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AB BUILDERS GROUP LIMITED

奧邦建築集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01615)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2023

The board of directors (the “**Board**”) of AB Builders Group Limited (the “**Company**”) hereby announces the audited annual results of the Company and its subsidiaries for the year ended 31 December 2023. This announcement complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcements of annual results.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is available on the website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company’s website (www.abbuildersgroup.com).

The Company’s 2023 annual report will be despatched to shareholders and published on the websites of the Company and The Stock Exchange of Hong Kong Limited in due course.

By order of the Board of
AB Builders Group Limited
Lao Chio Seng
Chairman and Executive Director

Macau, 28 March 2024

As at the date of this announcement, the Board comprises five executive directors, namely Mr. Lao Chio Seng, Ms. Lao Chao U, Mr. Roberto Gnanavelu, Mr. Cheang Iek Wai and Mr. Ip Kin Wa; and three independent non-executive directors, namely Mr. Chu Yat Pang Terry, Mr. O’Yang Wiley and Mr. Choy Wai Shek, Raymond, MH, JP.

ANNUAL RESULTS

The Board of the Company is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 December 2023, together with the comparative figures for the year ended 31 December 2022 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

| | <i>NOTES</i> | 2023 <i>MOP'000</i> | 2022 <i>MOP'000</i> |
|--|--------------|-------------------------------|------------------------|
| Revenue | 4 | 140,580 | 155,013 |
| Cost of sales | | (132,488) | (121,191) |
| Gross profit | | 8,092 | 33,822 |
| Other income | 6 | 8,168 | 6,702 |
| Other gains and losses | | 1,145 | 62 |
| Impairment loss under expected credit loss model, net of reversal | 7 | (4,705) | (9,007) |
| Administrative expenses | | (28,093) | (22,177) |
| Finance costs | | (598) | (2) |
| (Loss) profit before taxation | | (15,991) | 9,400 |
| Income tax credit | 8 | 204 | 394 |
| (Loss) profit for the year | 9 | (15,787) | 9,794 |
| Other comprehensive expense for the year | | | |
| <i>Item that may be reclassified subsequently to profit or loss:</i> | | | |
| Exchanged differences arising on translation of foreign operations | | (631) | — |
| Total comprehensive (expense) income for the year | | (16,418) | 9,794 |

| | <i>NOTE</i> | 2023 <i>MOP'000</i> | 2022 <i>MOP'000</i> |
|--|-------------|-------------------------------|------------------------|
| (Loss) profit for the year attributable to: | | | |
| Owners of the Company | | (10,281) | 15,382 |
| Non-controlling interests | | <u>(5,506)</u> | <u>(5,588)</u> |
| | | <u>(15,787)</u> | <u>9,794</u> |
| | | | |
| Total comprehensive (expense) income for the year attributable to: | | | |
| Owners of the Company | | (10,912) | 15,382 |
| Non-controlling interests | | <u>(5,506)</u> | <u>(5,588)</u> |
| | | <u>(16,418)</u> | <u>9,794</u> |
| | | <i>MOP cents</i> | <i>MOP cents</i> |
| | | | |
| (Loss) earnings per share | | | |
| — Basic | <i>11</i> | <u>(1.71)</u> | <u>2.56</u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023

| | NOTES | 2023 MOP'000 | 2022 MOP'000 |
|--|-------|-----------------|-----------------|
| Non-current assets | | | |
| Property, plant and equipment | | 36,928 | 38,082 |
| Intangible assets | | 3,167 | — |
| Financial asset at fair value through profit or loss | | 12,280 | 11,748 |
| Other financial assets | | 32,142 | — |
| | | <u>84,517</u> | <u>49,830</u> |
| Current assets | | | |
| Inventories | | 477 | 1,152 |
| Trade and other receivables | 12 | 30,103 | 29,291 |
| Contract assets | | 35,634 | 34,878 |
| Other financial assets | | 32,763 | — |
| Pledged/restricted bank deposits | | 71,165 | 67,097 |
| Short-term bank deposits | | 20,630 | 103,171 |
| Bank balances and cash | | 38,008 | 43,178 |
| | | <u>228,780</u> | <u>278,767</u> |
| Current liabilities | | | |
| Trade and other payables | 13 | 99,001 | 126,130 |
| Tax payable | | 382 | 382 |
| Bank borrowings | | 25,827 | — |
| | | <u>125,210</u> | <u>126,512</u> |
| Net current assets | | <u>103,570</u> | <u>152,255</u> |
| Total assets less current liabilities | | <u>188,087</u> | <u>202,085</u> |
| Non-current liability | | | |
| Deferred tax liabilities | | 849 | — |
| Net assets | | <u>187,238</u> | <u>202,085</u> |
| Capital and reserves | | | |
| Share capital | | 6,189 | 6,189 |
| Reserves | | 196,397 | 207,289 |
| Equity attributable to owners of the Company | | 202,586 | 213,478 |
| Non-controlling interests | | (15,348) | (11,393) |
| Total equity | | <u>187,238</u> | <u>202,085</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands with limited liability on 23 February 2017 and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 10 September 2018. In the opinion of the directors, the ultimate controlling shareholders of the Company are Mr. Lao Chio Seng (“**Mr. Lao**”) and Ms. Wong Hio Mei, spouse of Mr. Lao, through Laos International Holdings Limited, a company incorporated in the British Virgin Islands (the “**BVI**”) with limited liability, and WHM Holdings Limited, a company incorporated in BVI with limited liability, respectively.

The Company acts as investment holding company and its subsidiaries are principally engaged in provision of construction services including fitting-out works and structural works, and sales of air purification unit/system.

The presentation and functional currency of the Company is Macau Pataca (“**MOP**”).

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“**IFRSs**”)

New and amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following new and amendments to IFRSs issued by the International Accounting Standards Board (“**IASB**”) for the first time, which are mandatorily effective for the Group’s annual periods beginning on or after 1 January 2023 for the preparation of the consolidated financial statements:

| | |
|---|--|
| IFRS 17 (including the June 2020 and December 2021 Amendments to IFRS 17) | Insurance Contracts |
| Amendments to IAS 8 | Definition of Accounting Estimates |
| Amendments to IAS 12 | Deferred Tax related to Assets and Liabilities arising from a Single Transaction |
| Amendments to IAS 12 | International Tax Reform — Pillar Two model Rules |
| Amendments to IAS 1 and IFRS Practice Statement 2 | Disclosure of Accounting Policies |

Except as described below, the application of the new and amendments to IFRSs in the current year has had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Impacts on application of Amendments to IAS 8 Definition of Accounting Estimates

The Group has applied the amendments for the first time in the current year. The amendments define accounting estimates as “monetary amounts in financial statements that are subject to measurement uncertainty”. An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. The amendments to IAS 8 clarify the distinction between changes in accounting estimates, and changes in accounting policies and the correction of errors.

The application of the amendments in the current year had no material impact on the consolidated financial statements.

Impacts on application of Amendments to IAS 1 and IFRS Practice Statement 2 Disclosure of Accounting Policies

The Group has applied the amendments for the first time in the current year. IAS 1 “Presentation of Financial Statements” is amended to replace all instances of the term “significant accounting policies” with “material accounting policy information”. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

IFRS Practice Statement 2 “Making Materiality Judgements” (the “**Practice Statement**”) is also amended to illustrate how an entity applies the “four-step materiality process” to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments has had no material impact on the Group’s financial positions and performance but has affected the disclosure of the Group’s accounting policies set out in note 3 to the consolidated financial statements.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period.

4. REVENUE

Revenue represents the aggregate of the amounts received and receivable for construction contracts of fitting-out works, structural works rendered for provision by the Group and sales of air purification unit/system to customers.

An analysis of the Group’s revenue from contracts with customers is as follows:

| | 2023 <i>MOP’000</i> | 2022 <i>MOP’000</i> |
|--|-------------------------------|------------------------|
| Recognised over time | | |
| Contract revenue from provision of fitting-out works | 90,756 | 154,109 |
| Contract revenue from provision of structural works | 49,794 | — |
| | 140,550 | 154,109 |
| Recognised at a point in time | | |
| Revenue from sales of air purification unit/system | 30 | 904 |
| | 140,580 | 155,013 |

5. SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the “CODM”), being the Chief Executive Officer of the Group, in order for CODM to allocate resources and to assess performance. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group’s reportable and operating segments under IFRS 8 “Operating Segments” are as follows:

- (a) Fitting-out works;
- (b) Structural works; and
- (c) Air purification business

The CODM makes decisions according to the operating results of each segment. No analysis of segment assets and segment liabilities is presented as the CODM does not regularly review such information for the purposes of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

Segment revenue and results

The following is an analysis of the Group’s revenue and results by operating segments:

For the year ended 31 December 2023

| | Fitting-out works MOP’000 | Structural works MOP’000 | Air purification business MOP’000 | Total MOP’000 |
|--|--|---|--|--------------------------|
| Segment revenue — external | <u>90,756</u> | <u>49,794</u> | <u>30</u> | <u>140,580</u> |
| Segment results | <u>4,964</u> | <u>3,772</u> | <u>(644)</u> | 8,092 |
| Administrative expenses | | | | (28,093) |
| Other income and other gains and losses | | | | 9,313 |
| Impairment loss under expected credit loss model, net of reversal | | | | (4,705) |
| Finance costs | | | | <u>(598)</u> |
| Loss before taxation | | | | <u>(15,991)</u> |

For the year ended 31 December 2022

| | Fitting-out works <i>MOP'000</i> | Structural works <i>MOP'000</i> | Air purification business <i>MOP'000</i> | Total <i>MOP'000</i> |
|--|--|---------------------------------------|---|-------------------------|
| Segment revenue — external | <u>154,109</u> | <u>—</u> | <u>904</u> | <u>155,013</u> |
| Segment results | <u>33,747</u> | <u>—</u> | <u>75</u> | 33,822 |
| Administrative expenses | | | | (22,177) |
| Other income and other gains and losses | | | | 6,764 |
| Impairment loss under expected credit loss model, net of reversal | | | | (9,007) |
| Finance costs | | | | <u>(2)</u> |
| Profit before taxation | | | | <u>9,400</u> |

6. OTHER INCOME

| | 2023 <i>MOP'000</i> | 2022 <i>MOP'000</i> |
|-----------------------------------|-------------------------------|------------------------|
| Bank interest income | 7,103 | 3,155 |
| Government grants (<i>Note</i>) | — | 1,619 |
| Others | <u>1,065</u> | <u>1,928</u> |
| | <u>8,168</u> | <u>6,702</u> |

Note: During the year ended 31 December 2022, the Group recognised government grant of MOP1,619,000 in respect of COVID-19-related subsidies, of which MOP1,619,000 relates to Employment Support Scheme provided by the Government of the Hong Kong Special Administrative Region.

7. IMPAIRMENT LOSS UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

| | 2023 <i>MOP'000</i> | 2022 <i>MOP'000</i> |
|---|-------------------------------|------------------------|
| Impairment loss recognised (reversed) on: | | |
| Trade receivables | 325 | 2,471 |
| Other receivables | (1,821) | 2,406 |
| Contract assets | 6,082 | 4,130 |
| Other financial assets | <u>119</u> | <u>—</u> |
| | <u>4,705</u> | <u>9,007</u> |

8. INCOME TAX CREDIT

| | 2023 <i>MOP'000</i> | 2022 <i>MOP'000</i> |
|--|------------------------|------------------------|
| Current tax | | |
| Macau Complementary Tax — overprovision in prior years | — | 394 |
| Deferred tax | <u>204</u> | <u>—</u> |
| | <u>204</u> | <u>394</u> |

No provision for Macau Complementary Tax has been made as the assessable profit of the relevant group entities have been absorbed by tax losses brought forward for both years.

No provision for the PRC Enterprise Income Tax has been made as the relevant group entities incurred tax losses for both years.

No provision for Hong Kong Profit Tax has been made as the relevant group entities incurred tax losses for both years.

9. (LOSS) PROFIT FOR THE YEAR

| | 2023 <i>MOP'000</i> | 2022 <i>MOP'000</i> |
|--|------------------------|------------------------|
| (Loss) profit for the year | | |
| has been arrived at after charging (crediting): | | |
| Contract costs recognised as expense (<i>Note</i>) | | |
| Provision of fitting-out works | 85,792 | 120,362 |
| Provision of structural works | <u>46,022</u> | <u>—</u> |
| | 131,814 | 120,362 |
| Cost of inventories recognised as expense (including write-down of inventories of MOP658,000 (2022: MOP311,000)) | 674 | 829 |
| Staff costs | | |
| Gross staff costs (including directors' emoluments below) | 19,004 | 26,500 |
| Less: Staff costs capitalised to contract costs incurred | <u>(6,786)</u> | <u>(13,333)</u> |
| | 12,218 | 13,167 |
| Directors' emoluments | 4,165 | 4,101 |
| Auditor's remuneration | 630 | 547 |
| Depreciation of property, plant and equipment | 1,577 | 1,522 |
| Amortisation of intangible assets | 818 | — |
| Expense relating to short-term leases | <u>395</u> | <u>599</u> |

Note: Included in contract costs was provision of onerous contracts of MOP1,578,000 (2022: MOP41,000) recognised for provision of fitting-out works during the year ended 31 December 2023.

10. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during both years, nor has any dividend been proposed since the end of each of the reporting period.

11. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share attributable to owners of the Company is based on the following data:

| | 2023 <i>MOP'000</i> | 2022 <i>MOP'000</i> |
|---|-------------------------------|------------------------|
| (Loss) profit for the year attributable to owners of the Company | <u>(10,281)</u> | <u>15,382</u> |
| | 2023 <i>'000</i> | 2022 <i>'000</i> |
| Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share | <u>600,000</u> | <u>600,000</u> |

Diluted (loss) earnings per share is not presented as there were no dilutive potential ordinary shares in issue during both years.

12. TRADE AND OTHER RECEIVABLES

| | 2023 <i>MOP'000</i> | 2022 <i>MOP'000</i> |
|---|-------------------------------|------------------------|
| Trade receivables, net of loss allowance | 12,564 | 17,072 |
| Advances paid to subcontractors and suppliers | 5,716 | 8,674 |
| Other receivables, prepayments and deposits | <u>11,823</u> | <u>3,545</u> |
| Total trade and other receivables | <u>30,103</u> | <u>29,291</u> |

Trade receivables represent amounts receivable for work certified in relation to provision of fitting-out works and structural works after deduction of retention money.

As at 1 January 2022, trade receivables, net of loss allowance, from contracts with customers amounted to MOP55,526,000.

The Group generally allows a credit period for 30 days to its customers. The following is an aged analysis of trade receivables presented based on dates of work certified at the end of the reporting period, net of loss allowance.

| | 2023 <i>MOP'000</i> | 2022 <i>MOP'000</i> |
|--------------|-------------------------------|------------------------|
| 1–30 days | 8,073 | 13,487 |
| 31–60 days | 1,478 | 2,069 |
| Over 90 days | <u>3,013</u> | <u>1,516</u> |
| | <u>12,564</u> | <u>17,072</u> |

13. TRADE AND OTHER PAYABLES

Trade and other payables at the end of the reporting period comprise amounts outstanding for trade purposes and daily operating costs. The credit period on trade purchase is generally from 7 to 60 days.

| | 2023 <i>MOP'000</i> | 2022 <i>MOP'000</i> |
|--------------------------------|------------------------|------------------------|
| Trade payables | 6,659 | 15,175 |
| Retention payables | 36,245 | 41,984 |
| Accrued contract costs | 46,906 | 60,725 |
| Provision of onerous contracts | 2,302 | 724 |
| Accruals | 6,889 | 7,522 |
| | <hr/> | <hr/> |
| Total trade and other payables | 99,001 | 126,130 |

The following is an aged analysis of trade payables presented based on the dates of work certified at the end of the reporting period:

| | 2023 <i>MOP'000</i> | 2022 <i>MOP'000</i> |
|--------------|------------------------|------------------------|
| 1–30 days | 3,477 | 13,795 |
| 31–60 days | — | 4 |
| Over 60 days | 3,182 | 1,376 |
| | <hr/> | <hr/> |
| | 6,659 | 15,175 |

14. CONTINGENT LIABILITIES

On 20 February 2023, Lap Polly Engineering Company Limited (“**Lap Polly**”), a subsidiary of the Company, received a notice of arbitration regarding to an alleged claim by joint and several liquidators. The alleged claim arose from disputes prior to the acquisition of Lap Polly on 10 September 2019. As at 31 December 2023, taken into account the opinion of an independent legal advisor that the claim was still at the preliminary stage, the management of the Group was not in a position to suggest the possibility of the result of the claim.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2023, the global economy remained under pressure with the continuous geopolitical complications around the world and the after-impacts of the novel coronavirus (“**COVID-19**”). Amid the challenging environment, AB Builders Group Limited (the “**Company**” together with its subsidiaries, the “**Group**”) has been actively seeking for business opportunities and projects, so as to increase revenue and drive long-term development. Nonetheless, during the year ended 31 December 2023, the Group recorded a revenue of approximately MOP140.6 million, representing a decrease of approximately MOP14.4 million or approximately 9.3% over the corresponding period of 2022. Accordingly, the Group generated a gross profit of approximately MOP8.1 million for the year ended 31 December 2023, as compared with a gross profit of approximately MOP33.8 million last year.

For the year ended 31 December 2023, the Group completed 4 fitting-out works projects and 2 structural works projects, and was awarded with 5 fitting-out works projects and 1 structural works project with an aggregate contract sum of approximately MOP200.3 million. As at 31 December 2023, the Group had 24 on-going projects (either in progress or yet to commence), including 2 structural works projects and 22 fitting-out works projects.

Outlook and prospects

Amid the uncertainties in the global economy and the complex political issues among several countries, the Group remains cautiously optimistic to the industry. As for Macau, the increasing number of tourists is expected to boost the region’s economy. According to the Macau government, the region’s tourism industry continued its strong recovery in 2023 with visitor arrivals reaching 28.2 million increased by 394.9% compared to the level of 2022 and recovered to 71.6% of the pre-pandemic levels of 2019. The bounce-back of the tourism sector will attract certain investments in the new construction projects in the region. As the Group’s major business sector, construction business in Macau contributes a large portion of revenue to the Group. To maintain the sector’s strong and continuous performance and grab the opportunities during the market recovery, the Group will make great efforts to expand its business network and customer base by actively participating in the bidding of both government and private sector projects and exploring business opportunities in Macau. In light of this, the Group will continue to explore and secure new projects in Macau in an active and prudent manner. Moreover, the Group is strategically expanding its construction business to the People’s Republic of China (the “**PRC**”), especially to the Guangdong-Hong Kong-Macau Greater Bay Area, and other regions. The Group strongly believes that the demand for the infrastructure in Greater Bay Area will increase in the coming years with government’s strong support on the region’s development.

While striving to expand the market in the construction business, the Group will also actively capture new business opportunities in other industries, which include financial services industry. On 14 March 2024, the Group has announced to enter into a sale and purchase agreement to acquire a company incorporated in Hong Kong with limited liability which possesses the Securities and Futures Commission of Hong Kong (“**SFC**”) Type 4 (advising on securities) & Type 9 (asset management) licenses. The management is keen on utilising its business relations and resources to new commercial strategies. By venturing into the financial services industry of Hong Kong, the Group can tap into new revenue streams which are expected to improve the Group’s overall financial performance and enhance its overall business portfolio.

The Group has decided to stop investing further resources in the operation of Lap Polly Engineering Company Limited (“**Lap Polly**”), which the Group owns 60% interests, considering Lap Polly’s unfavourable past business performance and the absence of a sound business strategy for improvement. Besides, the Group has decided not to invest further resources in the business of air-purification products and expects to cease the operation as the demand for air-purification products is anticipated to decrease with the reduced social impact of COVID-19 pandemic.

In addition to the above, the Group will continue to look for reputable enterprises for any partnership, merger or acquisition in the above-mentioned industries so as to further diversify its revenue streams and drive long-term growth. The Group will also continue to apply tight cost control measures for the Group’s sustainable development. The board of directors believes these strategies are essential to maintain a healthy financial position and solidify its competitiveness to face the coming challenges.

FINANCIAL REVIEW

Revenue

The table below sets forth a breakdown of the Group’s revenue for the years ended 31 December 2023 and 2022:

| | For the year ended 31 December | | | |
|-----------------------------|--------------------------------|---------------------|-----------------------|---------------------|
| | 2023 | | 2022 | |
| | <i>MOP’000</i> | <i>%</i> | <i>MOP’000</i> | <i>%</i> |
| Types of construction works | | | | |
| Fitting-out works | 90,756 | 64.6 | 154,109 | 99.4 |
| Structural works | 49,794 | 35.4 | — | — |
| Others | 30 | 0.0 | 904 | 0.6 |
| Total | <u>140,580</u> | <u>100.0</u> | <u>155,013</u> | <u>100.0</u> |

For the year ended 31 December 2023, The Group’s revenue decreased by approximately MOP14.4 million or 9.3% as compared with the last year. Such decrease was mainly attributable to the decrease in revenue generated from fitting-out works projects of approximately MOP63.4 million or 41.1% due to less fitting-out works projects awarded in 2023; but which was partially offset by the increase in revenue generated from structural works projects of approximately MOP49.8 million or 100% due to the expansion of the PRC market.

The revenue of air purification business decreased by approximately MOP0.9 million or 96.7% due to decrease in demand in air-purification unit/system.

Gross (loss) profit and gross (loss) profit margin

The following table sets forth a breakdown of the Group's gross (loss) profit and gross (loss) profit margin by types of revenue for the years ended 31 December 2023 and 2022 respectively:

| | For the year ended 31 December | | | |
|-----------------------------|---|--|-----------------------------------|-----------------------------|
| | 2023 | | 2022 | |
| | Gross profit/ (Gross loss) <i>MOP'000</i> | Gross profit/ (Gross loss) margin % | Gross profit <i>MOP'000</i> | Gross profit margin % |
| Types of construction works | | | | |
| Fitting-out works | 4,964 | 5.5 | 33,747 | 21.9 |
| Structural works | 3,772 | 7.5 | — | — |
| Others | (644) | (2,146.7) | 75 | 8.3 |
| Total | <u>8,092</u> | <u>5.8</u> | <u>33,822</u> | <u>21.8</u> |

For the year ended 31 December 2023, the Group's gross profit decreased by approximately MOP25.7 million, or 76.1% to approximately MOP8.1 million when compared with the last year. The decrease was mainly due to the decrease in gross profit in the fitting-out works projects.

The gross profit margin of fitting-out works projects decreased by 16.4 percentage points from approximately 21.9% for the year of 2022 to 5.5% for the year of 2023. The decrease was mainly due to (i) the recognition of loss arising from loss-making contracts which amounted to approximately MOP5.7 million; and (ii) the margins of the projects concluded in the year of 2023 are lower than those concluded in the year of 2022.

The gross profit of structural works projects increased by approximately MOP3.8 million due to the expansion of the PRC market.

Regarding the air purification business, the gross loss of MOP0.6 million for the year of 2023 was mainly due to the decrease in demand for air-purification unit/system and the increase in the write-down of inventories.

Other income

The Group's other income increased by approximately MOP1.5 million or 21.9% from approximately MOP6.7 million for the year ended 31 December 2022 to MOP8.2 million for the year ended 31 December 2023. The increase was mainly attributable to the increase in bank interest income offsetting the decrease in government grants.

Other gains and losses

For the year ended 31 December 2023, the other gains mainly consisted of net exchange gains of MOP617,000 and the gain from the fair value change of the financial asset at fair value through profit and loss of MOP532,000. For the year ended 31 December 2022, the other gains mainly consisted of net exchange gains of MOP67,000.

Impairment losses

It mainly consisted of impairment losses under expected credit loss model on trade and other receivables, contract assets and other financial assets. The decrease was mainly due to the settlement of certain long-aged other receivables during the year of 2023.

Administrative expenses

Administrative expenses increased by approximately MOP5.9 million from approximately MOP22.2 million for the year ended 31 December 2022 to approximately MOP28.1 million for the year ended 31 December 2023. Administrative expenses consisted primarily of staff costs and Directors' emoluments, depreciation and other administrative expenses. This increase was mainly attributable to the expansion of the PRC market.

Income tax credit

Income tax credit decreased by approximately MOP190,000 from approximately MOP394,000 for the year ended 31 December 2022 to approximately MOP204,000 for the year ended 31 December 2023. It consisted of utilisation of deferred tax liabilities during the year of 2023.

(Loss) profit for the year

The loss for the year ended 31 December 2023 was approximately MOP15.8 million as compared to the profit of approximately MOP9.8 million for the year ended 31 December 2022. Such change was mainly due to the combined effect of the aforementioned items.

Final dividend

The Board did not recommend any payment of a final dividend for both years.

CORPORATE FINANCE AND RISK MANAGEMENT

Liquidity and financial resources

The Group's capital expenditure and daily operations during the year ended 31 December 2023 were mainly funded by internally generated funds and bank borrowings.

The total cash and bank balances together with the pledged/restricted bank deposits and short-term bank deposits as at 31 December 2023 was approximately MOP129.8 million, compared to approximately MOP213.4 million as at 31 December 2022.

The decrease of approximately MOP83.6 million was mainly related to the operating cash outflow and the investments in other financial assets of approximately MOP65.0 million.

As of 31 December 2023, bank borrowings amounting to MOP25.8 million (2022: nil) carried interest at prime rate minus 2.1% (2022: nil) per annum. The effective interest rates of the bank borrowings were 4.025% (2022: nil) per annum. The bank borrowings are denominated in MOP and will mature within one year.

Our gearing ratio (calculated as debt over total equity) as at 31 December 2023 was 13.8% (2022: 0%) which was mainly attributable to the increase in bank borrowings by approximately MOP25.8 million. As at 31 December 2023, the Group had unutilised banking facilities of approximately MOP230.5 million (2022: MOP203.0 million).

The current ratio of the Group as at 31 December 2023 decreased to 1.8 times (2022: 2.2 times).

Capital Structure

The capital structure of the Group consists of equity attributable to the owners of the Company comprising issued share capital, share premium, legal reserve, share-based payments reserve, exchange reserve, other reserves and retained earnings. During the year ended 31 December 2023, there has been no change in capital structure of the Company.

Future plans for material investments and capital assets

Save as disclosed in the prospectus of the Company dated 27 August 2018 (the “**Prospectus**”) and in this results announcement, the Group did not have other plans for material investments or capital assets.

Pledge of assets

The following assets of the Group were pledged to secure the credit facilities and bank borrowings to the Group during the year:

| | 2023 | 2022 |
|--|----------------|---------|
| | MOP'000 | MOP'000 |
| Owned properties included in property, plant and equipment | 36,530 | 37,936 |
| Other financial assets | 32,763 | — |
| Pledged bank deposits | 69,355 | 67,097 |
| | 138,648 | 105,033 |

Capital commitment

As at 31 December 2023, the Group has an obligation to settle an amount of Renminbi (“**RMB**”) 40.0 million (equivalent to approximately MOP45.2 million) as a capital contribution to Jiangmen Jinying Construction and Engineering Company Limited (2022: RMB50.0 million (equivalent to approximately MOP57.6 million)). Please refer to the announcements issued by the Company on 1 November 2022 and 19 December 2022 for further details.

Significant investments, acquisition and disposals

On 29 September 2023, San Fong Seng Construction & Engineering Company Limited (“**San Fong Seng**”), an indirect wholly owned subsidiary of the Company, has purchased the fixed rate certificate of deposit issued by Agricultural Bank of China Limited, Sydney Branch with a principal amount of United States dollar (“**US\$**”) 4,000,000 on issuance with a consideration of US\$4,077,273 (equivalent to approximately MOP32.9 million) and maturity date in May 2024. For further details, please refer to the Company’s announcement dated 29 September 2023.

On 29 November 2023, San Fong Seng has subscribed the capital bonds issued by the Luso International Banking Limited, a commercial bank in Macau with the subscription amount of US\$4,000,000 (equivalent to approximately MOP32.2 million) and maturity date in May 2034. For further details, please refer to the Company’s announcement dated 29 November 2023.

Save as the above, during the year ended 31 December 2023, the Group did not have any other significant investment, acquisition and disposal.

Exposure to exchange rate fluctuation

The Group entities collect most of its revenue and incur most of its expenditures in their respective functional currencies. The Group is exposed to currency risks primarily through purchase of raw materials, sale proceeds received from its customers, and investments in other financial assets that are denominated in a currency other than the Group’s functional currency. The currencies giving rise to this risk are primarily Hong Kong dollars (“**HK\$**”), RMB and US\$. The Group currently does not have a foreign currency hedging policy. However, the management regularly monitors the relevant foreign currency exposure and will consider taking appropriate measures to control the risk arising from significant exchange fluctuations.

Employee and remuneration policies

As at 31 December 2023, the Group had 49 (2022: 56) full time employees. The decrease in the number of employees was mainly due to the fact that the Group has implemented a tight cost control and adjusted the number of direct labour based on the progress and expected workload of our construction works and the expected completion dates of work projects.

The remuneration package offered to employees includes salary and other employee benefits such as bonus. In general, the Group determines the salaries of its employees based on their individual performance, qualifications, position and seniority. The Group conducts annual salary and promotion review in order to attract and retain employees. In addition, the Group provides various types of training to its employees to promote overall efficiency, employee loyalty and retention. Total staff costs for the year ended 31 December 2023 were approximately MOP19.0 million (2022: MOP26.5 million).

Compliance with laws and regulations

The Group mainly carries out its business in Macau, Hong Kong and China. To the best of the Directors' knowledge, the Group has complied with all relevant laws and regulations in Macau, Hong Kong and China during the year.

Principal risk and uncertainties

The Group believes that the risk management practices are important and use its best effort to ensure it is sufficient to mitigate the risks present in our operations and financial position as efficiently and effectively as possible:

- Material changes in the cost of construction materials and labour costs may result in cost overrun, which could materially affect our results of operation and financial performance;
- Mismanagement or delay of our projects will materially affect our reputation and also our financial performance as penalties and/or additional costs may be incurred;
- Cash flow of our projects may fluctuate;
- We rely on subcontractors to help complete our projects. Underperformance by our subcontractors or unavailability of subcontractors may adversely affect our operations, profitability and reputation;
- Our success significantly depends on the key management and our ability to attract and retain technical and management staff; and
- Our inventory level may be affected by the market demand for air purification unit/system which may not be accurately estimated.

USE OF PROCEED

The Company has raised gross proceeds of approximately HK\$100.5 million through the Global Offering upon the listing of the Company's securities on the Main Board of The Stock Exchange of Hong Kong Limited on 10 September 2018. After deducting the listing expenses, the net proceeds were approximately HK\$61.2 million. According to the announcement of the Company on 27 August 2020, the Board of the Company has resolved to reallocate the unutilized net proceeds up to 30 June 2020 (“**Reallocation**”). The table below sets out the details of the Reallocation. The Board is of the view that it is in the best interests of the Company and its shareholders as a whole.

As of 31 December 2023, the net proceeds from the Global Offering had been applied as follows:

| | HKD million | | | | | |
|--|-------------|--|--|--|--|--|
| | Planned use | Unutilised net proceeds as of 30 June 2020 | Revised allocation of the unutilised net proceeds as of 27 August 2020 | Utilised of revised allocation of the unutilised net proceed as of 27 August 2020 up to 31 December 2022 | Net proceeds utilised during the year ended 31 December 2023 | Unutilised net proceeds as of 31 December 2023 |
| Financing the Group's construction projects and strengthening the financial position | 26.4 | — | 9.2 | 9.2 | — | — |
| Purchasing suitable new machinery for forthcoming construction works | 16.5 | 14.6 | — | — | — | — |
| Potential merger and acquisition | 6.1 | 6.1 | 6.1 | — | 6.1 | — |
| Hire additional staff for the Group's business operation | 6.1 | 2.8 | 8.2 | 8.2 | — | — |
| General working capital | 6.1 | 1.2 | 1.2 | 1.2 | — | — |
| Total | 61.2 | 24.7 | 24.7 | 18.6 | 6.1 | — |

CORPORATE GOVERNANCE

For the year ended 31 December 2023, the Company has applied the principles in the Corporate Governance Code (the “**CG Code**”) as set out in Appendix C1 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”). During the year ended 31 December 2023 and up to the date of this announcement, to the best knowledge of the Board, the Company has complied with all the mandatory disclosure requirements and the applicable code provisions as set out in the section headed “Part 2 — Principles of good corporate governance, code provisions and recommended best practices” in the CG Code.

DIRECTORS’ INTERESTS IN COMPETING INTERESTS

For the year ended 31 December 2023, the Directors were not aware of any business or interest of each of the Directors, or the controlling shareholders of the Company and their respective close associates (as defined under the Listing Rules) that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have within the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2023, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix C3 of the Listing Rules (the “**Model Code**”) as its own code of conduct regarding the securities transactions by the directors of the Company. Having made specific enquiries of all directors, all directors confirmed that they have complied with the required standard as set out in Model Code throughout the year ended 31 December 2023.

EVENT AFTER THE REPORTING PERIOD

On 14 March 2024, the Group entered into a sale and purchase agreement with two independent third parties to acquire the entire issued share capital of a company incorporated in Hong Kong with limited liability (“**Target Company**”) for a consideration not more than HK\$1,900,000. The Target Company possesses the SFC Licence and is engaged in the business of carrying out Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance. For further details, please refer to the Company’s announcement 14 March 2024.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors: Mr. O’Yang Wiley, Mr. Chu Yat Pang Terry and Mr. Choy Wai Shek, Raymond, *MH, JP*. Mr. O’Yang Wiley was appointed to serve as the chairman of the Audit Committee. The primary duties of the Audit Committee are to make recommendations to the Board on the appointment and dismissal of external auditor, review the financial statements and the information and provide advice in respect of financial reporting and oversee the internal control procedures of the Company.

The Company's consolidated financial statements for the year ended 31 December 2023 have been reviewed by the Audit Committee on 28 March 2024. The Audit Committee is of the opinion that the consolidated financial statements of the Company for the year ended 31 December 2023 comply with applicable accounting standards, the Listing Rules and that adequate disclosures have been made.

SCOPE OF WORK OF BAKER TILLY HONG KONG LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2023 as set out in the preliminary announcement have been agreed by the Group's auditor, Baker Tilly Hong Kong Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Baker Tilly Hong Kong Limited in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by Baker Tilly Hong Kong Limited on the preliminary announcement.

FINAL DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 31 December 2023 (2022: nil).

ANNUAL GENERAL MEETING

The forthcoming Annual General Meeting (the "AGM") of the Company will be held on Tuesday, 18 June 2024 at 3:00 p.m. A notice convening the AGM will be published and despatched to the shareholders of the Company in due course.

CLOSURE OF REGISTER OF MEMBERS

For attending and voting at the AGM

The register of members of the Company will be closed from Thursday, 13 June 2024 to Tuesday, 18 June 2024 (both days inclusive) during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the AGM, unregistered holders of Shares shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Boardroom Share Registrars (HK) Limited, at 2103B, 21/F, 148 Electric Road, North Point, Hong Kong for registration not later than 4:30 p.m. on Wednesday 12 June 2024.