and experience relevant to the Group;

— financial management skills and experience; and

— legal and compliance expertise.

The Company does not discriminate on the basis of gender, age and other personal backgrounds in assessing the suitability of candidates for appointment to the Board. The Board also acknowledges stakeholders' expectation and international best practices calling for gender parity and accordingly, the nomination committee will give favourable consideration to gender minority in the selection of candidates amongst those who are equally competent and possess the desired attributes to enhance gender balance of the Board over time.

The procedures to nominate candidates for election as Directors are set out in the section headed "Shareholders' Rights and Investor Relations" below.

The nomination committee has reviewed the independence of independent non-executive Directors and considered the retirement and proposal for appointment of Directors at the Company's annual general meeting during the FY2023. The nomination committee also provided advice to the Board on determining policy to enhance gender diversity in the composition of the Board and employees in general and will review the effectiveness of gender diversity policy on an annual basis. The nomination committee is of the view that the Board comprises members with suitable qualifications and diversity for leading and governing the Group.

In relation to gender diversity, the nomination committee has identified a suitable and qualified female director candidate, who was appointed as independent non-executive Director during FY2023, which improved gender balance of the Board and fulfilled the requirement of the Listing Rules and will aim to attain greater gender balance in the coming few years. The nomination committee will also review gender composition of the Company's senior management and general staff, by reference to industrial and demographic statistics etc., on an annual basis and determine the appropriate procedures to take to enhance gender diversity in the workforce as required. The composition of the Group's workforce as at 31 December 2023 is as follows.

	Number of staff	Proportion
Male	541	82.0%
Female	119	18.0%

Remuneration committee

The responsibilities of the remuneration committee are to make recommendations to the Board on policy and structure for Directors' and senior management's remuneration, to make recommendations to the Board on the remuneration of executive and non-executive Directors, and to ensure that no Director is involved in deciding his own remuneration. During the FY2023, the remuneration committee has assessed the performance of the Directors, reviewed the remuneration of the Directors, considered the remuneration of the newly appointed Directors and made recommendations to the Board thereon.

Strategy and investment committee

The strategy and investment committee is responsible for reviewing and evaluating the Group's development plan and strategy, reviewing and making recommendation to the Board on key investment proposals, and evaluating the Group's risk exposure from investment projects as a whole. The Group did not have any investment or acquisition plan and the committee had not held any meeting during the FY2023.

Risk management committee

The primary duties of the risk management committee are to oversee the Group's risk management and internal control systems, to review risk reports and any material breaches of risk limits, and to review the effectiveness of the Group's risk management system. Further information on the Group's risk management and internal control is set out in the section headed "Risk Management and Internal Control" of this report.

Risk Management and Internal Control

The Board is responsible for evaluating and determining the nature and extent of the risks to take in achieving the Company's strategic objectives.

The risk management committee supports the Board in ensuring the effectiveness of the risk management and internal control of the Group and reports to the Board on any material issues identified. The risk management committee has commissioned a special review on the Company's procurement and expenditure function of its Marine Business on potential internal control deficiency. Results of the special review on internal control were reported back to the Board and appropriate remedial actions will be administered.

The Group adopted a manual of policies and procedures to provide guidance on compliance with internal control and risk management in various operational and management functions, including but not limited to project tendering, procurement, financial reporting, treasury and risk management etc.

The Company has not established a separate internal audit department; however, procedures are in place to provide adequate resources and qualified personnel to carry out the duties of the internal audit function, including annual review of the effectiveness of risk management and internal control. The Company has engaged an external independent consultant to conduct a review on the internal control system of the Group during the FY2023 and to report their findings to the risk management committee and the Board. The review scope for the FY2023 covered the risk assessment and management function, management accounting function, financial statements and reporting, and procurement and expenditure cycle.

Based on the review conducted, the Board considers that the Group's risk management and internal control systems are effective and adequate. However, the risk management and internal control systems of the Group are designed to manage rather than to eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

Auditor's Remuneration

The remuneration paid to the Company's auditor for the FY2023 is set out below.

	HK$'000
Audit services provided to the Group	2,464,000

Directors' and Auditor's Responsibilities for the Consolidated Financial Statements

The Directors acknowledge their responsibility for the preparation of consolidated financial statements which give a true and fair view of the financial position of the Group. The responsibilities of the Company's auditor on the consolidated financial statements of the Group are set out in the independent auditor's report on pages 36 to 44 of this annual report. The Directors are not aware of any material uncertainties relating to events of conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

Company Secretary

The Company's company secretary is Mr. Lee Baldwin, who is an external service provider and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Ni Chuchen, executive Director, is the Company's primary contact person with Mr. Lee.

The company secretary is responsible for coordinating the supply of information about the Group to the Directors. All Directors have access to the company secretary to ensure that Board procedures, and all applicable law, rules and regulations, are followed.

Shareholders' Rights and Investor Relations

One or more shareholders holding not less than 10% of the paid up capital of the Company may convene an extraordinary general meeting by making a requisition in writing, specifying any business for transaction at such meeting, to the Directors or the company secretary.

To propose a candidate for election as a Director at a general meeting, a shareholder should deposit a written proposal, together with a written notice by the candidate indicating his willingness to be elected, to the Company either at its principal place of business in Hong Kong (at Rooms 03-08, 24/F, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong) or its branch share registrar and transfer office in Hong Kong (Tricor Investor Services Limited, 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong) at least seven clear days before the date of the general meeting.

The Company believes that effective communication with its shareholders is essential for enhancing investors' understanding of the Group's business and performance. The Company maintains a corporate website at www.prosperch.com to disseminate latest information about the Group. The Company's constitution document and terms of reference of board committees are also available for download at Company's website. The chairman of the Board will attend, and endeavour to ensure the chairmen of various board committees to attend, general meetings to answer questions from shareholders.

Shareholders may send their enquiries and concerns in writing to the Board by addressing them to the Company at our principal place of business in Hong Kong at Rooms 03-08, 24/F, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong.

Change in Constitution Documents

During the FY2023, shareholders of the Company has, by special resolution passed at the Company's annual general meeting held on 27 June 2023, adopted a set of amended and restated memorandum and articles of association ("2023 M&A). The key changes incorporated in the 2023 M&A included amendments to conform to the core shareholder protection standards required under appendix A1 of the Listing Rules, and other housekeeping amendments.

Directors' Report

The Directors submit their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2023.

Principal Activities

The principal activity of the Company is investment holdings. The principal activities of the Group are the provision of marine construction services, auxiliary marine related services and general construction contracting services. The principal activities of the subsidiaries of the Company are set out in note 14 to the consolidated financial statements. The segment information of the operations of the Group for the year ended 31 December 2023 is set out in note 5 to the consolidated financial statements.

Business Review

A review on the Group's business for the year ended 31 December 2023 is set out under the section headed "Management Discussion and Analysis" of this annual report.

Results

The Group's results for the year ended 31 December 2023 are set out in the consolidated statement of profit or loss and the consolidated statement of comprehensive income on page 45 and 46 of this annual report, respectively.

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 expected operating results and conditions, gearing level, general financial condition, availability of cash, future plans and funding needs for expansion.

The Directors do not recommended the payment of a dividend for the year ended 31 December 2023.

As at the date of this annual report, the Board was not aware of any shareholders who had waived or agreed to waive any dividends.

Summary Financial Information

A summary of the results and of the assets and liabilities of the Group for the last five years is set out on page 143 of this annual report. Such summary does not form part of the audited consolidated financial statements.

Share Capital

Details of movement in the Company's share capital during the year ended 31 December 2023 are set out in note 26(a) to the consolidated financial statements.

Reserves

Details of movement in the Group's and the Company's reserves during the year ended 31 December 2023 are set out in note 26(b) and note 37(b) to the consolidated financial statements, respectively.

The Company's distributable reserves amounted to approximately HK$160.0 million as at 31 December 2023.

Share Option Scheme

The Company adopted a share option scheme (the "Share Option Scheme") on 22 June 2016 and no options have been granted, exercised or cancelled since then and up to the date of this annual report.

The purpose of the Share Option Scheme is to enable the Company to grant options to selected participants as incentives or rewards for their contribution to the Group. It is expected that grantees of an option will make an effort to contribute to the Group's development so as to bring about an increased market price of the Company's shares in order to capitalise on the benefits of the options granted. The Board may, at its absolute discretion, grant options pursuant to the Share Option Scheme to any directors or employees of the Company or its subsidiaries and any other persons (including customer, supplier, adviser or consultant of the Group) on the basis of the Board's opinion as to the grantee's contribution to the development and growth of the Group.

The total number of shares which may be allotted and issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of the Group) to be granted under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 80,000,000 shares (being 10% of the shares in issue on 20 July 2016 when the shares of the Company first commenced dealing on the Stock Exchange) (the "General Scheme Limit"). The Company may seek approval of the shareholders in a general meeting to refresh the General Scheme Limit provided that the total number of shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share options scheme of the Group must not exceed 10% of the shares in issue as at the date of approval of the refreshed limit.

The maximum number of shares which may be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme adopted by the Group must not in aggregate exceed 30% of the issued share capital of the Company from time to time.

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being.

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option and may be exercised at any time during a period to be determined and notified by the Directors to each grantee, but such period shall end in any event not later than 10 years from the date of grant of the option. A nominal consideration of HK$1 is payable on acceptance of the grant of an option.

The subscription price for shares under the Share Option Scheme will be a price determined by the Board, but shall not be less than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares.

The Share Option Scheme will remain in force for a period of 10 years from the date of adoption.

Pre-emptive Rights

There is no provision for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Tax Relief and Exemption

The Company is not aware any holder of securities of the Company is entitled to any tax relief or exemption by reason of their holdings of such securities.

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.

Directors

The Directors of the Company during the year ended 31 December 2023 and up to the date of this report are as follows:

Executive Directors

Mr. Jiang Hongchang *(Chairman and Chief Executive Officer)*
Mr. Liu Yutao *(Chief Operating Officer)*
Mr. Yang Zhenshan *(Retired on 27 June 2023)*
Mr. Yang Honghai
Mr. Ni Chuchen
Mr. Du Jianzhi *(Appointed on 27 June 2023)*

Non-executive Director

Mr. Cui Qi *(Resigned on 23 May 2023)*

Independent Non-executive Directors

Mr. Cheung Chi Man Dennis
Mr. Wang Yaping
Mr. Cheng Xuezhan
Ms. Chen Yan *(Appointed on 20 December 2023)*

In accordance with applicable provisions of the Company's articles of association, Mr. Cheng Xuezhan, Mr. Wang Yaping, Mr. Liu Yutao and Ms. Chen Yan will retire at the Company's forthcoming annual general meeting. Except for Mr. Wang Yaping who did not offer himself for re-election, all the retiring Directors are eligible and have offered themselves for re-election at the forthcoming annual general meeting.

Directors' Service Contracts

No Director proposed for re-election at the forthcoming annual meeting has a service contract with the Company or any member of the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

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.

Directors Interests in Transactions, Arrangements or Contracts

Except as disclosed elsewhere in this annual report, no other contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year, nor had there been any contracts or arrangements in which any of the Directors was materially interested and which was significant in relation to the Group's business as a whole.

Disclosure of Interests

As at 31 December 2023, none of the Directors had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO, or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules.

So far as the Directors are aware, as at 31 December 2023, the interest and short positions of the persons, other than a director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO are as follows:

Substantial shareholders' interests in the Company

Shareholder	Number of shares/ Position	Percentage of shareholding	Capacity
Qingdao West Coast Holdings (International) Limited	498,000,000 Long position	62.25%	Beneficial owner
West Coast Investment (Hong Kong) Limited(Note 1)	498,000,000 Long position	62.25%	Interest of a controlled corporation
West Coast Holdings (Hong Kong) Limited(Note 1)	498,000,000 Long position	62.25%	Interest of a controlled corporation
Qingdao West Coast Holding Development Limited* 青島西海岸控股發展有限公司(Note 1)	498,000,000 Long position	62.25%	Interest of a controlled corporation
Qingdao Haifa State-owned Capital Investment and Operation Group Co. Ltd.* 青島海發國有資本投資運營集團有限公司(Note 1)	498,000,000 Long position	62.25%	Interest of a controlled corporation
Qingdao State-owned Assets Supervision and Administration Commission of the State Council	498,000,000 Long position	62.25%	Interest of a controlled corporation
Sky Hero Global Limited	102,000,000 Long position	12.75%	Beneficial owner
Solid Jewel Investments Limited(Note 2)	102,000,000 Long position	12.75%	Interest of a controlled corporation
Mr. Cui Qi(Note 2)	102,000,000 Long position	12.75%	Interest of a controlled corporation
Ms. Mu Zhen(Note 3)	102,000,000 Long position	12.75%	Interest of spouse

Notes:

1. Each of these entities was wholly owned and controlled by the Qingdao State-owned Assets Supervision and Administration Commission of the State Council and was deemed under the SFO to be interested in all the Share which are directly and beneficially owned by Qingdao West Coast Holdings (International) Limited.

2. Solid Jewel Investments Limited is deemed or taken to be interested in all the Shares which are beneficially owned by Sky Hero Global Limited under the SFO. Sky Hero Global Limited is wholly-owned by Solid Jewel Investments Limited, which is in turn controlled and owned as to 60% by Mr. Cui Qi.

3. Ms. Mu Zhen is the spouse of Mr. Cui Qi and she is deemed or taken to be interested in all the Shares which are beneficially owned by Mr. Cui Qi under the SFO.

* For identification purpose only

Major Customers and Suppliers

During the year ended 31 December 2023, the Group's five largest customers in aggregate and the single largest customer accounted for approximately 33.3% (2022: 48.7%) and 12.0% (2022: 18.1%) of the Group's total turnover, respectively.

During the year ended 31 December 2023, the Group's five largest suppliers in aggregate and the single largest supplier accounted for approximately 11.1% (2022: 14.1%) and 3.4% (2022: 4.5%) of the Group's total cost of sales, respectively.

To the best of the knowledge of the Directors, none of the Directors, their close associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had an interest in these major customers or suppliers.

Related Party Transactions

Related party transactions entered into by the Group during the year ended 31 December 2023 are disclosed in note 35 to the consolidated financial statements, which included certain transactions in the section headed "Continuing Connected Transactions" below that constituted continuing connected transactions for which the disclosure requirements under Chapter 14A of the Listing Rules have been complied with.

Continuing Connected Transactions

During the year ended 31 December 2023, the Group had carried out the following non-exempt continuing connected transactions.

Construction services framework agreements

The Group entered into a construction services framework agreement ("Construction Services Framework Agreement") with Qingdao Haifa State-owned Capital Investment and Operation Group Co. Ltd.* (青島海發國有資本投資運營集團有限公司) (Previously known as Qingdao West Coast Development (Group) Limited*) ("Qingdao Haifa Group Co.", together with its subsidiaries and/or affiliated companies, the "Haifa Group") on 28 April 2020 for the provision of construction services by the Group to the Haifa Group. The Construction Services Framework Agreement was subsequently amended and supplemented by a supplemental construction services framework agreement ("Supplemental Agreement") entered into between the parties on 3 June 2021. Particulars of the Construction Services Framework Agreement, and where applicable, as amended by the Supplemental Agreement are set out below.

Date:

28 April 2020

Term:

From 29 June 2020 (the date on which approval of the Construction Services Frame Agreement by independent shareholders of the Company was obtained) to 31 December 2022 (both dates inclusive)

Parties:

(i) Qingdao Haifa Group Co. (as owner)

(ii) West Coast Development (Hong Kong) Limited ("West Coast Development HK") (for and on behalf of the Group)

Connected relationship:

Qingdao Haifa Group Co. is a controlling shareholder and the ultimate holding company of the Company holding 62.25% of the Company's issued shares.

West Coast Development HK is a wholly owned subsidiary of the Company.

Transaction:

The Group has agreed to provide construction services to the Haifa Group and may therefore participate in tenders for construction projects of the Haifa Group in the PRC from time to time.

If any tenders submitted by the Group have been awarded in accordance with the tendering procedures of the Haifa Group, the Group shall enter into individual construction contracts (the "Individual Contracts") with the Haifa Group for the provision of construction services by the Group as the contractor subject to terms and conditions of the Construction Services Framework Agreement at fair and reasonable market prices and subject to the requirements under the Listing Rules. The contract sum payable under each of the Individual Contracts will be determined through an open tender process to ensure that the price and terms of the tender submitted by the Group are on normal commercial terms and no less favourable to the Group than those submitted to independent third parties, or the market prices or benchmarks for transactions of similar nature.

* For identification purpose only

Reasons for the transaction:
The Group has expanded its operation into the construction industry in the PRC since year 2020 with the acquisition of Dongjie Construction, which possesses the necessary qualifications and/or licenses to engage in construction projects in the PRC, as part of its strategy to diversify its business. The Group further acquired 34% equity interest in and control over the board of Honghai Curtain Wall in 2021 which served to enhance the Group's service offerings and competitiveness in its general construction contracting business. The Haifa Group is principally engaged in infrastructure construction, land development, real estate development and other industrial investment and operations (including cultural, tourism and financial services).

The entering into of the Construction Services Framework Agreement and the engagement of the Group as contractor upon successful tenders shall allow the Group to strengthen and further develop its construction business in the PRC, widen its business portfolio and enhance its competitiveness in the market.

Having considered the actual transaction amounts between the Haifa Group and the Group for the four months ended 30 April 2021 and the expected progress of and revenue from projects already awarded or under bidding from the Haifa Group, the annual cap of the Construction Services Framework Agreement for the year ending 31 December 2021 was expected to be fully utilised by or around 31 August 2021. Qingdao Haifa Group Co. and West Coast Development HK therefore entered into the Supplemental Agreement on 3 June 2021 to make upward revision to the then existing annual caps of the Construction Services Framework Agreement.

Annual cap (as revised):
Year ending 31 December 2021: HK$1,846,000,000
Year ending 31 December 2022: HK$3,164,000,000
Year ending 31 December 2023: HK$4,746,000,000

Actual transaction amount:
Year ended 31 December 2021: HK$1,825,178,000
Year ended 31 December 2022: HK$1,527,530,000
Year ended 31 December 2023: HK$772,895,000

Engineering services framework agreement

The Group entered into an engineering services framework agreement ("Engineering Services Framework Agreement") with Big Data Company (as defined further below) on 28 June 2023, pursuant to which Big Data Company agreed to provide software development and construction automation engineering project services to Dongjie Construction. Particulars of the Engineering Services Framework Agreement are set out below.

Date:
28 June 2023

Terms:
From 1 January 2023 to 31 December 2023 (both dates inclusive)

Parties:

(i) Dongjie Construction

(ii) Qingdao Big Data Technology Development Group Co., Ltd.* (青島大數據科技發展有限公司) ("Big Data Company"), a company established in the PRC with limited liability

Connected relationship:

Dongjie Construction is a non-wholly owned subsidiary of the Company.

Big Data Company is an indirect non-wholly owned subsidiary of Qingdao Haifa Group Co., a controlling shareholder and ultimate holding company of the Company.

Transaction:

Big Data Company and its subsidiaries (collectively referred to as the "Big Data Group") will provide software development and construction automation engineering project services to Dongjie Construction and its subsidiaries (collectively referred to as the "Dongjie Group"), including but not limited to the software development for construction project industry platform, and intelligent engineering project services for constructions such as parks, communities, hospitals, hotels and office buildings. The pricing of the services for each project under the Engineering Services Framework Agreement shall be determined with reference to the market price or, in the absence of such market price, the agreed price which is fair and reasonable. The Big Data Group may be selected as the project service provider through a tender or quotation process in accordance with the normal procedures, based on the design, equipment, quality standards and construction requirements of individual projects.

Reasons for the transaction:

The Dongjie Group is in the general construction contracting business and the Big Data Group is engaged in supply chain management services, engineering management services, software development services, sales of building materials and other businesses. The expertise of the Big Data Group in the aspects of engineering management service and software development service is aligned with the Dongjie Group and, on the basis of fair market prices, the selection of the Big Data Group as the project subcontractor is able to provide convenient, high-quality, high-efficiency, and cost-effective engineering services to Dongjie Group which are of great benefit to improving the market competitiveness and profitability of both parties.

Annual cap:

Year ending 31 December 2023: HK$15,900,000 (equivalent to RMB14,600,000)

Actual transaction amount:

HK$14,699,000 (equivalent to RMB13,294,000)

* For identification purpose only

Contractual arrangements ("Contractual Arrangements")

Background and reasons for the Contractual Arrangements:

Pursuant to Indonesia law, the maximum foreign ownership in a company engaging in the construction of harbour/port is limited to 67%. The Group has 67% shareholding interest in a subsidiary in Indonesia, namely PT. Indonesia Engineering ("PTIR"). The remaining 33% of the shareholding interest in PTIRis held by Johannes Wargo, who is an Indonesian citizen and independent third party of the Group except for his involvement in the Contractual Arrangements.

To consolidate control over and derive the economic benefits from the remaining 33% of the shareholding interest in PTIR, the Group has, through its subsidiary Hong Kong River Engineering Company Limited ("HKR"), entered into the Contractual Arrangements with Johannes Wargo.

Risks associated with the Contractual Arrangements:

In the event of change in relevant laws and regulations in Indonesia in the future, there is no assurance that the Contractual Arrangements will be considered to be in compliance with the then prevailing laws and regulations; in which case, the Contractual Arrangements may become unenforceable and the Group may be subject to potential losses.

To mitigate such risks, Johannes Wargo has irrevocably appointed HKR to act as his attorney to exercise his rights in connection with the matters concerning his rights as a shareholder of PTIR, including the rights to vote in a shareholders' meeting, sign minutes and to sell his shares. The Group also closely monitors the amount of assets being retained in Indonesia to limit the exposure to potential losses. The amount of revenue derived by the Group through the Contractual Arrangements for the year ended 31 December 2023 amounted to approximately HK$2,985,000.

The Contractual Arrangements comprised the following documents.

1. PTIR Loan Agreements

HKR, as lender, and Johannes Wargo, as borrower, entered into a loan agreement on 5 October 2015 and an amendment and restatement of loan agreement on 5 May 2016 (collectively, the "PTIR Loan Agreements"), pursuant to which HKR agreed to provide a loan ("PTIR Loan") in the sum of IDR1,211,496,000 to Johannes Wargo to acquire 1,320 shares in PTIR ("Johannes Shares"). The PTIR Loan was secured by the Johannes Shares pursuant to the PTIR Pledge of Shares Agreements (as defined below). The PTIR Loan has a term of 10 years and will be automatically renewed upon expiration and shall be due and payable only on demand made at any time by HKR at its sole discretion. No prepayment of the PTIR Loan in whole or in part is permitted at any time during the term of the PTIR Loan Agreements.

2. PTIR Pledge of Shares Agreements

HKR, as pledgee, and Johannes Wargo, as pledgor, entered into a pledge of shares agreement on 5 October 2015 and an amendment and restatement of pledge of shares agreement on 5 May 2016 (collectively, the "PTIR Pledge of Shares Agreements"), pursuant to which Johannes Wargo pledged the Johannes Shares in favour of HKR in order to secure the due and proper repayment of the PTIR Loan and the full performance by Johannes Wargo. Johannes Wargo also undertook not to do any act or sign any documents which may limit the rights of HKR under the PTIR Pledge of Shares Agreements or diminish the value of the Johannes Shares.

3. PTIR Power of Attorney ("PoA") for Selling Shares
   Johannes Wargo appointed HKR as his attorney on 5 October 2015 to (i) sell, assign, transfer or otherwise deal with the Johannes Shares; (ii) receive the proceeds of the sale of Johannes Shares; and (iii) represent Johannes Wargo in all matters pertaining to the sale or transfer of the Johannes Shares.

4. PTIR PoA to Vote
   Johannes Wargo appointed HKR as his attorney on 5 May 2016 to (i) attend all general meetings of PTIR; (ii) exercise all voting rights with respect to the Johannes Shares; (iii) sign any shareholders resolutions; and (iv) generally exercise all rights and privileges and perform all duties which may be necessary in relation to the Johannes Shares.

5. PTIR Assignment of Dividends Agreements
   Johannes Wargo, as assignor, and HKR, as assignee, entered into an assignment of rights to dividends agreement on 5 October 2015 and an amendment and restatement of assignment of rights to dividends agreement on 5 May 2016 (collectively, the "PTIR Assignment of Dividends Agreements"), pursuant to which Johannes Wargo assigned and transferred all his rights and interests in all dividends or other income paid or payable by PTIR with respect to the Johannes Shares to HKR during the term of the PTIR Loan.

During the year ended 31 December 2023, no new contract had been entered into, renewed or reproduced in relation to the Contractual Arrangements under cloned arrangement as set out in the Company's prospectus ("Prospectus") dated 30 June 2016.

The Contractual Arrangements in relation to PTIR have remained unchanged and consistent with the disclosure as set out in the Prospectus.

Review of Continuing Connected Transactions

The independent non-executive Directors have reviewed the continuing connected transactions disclosed above and confirmed that the transactions have been entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) according to the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

Furthermore, in relation to the Contractual Arrangements, the independent non-executive Directors have reviewed and confirmed that:

(i) the transactions have been entered into in accordance with the relevant terms and conditions of the Contractual Arrangements;

(ii) no dividends or other distributions have been made by PTIR to the holders of its remaining shareholding which are not otherwise subsequently assigned or transferred to the Group; and

(iii) no new contracts were entered into, renewed or reproduced under any cloned arrangement as defined in the Prospectus during the year ended 31 December 2023.

The Company has engaged its auditor to report on the continuing connected transactions in accordance with Practice Note 740 (Revised) "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has provided an unqualified letter to the Board containing their conclusion in relation to the continuing connected transactions for the year ended 31 December 2023 in accordance with rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Permitted Indemnity Provision

Pursuant to the articles of association of the Company, the Directors are indemnified and secured harmless out of the assets of the Company against all losses and liabilities which may incur or sustain in execution of their duty, except such which they shall incur or sustain through their own fraud or dishonesty.

The Company has taken out directors' liability insurance throughout the year ended 31 December 2023 that provides appropriate insurance cover for the Directors.

Compliance with Laws and Regulations

The operations of the Group are primarily carried out by the Company's subsidiaries in the PRC, Hong Kong, Macao, Indonesia and Malaysia. The Group's establishment and operations shall comply with relevant laws and regulations in each of the above jurisdictions. During the year ended 31 December 2023 and up to the date of this report, the Group's operations have complied with all the relevant laws and regulations in each of the above jurisdictions in all material respects.

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 ended 31 December 2023 and up to the date of this report.

Auditor

The consolidated financial statements for the year ended 31 December 2023 have been audited by PricewaterhouseCoopers, who will retire, and being eligible, offer themselves for re-appointment. A resolution to re-appoint PricewaterhouseCoopers will be proposed at the forthcoming annual general meeting of the Company.

By order of the Board of
Prosper Construction Holdings Limited

JIANG Hongchang
Chairman and Executive Director

Hong Kong, 28 March 2024

Directors and Senior Management

Executive Directors

Mr. Jiang Hongchang, aged 47, joined the Group in June 2022 and is an executive Director, the chairman of the Board and chief executive officer of the Group. Mr. Jiang is also a director of certain subsidiaries of the Company and the chairman of the nomination committee, risk management committee and strategy and investment committee of the Board and a member of the remuneration committee of the Board. Mr. Jiang leads the Board in formulating business strategies of the Group.

Mr. Jiang holds a bachelor's degree in civil engineering from Shandong University of Technology in the People's Republic of China and is qualified as a senior engineer. Mr. Jiang is currently a Party Committee member, deputy general manager and chief engineer of Qingdao Haifa State-owned Capital Investment and Operation Group Company Limited, the ultimate controlling shareholder of the Company, and is also serving as either chairman or director of Qingdao Xifa Properties Limited* (青島西發置業有限公司), Qingdao Haifa Asset Management Co., Ltd.* (青島海發資產管理有限公司) and Qingdao Haifa Healthcare Group Co., Ltd.* (青島海發康養醫療集團有限公司), all of which are subsidiaries of Qingdao Haifa State-owned Capital Investment and Operation Group Company Limited* (青島海發國有資本投資運營集團有限公司). Mr. Jiang has over 22 years of experience in professional construction engineering management and served at various positions with government bureau and state-owned enterprises from 1999 to present.

Mr. Liu Yutao, aged 49, joined the Group in June 2022 and is an executive Director and chief operating officer of the Group and a director of certain subsidiaries of the Group, including Qingdao Dongjie Construction Engineering Co. Ltd. Mr. Liu is overall in charge of the Group's general construction contracting business segment.

Mr. Liu holds a bachelor's degree in computer and application from China University of Petroleum in the People's Republic of China and is qualified as a senior engineer. Mr. Liu is currently the vice chairman and general manager of Qingdao Dongjie Construction Group Co., Ltd.* (青島東捷建設集團有限公司) and a director of Qingdao Honghai Curtain Wall Co., Ltd.* (青島宏海幕牆有限公司), both of which are subsidiaries of the Company, and is also serving as the vice chairman of Qingdao Haifa Asset Management Co., Ltd.* (青島海發資產管理有限公司), a subsidiary of Qingdao Haifa State-owned Capital Investment and Operation Group Co., Ltd.* (青島海發國有資本投資運營集團有限公司), the ultimate controlling shareholder of the Company. Mr. Liu has over 26 years of experience in professional construction engineering management and served at various positions with state-owned enterprises and governmental office and bureau from 1996 to present.

Mr. Ni Chuchen, aged 42, joined the Group in June 2022 and is an executive Director and a director of certain subsidiaries of the Group, including Hong Kong River Engineering Company Limited. Mr. Ni is mainly responsible for overseeing the corporate management and administrative function of the Group.

He holds a master's degree in fine arts from Peking University and a bachelor's degree in economics from Qingdao University in the People's Republic of China. Mr. Ni has over 16 years of experience in business management, real estate development, corporate governance and cross-cultural communication and served at various positions with private and state-owned enterprises and government office.

* For identification purpose only

Mr. Yang Honghai ("Mr. Yang HH"), aged 47, is an executive Director and joined the Group in December 2020. Mr. Yang HH holds a bachelor's degree in mechanical and electronic engineering from Tianjin University (天津大學) in the People's Republic of China (the "PRC") and a master of business administration degree (part-time) from the Guanghua School of Management of Peking University (北京大學光華管理學院) in the PRC and is qualified to act as a board secretary under the Shenzhen Stock Exchange in the PRC. Mr. Yang HH has over 22 years of experience in strategy development, shareholdings investment and capital operations. Mr. Yang HH is currently the officer-in-charge of the strategy development centre of 青島西海岸發展(集團)有限公司 Qingdao West Coast Development (Group) Limited* (the ultimate controlling shareholder of the Company), the chief supervisor of 青島西海岸控股發展有限公司 Qingdao West Coast Holding Development Limited* (an intermediate controlling shareholder of the Company), and also a director or supervisor of more than ten subsidiaries of Qingdao West Coast Development (Group) Limited, including 青島西發建設開發(集團)有限公司 Qingdao Xifa Construction Development (Group) Limited*, 青島西發旅遊投資(集團)有限公司 Qingdao Xifa Tourism Investment (Group) Limited* and 青島西海岸金融發展有限公司 Qingdao West Coast Finance Development Co. Ltd.*, etc.

Mr. Du Jianzhi (杜建志), aged 43, joined a subsidiary of the Group in February 2022 and was appointed an executive Director in June 2023. Mr. Du assumes oversight of the operation of the Group's marine business segment, is a director of various key subsidiaries under the marine business segment, and is a member of the risk management committee of the Board.

Mr. Du graduated in civil engineering from the Shandong University of Science and Technology (山東科技大學) in the PRC and is qualified as a registered cost engineer (註冊造價師) since 2008 and a grade-one constructor (一級建造師) since 2010.

Mr. Du has over 18 years of experience in risk control, project costing and general construction project management. From 2002 to 2022, Mr. Du took up different positions in the construction division, audit division, and general manager office of various consultancy companies and had been the deputy head of risk control department of Qingdao West Coast Development (Group) Limited*.

* For identification purpose only

Independent Non-executive Director

Mr. Cheung Chi Man Dennis, aged 56, is an independent non-executive Director and joined the Group in August 2017.

Mr. Cheung holds a master's degree in commerce from the University of New South Wales, Australia and a bachelor's degree in mechanical engineering from Imperial College, London, United Kingdom. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a certified tax adviser of The Taxation Institute of Hong Kong. Mr. Cheung has over 20 years experience in financial management, treasury and company secretarial matters and is an independent non-executive director of Sanbase Corporation Limited (Stock code: 8501), which shares are listed on GEM of the Stock Exchange, since January 2020. In the past three years, Mr. Cheung was formerly an independent non-executive director of Lamtex Holdings Limited (Stock code: 1041) from August 2020 to October 2020 and New Western Group Limited (formerly known as Megalogic Technology Holding Limited) (Stock code: 8242) from April 2015 to June 2020.

Mr. Cheung is the chairman of the audit committee and a member of the remuneration committee, nomination committee, risk management committee and strategy and investment committee of the Board.

Mr. Wang Yaping ("Mr. Wang YP"), aged 60, is an independent non-executive Director and joined the Group in October 2018. Mr. Wang YP has over 30 years of experience in law and graduated from East China College of Political Science and Law* 華東政法學院 (now known as East China University of Political Science and Law* 華東政法大學) with a bachelor's degree in law. He was admitted as a PRC lawyer in February 1989 and was accredited as a second-grade lawyer by the Department of Justice of Shandong Province* 山東省司法廳 in June 1998. Mr. Wang YP currently serves as an executive director and a senior partner of Shandong Qingdao Law Office* 山東琴島律師事務所, a vice president of Shandong Lawyers Association, the chief supervisor of Qingdao Lawyers Association* 青島市律師協會, a supervisor of Qingdao Port International Co., Ltd.* 青島港國際股份有限公司 (a company listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange") and the Shanghai Stock Exchange with stock code 6198 and 601298 respectively), a supervisor of Tsingtao Brewery Company Limited 青島啤酒股份有限公司 (a company listed on the Stock Exchange and the Shanghai Stock Exchange, with stock code 00168 and 600600 respectively), and an independent director of Qingdao Tianneng Heavy Industries Co., Ltd.* 青島天能重工股份有限公司 (a company listed on the Shenzhen Stock Exchange, with stock code 300569), an independent director of Qingdao Conson Financial Holdings Co., Ltd.* 青島國信金融控股有限公司, and an independent director of Qingdao BAHEAL Pharmaceutical Co., Ltd* 青島百洋醫藥股份有限公司.

Mr. Wang YP is the chairman of the remuneration committee and a member of the audit committee, nomination committee, risk management committee and strategy and investment committee of the Board.

Mr. Cheng Xuezhan, aged 55, is an independent non-executive Director and joined the Group in December 2018. Mr. Cheng has accumulated over 20 years of experience in financial and business management. Mr. Cheng holds a diploma majoring in English language and literature from Shandong Normal University (山東師範大學) in Jinan, a master's degree in English language and literature from Shandong University (山東大學) in Jinan and a master's degree in business administration from Wright State University in Dayton, Ohio, U.S. Mr. Cheng is currently an independent non-executive director of Qilu Expressway Company Limited, a company listed on the Stock Exchange (stock code: 1576) and he also serves as an assistant general manager of Hualu Holdings Co., Ltd. (華魯控股集團有限公司) and vice chairman of the board of directors and general manager of China Shandong Group Limited (華魯集團有限公司), a director of Hualu International Financial Leasing Co., Ltd. (華魯國際融資租賃有限公司) and a director of Hualu Investment Development Co., Ltd. (華魯投資發展有限公司). During the past three years, Mr. Cheng also served as a director of Shandong Hualu-Hensheng Chemical Co., Ltd. (listed on the Shanghai Stock Exchange, stock code: 600426) from March 2015 to April 2018. Mr. Cheng is a member of each of the audit committee, remuneration committee, nomination committee, risk management committee and strategy and investment committee of the Board.

* For identification purpose only

Ms. Chen Yan (陳艷), aged 49, is an independent non-executive Director and joined the Group in December 2023.

Mr. Chen graduated in accountancy from Shandong University of Finance* (山東財政學院) in 2001 and obtained a master's degree in engineering (software engineering) from Tianjin University (天津大學) in 2012 and is qualified as a senior corporate compliance officer and holds title of senior economist. Ms. Chen is experienced in corporate management, industry investment, construction, operation and technology research with state-owned enterprise and has over 20 years of management experience in financial, operation, investment and corporate compliance functions and is the associate dean of The University of Hong Kong Shenzhen Institute of Research and Innovation since February 2022. During the past three years, Ms. Chen was a deputy general manager of Global Digital Creations Holdings Limited, a company listed on GEM of the Stock Exchange (stock code: 8271), from February 2021 to March 2022.

Ms. Chen is a member of each of the audit committee, remuneration committee, nomination committee, risk management committee and strategy and investment committee of the Board.

Save as disclosed above, each of our Directors (i) did not hold other positions in our Company or other members of our Group as at the date of this report; (ii) had no other relationship with any Directors, senior management or substantial or Controlling Shareholders as at the date of this report; and (iii) did not hold any other directorships in listed public companies in the three years prior to the date of this report.

Senior Management

Senior management of the Group comprised the executive Directors, who take a direct and active role in the management of the Group's affairs.

Save as disclosed above, each of the senior management (i) did not hold other positions in the Company or other members of the Group; and (ii) had no other relationship with any Directors, senior management members or substantial or controlling shareholders.

* For identification purpose only

Independent Auditor's Report

羅兵咸永道

TO THE SHAREHOLDERS OF PROSPER CONSTRUCTION HOLDINGS LIMITED
(incorporated in Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of Prosper Construction Holdings Limited (the "Company") and its subsidiaries (the "Group"), which are set out on pages 45 to 141, comprise:

- the consolidated balance sheet as at 31 December 2023;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Accounting for construction contracts – estimated costs and profit recognition
- Impairment assessment of trade, retention and notes receivables and amounts due from fellow subsidiaries and contract assets
- Impairment assessment of goodwill

Key Audit Matters	How our audit addressed the Key Audit Matters
Accounting for construction contracts – estimated costs and profit recognition Refer to note 4(a), note 5, note 6 and note 23 to the consolidated financial statements. For the year ended 31 December 2023, segment results from marine construction works and general construction contracting services amounted to a loss of HK$62,383,000 and a profit of HK$65,111,000 respectively. The Group applied the input method in recognising the revenue from construction contracts over time by reference to the Group's efforts or inputs to the satisfaction on a performance obligation relative to the total expected inputs to the satisfaction of the performance obligation. Recognition of profit on construction contracts is based on the recognised revenue and estimates of budgeted gross profit as well as the expected recovery of costs arising from additional work performed throughout the contracts, for which significant management judgement and estimates are involved.	Our procedures in relation to management's accounting for the progress towards complete satisfaction of the performance obligation, estimated costs and profit recognition of construction contracts included: • Understood and evaluated the design and operating effectiveness of the internal control and assessment process of the estimation of contract costs and budgeted gross profit and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity, changes in circumstances and susceptibility to management bias or fraud; • Evaluated the outcome of prior period assessment of the estimation of contract costs and budgeted gross profit to assess the effectiveness of management's estimation process by comparing the historical actual gross profit margin to those budgeted to assess the quality of management budgetary process;

Key Audit Matters	How our audit addressed the Key Audit Matters
Profit and cost recognition from construction contracts, as stated above, requires significant time and resources to audit due to the magnitude as well as the significant judgement and estimates involved.	• Inspected material construction contracts of the Group for agreed contract amount and variations, if any; • Checked the Group's efforts to the satisfaction on the Group's performance obligation by reference to the proportion of contract costs incurred for work performed to date to the estimated total construction costs of the selected contracts. We tested, on a sample basis, the revenue recognition based on the Group's efforts and the calculations of gross profit; • Selected, on a sample basis, contracts to examine management's budget of the cost components, such as costs of materials, sub-contracting fees and labour costs. We compared the budgeted component cost to supporting documents including but not limited to invoices, price quotation and rate of labour costs. For each selected contract, we also compared cost component of the actual cost incurred up to year-end to the budgeted cost and obtained explanation from management for any material variation; • Understood the status of projects with the Group's quantity surveyors and project managers, to identify any variations of contracts and claims, and to obtain explanations for fluctuations in margins and changes in budget as well as the expected recovery of variations. Where necessary, we obtained written opinion from the Group's external legal adviser and discussed with the adviser the basis in concluding the minimum amount which would be recovered from the project. We checked relevant evidence including agreements, correspondence with customers, for corroboration of their explanations; and

Key Audit Matters	How our audit addressed the Key Audit Matters
	• Assessed the adequacy of the disclosures related to revenue recognition in the context of the applicable financial reporting framework. Based on the above audit procedures performed, we found that the judgement and estimates adopted by management in determining the estimated contract costs and profit recognition of construction contracts were supported by the evidence we obtained.
Impairment assessment of trade, retention and notes receivables and amounts due from fellow subsidiaries and contract assets Refer to note 3.1(b), note 4(b), note 21 and note 23 to the consolidated financial statements. As at 31 December 2023, the Group had gross trade, retention and notes receivables, amounts due from fellow subsidiaries and contract assets of approximately HK$1,293,606,000, HK$1,178,116,000 and HK$1,778,213,000 respectively and provision for impairment of approximately HK$104,957,000, HK$4,978,000 and HK$41,627,000 respectively. Management performed periodic assessment on the recoverability of the trade, retention and notes receivables and amounts due from fellow subsidiaries and contract assets and the sufficiency of provision for impairment based on information including credit profile of customers, ageing of the trade, retention and notes receivables, amounts due from fellow subsidiaries and contract assets, historical settlement records, subsequent settlement status, expected timing and amount of realisation of outstanding balances, and on-going business relationships with the relevant customers.	Our audit procedures in relation to management's impairment assessment of the trade, retention and notes receivables, amounts due from fellow subsidiaries and contract assets as at 31 December 2023 included: • Understood and evaluated the design and operating effectiveness of the credit control and impairment assessment process and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity and subjectivity; • Evaluated the outcome of prior period assessment of impairment to assess the effectiveness of management's estimation process by comparing the actual loss incurred with the impairment provision made by management, if any; • Tested, on a sample basis, the accuracy of ageing profile on trade, retention and notes receivables and amounts due from fellow subsidiaries by checking to the underlying invoices; • Challenged management for the status of each of the material trade, retention and notes receivables, amounts due from fellow subsidiaries and contract assets past due as at year end and corroborated explanations from management with supporting evidence, such as performing public searches of credit profile of selected customers, understanding on-going business relationship with the customers based on trade records, checking historical and subsequent settlement records and other correspondence with the customers;

Key Audit Matters	How our audit addressed the Key Audit Matters
Expected credit losses are also estimated by grouping the trade, retention and notes receivables, amounts due from fellow subsidiaries and contract assets based on shared credit risk characteristics and collectively assessed for likelihood of recovery, taking into account the nature of the customer, its geographic location and ageing category, and applying expected credit loss rates to the respective gross carrying amounts of the receivables. Management also considered forward-looking information that may impact the customers' ability to repay the outstanding balances in order to estimate the expected credit losses for the impairment assessment. We focused on this area due to the fact that the impairment assessment of trade, retention and notes receivables, amounts due from fellow subsidiaries and contract assets under the expected credit losses model involved the use of significant management judgement and estimates.	• Assessed the appropriateness of the expected credit loss provision methodology, examined the key inputs on a sample basis to assess their accuracy and completeness, and challenged the assumptions, including both historical and forward-looking information, used to determine the expected credit losses with the involvement of internal valuation expert; • For projects with potential dispute with customers, we discussed with the Group's external legal adviser. We enquired their work performed and discussed with them the basis in concluding the minimum amount the Group is able to realise from the projects. We tested and checked relevant evidence including agreements and correspondence with customers; and • Assessed the adequacy of the disclosures related to the impairment in the context of the applicable financial reporting framework. Based on the above audit procedures performed, we found that the management judgement and estimates used to assess the recoverability of the trade, retention and notes receivables, amounts due from fellow subsidiaries and contract assets and determine the impairment provision were supported by the evidence we obtained.

Key Audit Matters	How our audit addressed the Key Audit Matters
Impairment assessment of goodwill Refer to note 4(c) and note 18 to the consolidated financial statements. The carrying amount of goodwill of the Group as of 31 December 2023 amounted to HK$39,010,000, of which HK$15,247,000 and HK$23,763,000 were allocated to the Qingdao Dongjie and Honghai Curtain Wall respectively. Management considers that each of these operating segments constitutes a separate cash-generating unit ("CGU") for the purpose of goodwill impairment assessment. No impairment of goodwill on these two CGUs has been recognised as of 31 December 2023. The assessment of goodwill impairment is determined based on value-in-use calculations, and it is inherently judgmental as it requires significant management judgements about future business performance and the discount rates applied to future cash flow forecasts, and accordingly, this is an area of audit focus. Management engaged an independent external valuer to assist them to perform the value-in-use calculations using appropriate valuation methodologies.	Our procedures on auditing management's goodwill impairment assessment mainly included: • Understood and evaluated the design and operating effectiveness of the internal controls and assessment process of goodwill impairment and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectively, changes and susceptibility to management bias or fraud; • Evaluated the independent external valuer's objectivity, capability and competency to perform the valuation; • Evaluated the discounted cash flow forecasts underlying the impairment assessment and the process by which they were drawn up, including checking the accuracy of the underlying calculations and checking whether the forecasts were consistent with the latest approved budgets. We also assessed whether all relevant CGUs have been identified; • Evaluated the key assumptions of the discounted cash flow forecasts by examining corroborating evidence including the terms and conditions of construction contracts already entered into, historical revenue growth rate and third party supplier quotations for construction cost estimation and evaluated the discount rates by assessing the cost of capital for the respective CGUs. We also evaluated the outcome of prior period assessment of goodwill impairment to assess the effectiveness of management's estimation process; and • Examined the results of management's sensitivity analysis around the key assumptions including revenue growth and discount rates to ascertain the extent of change in those assumptions that could result in impairment for individual CGUs. Based on the above audit procedures performed, we found that the judgements involved in the valuation methodologies and assumptions used in the assessment of goodwill impairment were supported by evidence we obtained.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and The Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lee Chung Bor.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2024

Consolidated Statement of Profit or Loss

For the year ended 31 December 2023

	Note	2023 HK$'000	2022 HK$'000
Revenue	6	**2,125,871**	2,879,211
Cost of sales	8	**(1,944,774)**	(2,658,592)
Gross profit		**181,097**	220,619
Other gains, net	7	**1,489**	13,207
Provision for impairment losses on financial assets		**(86,775)**	(11,261)
Research and development expenses	8	**(22,556)**	(17,934)
Other administrative expenses	8	**(173,654)**	(129,630)
Operating (loss)/profit		**(100,399)**	75,001
Finance income	9	**3,751**	3,487
Finance costs	9	**(71,465)**	(58,734)
Finance costs, net	9	**(67,714)**	(55,247)
(Loss)/profit before income tax		**(168,113)**	19,754
Income tax expenses	10	**(13,522)**	(9,216)
(Loss)/profit for the year		**(181,635)**	10,538
(Loss)/profit attributable to:			
Equity holders of the Company		**(188,898)**	(12,186)
Non-controlling interests		**7,263**	22,724
		(181,635)	10,538
Loss per share for loss attributable to the equity holders of the Company:			
Basic and diluted loss per share (HK cents)	12	**(23.61)**	(1.52)

The above consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2023

	2023 HK$'000	2022 HK$'000
(Loss)/profit for the year	**(181,635)**	10,538
Other comprehensive income/(loss)		
Item that will not be subsequently reclassified to profit or loss		
Currency translation differences	**5,156**	(6,176)
Item that may be subsequently reclassified to profit or loss		
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)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

As at 31 December 2023

	Note	2023 HK$'000	2022 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	15	322,114	331,348
Investment properties	16	13,654	15,561
Right-of-use assets	17	64,457	68,078
Goodwill	18	39,010	39,990
Intangible assets	19	15,363	18,715
Deposits and prepayments	22	25,918	25,473
Financial asset at fair value through profit or loss	3.3(i)	1,246	–
Deferred income tax assets	27	–	7,845
		481,762	507,010
Current assets			
Inventories	20	21,004	13,259
Trade, retention and notes receivables	21	1,188,649	860,176
Amounts due from fellow subsidiaries	21, 35(c)	1,173,138	1,056,869
Deposits, prepayments and other receivables	22	229,071	261,065
Contract assets	23	1,736,586	1,629,966
Time deposits with maturity over 3 months	25	8,384	204
Pledged bank deposits	25	31,053	236,978
Restricted cash	25	21,007	4,008
Cash and cash equivalents	25	144,950	324,459
		4,553,842	4,386,984
Total assets		5,035,604	4,893,994
EQUITY			
Capital and reserves			
Share capital	26(a)	8,000	8,000
Reserves	26(b)	307,063	499,792
		315,063	507,792
Non-controlling interests		165,412	116,525
Total equity		480,475	624,317

Consolidated Balance Sheet (continued)

As at 31 December 2023

	Note	2023 HK$'000	2022 HK$'000
LIABILITIES			
Non-current liabilities			
Borrowings	29	**78,423**	209,395
Loan from an intermediate holding company	35(c)	**130,000**	130,000
Lease liabilities	17	**1,503**	3,348
Deferred income tax liabilities	27	**1,898**	9,435
		211,824	352,178
Current liabilities			
Trade, retention and notes payables	28	**2,366,505**	2,599,104
Accruals and other payables	28	**313,805**	294,219
Contract liabilities	23	**5,439**	7,646
Amount due to ultimate holding company	35(c)	**4,830**	–
Amounts due to fellow subsidiaries	35(c)	**69,909**	35,536
Amount due to a related company	35(c)	**386**	909
Loan from an intermediate holding company	35(c)	**15,852**	15,852
Amounts due to non-controlling interests	33	**11,045**	47,163
Borrowings	29	**1,534,260**	883,171
Lease liabilities	17	**2,345**	2,088
Income tax payable		**18,929**	31,811
		4,343,305	3,917,499
Total liabilities		**4,555,129**	4,269,677
Total equity and liabilities		**5,035,604**	4,893,994

The consolidated financial statements on pages 45 to 141 were approved by the Board of Directors on 28 March 2024 and were signed on its behalf.

Mr. JIANG Hongchang
Director

Mr. NI Chuchen
Director

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

As at 31 December 2023

	Share capital HK$'000 (note 26(a))	Share premium HK$'000 (note 26(b))	Other reserves HK$'000 (note 26(b))	Exchange reserves HK$'000 (note 26(b))	Statutory reserve HK$'000 (note 26(b))	Retained earnings HK$'000 (note 26(b))	Sub-total HK$'000	Non-controlling interest HK$'000	Total HK$'000
	Attributable to owners of the Company								
At 1 January 2022	8,000	214,840	23,506	6,045	4,904	286,127	543,422	99,977	643,399
(Loss)/profit for the year	–	–	–	–	–	(12,186)	(12,186)	22,724	10,538
Other comprehensive loss:									
Exchange differences	–	–	–	(23,444)	–	–	(23,444)	(6,176)	(29,620)
Total comprehensive (loss)/ income	–	–	–	(23,444)	–	(12,186)	(35,630)	16,548	(19,082)
Transaction with owners									
Appropriation to statutory reserves	–	–	–	–	3,483	(3,483)	–	–	–
Total transactions with owners in their capacity as owners	–	–	–	–	3,483	(3,483)	–	–	–
At 31 December 2022	8,000	214,840	23,506	(17,399)	8,387	270,458	507,792	116,525	624,317
At 1 January 2023	8,000	214,840	23,506	(17,399)	8,387	270,458	507,792	116,525	624,317
(Loss)/profit for the year	–	–	–	–	–	(188,898)	(188,898)	7,263	(181,635)
Other comprehensive (loss)/income:									
Exchange differences	–	–	–	(3,831)	–	–	(3,831)	5,156	1,325
Total comprehensive (loss)/income	–	–	–	(3,831)	–	(188,898)	(192,729)	12,419	(180,310)
Transaction with owners									
Acquisition of a subsidiary	–	–	–	–	–	–	–	4,730	4,730
Appropriation to statutory reserves	–	–	–	–	448	(448)	–	–	–
Transaction with non-controlling interest	–	–	–	–	–	–	–	31,738	31,738
Total transactions with owners in their capacity as owners	–	–	–	–	448	(448)	–	36,468	36,468
At 31 December 2023	8,000	214,840	23,506	(21,230)	8,835	81,112	315,063	165,412	480,475

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the year ended 31 December 2023

	Note	2023 HK$'000	2022 HK$'000
Cash flows from operating activities			
Net cash (used in)/generated from operations	32(a)	(795,314)	388,114
Interest received		3,751	3,487
Interest paid		(71,244)	(58,734)
Income tax paid		(19,890)	(20,591)
Net cash (used in)/generated from operating activities		(882,697)	312,276
Cash flows from investing activities			
Payments of plant and equipment		(60,161)	(45,613)
Payments of intangible assets		(270)	(592)
Acquisition of a subsidiary	14(a)	(5,455)	–
Proceeds from disposal of plant and equipment	32(b)	40,651	280
(Increase)/decrease in time deposits with maturity over 3 months		(8,180)	22,090
Decrease/(increase) in pledged bank deposits		205,925	(165,261)
Net cash generated from/(used in) investing activities		172,510	(189,096)
Cash flows from financing activities			
Proceeds from borrowings	32(c)	1,053,784	582,225
Repayments of borrowings	32(c)	(512,269)	(703,936)
Loans from an intermediate holding company	32(c)	–	45,852
Principal elements of lease payments	32(c)	(2,431)	(4,116)
(Payment to)/advances from non-controlling interests	32(c)	(34,998)	4,441
Capital injection from non-controlling interests	34	31,738	–
Net cash generated from/(used in) financing activities		535,824	(75,534)
Net (decrease)/increase in cash and cash equivalents		(174,363)	47,646
Cash and cash equivalents at beginning of the year		324,459	291,838
Effect of foreign exchange rate changes		(5,146)	(15,025)
Cash and cash equivalents at end of the year	25	144,950	324,459

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1 General information

Prosper Construction Holdings Limited (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 (together, 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

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") as issued by the Hong Kong Institute of Certified Public Accountants and requirements of the Hong Kong Companies Ordinance (Cap. 622).

HKFRS comprise the following authoritative literature:

- Hong Kong Financial Reporting Standards
- Hong Kong Accounting Standards
- Interpretations developed by the Hong Kong Institute of Certified Public Accountants

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 are 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.

2 Basis of preparation and changes in accounting policies (Continued)

2.1 Basis of preparation (Continued)

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.

2.1.1 New and amended standards adopted by the Group

The Group has applied the following new and amended standards for its annual reporting period commencing 1 January 2023:

HKAS 1 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)
Amendments to HKAS 12	International Tax Reform – Pillar Two Model Rules (amendments)
HKFRS 17	Insurance Contracts (new standard)
HKFRS 17	Amendments to HKFRS 17
HKFRS 17	Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information

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.

2.1.2 New and amended standards and interpretations not yet adopted

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 2024 or later periods, but have not been early adopted by the Group:

HKAS 1	Classification of Liabilities as Current or Non-current (amendments) [1]
HKAS 1	Non-current Liabilities with Covenants (amendments) [1]
HKFRS 16	Lease Liability in a Sale and Leaseback (amendments) [1]
Hong Kong Interpretation 5 (Revised)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause [1]
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements (amendments) [1]
HKAS 21	Lack of Exchangeability (amendments) [2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (amendments) [3]

(1) Effective for the accounting period beginning on 1 January 2024
(2) Effective for the accounting period beginning on 1 January 2025
(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.

2 Basis of preparation and changes in accounting policies (Continued)

2.1 Basis of preparation (Continued)

2.1.3 Changes in accounting policy on offsetting arrangement in long service payment scheme in Hong Kong

In June 2022, the Hong Kong Government enacted the Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the "Amendment Ordinance") which will be effective from 1 May 2025 (the "Transition Date"). Under the Amendment Ordinance, any accrued benefits attributable to the employer's mandatory contributions under mandatory provident fund scheme ("MPF Benefits") of an entity would no longer be eligible to offset against its obligations on long service payment ("LSP") for the portion of the LSP accrued on or after the Transition Date. There is also a change in the calculation basis of last monthly wages for the portion of the LSP accrued before the Transition Date.

Prior to 1 January 2023, the Group applied practical expedient in HKAS 19 paragraph 93(b) (the "practical expedient") to account for the offsetable MPF Benefits as deemed employee contributions to reduce the current service costs in the period in which the related services were rendered.

In July 2023, the HKICPA published "Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong" (the "Guidance") which provides clarified and detailed guidance on the accounting considerations relating to the abolition of the offsetting mechanism. The Guidance clarified that following the enactment of the Amendment Ordinance, LSP is no longer a 'simple type of contributory plans' to which the practical expedient had been intended to apply.

By following the Guidance, the Group has therefore changed its accounting policy and ceased to apply the practical expedient and reattribute the deemed employee contributions on a straight-line basis from the date when services by employees first lead to their benefits in terms of the LSP legislation in accordance with HKAS 19 paragraph 93(a).

The abovementioned change in accounting policy does not have material impact to the financial statements of the current and prior years.

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.

Risk management is carried out under policies approved by the directors of the Group. The directors provide principles for an overall risk management, as well as policies covering specific areas.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities which are denominated in a currency that is not the entity's functional currency.

The Group's transactions are mainly denominated in HK$, United State dollars ("US$"), Indonesia Rupiah ("IDR"), Renminbi ("RMB"), Vietnamese Dongs ("VND") and Macao Patacas ("MOP"). The majority of assets and liabilities are denominated in HK$, US$, IDR, RMB and MOP, and there are no significant assets and liabilities denominated in other currencies. The Group is subject to foreign exchange rate risk arising from future commercial transactions and recognised assets and liabilities which are denominated in a currency other than HK$, IDR, RMB or MOP, which are the functional currencies of the major operating companies within the Group. The Group currently does not hedge its foreign currency exposure.

As HK$ is pegged to US$, management believes that the exchange rate risk for translations between HK$ and US$ do not have material impact to the Group. Management considered that the foreign exchange risk for MOP and VND are minimal since exchange rate fluctuation were minimal.

At 31 December 2023, if RMB had weakened/strengthened by 5% against the HK$ with all other variables held constant, pre-tax loss for the year would have been approximately HK$852,000 lower/higher (2022: post-tax profit would have been approximately HK$819,000 higher/lower), mainly as a result of the foreign exchange difference on translation of RMB denominated cash and cash equivalents, trade, retention and notes receivables and amount due from fellow subsidiaries and trade, retention and notes payables.

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

At 31 December 2023, if IDR had weakened/strengthened by 5% against the HK$ with all other variables held constant, pre-tax loss for the year would have been approximately HK$4,245,000 higher/lower (2022: post-tax profit would have been approximately HK$4,666,000 lower/higher), mainly as a result of the foreign exchange difference on translation of IDR denominated cash and cash equivalents, trade and retention receivables and trade and retention payables.

(ii) Cash flow interest rate risk

The Group is exposed to interest rate risk as borrowings are carried at variable rates. It is the Group's policy to maintain its borrowings subject to floating rates, and accordingly, the Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

As at 31 December 2023, if the interest rates on borrowings had been 100 basis-points higher/lower with all other variables held constant, pre-tax loss for the year would be HK$4,453,000 higher/lower (2022: pre-tax profit would be HK$2,133,000 lower/higher), mainly as a result of interest expense on floating rate borrowings.

(b) Credit risk

The Group is exposed to credit risk in relation to its cash and bank balances, amounts due from fellow subsidiaries, trade, retention and notes receivables, deposits and other receivables. The Group's maximum exposure to credit risk is the carrying amounts of these financial assets.

(i) Risk management

For the year ended 31 December 2023, 33.2% (2022: 48.7%) of the Group's revenue was derived from its top five customers. As at 31 December 2023, the Group had concentration of credit risk as 39.7% (2022: 43.4%) of the total trade receivables were due from the Group's top five (2022: five) customers.

Top five customers mainly include state-owned enterprises and other construction companies. To manage this risk, management has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, management reviews regularly the recoverable amount of each individual trade and retention receivable to ensure that adequate impairment provision is made for the irrecoverable amounts.

The credit risk on deposits with bank is limited because deposits are in banks with sound credit ratings and good payment history.

For other receivables, the Group assessed the credit quality of the counter parties by taking into account their financial position, credit history and other factors. Management also regularly reviews the recoverability of these receivables and follow up the disputes or amounts overdue, if any. The directors are of the opinion that the risk of default by counter parties is low.

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(i) Risk management (Continued)

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Especially the following indicators are incorporated:

- internal credit rating
- external credit rating
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the counterparty's ability to meet its obligations
- significant changes in actual or expected performance and behaviour of the customer, including changes in the payment status of customer in the Group and changes in the operating results of the customer.

The Group uses four categories for those receivables which reflect their credit risk and how the loss provision is determined for each of those categories. These internal credit risk ratings are aligned to external credit ratings.

The Group's internal credit risk grading assessment comprises the following categories:

Category	Description	Basis for recognition of expected credit loss
Performing	The counterparty has a low risk of default and does not have any past-due amounts	12 month expected losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime
Underperforming	Debtor frequently repays after due dates but usually settle after due date	Lifetime expected losses
Non-performing	There has been a significant increase in credit risk since initial recognition through information developed internally or external resources	Lifetime expected losses
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Asset is written off

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets

Trade, retention and notes receivables and contract assets

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime loss allowance for all trade, retention and notes receivables and contract assets.

To measure the expected credit losses, trade, retention and notes receivables and contract assets have been grouped based on shared credit risk characteristics by different sectors of the customers in different territories. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade and retention receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade and retention receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the historical credit loss rate of relevant market players within the year. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. Accordingly, historical loss rates are adjusted based on expected changes in these factors.

For trade, retention and notes receivables and contract assets relating to accounts in which there are objective evidence that the likelihood of settlement from counterparties are remote, they are assessed individually for impairment allowance. Accordingly specific loss allowance of HK$70,348,000 and HK$10,355,000 (2022: HK$24,206,000 and HK$6,198,000) was made as at 31 December 2023 for trade, retention and notes receivables and contract assets respectively.

As at 31 December 2023, the expected credit losses of these collectively assessed trade, retention and notes receivables and contract assets were HK$34,609,000 and HK$31,272,000 respectively (2022: HK$14,445,000 and HK$14,751,000 respectively) based on expected loss rates ranging from 0.09% – 23.15% (2022: 0.07% – 1.90%) applied on different customer sectors.

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Trade, retention and notes receivables and contract assets (Continued)

The loss allowances for trade, retention and notes receivables and contract assets as at 31 December 2023 reconcile to the opening loss allowance as follows:

Trade, retention and notes receivables	State-owned enterprise HK$'000	Non state-owned enterprise HK$'000	Total HK$'000
At 1 January 2022	3,849	24,350	28,199
Increase in loss allowance recognised in profit or loss during the year	91	13,542	13,633
Unused amount reversed	(467)	(631)	(1,098)
Exchange difference	(298)	(1,785)	(2,083)
At 31 December 2022 and 1 January 2023	**3,175**	**35,476**	**38,651**
Increase in loss allowance recognised in profit or loss during the year	**276**	**69,954**	**70,230**
Unused amount reversed	**(973)**	**(5,117)**	**(6,090)**
Exchange difference	**(77)**	**2,243**	**2,166**
At 31 December 2023	**2,401**	**102,556**	**104,957**

Contract assets	State- owned enterprise HK$'000	Non state-owned enterprise HK$'000	Total HK$'000
At 1 January 2022	1,406	20,879	22,285
Increase in loss allowance recognised in profit or loss during the year	13,263	1,122	14,385
Unused amount reversed	(432)	(13,909)	(14,341)
Contract assets written off during the year as uncollectible	–	(168)	(168)
Exchange difference	(593)	(619)	(1,212)
At 31 December 2022 and 1 January 2023	**13,644**	**7,305**	**20,949**
Increase in loss allowance recognised in profit or loss during the year	**–**	**31,308**	**31,308**
Unused amount reversed	**(11,468)**	**(135)**	**(11,603)**
Exchange difference	**1,584**	**(611)**	**973**
At 31 December 2023	**3,760**	**37,867**	**41,627**

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Trade, retention and notes receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

Impairment losses on trade, retention and notes receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Amount due from fellow subsidiaries

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime loss allowance for all amount due from fellow subsidiaries which have been arise from the revenue from general construction services with its fellow subsidiaries.

To measure the expected credit losses, amount due from fellow subsidiaries have been grouped based on shared credit risk characteristics by different sectors of the customers in different territories.

As at 31 December 2023, the expected credit losses of these collectively assessed amounts due from fellow subsidiaries were HK$4,978,000 (2022: HK$743,000) based on expected loss rate at 0.09% (2022: 0.07%) applied on different customer sectors.

The loss allowances for amount due from fellow subsidiaries as at 31 December 2023 reconcile to the opening loss allowance as follows:

	State-owned enterprise HK$'000
At 1 January 2022	3,030
Decrease in loss allowance recognised in profit or loss during the year	(2,063)
Unused amount reversed	(42)
Exchange difference	(182)
At 31 December 2022 and 1 January 2023	**743**
Increase in loss allowance recognised in profit or loss during the year	**4,290**
Unused amount reversed	**(36)**
Exchange difference	**(19)**
At 31 December 2023	**4,978**

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Amount due from fellow subsidiaries (Continued)

Amount due from fellow subsidiaries are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

Impairment losses on amount due from fellow subsidiaries are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Other financial assets at amortised cost

For other financial assets at amortised cost, including deposits and other receivables, the expected credit loss is based on the 12 months expected losses. It is the portion of lifetime expected credit loss that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime expected credit loss.

For deposit and other receivables relating to accounts in which there are objective evidence that the likelihood of settlement from counterparties are remote, they are assessed individually for impairment allowance. Accordingly specific loss allowance of HK$4,311,000 (2022: HK$3,568,000) was made as at 31 December 2023.

As at 31 December 2023, the expected credit losses of these collectively assessed deposits and other receivables were HK$582,000 (2022: HK$2,707,000) based on expected loss rates approximately to 0.24% – 2.13% (2022: 1.09%) applied on counterparties' sectors.

As at 31 December 2023 and 2022, the Group provides for credit losses against other financial assets at amortised cost as follows:

The Group's internal credit rating	Basis for recognition of expected credit loss provision	Estimated gross carrying amount at default HK$'000	Carrying amount (net of impairment provision) HK$'000
31 December 2023			
Performing	12 months expected loss	**235,131**	**230,238**
31 December 2022			
Performing	12 months expected loss	200,911	194,636

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Other financial assets at amortised cost (Continued)

The loss allowances for other financial assets at amortised cost as at 31 December 2023 reconcile to the opening loss allowances as follows:

	State-owned enterprise HK$'000	Non state-owned enterprise HK$'000	Total HK$'000
At 1 January 2022	1,081	4,388	5,469
Increase in loss allowance recognised in profit or loss during the year	313	1,461	1,774
Unused amount reversed	(651)	(168)	(819)
Exchange difference	(136)	(13)	(149)
At 31 December 2022 and 1 January 2023	**607**	**5,668**	**6,275**
Increase in loss allowance recognised in profit or loss during the year	**865**	**86**	**951**
Unused amount reversed	**(47)**	**(2,228)**	**(2,275)**
Exchange difference	**(13)**	**(45)**	**(58)**
At 31 December 2023	**1,412**	**3,481**	**4,893**

Cash and cash equivalents

There is no allowance for cash and cash equivalents as at 31 December 2023 (2022: same).

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk

Liquidity risk refers to the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial assets.

Prudent liquidity risk management implies maintaining sufficient cash and bank balances. The Group's liquidity risk is further mitigated through the availability of financing through its own cash resources and the availability of banking facilities to meet its financial commitments. In the opinion of the directors, the Group does not have any significant liquidity risk.

The table below analyses the Group's financial liabilities into relevant maturity groupings 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 (including interests payments computed using contractual rates, or if floating, based on the current rates at the year-end dates during the year). Where the loan agreement contains a repayable on demand clause which gives the lender the unconditional right to call the loan at any time, the amounts repayable are classified in the earliest time bracket in which the lender could demand repayment. The maturity analysis for other borrowings is prepared based on the scheduled repayment dates. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	On demand and less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
As at 31 December 2023					
Trade, retention and notes payables	**2,366,505**	**–**	**–**	**–**	**2,366,505**
Accruals and other payables	**287,013**	**–**	**–**	**–**	**287,013**
Lease liabilities	**2,463**	**1,533**	**–**	**–**	**3,996**
Borrowings and interest payables	**1,565,532**	**4,126**	**11,528**	**125,496**	**1,706,682**
Loans from an intermediate holding company	**23,145**	**136,500**	**–**	**–**	**159,645**
Amounts due to fellow subsidiaries	**69,909**	**–**	**–**	**–**	**69,909**
Amounts due to non-controlling interests	**11,045**	**–**	**–**	**–**	**11,045**
Amount due to a related company	**386**	**–**	**–**	**–**	**386**
Amount due to ultimate holding company	**4,830**	**–**	**–**	**–**	**4,830**
As at 31 December 2022					
Trade, retention and notes payables	2,599,104	–	–	–	2,599,104
Accruals and other payables	263,410	–	–	–	263,410
Lease liabilities	2,116	2,045	1,438	–	5,599
Borrowings and interest payables	917,677	191,107	27,976	–	1,136,760
Loans from an intermediate holding company	23,006	136,435	–	–	159,441
Amounts due to fellow subsidiaries	35,536	–	–	–	35,536
Amounts due to non-controlling interests	47,163	–	–	–	47,163
Amount due to a related company	909	–	–	–	909

3 Financial risk management (Continued)

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Group consists of equity and borrowings. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce borrowings. The Group monitors capital on the basis of debt-to-equity ratio. The debt-to-equity ratio is calculated as net debt divided by total equity. Net debt is calculated as borrowings and loan from an intermediate holding company less cash and cash equivalents, time deposits, restricted cash and pledged bank deposits. The debt-to-equity ratios as at 31 December 2023 and 2022 are as follows:

	2023 HK$'000	2022 HK$'000
Borrowings (note 29)	1,612,683	1,092,566
Loan from an intermediate holding company (note 35(c))	145,852	145,852
Less: cash and cash equivalents, time deposits with maturity over 3 months, restricted cash and pledged bank deposits (note 25)	(205,394)	(565,649)
Net debt	1,553,141	672,769
Total equity	480,475	624,317
Debt to equity ratio	323.3%	107.8%

3.3 Fair value estimation

(i) Valuation inputs and relationships to fair value

During the year ended 31 December 2023, the Group recognised a financial asset regarding the contingent consideration ("Contingent Consideration") upon the acquisition of Qingdao Bei Fang Construction Design and Research Company Limited. The fair value measurement of the Contingent Consideration is categorised into level 3 in the fair value hierarchy based on the inputs to valuation techniques used. There were no transfer between Level 1, 2 and 3 during the year ended 31 December 2023 (2022: Nil).

This section explains the judgments and estimates made in determining the fair value of the financial instrument that is recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Company has classified its financial instrument into the three levels prescribed under the accounting standards. An explanation follows underneath the table.

3 Financial risk management (Continued)

3.3 Fair value estimation (Continued)

(i) Valuation inputs and relationships to fair value (Continued)

Description	Fair value HK$'000	Valuation techniques	Key inputs	Range of significant inputs	Relationship of inputs to fair value
At 31 December 2023					
Contingent consideration	1,246	Scenario-based analysis	(i) Discount rate	27% (2022: N/A)	(i) A decrease/ increase in discount rate by 10% would increase/decrease the fair value by HK$269,000/ HK$206,000
			(ii) Estimated accumulated profit in 2023-2025	RMB0 – 7,130,000 (2022: N/A)	(ii) If the estimated accumulated profit increase/decrease 10%, the fair value would decrease/ increase by HK$125,000

3 Financial risk management (Continued)

3.3 Fair value estimation (Continued)

(i) Fair value hierarchy (Continued)

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Company are the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities gives rise to a significant unobservable adjustment.

(ii) Valuation processes

The Group engage an external valuation team to perform valuation on these level 3 instruments for financial reporting purposes. During the valuation processes, the Group management have discussed with the external valuation team about the key basis and assumptions to determine the valuation of level 3 financial assets.

As these instruments are not traded in an active market, their fair values have been determined by using various applicable valuation techniques, including scenario-based analysis.

3.4 Fair value of financial assets and liabilities measured at amortised cost

The carrying amount of the Group's financial assets and liabilities, including cash and cash equivalents, time deposits, restricted cash, pledged bank deposits, trade, retention and notes receivables, deposits and other receivables, amounts due from fellow subsidiaries, trade, retention and notes payables, accruals and other payables, loans from an intermediate holding company, amount due to a related company, amounts due to non-controlling interests, amount due to fellow subsidiaries, amount due to ultimate holding company, lease liabilities and borrowings approximate their fair values, which either due to their short-term maturities, or that they are subject to floating rates or market interest rates.

3 Financial risk management (Continued)

3.5 Financial instruments by category

	2023 HK$'000	2022 HK$'000
Financial assets at amortised cost		
Trade, retention and notes receivables, deposits and other receivables	1,395,301	1,054,812
Amounts due from fellow subsidiaries	1,173,138	1,056,869
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	324,495
Total	2,773,833	2,677,366
Financial asset at fair value through profit or loss		
Option	1,246	–
Financial liabilities at amortised cost		
Trade, retention and notes payables, accruals and other payables	2,653,518	2,862,514
Loans from an intermediate holding company	145,852	145,852
Amount due to a related company	386	909
Amount due to non-controlling interests	11,045	47,163
Amounts due to fellow subsidiaries	69,909	35,536
Amount due to ultimate holding company	4,830	–
Lease liabilities	3,848	5,436
Borrowings	1,612,683	1,092,566
Total	4,502,071	4,189,976

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Construction contracts

The Group reviews and revises the estimates of contract revenue, contract costs, variation orders and contract claims prepared for each construction contract as the contract progresses. Budgeted construction costs are prepared by the management on the basis of quotations from time to time provided by the major contractors, suppliers or vendors involved and the experience of the management. In order to keep the budget accurate and up-to-date, management conducts periodic reviews of the budgets of contracts by comparing the budgeted amounts to the actual amounts incurred. Such significant estimate may have impact on the profit recognised in each period.

In addition, significant judgement is required to assess the recoverability of contract costs incurred as a result of difference between the amount applied to and the amount certified by the main contractor.

The progress towards complete satisfaction of the performance obligation is measured by reference to the proportion of contract cost incurred for work performed to date bear to the estimated total construction costs. Because of the nature of the activity undertaken in construction contracts, the date at which the contract activity is entered into and the date when the activity is completed usually fall into different accounting period. The Group reviews and revised the estimates of contract revenue, contract costs, variation orders and contract claims prepared for each construction contract as the contract progresses. Management regularly reviews the progress of the contracts and the corresponding costs of the contract.

(b) Impairment of trade, retention and notes receivables and amounts due from fellow subsidiaries and contract assets

The loss allowances for trade, retention and notes receivables and amounts due from fellow subsidiaries and contract assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the customers' past default history, existing market conditions as well as forward-looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in Note 3.1(b).

4 Critical accounting estimates and judgements (Continued)

(c) Impairment assessment of goodwill

The Group tests whether goodwill has suffered any impairment on an annual basis. For the 2023 reporting period, the recoverable amounts of cash-generating units ("CGUs") was determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering a five-year period.

Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated in note 18. These growth rates are consistent with forecasts included in industry reports specific to the industry in which each CGU operates.

Details of impairment charge, key assumptions and impact of possible changes in key assumptions are disclosed in note 18.

(d) Classification of acquisition of 34% equity interest in Qingdao Honghai Curtain Wall Company Limited ("Honghai Curtain Wall")

The classification of an investment as a subsidiary is based on whether the Group is determined to have control over the investee, which involves judgments through the analysis of various factors, including the Group's representation on the chief decision-making authorities of an investee. As the Group is entitled to appoint a majority number of directors of Honghai Curtain Wall and is able to control its management and operation, the identifiable assets and liabilities of Honghai Curtain Wall is accounted for in the consolidated financial statements of the Group at their fair value under the acquisition method.

5 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 comprising three operating segments, marine construction works, provision of auxiliary marine related services and general construction contracting services. They review financial information accordingly.

Segment revenue is measured in a manner consistent with that in the consolidated statement of profit or loss.

Segment assets mainly consist of current assets and non-current assets as disclosed in the consolidated balance sheet except for cash and bank balances and other corporate assets.

5 Segment information (Continued)

Segment liabilities mainly consist of current liabilities and non-current liabilities as disclosed in the consolidated balance sheet except for income tax payable, deferred tax liabilities, borrowings, loans from an intermediate holding company and certain corporate liabilities.

(a) Revenue and results for the Group's reportable segments

	Marine construction works HK$'000	Provision of auxiliary marine related services HK$'000	General construction contracting services HK$'000	Total HK$'000
For the year ended 31 December 2023				
Segment revenue from external customers	104,533	69,528	1,951,810	2,125,871
Segment results	(62,383)	(34,251)	65,111	(31,523)
Unallocated expenses				(57,000)
Depreciation of investment properties				(1,316)
Depreciation of property, plant and equipment				(6,154)
Depreciation of right-of-use assets				(4,406)
Finance costs, net				(67,714)
Loss before income tax				(168,113)
Income tax expenses				(13,522)
Loss for the year				(181,635)
Included in segment results are:				
Depreciation of property, plant and equipment	(15,996)	(3,243)	(3,040)	(22,279)
Amortisation of intangible assets	–	–	(3,474)	(3,474)

5 Segment information (Continued)

(a) Revenue and results for the Group's reportable segments (Continued)

	Marine construction works HK$'000	Provision of auxiliary marine related services HK$'000	General construction contracting services HK$'000	Total HK$'000
For the year ended 31 December 2022				
Segment revenue from external customers	425,353	34,190	2,419,668	2,879,211
Segment results	5,665	1,412	112,630	119,707
Unallocated expenses				(37,686)
Depreciation of investment properties				(817)
Depreciation of property, plant and equipment				(2,366)
Depreciation of right-of-use assets				(3,837)
Finance costs, net				(55,247)
Profit before income tax				19,754
Income tax expenses				(9,216)
Profit for the year				10,538
Included in segment results are:				
Depreciation of property, plant and equipment	(15,699)	(4,256)	(3,206)	(23,161)
Amortisation of intangible assets	–	–	(3,833)	(3,833)

5 Segment information (Continued)

(b) Total assets for the Group's reportable segments

	Marine construction works HK$'000	Provision of auxiliary marine related services HK$'000	General construction contracting services HK$'000	Total HK$'000
At 31 December 2023				
Segment assets	**640,124**	**57,477**	**3,927,401**	**4,625,002**
Unallocated assets				**410,602**
Total assets				**5,035,604**
Additions to non-current assets	**20,383**	**35,419**	**4,629**	**60,431**
At 31 December 2022				
Segment assets	513,958	221,428	3,532,791	4,268,177
Unallocated assets				625,817
Total assets				4,893,994
Additions to non-current assets	9,051	4,595	32,559	46,205

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

5 Segment information (Continued)

(c) Total liabilities for the Group's reportable segments

	Marine construction works HK$'000	Provision of auxiliary marine related services HK$'000	General construction contracting services HK$'000	Total HK$'000
At 31 December 2023				
Segment liabilities	**71,135**	**41**	**2,390,783**	**2,461,959**
Borrowings				**1,612,683**
Loan from an intermediate holding company				**145,852**
Income tax payable				**18,929**
Deferred tax liabilities				**1,898**
Unallocated liabilities				**313,808**
Total liabilities				**4,555,129**
At 31 December 2022				
Segment liabilities	61,501	5,224	2,597,571	2,664,296
Borrowings				1,092,566
Loan from an intermediate holding company				145,852
Income tax payable				31,811
Deferred tax liabilities				9,435
Unallocated liabilities				325,717
Total liabilities				4,269,677

5 Segment information (Continued)

(d) Geographical information

(i) Revenue from external customers

The Group's revenue from external customers attributable to the countries from which the Group derives revenue based on marine construction works, general construction contracting services and provision of auxiliary marine related services.

	Year ended 31 December	
	2023	2022
	HK$'000	HK$'000
Hong Kong	**161,828**	270,650
Mainland China	**1,951,810**	2,419,668
Indonesia	**9,045**	13,136
Macao	**3,188**	173,089
Cambodia	**–**	2,668
	2,125,871	2,879,211

5 Segment information (Continued)

(d) Geographical information (Continued)

(ii) Non-current assets

The Group's information about its non-current assets including property, plant and equipment and investment properties located in the country of domicile are detailed below:

Based on countries of domicile of companies holding the assets:

	As at 31 December	
	2023	2022
	HK$'000	HK$'000
Hong Kong	200,069	201,899
Mainland China	122,730	130,215
Indonesia	7,399	7,891
Macao	5,570	6,904
	335,768	346,909

Based on physical location of the assets:

	As at 31 December	
	2023	2022
	HK$'000	HK$'000
Hong Kong	142,901	91,297
Indonesia	7,399	7,891
Macao	6,466	55,176
Mainland China	143,505	154,199
Malaysia	–	12,825
Pakistan	22,019	23,640
Philippines	13,478	1,881
	335,768	346,909

5 Segment information (Continued)

(e) Information about major customers

Revenue from customers contributing over 10% of the total revenue of the Group, all of which being fellow subsidiaries of the Company, is as follows:

	2023 HK$'000	2022 HK$'000
Qingdao West Coast New District Development Limited	**255,795**	521,307
Qingdao West Coast Technology Innovation Development Co., Limited	**N/A**[a]	313,695

(a) The corresponding customers did not contribute over 10% of the total revenue of the Group for the specific year.

6 Revenue

Accounting policy

(a) Provision of marine construction services and general construction services

Revenue from the marine construction services and general construction services is recognised over time as the Group's performance creates or enhances an asset or work in progress that the customer controls as the asset is created or enhanced. The Group has applied the input method in recognising the revenue from construction contracts over time by reference to the Group's efforts or inputs to the satisfaction on a performance obligation relative to the total expected inputs to the satisfaction of the performance obligation. The Group considers the input method better depicts the Group's performance in transferring control of goods or services to their customers.

For contracts that contain variable consideration (variation order of construction work), the Group estimates the amount of consideration to which it will be entitled using the most likely amount.

The estimated amount of variable consideration is included in the transaction price only to the extent that is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

When there is change in circumstances, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to better predict the circumstances present at the end of the reporting period and the changes in circumstances during the year.

6 Revenue (Continued)

Accounting policy (Continued)

(b) Provision of auxiliary marine related services

The Group provides auxiliary marine related services. Revenue is recognised over time when the relevant services are rendered, and the Group's performance provide all of the benefits received and consumed simultaneously by the customers.

(c) Contract assets and contract liabilities

Upon entering into a contract with a customer, the Group obtains rights to receive consideration from the customer and assume performance obligations to transfer goods or services to the customer. The combination of those rights and performance obligations give rise to a net asset or net liability depending on the relationship between the remaining rights and the performance obligations. The contract is an asset and recognised as contract assets if the measure of the remaining conditional rights to consideration exceeds the satisfied performance obligations. Conversely, the contract is a liability and recognised as contract liabilities if consideration received (or an amount of consideration is due) from the customer exceed the measure of the remaining unsatisfied performance obligations. In the consolidated balance sheet, the contract assets mainly consist of unbilled revenue and prepayments arising from the construction contracts. Contract liabilities mainly consist of the Group's obligations to transfer the control of performance obligation to the customers for which the Group has received consideration from the customers.

Revenue

	2023 HK$'000	2022 HK$'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
	2,125,871	2,879,211

7 Other gains, net

Accounting policy

(a) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received, and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Other gains, net

	2023 HK$'000	2022 HK$'000
Gains on disposal of plant and equipment	973	88
Loss on disposal of intangible asset	(221)	–
Government grants (note)	1,361	3,013
Foreign exchange (loss)/gains, net	(2,847)	9,016
Rental income from investment properties (note 16)	1,013	667
Export tax refund	85	375
Gain from sale of scrap materials	–	236
Loss on dissolution of a joint venture	–	(255)
Gains on disposal of right-of-use assets	–	67
Fair value gain on financial asset at fair value through profit or loss	1,125	–
	1,489	13,207

Note: Government grants in 2023 mainly related to grant from PRC government to support the Company's innovation development (2022: wage support from the government of Hong Kong in respect of the COVID-19 pandemic). There were no unfulfilled condition and other contingencies attached to the receipts of those subsidies.

8 Expenses by nature

	2023 HK$'000	2022 HK$'000
Cost of providing services		
Consultancy and design fee	8,097	3,295
Depreciation of property, plant and equipment (note 15)	22,279	23,161
Insurance	3,348	3,935
Materials (note 20)	772,663	1,018,346
Subcontracting charges	885,364	1,281,489
Staff costs (note (a))	102,650	120,343
Lease expenses relating to short-term lease of machineries and equipment (note 17)	80,979	113,439
Repair and maintenances	4,211	7,997
Transportation	3,398	8,033
Site expenses	32,651	40,345
Customs duties	3,621	3,932
Provision for onerous contract	–	5,585
Others	25,513	28,692
	1,944,774	2,658,592
Other administrative expenses		
Staff costs, including directors' emoluments (note (a))	85,944	66,145
Auditors' remuneration		
– Audit services	2,464	2,899
Depreciation of property, plant and equipment (note 15)	6,154	2,366
Depreciation of right-of-use assets (note 17)	4,406	3,837
Depreciation of investment properties (note 16)	1,316	817
Amortisation of intangible assets (note 19)	3,474	3,833
Impairment of goodwill (note 18)	448	–
Impairment of intangible assets (note 19)	1,913	–
Leases expenses relating to short-term leases and leases of low-value assets (note 17)	11,100	3,004
Professional fee – others	19,444	18,480
Consumables expenses	35	2,903
Entertainment fee	1,680	1,542
Travelling expense	3,351	3,560
Bank charges	4,616	2,768
Others	27,309	17,476
	173,654	129,630
Research and development expenses (note)	22,556	17,934
Total cost of sales, research and development expenses and other administrative expenses	2,140,984	2,806,156

Note: During the year ended 31 December 2023, the amount of research and development expenses of HK$22,556,000 (2022: HK$17,934,000) represented the research and development of curtain wall engineering and construction technology.

8 Expenses by nature (Continued)

Note (a):

	2023 HK$'000	2022 HK$'000
Wages and salaries	174,568	171,940
Pension costs – defined contribution plans (note (i))	10,033	13,812
Other employment benefits	3,993	736
	188,594	186,488
Included in cost of sales	(102,650)	(120,343)
Included in administrative expenses	(85,944)	(66,145)

(i) The Group participates in a Mandatory Provident Fund scheme (the "MPF Scheme") in accordance with the Mandatory Provident Fund Scheme Ordinance of Hong Kong. Under the rules of the MPF Scheme, the employer and its employees in Hong Kong are each required to contribute 5% of the employees' gross earnings with a ceiling of HK$1,500 per month.

The Group also participates in an employee social security plan (the "Social Security Plan") and contributes a fixed amount for each employee as required by the regulations in Macao.

The Group participates in an employee social security programme (the "Social Security Programme") in Indonesia, providing compensation in the event of working accidents, death, old age, and in case of sickness and hospitalisation. Under the Social Security Programme, the employer is required to contribute a fixed percentage of the employee's salaries every month.

The Group's subsidiaries in the People's Republic of China (the "PRC") participate in defined contribution retirement benefit plans organised by relevant government authorities for its employees in the PRC and contribute to these plans based on certain percentage of the salaries of the employees on a monthly basis, up to a maximum fixed monetary amount, as stipulated by the relevant government authorities. The government authorities undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans. Contributions to these retirement benefits schemes are charged to the consolidated statement of profit or loss as incurred.

The only obligation of the Group with respect to the MPF Scheme, the Social Security Plan and the Social Security Programme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in future year.

9 Finance costs, net

Accounting policy

(a) Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

	2023 HK$'000	2022 HK$'000
Finance income		
– Interest income on bank balances	3,751	3,487
Finance costs		
– Interest expenses on loan from an immediate holding company (note 35(b))	(3,545)	(5,698)
– Interest expenses on bank loans	(67,699)	(53,450)
– Interest expenses on lease liabilities (note 17)	(221)	(100)
– Amortisation of loan arrangement fee	–	(1,250)
	(71,465)	(60,498)
Less: capitalised interests	–	1,764
	(71,465)	(58,734)
Finance costs, net	(67,714)	(55,247)

10 Income tax expenses

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

	2023 HK$'000	2022 HK$'000
Hong Kong profits tax		
Current income tax	–	19
PRC Corporate income tax		
Current income tax	13,920	16,308
Indonesia income tax		
Withholding income tax	214	264
Macao complementary income tax		
Current income tax	–	957
Deferred income tax (note 27)	(612)	(8,332)
Income tax expenses	13,522	9,216

(a) Hong Kong profits tax has been provided at the rate of 8.5% 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% (2022: 12%) on the estimated assessable profit for the year.

10 Income tax expenses (Continued)

The tax on the Group's (loss)/profit before income tax differs from the theoretical amount that would arise using the tax rate of Hong Kong as follows:

	2023 HK$'000	2022 HK$'000
(Loss)/profit before income tax	**(168,113)**	19,754
Calculated at tax rate of 16.5% (2022: 16.5%)	**(27,738)**	3,259
Tax effects of:		
Withholding tax	**214**	264
Effect of different tax rates in other territories	**(460)**	1,685
Income not subject to tax*	**(1,093)**	(3,418)
Expenses not deductible for tax purposes	**21,707**	7,146
Tax losses for which no deferred income tax asset was recognised	**12,460**	280
Reversal of previously recognised tax losses	**8,432**	–
Income tax expenses	**13,522**	9,216

* Include income subject to withholding tax calculated based on revenue from projects instead of assessable profits.

11 Dividends

Accounting policy

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and Company's consolidated financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

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

12 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 (thousands)	**800,000**	800,000
Basic loss per share (HK cents)	**(23.61)**	(1.52)

(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).

13 Emoluments for directors and five highest paid individuals

(a) Directors' emoluments

The emoluments of individual directors of the Company during the year which were included in the staff costs as disclosed in note 8 are set out below:

For the year ended 31 December 2023

	Salaries HK$'000	Employer's Contribution to pension scheme HK$'000	Fees HK$'000
Executive directors			
Mr. Jiang Hongchang (note i)	–	–	–
Mr. Liu Yutao (note i)	–	–	–
Mr. Yang Honghai	–	–	–
Mr. Ni Chuchen (note i)	802	18	820
Mr. Du Jianzhi (note vi)	–	–	–
Mr. Yang Zhenshan (note v)	420	9	429
	1,222	27	1,249
Non-executive director			
Mr. Cui Qi (note iv)	–	–	–
Independent non-executive directors			
Mr. Cheung Chi Man Dennis	259	–	259
Mr. Wang Yaping	259	–	259
Mr. Cheng Xue Zhan	259	–	259
Ms. Chen Yan (note vii)	–	–	–
	777	–	777

13 Emoluments for directors and five highest paid individuals (Continued)

(a) Directors' emoluments (Continued)

For the year ended 31 December 2022 (Continued)

	Salaries HK$'000	Employer's Contribution to pension scheme HK$'000	Fees HK$'000
Executive directors			
Mr. Yang Zhenshan	752	18	770
Mr. Ni Chuchen (note i)	391	8	399
Mr. Ding Hongbin (note ii)	–	–	–
Mr. Jiang Hongchang (note i)	–	–	–
Mr. Jiang Shuang (note ii)	–	–	–
Mr. Liu Yutao (note i)	–	–	–
Mr. Yang Honghai	–	–	–
Mr. Wang Xuejun (note ii)	–	–	–
	1,143	26	1,169
Non-executive director			
Mr. Cui Qi (note iii)	1,607	12	1,619
Independent non-executive directors			
Mr. Cheng Xue Zhan	248	–	248
Mr. Cheung Chi Man Dennis	248	–	248
Mr. Wang Yaping	248	–	248
	744	–	744

Notes:

(i) Mr. Jiang Hongchang, Mr. Liu Yutao and Mr. Ni Chuchen were appointed as the Company's directors on 28 June 2022.

(ii) Mr. Ding Hongbin, Mr. Jiang Shuang and Mr. Wang Xuejun were retired as the Company's directors on 28 June 2022.

(iii) Mr. Cui Qi was re-designated from executive director to non-executive director on 28 June 2022.

(iv) Mr. Cui Qi was resigned as non-executive director of the Company on 23 May 2023.

(v) Mr. Yang Zhenshan was retired as the Company's directors on 27 June 2023.

(vi) Mr. Du Jianzhi was appointed as the Company's director on 27 June 2023.

(vii) Ms. Chen Yan was appointed as the independent non-executive director on 20 December 2023.

13 Emoluments for directors and five highest paid individuals (Continued)

(a) Directors' emoluments (continued)

During the year ended 31 December 2023, none of the directors of the Company (i) received or were paid any remuneration in respect of accepting office; and (ii) waived or has agreed to waive any emolument (2022: nil).

During the year ended 31 December 2023, no retirement benefits, payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor are any payable. No consideration was provided to or receivable by third parties for making available directors' services (2022: nil).

During the years ended 31 December 2023 and 2022, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year, other than those disclosed in note 35 of the consolidated financial statements.

Those directors without payment from the Company received emoluments from the ultimate holding company, part of which are in relation to their services to the Company. No apportionment has been done as the directors consider that it is impractical to apportion the amount between their services to the Company and their services to the ultimate holding company, and the amount is immaterial.

(b) Five highest paid individuals

For the year ended 31 December 2023, the five (2022: five) individuals whose emoluments were the highest in the Group include two (2022: two) directors, whose emoluments were reflected in the analysis presented above. The emoluments paid to the remaining three (2022: three) individuals are as follows:

	2023 HK$'000	2022 HK$'000
Salaries, bonus and other allowances	2,580	2,514
Pension costs – defined contribution plans	54	48
	2,634	2,562

The emoluments of the remaining individuals fell within the following band:

	2023	2022
Nil – HK$1,000,000	3	3

During the year ended 31 December 2023, no emolument was paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for the loss of office (2022: nil).

14 Subsidiaries

The following is a list of principal subsidiaries at 31 December 2023 and 2022:

Name	Place of incorporation and type of legal entity	Principal activities and place of operation	Issued share and fully paid share capital 2023	2022	Effective interest held as at 2023	2022
Directly held by the Company:						
Prosper Construction Group Ltd.	British Virgin Islands, limited liability company	Investment holding	HK$2	HK$2	100%	100%
West Coast Development (International) Limited	British Virgin Islands, limited liability company	Investment holding	US$1,000,000	US$1,000,000	100%	100%
Indirectly held by the Company:						
Hong Kong River Engineering Company Limited	Hong Kong, limited liability company	Provision of engineering and construction works in Hong Kong	HK$60,000,000	HK$60,000,000	100%	100%
Creator Pacific Limited	Hong Kong, limited liability company	Letting of vessels for rental income, trading of vessels and provision of repairing services to the vessels	HK$38,000,000	HK$38,000,000	100%	100%
PT. Indonesia River Engineering	Indonesia, limited liability company	Provision of engineering and construction works in Indonesia	US$400,000	US$400,000	100%	100%
Hong Kong River (Macao) Engineering Company Limited (香港瑞沃(澳門)工程有限公司)	Macao, limited liability company	Provision of engineering and construction works in Macao	MOP100,000	MOP100,000	100%	100%
Creator Pacific (M) SDN. BHD	Malaysia, limited liability company	Provision of engineering and construction works in Malaysia	RM1	RM1	100%	100%
West Coast Development (Hong Kong) Limited	Hong Kong, limited liability company	Investment holding company	US$1,000,000	US$1,000,000	100%	100%
Qingdao Xifa Ruihai Industrial Development Limited	Mainland China, limited liability company	Investment holding	US$1,000,000	US$1,000,000	100%	100%

14 Subsidiaries (Continued)

Name	Place of incorporation and type of legal entity	Principal activities and place of operation	Issued share and fully paid share capital 2023	2022	Effective interest held as at 2023	2022
Qingdao Dongjie Construction Engineering Co., Ltd. ("Qingdao Dongjie")	Mainland China, limited liability company	Provision of construction services in the PRC	RMB50,000,000	RMB50,000,000	80%	80%
Qingdao Honghai Curtain Wall Company Limited ("Honghai Curtain Wall") (Note a)	Mainland China, limited liability company	Provision of construction services in the PRC	RMB50,000,000	RMB50,000,000	34%	34%
Qingdao Bei Fang Construction Design and Research Company Limited ("Bei Fang Construction") (Note b)	Mainland China, limited liability company	Provision of construction design and consultation services in the PRC	RMB10,769,200	N/A	35%	–
Hoi Hao Company Limited	Macao, limited liability company	Inactive	MOP$100,000	N/A	100%	–
Ruiwo (Zhuhai Hengqin) Construction Engineering Co., Ltd.	Mainland China, limited liability company	Inactive	RMB10,000,000	N/A	100%	–

Notes:

a. The company was acquired by a non-wholly owned subsidiary on 13 January 2021. The Group is entitled to appoint a majority number of directors of Honghai Curtain Wall and is able to control its management and operation. Accordingly, Honghai Curtain Wall is an indirect non-wholly owned subsidiary of the Company and its financial results, assets and liabilities are accounted for in the consolidated financial statement of the Group.

b. The company was acquired by a non-wholly owned subsidiary indirectly held by the Company from independent third parties at the purchase consideration of approximately HK$5,455,000 (equivalent to RMB4,862,000) on 10 January 2023. The Group is entitled to appoint a majority number of directors of Bei Fang Construction and is able to control its management and operation. Accordingly, Bei Fang Construction is an indirect non-wholly owned subsidiary of the Company and its financial results, assets and liabilities are accounted for in the consolidated financial statement of the Group.

The revenue and results contributed by Bei Fang Construction for the period since acquisition date were immaterial to the Group and the Group's revenue and results for the year would not be materially different if this acquisition had occurred at the beginning of the year ended 31 December 2023.

15 Property, plant and equipment

Accounting policy

Depreciation of both owned and leased plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Buildings	35 years
Vessels	20 years
Machinery and equipment	3 – 10 years
Furniture and fixtures	5 years
Motor vehicles	5 – 10 years
Office equipment	3 – 10 years

See Note 38.9 for the other accounting policies relevant to property, plant and equipment.

	Buildings	Furniture and fixtures	Office equipment	Machinery and equipment	Vessels	Motor vehicles	Construction in-progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2022								
Cost	19,839	260	8,581	87,911	273,701	4,584	73,173	468,049
Accumulated depreciation	(1,958)	(207)	(1,983)	(41,109)	(82,832)	(1,953)	–	(130,042)
Net book amount	17,881	53	6,598	46,802	190,869	2,631	73,173	338,007
Year ended 31 December 2022								
Opening net book amount	17,881	53	6,598	46,802	190,869	2,631	73,173	338,007
Additions	1,562	29	2,722	1,958	12,529	83	26,730	45,613
Transfer to investment properties (note 16)	(8,101)	–	–	–	–	–	–	(8,101)
Transfer from construction in process	92,897	–	725	2,108	–	–	(95,730)	–
Disposal	–	–	(4)	(900)	–	(30)	–	(934)
Depreciation (note 8)	(82)	(26)	(2,243)	(8,564)	(13,957)	(655)	–	(25,527)
Exchange difference	(11,185)	–	(472)	(988)	(727)	(165)	(4,173)	(17,710)
Closing net book amount	92,972	56	7,326	40,416	188,714	1,864	–	331,348
At 31 December 2022								
Cost	94,192	289	11,331	89,584	285,239	3,964	–	484,599
Accumulated depreciation	(1,220)	(233)	(4,005)	(49,168)	(96,525)	(2,100)	–	(153,251)
Net book amount	92,972	56	7,326	40,416	188,714	1,864	–	331,348

15 Property, plant and equipment (Continued)

	Buildings HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Machinery and equipment HK$'000	Vessels HK$'000	Motor vehicles HK$'000	Total HK$'000
Year ended 31 December 2023							
Opening net book amount	92,972	56	7,326	40,416	188,714	1,864	331,348
Additions	2,086	8	1,424	499	54,470	1,674	60,161
Disposal	(103)	–	(244)	(95)	(39,094)	(142)	(39,678)
Depreciation (note 8)	(3,253)	(25)	(2,725)	(7,980)	(13,786)	(664)	(28,433)
Exchange difference	(384)	–	(839)	(90)	79	(50)	(1,284)
Closing net book amount	91,318	39	4,942	32,750	190,383	2,682	322,114
At 31 December 2023							
Cost	92,766	295	11,709	89,479	268,806	4,744	467,799
Accumulated depreciation	(1,448)	(256)	(6,767)	(56,729)	(78,423)	(2,062)	(145,685)
Net book amount	91,318	39	4,942	32,750	190,383	2,682	322,114

As at 31 December 2023, the Group's properties, plant and equipment with carrying amounts of HK$90,710,000 (2022: HK$91,805,000) were secured for a bank facility which covers loans of HK$78,423,000 (2022: HK$22,646,000) as at 31 December 2023 and 2022.

16 Investment properties

Accounting policy

Investment properties are interest in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. The Group has adopted the cost model under HKAS 40 to account for its investment properties and such properties is stated at cost less depreciation and any impairment losses. Depreciation is calculated on the straight-line basis to write off the cost of the investment properties to its residual value over its estimated useful life. Depreciation of investment properties is calculated using the straight-line method to allocate their costs to their residual values over the estimated useful lives of 35 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Gains or losses on disposals are determined by comparing proceeds with carrying amount and are recognised in the consolidated statement of profit or loss.

16 Investment properties (Continued)

Accounting policy (Continued)

The investment properties are measured at cost less accumulated depreciation and provision for any impairment in value. Set out below is the movement of the investment properties for the year ended 31 December 2023:

	2023 HK$'000	2022 HK$'000
At 1 January		
Opening net book value	15,561	9,325
Transfer from property, plant and equipment (note 15)	–	8,101
Depreciation (note 8)	(1,316)	(817)
Exchange difference	(591)	(1,048)
Carrying amount	13,654	15,561
Year ended 31 December		
Cost	18,459	18,847
Accumulated depreciation	(4,405)	(2,886)
Accumulated impairment	(400)	(400)
Carrying amount	13,654	15,561

(a) Amounts recognised in consolidated statement of profit or loss for investment properties

	2023 HK$'000	2022 HK$'000
Rental income from operating leases (note 7)	1,013	667
Direct operating expenses of properties that did not generate rental income	(1,498)	(802)

(b) Leasing arrangement

The investment properties were leased to tenants under operating leases with rentals prepaid 1 year in advance.

16 Investment properties (Continued)

Accounting policy (Continued)

(c) Fair value of investment properties

The fair value of the investment properties of the Group as at 31 December 2023 was HK$30,105,000 (2022: HK$28,441,000) representing the valuation carried out by an independent professionally qualified valuer.

For the year ended 31 December 2023, the fair value is estimated using an income capitalisation approach (2022: income capitalisation approach). Under the income capitalisation approach, fair value is estimated by applying assumptions for capitalisation rates and notional income, which are influenced by the prevailing market yields, comparable market transactions and discount rates. Under the direct comparison approach, fair value is estimated by using the direct comparison method on the assumption of the sale of the property interest with the benefit of vacant possession and by making reference to comparable sales transactions as available in the market.

The valuation takes into account the characteristics of the investment property, which include the location, size, shape, view, year of completion and other factors collectively, to arrive at the unit market price. The fair value measurement is based on the above property's highest and best use, which does not differ from the actual use.

For the year ended 31 December 2023, the key input is the capitalisation rate. A significant increase/decrease in the capitalisation rate will result in a significant decrease/increase in the fair value of the investment properties (2022: same).

17 Right-of-use assets and lease liabilities

Accounting policy

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third-party financing, and
- makes adjustments specific to the lease, e.g., term, country, currency and security.

17 Right-of-use assets and lease liabilities (Continued)

Accounting policy (Continued)

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

17 Right-of-use assets and lease liabilities (Continued)

Accounting policy (Continued)

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

(i) Amounts recognised in the consolidated balance sheet

The consolidated balance sheet shows the following amounts relating to the leases in respect of office premises and staff quarters:

	2023	2022
	HK$'000	HK$'000
Right-of-use assets		
Non-current	**64,457**	68,078
Lease liabilities		
Non-current	**1,503**	3,348
Current	**2,345**	2,088
	3,848	5,436

Additions to the right-of-use assets during the year ended 31 December 2023 was HK$1,200,000 (2022: HK$5,287,000).

As at 31 December 2023, the Group's right-of-use assets with carrying amounts of HK$29,049,000 (2022: HK$29,900,000) were secured for a bank facility which covers loans of HK$78,423,000 (2022: HK$22,646,000) as at 31 December 2023 and 2022.

17 Right-of-use assets and lease liabilities (Continued)

Accounting policy (Continued)

(ii) Amounts recognised in the consolidated statement of profit or loss

The consolidated statement of profit or loss shows the following amounts relating to the leases in respect of office premises and staff quarters:

	2023 HK$'000	2022 HK$'000
Depreciation charge of right-of-use assets (note 8)	4,406	3,837
Interest expenses on lease liabilities (note 9)	221	100
Leases expenses relating to short-term leases of machineries and equipment (note 8)	80,979	113,439
Leases expenses relating to short-term leases and leases of low-value assets (note 8)	11,100	3,004

The total cash outflow for leases during the year ended 31 December 2023 was HK$2,652,000 (2022: HK$4,216,000) excluding short-term leases and leases of low-value assets.

18 Goodwill

Accounting policy

Goodwill arises from the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interests in the acquiree over the fair value of the identifiable net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each CGU or group of CGUs to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken at least annually or if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and cannot be subsequently reversed.

18 Goodwill (Continued)

Goodwill is allocated to the Group's general construction contracting services business from Qingdao Dongjie, Honghai Curtain Wall and Bei Fang Construction.

	Honghai Curtain Wall HK$'000	Qingdao Dongjie HK$'000	Bei Fang Construction HK$'000	Total HK$'000
At 1 January 2022				
Opening net book value	26,382	16,928	–	43,310
Exchange difference	(2,022)	(1,298)	–	(3,320)
Carrying amount	24,360	15,630	–	39,990
Year ended 31 December 2022				
Cost	24,360	15,630	–	39,990
Accumulated impairment	–	–	–	–
Carrying amount	24,360	15,630	–	39,990
At 1 January 2023				
Opening net book value	**24,360**	**15,630**	**–**	**39,990**
Acquisition of a subsidiary	**–**	**–**	**448**	**448**
Impairment (note 8)	**–**	**–**	**(448)**	**(448)**
Exchange difference	**(597)**	**(383)**	**–**	**(980)**
Carrying amount	**23,763**	**15,247**	**–**	**39,010**
Year ended 31 December 2023				
Cost	**23,763**	**15,247**	**448**	**39,458**
Accumulated impairment	**–**	**–**	**(448)**	**(448)**
Carrying amount	**23,763**	**15,247**	**–**	**39,010**

Goodwill is resulted from previous acquisitions of subsidiaries and businesses. The goodwill as a result of acquisitions is allocated to the CGUs that are expected to benefit from the synergies of the business combination and is monitored thereon accordingly.

For the purpose of impairment review for general construction contracting services business, the recoverable amount of goodwill is determined based on value-in-use calculation. The calculation uses cash flow projections based on financial budgets approved by management for the purposes of impairment reviews covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated long term growth rate stated below. There are a number of assumptions and estimates involved in the preparation of cash flow projections for the period and key assumptions include the expected growth in revenues, post-tax discount rate and terminal growth rate.

18 Goodwill (Continued)

The key assumptions are as follows:

	2023	2022
Qingdao Dongjie		
Sales growth rate for the next 5 years	0-10%	5-15%
Discount rate	14.9%	11.6%
Terminal growth rate	0%	0%
Honghai Curtain Wall		
Sales growth rate for the next 5 years	10-15%	15-42%
Discount rate	15.0%	17.0%
Terminal growth rate	0%	0%

The sales growth rate used is consistent with the forecasts to reflect the latest development of the CGU. The discount rate used is internal rate of return for financial model calculations. The growth rates do not exceed the long-term average growth rate for business which the Group operates. Management has reasonably considered and assessed possible changes for other key assumptions and has not identified any instances that could cause the carrying amount of the CGU to exceed its recoverable amount.

Management has performed sensitivity analysis for both CGUs is as follow:
Scenario 1 – Sales growth rate decreased
Scenario 2 – Discount rate applied increased

Had the estimated key assumptions during the years been changed, the headroom would be decreased by as follows:

	2023		2022	
	%	HK$'000	%	HK$'000
Qingdao Dongjie				
Scenario 1 – Sales growth rate decreased by	50	68,106	50	475,381
Scenario 2 – Discount rate applied increased by	1	34,901	1.2	255,382
Honghai Curtain Wall				
Scenario 1 – Sales growth rate decreased by	5	12,907	5	37,470
Scenario 2 – Discount rate applied increased by	0.7	12,827	0.7	35,792

18 Goodwill (Continued)

The management believes that there were no reasonably possible changes in any of the key assumptions that would cause an impairment provision for the two CGUs as at 31 December 2023 and 2022.

Bei Fang Construction is a company to provide construction design and consultation services in the PRC which the Group acquired on 10 January 2023. As Bei Fang Construction suffered losses for the year ended 31 December 2023, which the management expected it would take a longer time to generate more revenue and become profitable in the future. According to the estimated present value of future cash flows, the amount was lower than the carrying amount of Bei Fang Construction's assets. As a result, the Group has made an impairment provision of HK$448,000 for the goodwill of Bei Fang Construction for the year ended 31 December 2023.

19 Intangible assets

Accounting policy

(a) Licenses, software and patented technology

Licenses, software and patented technology are measured initially at cost or, if acquired in a business combination, fair value at the acquisition date. An intangible asset with a finite useful life is amortised on a straight-line basis over its useful life and carried at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is calculated using the straight-line method to allocate their costs to their residual values over the estimated useful lives, as follows:

Licenses	10 years
Software	2 – 4 years
Patented technology	10 years

(b) Contract backlogs

Contract backlogs are identified from business combination when they meet the recognition criteria as follows:

(i) it is probable that the expected future economic benefits that are attributable to the contract backlogs will flow to the Group; and

(ii) the cost of the contract backlogs can be measured reliably.

The contract backlogs have a finite useful life and are amortised on a straight-line basis over the periods in respect of which the related benefits are expected to be received of not more than 5 years.

See Note 38.10 for the Group's policy regarding impairments.

19 Intangible assets (Continued)

	Licenses HK$'000	Software HK$'000	Patented technology HK$'000	Contract backlogs HK$'000	Total HK$'000
At 1 January 2022					
Opening net book value	8,063	1,909	13,828	–	23,800
Addition	–	592	–	–	592
Amortisation charge (note 8)	(952)	(1,417)	(1,464)	–	(3,833)
Exchange differences	(694)	(126)	(1,024)	–	(1,844)
Net book amount	6,417	958	11,340	–	18,715
Year ended 31 December 2022					
Cost	9,288	3,304	14,188	5,395	32,175
Accumulated amortisation and impairment	(2,871)	(2,346)	(2,848)	(5,395)	(13,460)
Net book amount	6,417	958	11,340	–	18,715

	Licenses HK$'000	**Software HK$'000**	**Patented technology HK$'000**	**Contract backlogs HK$'000**	**Total HK$'000**
At 1 January 2023					
Opening net book value	**6,417**	**958**	**11,340**	**–**	**18,715**
Acquisition of a subsidiary	**2,482**	**–**	**–**	**–**	**2,482**
Addition	**–**	**270**	**–**	**–**	**270**
Disposal	**–**	**(221)**	**–**	**–**	**(221)**
Amortisation charge (note 8)	**(1,476)**	**(613)**	**(1,385)**	**–**	**(3,474)**
Impairment (note 8)	**(1,913)**	**–**	**–**	**–**	**(1,913)**
Exchange differences	**(205)**	**(23)**	**(268)**	**–**	**(496)**
Net book amount	**5,305**	**371**	**9,687**	**–**	**15,363**
Year ended 31 December 2023					
Cost	**11,542**	**3,271**	**13,840**	**5,395**	**34,048**
Accumulated amortisation and impairment	**(6,237)**	**(2,901)**	**(4,152)**	**(5,395)**	**(18,685)**
Net book amount	**5,305**	**370**	**9,688**	**–**	**15,363**

20 Inventories

Accounting policy

Inventories comprise building materials and are stated at the lower of cost and net realisable value.

Cost is determined using the first-in, first-out ("FIFO") basis, comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

	2023 **HK$'000**	2022 HK$'000
Construction materials	**21,004**	13,259

(a) Amounts recognised in profit or loss

Cost of inventories recognised as an expense during the year ended 31 December 2023 amounted to HK$772,663,000 (2022: HK$1,018,346,000) (note 8).

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

Accounting policy

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade receivable is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method less provision for impairment.

When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against "administrative expenses" in the consolidated statement of profit or loss.

21 Trade, retention and notes receivables, and amounts due from fellow subsidiaries (Continued)

	2023 HK$'000	2022 HK$'000
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 HK$'000	2022 HK$'000
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

21 Trade, retention and notes receivables, and amounts due from fellow subsidiaries (Continued)

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

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

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

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

	2023 HK$'000	2022 HK$'000
Within 1 year	**118,397**	19,723
Between 1 and 5 years	**–**	–
Over 5 years	**–**	–
	118,397	19,723

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

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

21 Trade, retention and notes receivables, and amounts due from fellow subsidiaries (Continued)

(a) Impairment and risk exposure

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade, retention and notes receivables and amounts due from fellow subsidiaries.

The loss allowance for trade, retention and notes receivables and amounts due from fellow subsidiaries recognised during the current reporting period are disclosed in note 3.1(b).

Information about the impairment of trade, retention and notes receivables and the Group's exposure to credit risk and foreign currency risk can be found in note 3.1(b).

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 carrying amounts of trade, retention and notes receivables, and amounts due from fellow subsidiaries approximated their fair values and were denominated in the following currencies:

	2023 HK$'000	2022 HK$'000
HK$	127,253	105,482
RMB	2,152,814	1,666,490
US$	33,743	87,652
MOP	47,332	56,154
IDR	645	1,267
	2,361,787	1,917,045

22 Deposit, prepayment and other receivables

	2023 HK$'000	2022 HK$'000
Deposits, prepayments and other receivables (note)	259,882	292,813
Less: Loss allowance	(4,893)	(6,275)
	254,989	286,538
Less: current	(229,071)	(261,065)
Non-current	25,918	25,473

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

23 Contract assets and contract liabilities

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

	2023 HK$'000	2022 HK$'000
Contract assets		
Provision of construction services – third parties	1,158,159	892,694
Provision of construction services – fellow subsidiaries	620,054	758,221
Less: Loss allowance	(41,627)	(20,949)
	1,736,586	1,629,966
Contract liabilities		
Provision of construction services	(5,439)	(7,646)

(a) Significant changes in contract assets and liabilities

Contract assets represents the amount by which the construction services performed by the Group is ahead of the right to payment upon receiving certification from quantity surveyors for fixed-price contracts. The Group also applied the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for contract assets. Details of the impairment assessment of contract assets are set out in note 3.1(b) to the consolidated financial statements.

23 Contract assets and contract liabilities (Continued)

(b) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised during the year ended 31 December 2023 relates to carried-forward contract liabilities.

	2023 HK$'000	2022 HK$'000
Revenue recognised that was included in the contract liability balance at the beginning of the period	7,646	22,838

(c) Unsatisfied performance obligations

The following table shows unsatisfied performance obligations resulting from fixed-price long-term construction and auxiliary marine related services contracts.

	2023 HK$'000	2022 HK$'000
Aggregate amount of the transaction price of long-term construction contracts that are partially or fully unsatisfied as at 31 December	11,714,894	4,707,952

Management expects that the transaction prices regarding the unsatisfied contracts as of 31 December 2023 and 2022 will be recognised as revenue by referencing to the progress towards completion of the contract activity.

24 Joint arrangement

The following sets out the joint operations indirectly undertaken by the Company as at 31 December 2023 and 2022:

Name	Place of establishment/ Incorporation and kind of legal entity	Principal activities	Percentage of ownership interest 2023	2022
Concentric-Hong Kong River Joint Venture ("CHKRJV")	Hong Kong, unincorporated joint venture	Provision of construction services	51%	51%
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")	Macao, unincorporated joint venture	Provision of construction services	95%	95%

25 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash at bank and deposits held at call with banks with original maturity of three months or less. Bank deposits which are restricted to use are included in "restricted cash" of the consolidated balance sheet. Restricted cash is excluded from cash and cash equivalents.

	2023 HK$'000	2022 HK$'000
Cash at bank	205,394	565,649
Less: Restricted cash (note (a))	(21,007)	(4,008)
Less: Pledged bank deposits (note (b), (c))	(31,053)	(236,978)
Less: Time deposits with maturity over 3 months	(8,384)	(204)
Cash and cash equivalents	144,950	324,459
Maximum exposure to credit risk	205,394	565,649

(a) As at 31 December 2023, bank balances of HK$6,704,000 (2022: HK$4,008,000) have been restricted in certain banks through court's order by certain creditors' legal actions in relation to claims for outstanding payables of the Group to the extent of HK$3,476,000 (2022: HK$3,380,000), while bank balances of HK$14,303,000 (2022: nil) have also been restricted by a bank due to the bank account has not been used for a certain period of time.

(b) As at 31 December 2023, the Group's bank deposits of HK$20,000,000 (2022: HK$42,147,000) were pledged to secure bank borrowings of the Group (note 29(f)(i), (ii) and (iii)).

(c) As at 31 December 2023, the Group's bank deposits of HK$11,053,000 (2022: HK$194,831,000) were pledged to secure notes payables of the Group (note 28).

(d) The conversion of RMB denominated balances into foreign currencies and the remittance of such foreign currencies out of the PRC are subject to relevant rules and regulation of foreign exchange control promulgated by the PRC government.

The carrying amounts of cash and cash equivalents, time deposits, restricted cash and pledged bank deposits were denominated in the following currencies:

	2023 HK$'000	2022 HK$'000
HK$	43,279	77,835
RMB	158,690	482,568
US$	528	468
MOP	2,467	4,023
IDR	372	595
PKR	–	99
MYR	58	61
	205,394	565,649

26 Share capital, share premium and reserves

Accounting policy

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(a) Share capital

	Number of shares	Share capital HK$'000
Ordinary shares, authorised:		
At 31 December 2021, 2022 and 2023	4,000,000,000	40,000

	Number of shares	Share capital HK$'000
Ordinary shares, issued and fully paid:		
At 31 December 2021, 2022 and 2023	800,000,000	8,000

26 Share capital, share premium and reserves (Continued)

Accounting policy (Continued)

(b) Share premium and reserves

	Share premium HK$'000	Other Reserves (Note (i)) HK$'000	Exchange reserves HK$'000	Statutory reserve (Note (ii)) HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2022	214,840	23,506	6,045	4,904	286,127	535,422
Comprehensive loss						
Loss for the year	–	–	–	–	(12,186)	(12,186)
Exchange differences	–	–	(23,444)	–	–	(23,444)
Appropriation to statutory reserves	–	–	–	3,483	(3,483)	–
At 31 December 2022	214,840	23,506	(17,399)	8,387	270,458	499,792
At 1 January 2023	**214,840**	**23,506**	**(17,399)**	**8,387**	**270,458**	**499,792**
Comprehensive loss						
Loss for the year	**–**	**–**	**–**	**–**	**(188,898)**	**(188,898)**
Exchange differences	**–**	**–**	**(3,831)**	**–**	**–**	**(3,831)**
Appropriation to statutory reserves	**–**	**–**	**–**	**448**	**(448)**	**–**
At 31 December 2023	**214,840**	**23,506**	**(21,230)**	**8,835**	**81,112**	**307,063**

Notes:

(i) Other reserves

Other reserves of the Group mainly represented the difference between the share capital of the subsidiaries acquired pursuant to the reorganization over the nominal value of the share capital of the Company issued in exchange thereof.

(ii) Statutory reserve

In accordance with the relevant PRC regulations applicable to wholly foreign owned enterprises, the PRC subsidiary is required to appropriate to reserve fund an amount of not less than 10% of the profit after income tax, calculated based on the PRC accounting standards. Should the accumulated total of this reserve fund reach 50% of the registered capital of the PRC subsidiary, the subsidiary will not be required to make any further appropriation. The reserve fund can only be used, upon approval by the shareholders' meeting or similar authorities, to offset accumulated losses or increase capital.

27 Deferred income tax (assets)/liabilities

	2023 HK$'000	2022 HK$'000
Deferred income tax liabilities:		
Payables or to be settled in more than 12 months	**1,898**	9,435
Deferred income tax assets	**–**	(7,845)
Deferred income tax liabilities, net	**1,898**	1,590

The movements in deferred income tax liabilities/(assets) during the year are as follows:

	Accelerated tax depreciation/ amortisation HK$'000	Tax losses HK$'000	Unrealised Profits HK$'000	Provision HK$'000	Total HK$'000
As at 1 January 2022	38,692	(14,748)	(1,290)	(12,768)	9,886
Recognised in the consolidated statement of profit or loss (note 9)	(1,438)	(4,254)	–	(2,640)	(8,332)
Exchange difference	1,564	–	(100)	(1,428)	36
As at 31 December 2022	38,818	(19,002)	(1,390)	(16,836)	1,590
Acquisition of a subsidiary	39	-	-	-	39
Recognised in the consolidated statement of profit or loss (note 10)	(3,980)	8,432	(10)	(5,054)	(612)
Exchange difference	3,588	-	(227)	(2,480)	881
As at 31 December 2023	38,465	(10,570)	(1,627)	(24,370)	1,898

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. As at 31 December 2023, the Group had unrecognised tax losses of approximately HK$73,996,000 (2022: HK$1,011,000) that can be carried forward to offset against future taxable income. Losses amounting to HK$69,081,000 (2022: HK$1,011,000) have no expiry date and losses amounting to HK$4,915,000 (2002: nil) will expire within 5 years.

28 Trade, retention and notes payables, accruals and other payables

	2023 HK$'000	2022 HK$'000
Trade payables	**2,345,891**	2,280,459
Notes payables (note (a))	**13,114**	310,090
Retention payables	**7,500**	8,555
Accruals and other payables	**313,805**	294,219
	2,680,310	2,893,323

(a) As at 31 December 2023, notes payables of HK$13,114,000 (2022: HK$310,090,000) were denominated in RMB and secured by time deposits of HK$11,053,000 (2022: HK$194,831,000) (note 25). The carrying amounts of notes payables approximate their fair values at the end of the reporting period.

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 HK$'000	2022 HK$'000
Within 1 year	**2,164,385**	1,980,958
Over 1 year	**181,506**	299,501
	2,345,891	2,280,459

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

	2023 HK$'000	2022 HK$'000
Within 1 year	**13,114**	310,090

28 Trade, retention and notes payables, accruals and other payables (Continued)

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 HK$'000	2022 HK$'000
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

The carrying amounts of trade, retention and notes payables approximated their fair values and were denominated in the following currencies:

	2023 HK$'000	2022 HK$'000
HK$	55,695	8,585
US$	4,156	5,852
RMB	2,269,646	2,543,857
MOP	36,772	40,481
MYR	79	71
VND	–	258
PKR	157	–
	2,366,505	2,599,104

29 Borrowings

	2023 HK$'000	2022 HK$'000
Non-current:		
Long-term bank loans (secured) (Note (f) (vi), (viii) and (ix)	**78,423**	209,395
Current:		
Long-term bank loans due for repayment within one year (secured) (Note (f) (viii) and (ix)	**327,692**	201,395
Short-term bank borrowings:		
– secured (note (f) (i), (ii), (iii), (iv),(v), (vii) and (viii))	**1,144,003**	666,297
– unsecured	**32,105**	15,479
Other borrowings (unsecured)	**30,460**	–
	1,534,260	883,171
	1,612,683	1,092,566

(a) Based on the scheduled repayment terms set out in the loan agreements, the maturity of borrowings would be as follows:

	2023 HK$'000	2022 HK$'000
Within 1 year	**1,534,260**	883,171
Between 1 and 2 years	**–**	182,865
Between 2 and 5 years	**–**	26,530
Over 5 years	**78,423**	–
	1,612,683	1,092,566

(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%

(c) The carrying amounts of the Group's borrowings were denominated in following currencies:

	2023 HK$'000	2022 HK$'000
HK$	**321,119**	213,322
MOP	**37,961**	67,961
RMB	**1,253,603**	811,283
	1,612,683	1,092,566

29 Borrowings (Continued)

(d) The carrying amounts of the Group's borrowings approximated their fair values as the impact of discounting is not significant.

(e) As at 31 December 2023, the Group's total undrawn banking facilities amounted to HK$512,683,000 (2022: Nil).

(f) The Group's loan facilities are subject to annual review and secured or guaranteed by:

(i) Project contracts executed by a subsidiary, guarantees of HK$228,000,000 (2022: HK$248,000,000) from the Company, pledged deposits of HK$10,000,000 (2022: HK$29,254,000) and no guarantee (2022: guarantees of HK$248,000,000) from the subsidiaries for a bank facility which covers loans of HK$130,000,000 (2022: HK$97,644,000) and performance bond facility of HK$43,860,000 (2022: HK$51,914,000) as at 31 December 2023 and 2022.

(ii) Unlimited guarantees provided by the Company for bank facilities and pledged deposits of HK$10,000,000 (2022: HK$10,000,000) which covers loans of HK$50,000,000 (2022: HK$65,677,000) as at 31 December 2023 and 2022.

(iii) Promissory notes in the amounts of MOP137,500,000 and MOP187,000 respectively, guarantees in total amount of MOP225,000,000, and no pledged deposit (2022: HK$2,893,000) for a bank facility which covers loans of HK$37,961,000 (2022: HK$67,961,000) as at 31 December 2023 and 2022.

(iv) Irrevocable and unconditional standby letter of credit from the related companies of the Company for a bank facility which covers loans of HK$110,660,000 as at 31 December 2023.

(v) Guarantees of HK$50,000,000 provided by a subsidiary for a bank facility which covers loans of HK$50,000,000 as at 31 December 2022.

(vi) Group's properties, plant and equipment and right-of-use assets with carrying amounts of HK$90,710,000 (2022: HK$91,805,000) and of HK$29,049,000 (2022: HK$29,900,000) for a bank facility which covers loans of HK$78,423,000 (2022: HK$22,646,000) as at 31 December 2023 and 2022.

(vii) Guarantees of HK$112,664,000 provided by a subsidiary for bank facilities which covers loans of HK$87,259,000 (2022: HK$33,969,000) as at 31 December 2023 and 2022.

(viii) Unlimited guarantees provided by the ultimate holding company for bank facilities which covers loans of HK$959,167,000 (HK$634,453,000) as at 31 December 2023 and 2022.

(ix) Unlimited guarantees provided by the ultimate holding company together with a subsidiary for bank facilities which covers loans of HK$96,648,000 (2022: HK$104,737,000) as at 31 December 2023 and 2022.

29 Borrowings (Continued)

(g) Compliance with bank covenants

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.

30 Commitments

(a) Capital Commitments

Significant capital expenditures contracted for at the end of the reporting period but not recognised as liabilities are as follows:

	2023 **HK$'000**	2022 HK$'000
Property, plant and equipment	**–**	9,427

(b) Operating lease rental receivable

The future aggregate minimum lease rental income under operating leases in respect of land and buildings is receivable in the following year:

	2023 **HK$'000**	2022 HK$'000
Within one year	**1,097**	1,050

31 Contingent liabilities and disputes

Accounting policy

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required, or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

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

As at 31 December 2023, 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 totalled HK$43,860,000 (2022: HK$52,914,000). The performance bonds as at 31 December 2023 are expected to be released in accordance with the terms of the respective construction contracts.

(b) Involvement in litigation

The subsidiaries of the Group are the 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).

32 Notes to the consolidated statement of cash flows

(a) Reconciliations of profit before income tax to net cash used in operations:

	2023 HK$'000	2022 HK$'000
(Loss)/profit before income tax	(168,113)	19,754
Provision for impairment losses on financial assets	86,775	11,261
Depreciation of property, plant and equipment	28,433	25,527
Depreciation of right-of-use assets	4,406	3,837
Depreciation of investment properties	1,316	817
Amortisation of intangible assets	3,474	3,833
Impairment of goodwill	448	–
Impairment of intangible assets	1,913	–
Gain on disposal of a right-of-use asset	-	(67)
Gain on disposal of plant and equipment	(973)	(88)
Loss on disposal of intangible assets	221	
Loss on dissolvement of a joint venture	-	255
Fair value gain on financial asset at fair value through profit or loss	(1,125)	–
Finance income	(3,751)	(3,487)
Finance costs	71,465	58,734
Operating profit before working capital change	24,489	120,376
Changes in working capital:		
(Increase)/decrease in inventory	(7,745)	37,806
Increase in trade, retention and notes receivables	(407,653)	(298,671)
Increase/(decrease) in deposits, prepayments and other receivables	28,253	(90,437)
(Increase)/decrease in restricted cash	(16,999)	791
Increase in contract assets	(160,643)	(268,720)
Changes in balance with a related company	(523)	900
Changes in balances with fellow subsidiaries	(112,199)	377,526
Decrease in amounts due to the other partner of joint operations	–	(67)
Increase in amount due to ultimate holding company	4,830	–
(Decrease)/increase in trade, retention and notes payables	(170,527)	453,771
Increase in accruals and other payables	25,525	70,032
Decrease in contract liabilities	(2,122)	(15,193)
Net cash (used in)/generated from operations	(795,314)	388,114

32 Notes to the consolidated statement of cash flows (Continued)

(b) In the consolidated statement of cash flows, proceeds from disposal of property, plant and equipment comprise:

	2023 HK$'000	2022 HK$'000
Net book amount	**39,678**	192
Gain on disposal of property, plant and equipment (note 7)	**973**	88
Proceeds from disposal of property, plant and equipment	**40,651**	280

(c) Reconciliation of liabilities arising from financing activities

This section sets out an analysis of liabilities arising from financing activities and the movements in liabilities arising from financing activities for the year.

	Loan from an intermediate holding company HK$'000	Lease liabilities HK$'000	Borrowings HK$'000	Amount due to non-controlling interests HK$'000	Total HK$'000
At 1 January 2022	100,000	4,761	1,208,515	42,721	1,355,997
Addition – leases	–	5,287	–	–	5,287
Disposal – leases	–	(496)	–	–	(496)
Cash inflows	45,852	–	582,225	4,442	632,519
Cash outflows	–	(4,116)	(703,936)	–	(708,052)
Exchange difference	–	–	5,762	–	5,762
At 31 December 2022 and 1 January 2023	**145,852**	**5,436**	**1,092,566**	**47,163**	**1,291,017**
Addition – leases	**–**	**1,200**	**–**	**–**	**1,200**
Cash inflows	**–**	**–**	**1,053,784**	**–**	**1,053,784**
Cash outflows	**–**	**(2,431)**	**(512,269)**	**(34,998)**	**(517,960)**
Exchange difference	**–**	**(357)**	**(21,398)**	**(1,120)**	**(22,875)**
At 31 December 2023	**145,852**	**3,848**	**1,612,683**	**11,045**	**1,773,428**

33 Amounts due to non-controlling interests

	2023 HK$'000	2022 HK$'000
Amounts due to non-controlling interests (note)	**11,045**	47,163

Note: Amounts due to non-controlling interests were interest-free, unsecured and repayable on demand.

34 Non-controlling interests

Set out below is summarised financial information for Honghai Curtain Wall that has non-controlling interests that are material to the Group. The amounts disclosed for Honghai Curtain Wall are before inter-company eliminations.

	2023 HK$'000	2022 HK$'000
Summarised balance sheet		
Current assets	**940,632**	670,404
Current liabilities	**(827,519)**	(688,574)
Net current assets/(liabilities)	**113,113**	(18,170)
Non-current assets	**157,063**	150,403
Non-current liabilities	**(78,423)**	(15,569)
Net non-current assets	**78,640**	134,834
Net assets	**191,753**	116,664
Accumulated non-controlling interests (Note)	**125,496**	76,998
Summarised statement of comprehensive income		
Revenue	**703,505**	584,886
Profit for the year	**19,671**	11,228
Other comprehensive income	**(2,050)**	(3,261)
	17,621	7,967
Comprehensive income attributable to non-controlling interests	**11,027**	5,258
Summarised statement of cash flows		
Cash flows from operating activities	**(127,957)**	(45,971)
Cash flows from investing activities	**(3,226)**	(38,703)
Cash flows from financing activities	**142,329**	86,078
Net increase in cash and cash equivalents	**11,146**	1,404

34 Non-controlling interests (Continued)

Note:

During the year ended 31 December 2023, capital from non-controlling interests in total amount of approximately HK$31,738,000 (equivalent to approximately RMB28,704,000) were injected into Honghai Curtain Wall.

Set out below is summarised financial information for Qingdao Dongjie that has non-controlling interests that are material to the Group. The amounts disclosed for Qingdao Dongjie before inter-company eliminations.

	2023 HK$'000	2022 HK$'000
Summarised balance sheet		
Current assets	3,135,818	3,250,472
Current liabilities	(3,128,335)	(3,033,759)
Net current assets	7,483	216,713
Non-current assets	122,794	123,180
Non-current liabilities	(379)	(193,825)
Net non-current liabilities	122,415	(70,645)
Net assets	129,898	146,068
Accumulated non-controlling interests	39,916	29,213
Summarised statement of comprehensive income		
Revenue	1,294,752	1,849,610
Profit for the year	1,451	42,935
Other comprehensive income	(2,406)	(2,915)
	(955)	40,020
Comprehensive income attributable to non-controlling interests	1,392	8,004
Summarised statement of cash flows		
Cash flows from operating activities	(522,092)	70,711
Cash flows from investing activities	(6,588)	(36,740)
Cash flows from financing activities	179,045	34,990
Net increase in cash and cash equivalents	(349,635)	68,961

35 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 years ended 31 December 2023 and 2022:

Name of the related party	Relationship with the Group
Star Harvest Enterprise Limited	A related company controlled by Mr. Cui Qi
CHKRJV	A joint operation
MCRJV	A joint operation
MCJO	A joint operation
Shenzhen Changsheng Marine Engineering Limited ("Shenzhen Changsheng")	A related company controlled by Mr. Cui Qi
West Coast Holdings (Hong Kong) Limited	An intermediate holding company of the Company
Qingdao Rongchuang Xifa Cultural Development Limited (青島融創西發文化發展有限公司) ("Rongchuang Xifa")	A fellow subsidiary
Qingdao Xifa Cangmashan Construction Limited (青島西發藏馬山建設開發集團有限公司) ("Xifa Cangmashan Construction")	A fellow subsidiary
Qingdao Xifa Properties Limited (青島西發置業有限公司) ("Xifa Properties")	A fellow subsidiary
Qingdao West Coast New Village Development Limited (青島西海岸新農村社區建設有限公司) ("West Coast New Village")	A fellow subsidiary
Qingdao West Coast New District Development Limited (青島西海岸新區開發建設有限公司) ("West Coast New District")	A fellow subsidiary
Qingdao West Coast Sky Construction Development Limited (青島西海岸天業建設發展有限公司) ("West Coast Sky")	A fellow subsidiary
Qingdao West Coast Technology Innovation Development Co., Limited (青島西海岸科創投資開發有限公司) ("West Coast Technology Innovation")	A fellow subsidiary
Qingdao Xifa Cangmashan Agricultural Development Limited (青島西發藏馬山農業發展有限公司) ("Xifa Cangmashan Agricultural")	A fellow subsidiary

35 Related party transactions (Continued)

(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 years ended 31 December 2023 and 2022: (Continued)

Name of the related party	Relationship with the Group
Qingdao Oriental Fashion Development Limited (青島東方時尚開發建設有限公司) ("Oriental Fashion Development")	A fellow subsidiary
Qingdao Oriental Town Cultural Tourism Development Limited (青島東方小鎮文化旅遊發展有限公司) ("Oriental Town Cultural Tourism")	A fellow subsidiary
Qingdao Film Academy (青島電影學院)	A fellow subsidiary
Qingdao Blue Valley Medical Management Limited (青島藍色醫穀醫療管理有限責任公司) ("Blue Valley Medical Management")	A fellow subsidiary
Qingdao Aucma Refrigeration Appliance Co., Ltd. (青島澳柯瑪製冷電器有限公司) ("Aucma Refrigeration Appliance")	A fellow subsidiary
China Haifa (Qingdao) Investment Co., Ltd (中交海發(青島)投資有限公司) ("Haifa Investment")	A fellow subsidiary
Qingdao Xifa Healthcare Group Co., Ltd (青島西發康養醫療有限公司) ("Xifa Healthcare Group")	A fellow subsidiary
Qingdao Rongchuang Haifa Cultural Development Limited (青島融創海發文化發展有限公司) ("Rongchuang Haifa")	A fellow subsidiary
Qingdao Dongfang Film and Television Industry Co., Ltd (青島東方影都影視產業管理有限公司) ("Dongfang Film and Television Industry")	A fellow subsidiary
Qingdao West Coast Tianze Construction Development Co., Ltd. (青島西海岸天澤建設發展有限公司) ("West Coast Tianze Construction")	A fellow subsidiary
Qingdao Haifa Tianqing Construction Co., Ltd. (青島海發天清建設有限公司) ("Haifa Tianqing Construction")	A fellow subsidiary

35 Related party transactions (Continued)

(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 years ended 31 December 2023 and 2022: (Continued)

Name of the related party	Relationship with the Group
Qingdao Haifa Commercial Management Co., Ltd. Xingguang Island Commercial Operation Management Branch (青島海發商業管理有限公司星光島商業運營管理分公司) ("Haifa Commercial Management (Branch)")	A fellow subsidiary
Qingdao Yingdu Ecological Sightseeing Park Co., Ltd. (青島影都生態觀光園有限公司) ("Yingdu Ecological Sightseeing Park")	A fellow subsidiary
Qingdao Haifa Environmental Protection Energy Investment Co., Ltd. (青島海發環保能源投資有限公司) ("Haifa Environmental Protection")	A fellow subsidiary
Qingdao Xifa Commercial Factoring Co., Limited (青島西發商業保理有限公司) ("Xifa Commercial Factoring")	A fellow subsidiary
Qingdao Haifa Tianxing Huajin Equestrian Sports Investment Co., Ltd. (青島海發天星華錦馬術運營動投資有限公司) ("Haifa Tianxing Huajin Equestrian Sports")	A fellow subsidiary
Qingdao Xifa Zangmashan Agricultural Trade Co., Ltd. (青島西發藏馬山農貿有限公司) ("Xifa Agricultural Trade")	A fellow subsidiary
Qingdao Haifa Hongrui Property Management Co., Ltd. (青島海發弘睿物業管理有限公司) ("Haifa Hongrui Property")	A fellow subsidiary
Qingdao Big Data Technology Development Limited (青島數據科技發展有限公司) ("Big Data Technology Development")	A fellow subsidiary

35 Related party transactions (Continued)

(b) Transactions

Save as disclosed elsewhere in the consolidated financial statements, the following transactions were carried out with related parties at terms mutually agreed by both parties:

	2023 HK$'000	2022 HK$'000
Rental expenses to Shenzhen Changsheng	–	2,565
Construction project income from:		
Rongchuang Xifa	33,179	167,752
Xifa Cangmashan Construction	2	8,716
Xifa Properties	5,724	86,856
West Coast Sky	39,201	45,199
West Coast New District	255,795	521,307
Qingdao Film Academy	131,454	10,975
Oriental Fashion Development	43,336	110,736
Xifa Cangmashan Agricultural	–	5,290
West Coast New Village	–	19,287
West Coast Technology Innovation	110,523	313,695
Blue Valley Medical Management	1,268	29,616
Oriental Town Cultural Tourism	–	3,639
Rongchuang Haifa	19,214	8,200
Haifa Investment	65,951	111,650
Aucma Refrigeration Appliance	51,306	79,890
Xifa Healthcare Group	389	4,722
Dongfang Film and Television Industry	7,780	–
West Coast Tianze Construction	3,461	–
Haifa Tianqing Construction	2,423	–
Haifa Commercial Management (Branch)	1,480	–
Yingdu Ecological Sightseeing Park	177	–
Haifa Environmental Protection	123	–
Xifa Commercial Factoring	59	–
Haifa Tianxing Huajin Equestrian Sports	50	–
	772,895	1,527,530

35 Related party transactions (Continued)

(b) Transactions (Continued)

	2023 HK$'000	2022 HK$'000
Construction project cost paid to:		
Big Data Technology Development	**(14,699)**	(2,230)
Interest expenses to West Coast Investment (Hong Kong) Limited	**(3,545)**	(5,698)

All of the transactions are charged at terms pursuant to the agreement as entered into between the Group and the respective related party.

35 Related party transactions (Continued)

(c) Balances

	2023 HK$'000	2022 HK$'000	Nature
Amounts due from fellow subsidiaries (note (i))	1,173,138	1,056,869	Trade
Amount due to ultimate holding company (note (ii))	(4,830)	-	Non-trade
Amounts due to fellow subsidiaries			
– Big Data Technology Development (note (iii))	(17,909)	(7,011)	Non-trade
– Xifa Cangmashan Agricultural (note (iii))	(145)	(301)	Non-trade
– Haifa Hongrui Property (note (iii))	(134)	–	Non-trade
– Xifa Agricultural Trade (note (iii))	(148)	–	Non-trade
– Xifa Commercial Factoring (note (iv))	(51,573)	(28,224)	Non-trade
Carrying amounts	(69,909)	(35,536)	
Amount due to a related party			
– Shenzhen Changsheng (note (v))	(386)	(909)	Non-trade
Loans from an intermediate holding company			
– West Coast Investment (Hong Kong) Limited (note vi)	(145,852)	(145,852)	Non-trade

Notes:

(i) The amounts due from fellow subsidiaries were unsecured, interest-free and generally has no credit period granted. The carrying amounts of amounts due from fellow subsidiaries approximated their fair values and were denominated in RMB.

(ii) The amount due to ultimate holding company was unsecured, interest-free and generally has no credit period granted. The ageing of amount due to ultimate holding company was within one year. The carrying amounts of amount due to ultimate holding company approximated their fair values and were denominated in RMB.

(iii) The amounts due to fellow subsidiaries were unsecured, interest-free and no credit period was granted generally. The ageing of amounts due to fellow subsidiaries were within one year. The carrying amounts of amounts due to fellow subsidiaries approximated their fair values and were denominated in RMB.

(iv) The amount due to Xifa Commercial Factoring of HK$51,573,000 (2022: HK$28,224,000) represented the suppliers invoices factoring arrangement among the Group's suppliers and Xifa Commercial Factoring. The amount due to Xifa Commercial Factoring are unsecured, interest free and repayable within one year. The carrying amount of amount due to Xifa Commercial Factoring approximated its fair value and was denominated in RMB.

(v) The amount due to a related party was unsecured, interest free and repayable within one year. The carrying amount of amount due to a related party approximated its fair value and was denominated in RMB.

35 Related party transactions (Continued)

(c) Balances (Continued)

Notes: (Continued)

(vi) Loans from an intermediate holding company of HK$130,000,000 (2022: HK$130,000,000) were guaranteed by the Company with fixed interest rate at 4.95% – 5.70% per annum (2022: 4.10% per annum), approximated their fair values, denominated in HK$ and are repayable after one year from the balance sheet date, in April 2025.

Loan from an intermediate holding company of HK$15,852,000 (2022: HK$15,852,000) was guaranteed by the Company with fixed rate at 5.28% per annum, approximated its fair value, denominated in RMB and is repayable in 2024.

(d) 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:

	2023	2022
	HK$'000	HK$'000
Salaries, bonus, other allowances and benefits in kind	**1,999**	3,494
Pension costs – defined contribution plans	**27**	38
	2,026	3,532

36 Ultimate holding company

Management considers that Qingdao Haifa State-owned Capital Investment and Operation Group Co., Ltd as the ultimate holding company of the Group, which is a company incorporated in the PRC and controlled by the State-owned Asset Supervision and Administration Commission of Qingdao.

37 Balance sheet and reserve movement of the Company

(a) Balance sheet of the Company

	Note	2023 HK$'000	2022 HK$'000
ASSETS			
Non-current asset			
Property, plant and equipment		9	–
Investments in subsidiaries		105,800	105,800
Amounts due from subsidiaries		166,031	–
		271,840	105,800
Current assets			
Deposits, prepayments and other receivables		382	115
Amounts due from subsidiaries		16,697	137,439
Cash and cash equivalents		42	5,911
		17,121	143,465
Total assets		288,961	249,265
EQUITY			
Capital and reserves			
Share capital		8,000	8,000
Reserves	37(b)	159,980	181,683
Total equity		167,980	189,683
LIABILITY			
Current liabilities			
Accruals and other payables		2,555	1,805
Amounts due to a subsidiary		7,766	7,777
Borrowing		110,660	50,000
		120,981	59,582
Total equity and liabilities		288,961	249,265

The balance sheet of the Company was approved by the Board of Directors on 28 March 2024 and was signed on its behalf.

Mr. JIANG Hongchang	**Mr. NI Chuchen**
Director	*Director*

37 Balance sheet and reserve movement of the Company (Continued)

(b) Reserve movement of the Company

	Share premium HK$'000	Other reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2022	214,840	20,000	(43,153)	191,687
Loss for the year	–	–	(10,004)	(10,004)
At 31 December 2022	214,840	20,000	(53,157)	181,683
At 1 January 2023	**214,840**	**20,000**	**(53,157)**	**181,683**
Loss for the year	**–**	**–**	**(21,703)**	**(21,703)**
At 31 December 2023	**214,840**	**20,000**	**(74,860)**	**159,980**

Other reserve of the Company represented the difference between the net asset value of Prosper Construction Group Ltd. acquired over the nominal value of the share capital of the Company issued in exchange thereof.

38 Summary of other potentially material accounting policies

This note provides a list of other potentially material accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

38.1 Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (Note 38.5).

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated balance sheet respectively.

38 Summary of other potentially material accounting policies (Continued)

38.2 Joint arrangement

Under HKFRS 11 Joint Arrangements investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group has both joint operations and joint ventures.

Joint operations

The Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings. Details of the joint operation are set out in note 24.

Joint ventures

Interests in joint ventures are accounted for using the equity method (see (Note 38.3) below), after initially being recognised at cost in the consolidated balance sheet.

38.3 Equity accounting

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in the consolidated statement of profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividend received or receivable from associated companies are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 38.10.

38 Summary of other potentially material accounting policies (Continued)

38.4 Change in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Company.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in the consolidated statement of profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the consolidated statement of profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to the consolidated statement of profit or loss where appropriate.

38.5 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

38 Summary of other potentially material accounting policies (Continued)

38.5 Business combinations (Continued)

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in the consolidated statement of profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in the consolidated statement of profit or loss.

38.6 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investments. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

38.7 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Director that make strategic decisions.

38 Summary of other potentially material accounting policies (Continued)

38.8 Foreign currency translation

(a) Functional and presentation currency

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in HK$ which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

All foreign exchange gains and losses are presented in the consolidated statement of profit or loss within "other gains, net".

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised as in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

38 Summary of other potentially material accounting policies (Continued)

38.9 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Gains or losses on disposals are determined by comparing proceeds with carrying amount and are recognised in the consolidated statement of profit or loss.

Construction in progress is stated at cost less any identified impairment loss. Construction in progress is not depreciated until the construction, installation or production is completed and the relevant assets are ready to be put into operation.

A transfer is made from owner-occupied property to investment property when owner-occupation ceases. The property transfers at the carrying amount.

38.10 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

38 Summary of other potentially material accounting policies (Continued)

38.11 Investments and other financial assets

(i) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

38 Summary of other potentially material accounting policies (Continued)

38.11 Investments and other financial assets (Continued)

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group classifies its debt instruments into the following category:

(a) Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in "other gains, net" together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated statement of profit or loss.

(b) measured at FVPL: Assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in the profit or loss and presented net within "other losses, net" in the period in which it arises.

(iv) Impairment

The Group performs impairment assessment under expected credit losses ("ECL") model on financial assets (including trade, retention and notes receivables, amounts due from fellow subsidiaries, deposits and other receivables and cash and bank balances) and contract assets which are subject to impairment assessment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition. The details are disclosed in note 3.1(b).

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Group's historical credit loss rate of relevant market players, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

38 Summary of other potentially material accounting policies (Continued)

38.11 Investments and other financial assets (Continued)

(iv) Impairment (Continued)

For trade, retention and notes receivables, amounts due from fellow subsidiaries and contract assets, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see note 21 and 23 for further details.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition, see note 21 for further details.

38.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

38.13 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash at bank and deposits held at call with banks with original maturity of three months or less. Bank deposits which are restricted to use are included in "restricted cash" of the consolidated balance sheet. Restricted cash is excluded from cash and cash equivalents.

38.14 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

38 Summary of other potentially material accounting policies (Continued)

38.15 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the consolidated statement of profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the end of reporting period.

38.16 Borrowings costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Other borrowing costs are expensed in the period in which they are incurred.

38 Summary of other potentially material accounting policies (Continued)

38.17 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(a) Current income tax

The current income tax charge is calculated on the basis of the lax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in consolidated statement of profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

38 Summary of other potentially material accounting policies (Continued)

38.18 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leaves are not recognised until the time of leave.

(b) Retirement benefits

The Group operates defined contribution plans and pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(c) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than twelve months after balance sheet date are discounted to present value.

38.19 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

38 Summary of other potentially material accounting policies (Continued)

38.19 Provisions (Continued)

An onerous contract exists where the unavoidable cost of meeting the obligations under a contract exceeds the economic benefits expected to be received under that contract. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

The direct cost of fulfilling a contract comprises:

- the incremental costs of fulfilling that contract (for example, direct labour and materials); and
- an allocation of other costs that relate directly to fulfilling contracts

The Group recognises costs of fulfilling a contract as expense to profit or loss when the contract first became onerous.

38.20 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares; and
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

Five Year Financial Summary

A summary of the published results and of the assets, liabilities and equity of the Group for the last five financial years, as extracted from the Company's annual reports, is set out below.

	Year ended 31 December				
	2023	2022	2021	2020	2019
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**2,125,871**	2,879,211	3,185,839	1,465,696	515,077
Gross profit	**181,097**	220,619	205,090	86,625	49,846
(Loss)/profit before income tax	**(168,113)**	19,754	31,195	28,379	8,868
Income tax (expense)/credit	**(13,522)**	(9,216)	(14,433)	(12,332)	3,220
(Loss)/profit for the year	**(181,635)**	10,538	16,762	16,047	12,088

	As at 31 December				
	2023	2022	2021	2020	2019
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	**481,762**	507,010	503,292	338,271	224,723
Current assets	**4,553,842**	4,386,984	3,933,655	1,415,559	703,704
Total assets	**5,035,604**	4,893,994	4,436,947	1,753,830	928,427
Non-current liabilities	**211,824**	352,178	587,741	151,183	9,303
Current liabilities	**4,343,305**	3,917,499	3,205,807	1,047,775	402,122
Total liabilities	**4,555,129**	4,269,677	3,793,548	1,198,958	411,425
Total equity	**480,475**	624,317	643,399	554,872	517,002