THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about this circular or as to the action to be taken, you should consult your licensed securities dealer, registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Prosper Construction Holdings Limited, you should at once hand this circular and the enclosed form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer, registered institution in securities, or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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)

MAJOR TRANSACTION
IN RELATION TO THE ACQUISITION OF
34.00% EQUITY INTEREST IN
QINGDAO HONGHAI CURTAIN WALL CO., LTD.*

All capitalised terms used in this Circular shall have the same meanings as those defined in the section headed "Definitions" in this Circular.

A letter from the Board containing details of the Acquisition is set out on pages 3 to 10 of this Circular.

In accordance with Rule 14.44 of the Listing Rules, in lieu of holding a general meeting for approving the Acquisition, the Company has obtained an irrevocable and unconditional written approval for the Acquisition from 青島西海岸控股(國際)有限公司 (Qingdao West Coast Holdings (Internation) Limited*), which holds 498,000,000 Shares representing approximately 62.25% of the total issued Shares as at the Latest Practicable Date. Accordingly, no general meeting will be convened by the Company for approving the Acquisition. This Circular is being despatched to the Shareholders for information only.

18 December 2020

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In this circular, the following expressions have the meanings set out below unless the context requires otherwise:

"Acquisition"	the acquisition of the Sale Interest by the Purchaser from the Vendor pursuant to the terms and conditions under the Sale and Purchase Agreement
"Board"	the board of Directors
"Company"	Prosper Construction Holdings Limited (瑞港建設控股有限公司), a company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on the Stock Exchange (Stock Code: 6816)
"Completion"	completion of the Acquisition in accordance with the terms and conditions of the Sale and Purchase Agreement
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"Consideration"	the consideration payable by the Purchaser to the Vendor for the Acquisition
"Director(s)"	the director(s) of the Company
"Enlarged Group"	the Group and the Target Group upon the Completion
"Group"	the Company and its subsidiaries from time to time
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"Independent Third Party(ies)"	any person(s) or company(ies) and their respective ultimate beneficial owner(s), to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, are not connected persons of the Company and are third parties independent of the Company and its connected persons in accordance with the Listing Rules
"Latest Practicable Date"	11 December 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange

"MOP"	Macau Patacas, the lawful currency of the Macao Special Administrative Region of the PRC
"PRC"	the People's Republic of China, and for the purpose of this circular, excludes Hong Kong, Macao Special Administrative Region and Taiwan
"Purchaser"	青島東捷建設工程有限公司 (Qingdao Dongjie Construction Engineering Co., Ltd.*), a company established in the PRC with limited liability and an indirect non-wholly owned subsidiary of the Company
"RMB"	Renminbi, the lawful currency of the PRC
"Sale and Purchase Agreement"	the conditional sale and purchase agreement dated 16 November 2020 entered into among the Vendor, the Purchaser and the Target Company in relation to the Acquisition
"Sale Interest"	the 34.00% equity interest in the Target Company held by the Vendor immediately prior to the Completion
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$0.01 each in the capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Company"	青島宏海幕牆有限公司 (Qingdao Honghai Curtain Wall Co., Ltd.*), a company established in the PRC with limited liability
"Target Group"	the Target Company and its subsidiaries as at the date of the Sale and Purchase Agreement
"Vendor"	王永宏 (Wang Yonghong*), an Independent Third Party
"%"	per cent

English translation of names in Chinese which is marked with "" in this circular is for identification purpose only.*

For the purpose of this circular, unless otherwise indicated, the conversion of RMB into HK$ is based on the exchange rate of RMB1.00 = HK$1.10. Such rate is for the purpose of illustration only and does not constitute a representation that any amount in question in RMB or HK$ has been or could have been or may be converted at such or another rate or at all.

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)

Executive Directors:
Mr. Liu Luqiang *(Chairman)*
Mr. Cui Qi *(Chief executive officer)*
Mr. Ding Hongbin *(Chief operating officer)*
Mr. Yang Zhenshan
Mr. Jiang Shuang

Non-executive Director:
Mr. Wang Xuejun

Independent non-executive Directors:
Mr. Cheung Chi Man Dennis
Mr. Wang Yaping
Mr. Cheng Xuezhan

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:
Unit Nos. 04–05 on 5th Floor
K Wah Centre
191 Java Road, North Point
Hong Kong

18 December 2020

To the Shareholders

Dear Sir/Madam,

MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF 34.00% EQUITY INTEREST IN QINGDAO HONGHAI CURTAIN WALL CO., LTD.*

A. INTRODUCTION

References are made to the announcements of the Company dated 22 September 2020, 16 November 2020, 1 December 2020 and 3 December 2020 in relation to the Acquisition. The purpose of this circular is to provide you with, among other things, (i) further details of the Acquisition; (ii) certain financial information and other information of the Group and the Enlarged Group; and (iii) the valuation report of the Target Group.

B. THE SALE AND PURCHASE AGREEMENT

On 16 November 2020 (after trading hours), the Purchaser, an indirect non-wholly owned subsidiary of the Company, the Vendor and the Target Company entered into the Sale and Purchase Agreement, pursuant to which the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to sell the Sale Interest representing 34.00% equity interest in the Target Company at the Consideration of RMB49,898,000 (equivalent to approximately HK$54,887,800). The principal terms of the Sale and Purchase Agreement are summarised below:

Date

16 November 2020 (after trading hours)

Parties

(1) the Purchaser;

(2) the Vendor; and

(3) the Target Company

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, the Vendor is an Independent Third Party.

Assets to be acquired

Immediately before the Completion, the Target Company is owned as to approximately 82.80% and 17.20% by the Vendor and 中德生態園被動房建築科技有限公司 (Sino-German Ecopark Passive House Building Technology Co., Ltd.*) ("**Sino-German Ecopark**"), an Independent Third Party, respectively. Upon the Completion, the Target Company will be owned as to 34.00% and approximately 48.80% and 17.20% by the Purchaser, the Vendor and Sino-German Ecopark, respectively. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, the Vendor wishes to retain the 48.80% equity interest in order to share the future business return of the Target Company under the control and management of the Purchaser upon the Completion.

Information of the existing shareholders of the Target Company

Sino-German Ecopark is a company established in the PRC with limited liability in 2013 and is held as to 100% by its intermediate holding company, namely, 中德聯合集團有限公司 (Sino-German Ecopark United Group*) which is an indirect wholly-owned subsidiary of 青島西海岸新區國有資產管理局 (State-owned Asset Management Bureau of Qingdao West Coast New Area*). Sino-German Ecopark, is principally engaged in technology research and development, consultation, promotion and transfer of passive housing (被動房), energy-saving construction and related products, design and construction of mechanical and electrical projects and design and installation of smart buildings.

The Vendor is a PRC resident who has been serving as the chairman of the Target Company since March 2007. The Vendor had previously served as a key design personnel, project manager, and general manager of 山東雄獅建築裝飾工程有限公司 (Shandong Xiongshi Architecture Decoration Co., Ltd.*) from June 1992 to January 2005 and the chairman of 北京友邦建築裝飾工程有限公司 (Beijing Youbang Architecture Decoration Engineering Co., Ltd.*) from January 2005 to March 2007. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, the Vendor is an Independent Third Party.

Pursuant to the Sale and Purchase Agreement, the Purchaser is entitled to appoint a majority number of directors of the Target Company and will be able to control the management and operation of the Target Company. Accordingly, the Target Company will become an indirect non-wholly owned subsidiary of the Company and its financial results, assets and liabilities will be consolidated into the accounts of the Group upon the Completion.

As at the Latest Practicable Date, the Group had no intention to acquire the remaining interests in the Target Company.

Consideration

Pursuant to the Sale and Purchase Agreement, the Consideration shall be RMB49,898,000 (equivalent to approximately HK$54,887,800) which shall be settled by the Purchaser in cash within seven days after the date of the Completion.

The Group currently expects to finance the Consideration by internal resources.

Basis of the Consideration

The Consideration was determined after arm's length negotiation between the Vendor and the Purchaser after considering the following factors: (i) the unaudited consolidated net profits after tax of the Target Company for the year ended 31 December 2019; (ii) the preliminary valuation of the Target Company being greater than RMB160,000,000 as at 31 August 2020 based on the market approach compiled by CBRE Limited, an independent valuer (the "**Valuation**"); (iii) the grade three professional contractor in steel structure construction works qualification, the grade one professional contractor in curtain wall construction works qualification and the grade one engineering design for curtain wall projects qualification obtained by the Target Company; (iv) the future business prospects of the Target Company; and (v) the factors as set out in the section headed "Reasons for and Benefits of the Acquisition".

The Consideration represents a discount of approximately 8.28% to the Valuation and a discount of approximately 11.06% to the market value of the Target Group appraised by the valuer of 34% equity interest in the Target Company which amounted to approximately RMB56,100,000 (equivalent to approximately HK$61,710,000) as at 31 August 2020. The Directors have reviewed the Valuation and discussed with the valuer for the assumptions and the methodologies used for the Valuation. For details of the valuation methodologies and major assumptions adopted by the valuer in the Valuation, please refer to sections headed "ASSESSMENT METHODOLOGIES" and "SOURCES OF INFORMATION AND PRINCIPAL ASSUMPTIONS" of the valuation report as set out in Appendix V to this circular.

Based on the discussion with the valuer and the review on the Valuation as set out in Appendix V, the Directors are of the view that the assumptions for the Valuation and the methodologies adopted by the valuer are fair and reasonable.

In view of the above, the Directors consider that the Consideration is fair and reasonable.

Conditions Precedent

Completion shall be subject to and conditional upon the fulfillment (or waiver, if applicable) of the following conditions:

1. all necessary consents and approvals required to be obtained on the part of the Purchaser in respect of the transactions contemplated under the Sale and Purchase Agreement having been obtained, including the approval from its board of directors and shareholders;

2. all necessary consents and approvals to be obtained on the part of the Company in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder, and the approval from the Stock Exchange (if required) having been obtained;

3. all necessary consents and approvals required to be obtained on the part of the Vendor and the Target Company in respect of the transactions contemplated under the Sale and Purchase Agreement having been obtained, including the approval from the board of directors and the shareholders of the Target Company;

4. the irrevocable and unconditional waiver of the existing shareholder of Sino-German Ecopark of any and all rights of pre-emption over or in respect of the sale or transfer of the Sale Interest to the Purchaser having been obtained;

5. the existing shareholders of the Target Company having confirmed the shareholding structure of the Target Company before the Completion;

6. the Vendor has entered into a supplementary agreement with Sino-German Ecopark on all matters concerning the remaining shareholders in relation to the Target Company in connection with the transactions contemplated under the Sale and Purchase Agreement, in the form satisfactory to the Purchaser; and

7. all representations, warranties and undertakings given by the Vendor remaining true, accurate and not misleading in all material aspects from the date of the Sale and Purchase Agreement until the date of Completion.

As at the Latest Practicable Date, save as the conditions precedent 4, 6 and 7, all of the above conditions precedent have been fulfilled.

Based on the final valuation report, the Target Group is valued at RMB165,000,000 (equivalent to approximately HK$187,000,000) as at 31 August 2020.

Completion

Completion is subject to the fulfilment or waiver by the Purchaser and the Vendor (as the case may be and to the extent waivable) of all the above conditions precedent and shall take place after completion of the relevant industrial and commercial registration procedures and obtaining of the new business licence of the Target Company.

Board composition of the Target Company

As at the date of the Sale and Purchase Agreement, the Target Company had three natural person directors including the Vendor who was the chairman and president of the Target Company, Zhao Chunliang* (趙春亮) who was the general manager of the Target Company and Han Fei* (韓飛). To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the existing directors of the Target Company are Independent Third Parties.

Upon Completion, the Target Company will form a board of directors which comprises seven directors, out of which four will be appointed by the Purchaser, two will be appointed by the Vendor and the remaining one will be appointed by Sino-German Ecopark. The Company will identify suitably qualified individuals from the directors or senior management of the Purchaser for appointment as directors of the Target Company.

C. INFORMATION ON THE TARGET GROUP

The Target Company and its two subsidiaries are limited liability companies established in the PRC and the Target Group is principally engaged in design and implementation of construction and decoration works, design, production and installation of curtain walls, doors and windows, steel structure works, landscaping and municipal construction. The Target Company has obtained the grade three professional contractor in steel structure construction works qualification, the grade one professional contractor in curtain wall construction works qualification and the grade one engineering design for curtain wall projects qualification.

The audited net profit (before and after taxation) of the Target Group for the two years ended 31 December 2018 and 2019 are as below:

	For the year ended 31 December 2018 (audited) *(RMB'000)*	**For the year ended 31 December 2019** (audited) *(RMB'000)*
Revenue	79,202 (equivalent to approximately HK$87,122,000)	117,211 (equivalent to approximately $128,932,000)
Net profit (before taxation and extraordinary items)	5,785 (equivalent to approximately HK$6,364,000)	4,826 (equivalent to approximately HK$5,309,000)
Net profit (after taxation and extraordinary items)	4,173 (equivalent to approximately HK$4,590,000)	3,893 (equivalent to approximately HK$4,282,000)

Based on the financial information of the Target Group provided by the Vendor, the audited consolidated net asset value of the Target Group was approximately RMB70,117,000 (equivalent to approximately HK$77,129,000) as at 31 August 2020.

D. INFORMATION ON THE GROUP

The Company is an investment holding company and its subsidiaries provide marine construction services, auxiliary marine related services and general construction contracting services. The Purchaser, namely 青島東捷建設工程有限公司 (Qingdao Dongjie Construction Engineering Co., Ltd.*), was established in the PRC and is an indirect non-wholly owned subsidiary of the Company.

The Purchaser is principally engaged in general contracting of building construction, building foundation, garden greening projects, garden landscape projects, cultural relic protection projects, real estate development business, building materials wholesale, building demolition activities, pipeline engineering (excluding pressure piping), road construction, water conservancy and hydropower project construction, power engineering construction, municipal utilities engineering construction, mechanical and electrical engineering construction, lifting equipment installation projects, fire control facilities engineering, waterproof anti-corrosion insulation works, steel structure engineering, and building mechanical and electrical installation works.

The Company has no plans to make significant changes to its existing businesses, namely the provision of marine construction services, auxiliary marine related services and general construction contracting services after the Completion. As at the Latest Practicable Date, the Company has no intention to enter into, and has not entered into any agreement, arrangement, understanding or negotiation to dispose of or discontinue its existing business or assets (whether concluded or not).

E. REASONS FOR AND BENEFITS OF THE ACQUISITION

As disclosed in the Annual Report 2019 of the Company, the Group has successfully established a business presence as a general main contractor in the PRC construction market through its acquisition of 80% equity interest in the Purchaser. In July 2020, Mr. Ding Hongbin, the chairman of the Purchaser and an executive Director became acquainted with the Vendor at a social event and the Purchaser subsequently considered the possibility of acquiring the Sale Interest from the Vendor for the better development of the Purchaser and the Target Company. The Directors considered that the Acquisition is in line with one of the core businesses of the Group and would create synergy from combining the capabilities of both the Group and the Target Group in providing construction services in the PRC.

Pursuant to the Sale and Purchase Agreement, the Purchaser is entitled to appoint a majority number of directors of the Target Company and will be able to control the management and operation of the Target Company upon the Completion. The Directors are of the view that the Acquisition represents a good opportunity for the Group to acquire a controlling position in an advanced curtain wall manufacturing and installation company in the PRC which allows it to further develop as a comprehensive construction services provider in the PRC.

It is envisaged that the overall competitiveness of the Group will be further enhanced through cost savings and synergetic effect resulting from the Acquisition, and will facilitate the Company to further develop its operations in the construction industry and to strengthen its position in the construction services market in the PRC.

The Board considers that the Acquisition is carried out on normal commercial terms, and that the terms of the Acquisition are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

F. POSSIBLE FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, the Group will be interested in 34.00% equity interest of the Target Company and pursuant to the Sale and Purchase Agreement, the Purchaser is entitled to appoint a majority number of directors of the Target Company and will be able to control the management and operation of the Target Group upon the Completion. Accordingly, the Target Company will become an indirect non-wholly owned subsidiary of the Company and its financial results, assets and liabilities will be consolidated into the accounts of the Group upon Completion.

As illustrated in the unaudited pro forma financial information of the Enlarged Group set out in Appendix IV to this circular, the total assets of the Enlarged Group would increase by approximately 17.5% from approximately HK$1,501.2 million to approximately HK$1,763.6 million; and the total liabilities of the Enlarged Group would increase by approximately 20.7% from approximately HK$969.6 million to approximately HK$1,170.4 million assuming the Acquisition had been completed on 30 June 2020.

Please refer to Appendix IV to this circular for further details of the unaudited pro forma consolidated financial information of the Enlarged Group immediately following the Completion.

G. IMPLICATIONS UNDER THE LISTING RULES

As one or more of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Acquisition are more than 25% but less than 100%, the Acquisition constitutes a major transaction of the Company, and is therefore subject to reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, to the best of the knowledge, information and belief of the Directors, after having made all reasonable enquiries, no Shareholder has any material interest in the Acquisition and is required to abstain from voting if the Company was to convene an extraordinary general meeting for approval of the Acquisition. In accordance with Rule 14.44 of the Listing Rules, in lieu of holding a general meeting for approving the Acquisition, the Company has obtained an irrevocable and unconditional written approval for the Acquisition from 青島西海岸控股(國際)有限公司 (Qingdao West Coast Holdings (Internation) Limited*), which holds 498,000,000 Shares representing approximately 62.25% of the total issued Shares as at the Latest Practicable Date.

H. RECOMMENDATIONS

The Directors consider that the Acquisition and the terms and conditions of the Sale and Purchase Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Although no general meeting will be convened by the Company for approving the Acquisition, if such general meeting was being convened, the Directors would have recommended the Shareholders to vote in favour of the Acquisition.

I. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

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

1. SUMMARY OF THE FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial statements, together with the accompanying notes thereto, of the Group for the years ended 31 December 2017, 2018 and 2019 and the unaudited condensed consolidated financial information of the Group for the six months ended 30 June 2020 were set out in the following documents which have been published on the websites of the Stock Exchange (**www.hkexnews.hk**) and the Company (**www.prosperch.com**):

(a) Annual report of the Company for the year ended 31 December 2017 (pages 45 to 115):

https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0416/ltn20180416378.pdf

(b) Annual report of the Company for the year ended 31 December 2018 (pages 42 to 113):

https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0429/ltn201904291541.pdf

(c) Annual report of the Company for the year ended 31 December 2019 (pages 42 to 105):

https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0423/2020042300558.pdf

(d) Interim report of the Company for the six months ended 30 June 2020 (pages 10 to 34):

https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0916/2020091600329.pdf

2. INDEBTEDNESS STATEMENT

As at 31 October 2020, the latest practicable date for the purpose of the indebtedness statement, the Group has outstanding borrowings of approximately HK$283.2 million, which were denominated in HK$, MOP and RMB.

As at 31 October 2020, the Group has no material covenants relating to its outstanding debts.

As at 31 October 2020, the Group has a loan from an intermediate holding company of approximately HK$100 million, which is non-trade in nature, with a fixed interest rate at 3.9% per annum, guaranteed by the Company and repayable within one year.

The Group's loan facilities are secured or guaranteed by (i) unlimited guarantees provided by the Company as at 31 October 2020; (ii) limited guarantees provided by the ultimate holding company as at 31 October 2020; (iii) deposits of not less than HK$18.7 million; and (iv) guarantees of HK$181.6 million from a subsidiary for a bank facility which covers a loan of HK$68.0 million and performance bond facility of HK$218.4 million as at 31 October 2020.

As at 31 October 2020, plant and equipment with carrying value of approximately HK$17.1 million and deposits of HK$10.6 million were pledged as security for a provision of a performance bond and a prepayment surety bond totaling HK$122.2 million for the Group's project in Macao.

As at 31 October 2020, the joint operations held by the Group have given guarantees on performance bonds relating to construction contracts in the ordinary course of business, and the amounts shared by the Group were of HK$122.2 million. These performance bonds are expected to be released in accordance with the terms of the respective construction contracts. Save for the guarantees given on these performance bonds, we had no material contingent liabilities.

The Group leases various properties for the use of office and staff quarters. These lease liabilities were measured at net present value of the lease payments during the lease terms that are not yet paid. As at 31 October 2020, the lease liabilities were approximately HK$3.1 million, of which approximately HK$2.1 million would be due within one year and approximately HK$1.0 million would be due after one year.

As at 31 October 2020, the Target Group has outstanding borrowings of approximately HK$20.7 million, which are denominated in RMB.

As at 31 October 2020, the Target Group has no material covenants relating to its outstanding debts.

As at 31 October 2020, the Target Group has amounts due to shareholders of approximately HK$3.0 million which are non-trade in nature, interest-free, unsecured and repayable on demand.

The Target Group's loan facilities are guaranteed by the directors and shareholders of the Target Company as at 31 October 2020.

The Target Group leases a manufacturing plant. These lease liabilities were measured at net present value of the lease payments during the lease terms that are not yet paid. As at 31 October 2020, the lease liabilities were approximately HK$1.9 million, of which approximately HK$0.6 million would be due within one year and approximately HK$1.3 million would be due after one year.

Save as disclosed above or as otherwise mentioned herein, and apart from intra-group liabilities, the Enlarged Group did not have any other outstanding mortgages, charges, debentures, loan capital, bank overdrafts, debt securities or other similar indebtedness, finance lease or hire purchases and finance lease commitments, liabilities under acceptances or acceptance credits, or any other guarantees or other material contingent liabilities as at 31 October 2020.

3. WORKING CAPITAL STATEMENT

The Directors are of the opinion that, after taking into account of the Enlarged Group's internal resources, cash flow from operations and the present facilities available, the Enlarged Group will have sufficient working capital to satisfy its present requirements for at least the next 12 months from the date of this circular, in the absence of unforeseeable circumstances.

4. FINANCIAL AND TRADING PROSPECT OF THE ENLARGED GROUP

The Enlarged Group's operation can broadly be categorised into two main segments: the marine construction segment, which focuses on marine construction works and auxiliary marine related services in Hong Kong, Macao and overseas; and the general construction segment, which focuses on general construction contracting business of the Purchaser and curtain wall design, production and installation business of the Target Group.

In the marine construction segment, the Group is currently mainly focused on execution of its projects in Macao, which are expected to generate a steady stream of revenue until mid of year 2023. However, the bidding and launch of potential new projects in the marine construction market, both locally and at overseas locations, has experienced various levels of delays as a result of the COVID-19 outbreak.

The Directors considered that the Acquisition would create synergy and enhance the competitiveness of the general construction contracting business of the Group, especially in bidding for projects with relative high content of curtain wall and/or glass and window applications and decorations. The Acquisition would also lessen the Group's reliance on external subcontractors and achieve cost savings and operational efficiency and flexibility in its general contraction contracting business. The Target Group's research, development, design and production capability in curtain wall products and technology, particularly in passive curtain wall systems, would facilitate the Group's development into a comprehensive general construction services provider for capturing a larger market share.

From a geographic perspective, the Group will utilise its established business network and track record in Macao and overseas locations for developing its comprehensive general construction services business, serving customers through various stages of construction, including land reclamation and peripheral infrastructure development, general building and construction contracting, curtain walls, podium and facade design, production and construction, renovation and decoration works.

As at the Latest Practicable Date, the Group has (i) ten on-going marine construction projects with a total estimated contract value of approximately HK$2,294.4 million; (ii) eight potential marine construction projects currently under negotiation or tendering with a total estimated contract value of approximately HK$966.9 million; (iii) five major on-going general construction projects with a total estimated contract value of approximately HK$1,593.9 million; and (iv) six potential general construction projects currently under negotiation or tendering with a total estimated contract value of approximately HK$2,363.7 million which are expected to commence within the first half of year 2021.

Set out below are the details and status of the Group's ten on-going marine construction projects as at the Latest Practicable Date:

Customer	Background of customer	Length of relationship with the Group	Project nature	Project location	Estimated contract/ construction period	Estimated total contract value *HK$ million*	Service fees charging basis	Status as at the Latest Practicable Date
Customer A	Customer A is controlled by the Ministry of Shipping under the government of the People's Republic of Bangladesh, mainly responsible for the policy of operation, administration, finance and development of the Mongla Port.	3 years	Marine construction	Bangladesh	18 months	324.1	According to the project stages or progress indicators depending on the category of work	Project is expected to be completed by the end of 2022.
Customer B	Customer B is controlled by the Changjiang Management Department of the Ministry of Transport of the PRC* (中國交通運輸部長江航務管理局), mainly responsible for the planning, construction, operation, and maintenance of a main channel in Changjiang located in the PRC.	3 years	Marine construction	Macao	21 months	487.5	According to the project stages or progress indicators depending on the category of work	Project is expected to be completed by end of 2021.
Customer C	Customer C is a construction enterprise located in Fujian Province of the PRC, and primarily engages in municipal public works, housing construction, highway engineering and dydramlic and hydro-power works.	3 years	Marine construction	Macao	21 months	248.1	According to the project stages or progress indicators depending on the category of work	Project is expected to be completed by end of 2022.
Customer D	Customer D is a comprehensive investment and construction group located in the PRC, and mainly engages in marine construction and municipal construction works.	8 years	Vessel leasing	Vietnam	24 months	253.0	According the workload of crew onboard and progress indicators depending on the category of work	The leasing of vessels will end in first half of 2021.
Customer F	Customer F is a company specialised in the survey and design of ports in the PRC, and mainly engages in the planning, consulting, survey, design, supervision, cost estimation and contracting of marine and general construction projects.	8 years	Marine construction	Pakistan	24 months	143.4	According to the project stages or progress indicators depending on the category of work	Tender has been awarded to the Group in October 2019. Pending commencement of site work owing to pandemic control measures.
Customer G	Customer G is a public power supply agency specialising in the transmission, distribution and sale of high, medium and low voltage electricity in Macao.	4 years	Marine construction	Macao	36 months	621.6	According to the project stages or progress indicators depending on the category of work	Project is expected to be completed by mid-2022.
Customer H	Customer H is a joint venture established by two large-scale construction enterprises located in Macao.	6 years	Marine construction	Macao	36 months	54.5	According to the project stages or progress indicators depending on the category of work	Project is expected to be completed by the end of 2022.

Customer	Background of customer	Length of relationship with the Group	Project nature	Project location	Estimated contract/ construction period	Estimated total contract value *HK$ million*	Service fees charging basis	Status as at the Latest Practicable Date
Customer I	Customer I is a construction company which provides multi-disciplinary construction services over a range of building and infrastructure market sectors with operations in Macao, Angola, the Republic of the Philippines and the United Kingdom.	1 year	Marine construction	Macao	24 months	27.6	According to the project stages or progress indicators depending on the category of work	Tender has been awarded to the Group in April 2020, and the construction work has commenced in May 2020.
Customer J	Customer J is a joint venture established by three large-scale construction enterprises located in the PRC and Macao.	5 years	Marine construction	Macao	36 months	35.5	According to the project stages or progress indicators depending on the category of work	Site work in progress; expected completion in mid-2023.
			Marine construction	Macao	36 months	99.1	According to the project stages or progress indicators depending on the category of work	Site work in progress; expected completion in mid-2023.
Total						2,294.4		

Set out below are the details and status of the Group's key general construction projects on hand as at the Latest Practicable Date:

Customer	Background of customer	Length of relationship with the Group	Project nature	Project location	Estimated contract/ construction period	Estimated total contract value *HK$ million*	Service fees charging basis	Status as at the Latest Practicable Date
Customer K	A commercial housing developer in Qingdao	7 years	General construction	Qingdao, PRC	24 months	138.8	According to the project stages or progress indicators depending on the category of work	Construction in progress
Qingdao West Coast Development (Group) Limited and its subsidiaries	A state owned enterprise wholly-owned by the State-owned Asset Supervision and Administration Commission of Qingdao. It principally engages in infrastructure construction, land development, real estate development and other industrial investment and operations (including cultural, tourism and financial services)	A controlling shareholder of the Company since August 2018	General construction	Qingdao, PRC	18 months	592.8	According to the project stags or progress indicators depending on the category of work	Construction in progress
			General construction	Qingdao, PRC	18 months	534.7	According to the project stags or progress indicators depending on the category of work	Construction in progress
			General construction	Qingdao, PRC	15 months	222.0	According to the project stags or progress indicators depending on the category of work	Construction in progress
			General construction	Qingdao, PRC	13 months	105.6	According to the project stags or progress indicators depending on the category of work	Construction in progress

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirmed that there are no material adverse changes in the financial or trading position of the Group since 30 June 2020, being the date to which the latest published interim condensed consolidated financial information of the Group were made up and as disclosed in the interim report for the six months ended 30 June 2020, and up to and including the Latest Practicable Date.

The following is the text of a report set out on pages II-1 to II-3, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc 羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF PROSPER CONSTRUCTION HOLDINGS LIMITED

Introduction

We report on the historical financial information of Qingdao Honghai Curtain Wall Co., Ltd. (青島宏海幕牆有限公司) (the "Target Company") and its subsidiaries (together, the "Target Group") set out on pages II-4 to II-55, which comprises the consolidated and company statements of financial position as at 31 December 2017, 2018 and 2019 and 31 August 2020, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2017, 2018 and 2019 and the eight months ended 31 August 2020 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages II-4 to II-55 forms an integral part of this report, which has been prepared for inclusion in the circular of Prosper Construction Holdings Limited (the "Company") dated 18 December 2020 (the "Circular") in connection with the proposed acquisition of the Target Group by Qingdao Dongjie Construction Engineering Co., Ltd, an indirect non-wholly owned subsidiary of the Company.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The financial statements of the Target Group for the Track Record Period ("Underlying Financial Statements"), on which the Historical Financial Information is based, were prepared by the directors of the Target Company. The directors of the Target Company are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with the basis of preparation set out therein which conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the

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"HKICPA"), and for such internal control as the directors determine is necessary to enable the preparation of the Underlying Financial Statements that are free from material misstatement, whether due to fraud or error.

Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Target Company as at 31 December 2017, 2018, 2019 and 31 August 2020 and the consolidated financial position of the Target Group as at 31 December 2017, 2018 and 2019 and 31 August 2020 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Target Group which comprises the consolidated statements of comprehensive income, the consolidated changes in equity and the consolidated statements of cash flows for the eight months ended 31 August 2019 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the preparation of the Stub Period Comparative

Financial Information in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant's report, is not prepared, in all material respects, in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements have been made.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 18 December 2020

I HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The Underlying Financial Statements, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Historical Financial Information is presented in Renminbi and all values are rounded to the nearest thousand ("RMB'000") except when otherwise indicated.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		For the year ended 31 December			For the eight months ended 31 August	
		2017	**2018**	**2019**	**2019**	**2020**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Revenue	*5*	45,383	79,202	117,211	70,700	115,056
Cost of services	*6*	(37,949)	(64,732)	(99,445)	(59,479)	(91,800)
Gross profit		7,434	14,470	17,766	11,221	23,256
Other (losses)/gains, net		(1)	—	10	—	118
Provision for impairment losses on financial assets	*15, 17*	(649)	(1,437)	(2,310)	(2,036)	(2,318)
Administrative and general expenses	*6*	(4,736)	(6,406)	(8,974)	(4,419)	(6,523)
Operating profit		2,048	6,627	6,492	4,766	14,533
Finance costs	*7*	(846)	(842)	(1,666)	(1,097)	(1,316)
Profit before income tax		1,202	5,785	4,826	3,669	13,217
Income tax expenses	*8*	(312)	(1,612)	(933)	(692)	(2,132)
Profit and total comprehensive income attributable to owners of the Target Company for the years/periods		890	4,173	3,893	2,977	11,085

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at 31 August
		2017	2018	2019	2020
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS					
Non-current assets					
Property, plant and equipment	*11*	668	1,011	2,826	11,802
Right-of-use assets	*12*	—	—	2,192	22,937
Deferred income tax assets	*13*	749	1,287	1,126	1,474
Total non-current assets		1,417	2,298	6,144	36,213
Current assets					
Inventories	*14*	3,130	2,120	3,070	3,280
Trade and retention receivables and notes receivables	*15*	15,862	24,795	44,964	50,583
Deposits and other receivables	*15*	25,340	8,097	6,701	6,810
Amounts due from customers for contract work	*16*	28,292	—	—	—
Contract assets	*17*	—	46,278	60,240	90,644
Amount due from a shareholder	*26*	—	1,320	6,679	3,008
Pledged bank deposits	*18*	—	—	—	200
Cash and cash equivalents	*18*	1,319	1,858	2,275	5,234
Total current assets		73,943	84,468	123,929	159,759
Total assets		75,360	86,766	130,073	195,972
EQUITY AND LIABILITIES					
Equity attributable to owners of the Target Company					
Paid in capital	*19*	12,000	12,000	12,000	14,708
Other reserves	*20*	1,404	1,875	2,264	26,130
Retained earnings		12,632	15,799	19,303	29,279
Total equity		26,036	29,674	33,567	70,117

		As at 31 December			As at 31 August
		2017	2018	2019	2020
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
LIABILITIES					
Current liabilities					
Borrowings	*22*	13,000	13,000	17,200	21,220
Trade payables and notes payables	*21*	8,859	23,546	49,775	65,903
Accruals and other payables	*21*	5,653	10,151	20,411	24,890
Receipts in advance		6,189	—	—	—
Contract liabilities	*17*	—	6,641	2,393	3,086
Lease liabilities	*12*	—	—	522	565
Amounts due to shareholders	*26*	13,822	—	—	2,175
Income tax payable		1,801	3,754	4,485	6,887
Total current liabilities		49,324	57,092	94,786	124,726
Non-current liabilities					
Lease liabilities	*12*	—	—	1,720	1,129
Total liabilities		49,324	57,092	96,506	125,855
Total equity and liabilities		75,360	86,766	130,073	195,972

STATEMENTS OF FINANCIAL POSITION OF THE TARGET COMPANY

					As at
		As at 31 December			31 August
		2017	2018	2019	2020
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS					
Non-current assets					
Property, plant and equipment		668	1,011	2,826	3,384
Right-of-use assets		—	—	2,192	3,977
Deferred income tax assets		749	1,287	1,126	1,474
Investments in subsidiaries	*10*	—	—	—	27,420
Total non-current assets		1,417	2,298	6,144	36,255
Current assets					
Inventories		3,130	2,120	3,070	3,271
Trade and retention receivables and notes receivables		15,862	24,795	44,964	50,583
Deposits and other receivables		25,340	8,097	6,701	6,810
Amounts due from customers for contract work		28,292	—	—	—
Contract assets		—	46,278	60,240	90,644
Amount due from a shareholder		—	1,320	6,679	3,008
Pledged bank deposits		—	—	—	200
Cash and cash equivalents		1,319	1,858	2,275	5,201
Total current assets		73,943	84,468	123,929	159,717
Total assets		75,360	86,766	130,073	195,972
EQUITY AND LIABILITIES					
Equity attributable to owners of the Target Company					
Paid in capital	*19*	12,000	12,000	12,000	14,708
Other reserves	*20*	1,404	1,875	2,264	26,130
Retained earnings		12,632	15,799	19,303	29,279
Total equity		26,036	29,674	33,567	70,117

	As at 31 December			As at 31 August
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
LIABILITIES				
Current liabilities				
Borrowings	13,000	13,000	17,200	21,220
Trade payables and notes payables	8,859	23,546	49,775	65,903
Accruals and other payables	5,653	10,151	20,411	24,890
Receipts in advance	6,189	—	—	—
Contract liabilities	—	6,641	2,393	3,086
Lease liabilities	—	—	522	565
Amounts due to shareholders	13,822	—	—	2,175
Income tax payable	1,801	3,754	4,485	6,887
Total current liabilities	49,324	57,092	94,786	124,726
Non-current liabilities				
Lease liabilities	—	—	1,720	1,129
Total non-current liabilities	—	—	1,720	1,129
Total liabilities	49,324	57,092	96,506	125,855
Total equity and liabilities	75,360	86,766	130,073	195,972

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Target Company			
	Paid in capital	**Retained earnings**	**Other reserves** *(Note 20)*	**Total equity**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2017	12,000	11,831	1,315	25,146
Profit and total comprehensive income for the year	—	890	—	890
Appropriation to statutory reserves	—	(89)	89	—
Balance at 31 December 2017	12,000	12,632	1,404	26,036
Balance at 31 December 2017 as originally presented	12,000	12,632	1,404	26,036
Changes in accounting policy *(Note 2.1.1)*	—	(535)	—	(535)
Balance at 1 January 2018, as restated	12,000	12,097	1,404	25,501
Profit and total comprehensive income for the year	—	4,173	—	4,173
Appropriation to statutory reserves	—	(471)	471	—
Balance at 31 December 2018	12,000	15,799	1,875	29,674
Balance at 1 January 2019	12,000	15,799	1,875	29,674
Profit and total comprehensive income for the year	—	3,893	—	3,893
Appropriation to statutory reserves	—	(389)	389	—
Balance at 31 December 2019	12,000	19,303	2,264	33,567
Balance at 1 January 2020	12,000	19,303	2,264	33,567
Profit and total comprehensive income for the period	—	11,085	—	11,085
Capital injection from a shareholder	220	—	—	220
Acquisition of a subsidiary *(Note 25)*	2,488	—	22,757	25,245
Appropriation to statutory reserves	—	(1,109)	1,109	—
Balance at 31 August 2020	14,708	29,279	26,130	70,117
(Unaudited)				
Balance at 1 January 2019	12,000	15,799	1,875	29,674
Profit and total comprehensive income for the period	—	2,977	—	2,977
Balance at 31 August 2019	12,000	18,776	1,875	32,651

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended 31 December			Eight months ended 31 August	
		2017	2018	2019	2019	2020
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Cash flows from operating activities						
Profit before income tax		1,202	5,785	4,826	3,669	13,217
Adjustments for:						
— Depreciation of property, plant and equipment	*11*	377	330	399	217	497
— Depreciation of right-of-use assets	*12*	—	—	548	365	365
— Provision for impairment losses on financial assets	*15, 17*	649	1,437	2,310	2,036	2,318
— Finance costs	*7*	846	842	1,666	1,097	1,316
Operating profit before working capital changes		3,074	8,394	9,749	7,384	17,713
— Inventories		2,625	1,010	(950)	81	(210)
— Trade and retention receivables and notes receivables		558	(9,645)	(20,740)	(6,676)	(7,636)
— Deposits and other receivables		(8,779)	17,243	1,396	1,665	(109)
— Contract assets		—	(19,425)	(15,701)	(15,660)	(30,704)
— Amounts due from customers for contract work		(11,808)	—	—	—	—
— Trade payables and notes payables		6,650	14,687	26,229	8,820	16,128
— Accruals and other payables		2,962	4,498	10,260	8,177	4,479
— Contract liabilities		—	452	(4,248)	2,089	693
— Receipt in advance		6,189	—	—		—
— Pledged bank deposits		—	—	—	—	(200)
Cash generated from operations		1,471	17,214	5,995	5,880	154
Income tax paid		(3)	(18)	(41)	(18)	(79)
Net cash generated from operating activities		1,468	17,196	5,954	5,862	75

		Year ended 31 December			Eight months ended 31 August	
		2017	2018	2019	2019	2020
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Cash flows from investing activities						
Payments for purchases of property, plant and equipment	*11*	(239)	(673)	(2,214)	(1,061)	(874)
Purchase of right-of-use assets	*12*	—	—	—	—	(2,330)
Net cash acquired from an acquisition of a subsidiary	*25*	—	—	—	—	41
Net cash used in investing activities		(239)	(673)	(2,214)	(1,061)	(3,163)
Cash flows from financing activities						
Proceeds of borrowings	*24*	13,000	13,000	17,200	17,200	18,820
Repayment of borrowings	*24*	(13,000)	(13,000)	(13,000)	(13,000)	(14,800)
Advances to shareholders	*24*	(23,802)	(31,567)	(22,047)	(16,443)	(9,828)
Repayments from shareholders	*24*	23,727	16,425	16,688	8,580	13,499
Principal elements of lease payments		—	—	(498)	(532)	(548)
Interest elements of lease payments	*24*	—	—	(102)	(68)	(52)
Capital injection from a shareholder		—	—	—	—	220
Interest paid		(846)	(842)	(1,564)	(1,029)	(1,264)
Net cash (used in)/generated from financing activities		(921)	(15,984)	(3,323)	(5,292)	6,047
Net increase/(decrease) in cash and cash equivalents		308	539	417	(491)	2,959
Cash and cash equivalents at the beginning of years/periods		1,011	1,319	1,858	1,858	2,275
Cash and cash equivalents at the end of years/periods	*18*	1,319	1,858	2,275	1,367	5,234

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 GENERAL INFORMATION OF THE TARGET GROUP

The Target Company is principally engaged in the provision of construction services in the People's Republic of China (the "PRC"). The Target Company is a limited liability company incorporated in the People's Republic of China. The address of its registered office is No. 919, Zhaizishan Road, Huangdao District, Qingdao, the PRC. Details of the subsidiaries of the Target Company refer to Note 10.

As at 31 August 2020, the Target Company is owned by Mr. Wang YongHong (王永宏) of approximately 82% and Sino-German Ecopark Passive House Building Technology Co., Ltd. (中德生態園被動房建築科技有限公司) of approximately 18%.

The Historical Financial Information is presented in thousands of units of Renminbi ("RMB'000"), unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied to all the years and periods presented, unless otherwise stated.

2.1 Basis of preparation

The Historical Financial Information has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The Historical Financial Information has been prepared under the historical cost convention.

The preparation of Historical Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Target Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4.

2.1.1 *Changes in accounting policy and disclosures*

The accounting policies set out below have been applied consistently to all periods presented in the Historical Financial Information, except for HKFRS 9 Financial Instruments ("HKFRS 9") and HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15") which have been initially applied on 1 January 2018 and HKFRS 16 Leases ("HKFRS 16") which has been initially applied on 1 January 2019. Details of the changes in accounting policies are discussed below.

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

A number of new or amended standards became applicable for the reporting periods and the Target Group had to change its accounting policies and make modified retrospective adjustments as a result of adopting HKFRS 9 and HKFRS 15 on 1 January 2018 and HKFRS 16 on 1 January 2019 respectively.

The below explains the impact of adoption of HKFRS 9, HKFRS 15 and HKFRS 16 on the Target Group's consolidated financial statements.

(i) Adoption of HKFRS 9

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the Historical Financial Information. In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated.

Classification and measurement of financial instruments

The financial assets held by the Target Group mainly represents debt instruments previously classified as loans and receivables and measured at amortised cost, meet the conditions for classification at amortised cost under HKFRS 9. Accordingly, there is no impact on the Target Group's accounting for financial assets.

There is no impact on the Target Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Target Group does not have any such liabilities.

Impairment of financial assets

The Target Group has three types of financial assets that are subject to HKFRS 9's new expected credit loss model:

— trade and retention receivables and notes receivables

— contract assets relating to construction services

— other financial assets at amortised cost

The Target Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets.

Trade and retention receivables and notes receivables and contract assets

The Target Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected losses for all trade and retention receivables and notes receivables and contract assets. This resulted in an increase of the loss allowance on 1 January 2018 by RMB260,000 for trade and retention receivables and notes receivables and RMB454,000 for contract assets respectively. Note 3.1(b) provides for details about the calculation of the allowance.

The loss allowance increased by RMB452,000 to RMB2,077,000 for trade and retention receivables and notes receivables and further increased by RMB985,000 to RMB3,071,000 for contract assets respectively during the year ended 31 December 2018.

Other financial asset at amortised cost

For other financial assets at amortised cost, the expected credit loss is based on the 12-month expected credit loss. 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. Management has closely monitored the credit qualities and the collectability of the other financial assets at amortised cost and considers that the expected credit loss is immaterial.

While pledged bank deposits and cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

(ii) Adoption of HKFRS 15

The Target Group has adopted HKFRS 15 from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the Historical Financial Information. The Target Group has adopted the modified retrospective approach with the cumulative effect on initial adoption recognised at the date of initial application, which is 1 January 2018. The accounting policies are as follows:

Construction services

Revenue from the construction services is recognised over time as the Target Group's performance creates or enhances an asset or work in progress that the customer controls as the asset is created or enhanced. The Target Group has applied the input method in recognising the revenue from construction contracts over time by reference to the Target 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 Target Group considers the input method better depicts the Target Group's performance in transferring control of goods or services to their customers.

Contract assets and contract liabilities

Upon entering into a contract with a customer, the Target 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. In the statements of financial position, the contract assets mainly consist of unbilled revenue arising from the construction contracts.

(iii) Adoption of HKFRS 16

The Target Group adopted HKFRS 16 using the modified retrospective approach of adoption, with the date of initial application of 1 January 2019. Each lease payment is allocated between the liability and finance cost.

The Target Group has to change its accounting policies as a result of adopting HKFRS 16 from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The adjustments arising from the new leasing rules are therefore recognised in the opening of the consolidated statement of financial position on 1 January 2019.

On adoption of HKFRS 16, the Target Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17 Leases ("HKAS 17"). These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019 (date of initial application of HKFRS 16). The weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.8%.

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

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

	RMB'000
Operating lease commitments disclosed as at 31 December 2018	600
Discounted using the lessee's incremental borrowing rate at the date of initial application	600
Add: adjustments as a result of a different treatment of extension options	2,140
Lease liabilities recognised as at 1 January 2019	2,740
Of which are:	
— Current lease liabilities	498
— Non-current lease liabilities	2,242
	2,740

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

The change in accounting policy resulted in an increase in right-of-use assets and lease liabilities by RMB2,740,000 respectively in the consolidated statement of financial position at 1 January 2019.

The recognised right-of-use assets of RMB2,740,000 are related to a manufacturing plant.

(iv) Impact to the Historical Financial Information of adoption of HKFRS 9 and HKFRS 15

The following tables summarise the impacts of adopting HKFRS 9 and HKFRS 15 on the Target Group's Historical Financial Information for the year ended 31 December 2018.

	As previously stated	Effects of the adoption of HKFRS 15	Effects of the adoption of HKFRS 9	As restated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2018				
Assets				
Deferred income tax assets	749	—	179	928
Trade and retention receivables and notes receivables	15,862	—	(260)	15,602
Contract assets	—	28,292	(454)	27,838
Amounts due from customers for contract work	28,292	(28,292)	—	—
Others	30,457	—	—	30,457
Total assets	75,360	—	(535)	74,825
Liabilities				
Receipt in advance	6,189	(6,189)	—	—
Contract liabilities	—	6,189	—	6,189
Other liabilities	43,135	—	—	43,135
Total liabilities	49,324	—	—	49,324
Equity				
Retained earnings	12,632	—	(535)	12,097
Others	13,404	—	—	13,404
Total equity	26,036	—	(535)	25,501

(v) Impact to the Historical Financial Information of adoption of HKFRS 16

The following tables summarise the impacts of adopting HKFRS 16 on the Target Group's Historical Financial Information for the year ended 31 December 2019.

	As previously stated	**Effects of the adoption of HKFRS 16**	**As restated**
	RMB'000	*RMB'000*	*RMB'000*
As at 1 January 2019			
Assets			
Right-of-use assets	—	2,740	2,740
Others	86,766	—	86,766
Total assets	86,766	2,740	89,506
Liabilities			
Lease liabilities	—	2,740	2,740
Others	57,092	—	57,092
Total liabilities	57,092	2,740	59,832
Equity	29,674	—	29,674

(b) *Impact of standards and amendments issued but not yet adopted by Target Group*

The following new standards and amendments to existing standards have been issued but not yet effective and have not been early adopted by the Target Group:

		Effective for accounting periods beginning on or after
Amendments to HKAS 3	Update reference to the Conceptual framework	1 January 2022
Amendments to HKAS 16	Proceeds before intended use	1 January 2022
Amendments to HKAS 37	Onerous contracts — costs of fulfilling a contract	1 January 2022
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2023
HKFRS 17	Insurance Contracts	1 January 2023
Amendments to HKFRS 10 and HKAS 28	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Target Group will adopt the above new or revised standards and amendments to existing standards as and when they become effective. Management has performed preliminary assessment and does not expected to have a material impact on the Target Group in the current or future reporting periods and on foreseeable future transactions.

2.2 Principles of consolidation

Subsidiaries are all entities over which the Target Group has control. The Target Group controls an entity when the Target 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 Target Group. They are deconsolidated from the date that control ceases. The acquisition method of accounting is used to account for business combinations by the Target Group.

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 Target Group.

2.3 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 Target 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.

Acquisition-related costs are expensed as incurred.

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 comprehensive income as a bargain purchase.

Contingent consideration payable 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 the consolidated statement of comprehensive income.

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 comprehensive income.

2.4 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 Target 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.

2.5 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 board of directors that make strategic decisions.

2.6 Foreign currency translation

(a) ***Functional and presentation currency***

Items included in the consolidated financial statements of the Target Group are measured using the currency of the primary economic environment in which the entity operates (the ''functional currency''). The Historical Financial Information are presented in RMB which is the Target Group's functional and presentation currency.

(b) ***Transactions and balances***

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

Foreign exchange gains and losses are presented in the consolidated statements of comprehensive income within ''other gains/(losses)''.

2.7 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 Target Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the consolidated statements of comprehensive income during the financial period in which they are incurred.

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

Machinery and equipment	5–10 years
Office equipment and vehicles	3–4 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 statements of comprehensive income.

Construction in progress includes property, plant and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of opening in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Target Group's accounting policy. Depreciation of these assets, on the same basis as other property, plant and equipment commences when the assets are ready for their intended use.

2.8 Impairment of non-financial assets

Assets that are subject to depreciation or amortisation are reviewed 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 to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Investments and other financial assets

(a) ***Classification***

From 1 January 2018, the Target Group classifies its financial assets as 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.

(b) ***Recognition and derecognition***

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Target 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 Target Group has transferred substantially all the risks and rewards of ownership.

(c) ***Measurement***

At initial recognition, the Target 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, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial asset carried at fair value through profit or loss are expensed in the consolidated statements of comprehensive income.

(d) ***Impairment***

From 1 January 2018, the Target Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade and retention receivables and notes receivables, the Target Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(e) ***Accounting policies applied until 31 December 2017***

The Target Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Target Group's previous accounting policy.

Until 31 December 2017, the Target Group classifies its financial assets in loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) *Reclassification*

On 1 January 2018 (the date of initial application of HKFRS 9), the Target Group's management has assessed which business models apply to the financial assets held by the Target Group and has classified its financial instruments into the appropriate HKFRS 9 categories. No reclassification was made.

(ii) *Subsequent measurement*

The measurement at initial recognition did not change on adoption of HKFRS 9, see description above. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

(iii) *Impairment*

The Target Group assesses at each of the balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Assets carried at amortised cost

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statements of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statements of comprehensive income.

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position 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 Target Group or the counterparty.

2.11 Trade and other receivables

Trade receivables are amounts due from customers in the ordinary course of business. If collection of trade and other 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 Target 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 the same line item in the consolidated statements of comprehensive income.

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.13 Cash and cash equivalents

In the consolidated statements 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.

2.14 Paid in capital

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.

2.15 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.

2.16 Provisions

Provisions are recognised when the Target 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 has been 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 the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statements of comprehensive income over the period of the borrowings using the effective interest method.

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

2.18 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

2.19 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 tax laws enacted or substantively enacted at the end of the reporting period in the country where the Target Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) ***Deferred income tax***

Deferred income tax is provided, 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. 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 when 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 statements of comprehensive income, 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.

2.20 Employee benefits

Pension obligations

A defined contribution plan is a pension plan under which the Target Group pays fixed contributions into a separate entity. The Target Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Target Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Target Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense 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.

2.21 Revenue recognition

(i) ***Construction services***

Revenue from the construction services is recognised over time as the Target Group's performance creates or enhances an asset or work in progress that the customer controls as the asset is created or enhanced. The Target Group has applied the input method in recognising the revenue from construction contracts over time by reference to the Target 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 Target Group considers the input method better depicts the Target 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 Target 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 Target 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 reporting period.

(ii) ***Contract assets and contract liabilities***

Upon entering into a contract with a customer, the Target 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 statements of financial position, the contract assets mainly consist of unbilled revenue arising from the construction contracts. Contract liabilities mainly consist of the Target Group's obligation to transfer the control of performance obligation to the customers for which the Target Group has received consideration from the customers.

(iii) ***Accounting policies applied until 31 December 2017***

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Target Group's activities. The Target Group recognises revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the entity and when specific criteria have been met. Revenue is shown net of sales tax, returns, rebates and discounts and after eliminating sales within the Target Group.

Construction services

Revenue from construction contracts is recognised based on the stage of completion of the contracts. When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract by reference to the stage of completion. Contract costs are recognised as expenses by reference to the stage of completion of the contract activity at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured.

The Target Group uses the percentage-of-completion method to determine the appropriate amount of revenue to recognise in a given period. The stage of completion is measured by reference to work performed to date as a percentage of total contract value.

On the consolidated statements of financial position, the Target Group reports the net contract position for each contract as either an asset or a liability. A contract represents an asset where costs incurred plus recognised profits (less recognised losses) exceed progress billings; a contract represents a liability where the opposite is the case. Progress billings not yet paid by customers and retention receivables are included in current assets as the Target Group expects to realise these within its normal operating cycle.

2.22 Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;

- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

2.23 Leases

As explained in Note 2.1 above, the Target Group has changed its accounting policy for leases where the Target Group is the lessee. The new policy is described below and the impact of the change in Note 2.1.

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Target Group as lessee were classified as operating leases (Note 23). Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, 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 Target Group.

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 Target 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 Target 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 Target Group, which does not have recent third party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

The Target 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 Target 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.

Accounting policies applied until 31 December 2018

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessors are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessors are charged to the consolidated statements of comprehensive income on a straight-line basis over the period of the lease.

2.24 Contingent liabilities

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 Target 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 Historical Financial Information. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Target 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 Target Group's overall risk management programme focuses on the unpredictability of the financial markets and seeks to minimise potential adverse effects on the Target Group's financial performance.

Risk management is carried out under policies approved by the directors of the Target Group. The directors of the Target Group 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 Target Group's functional currency.

All of the Target Group's transactions were denominated in its functional currency. There are no significant financial assets and financial liabilities denominated in currencies other than the functional currency for the period. The Target Group is therefore not exposed to significant foreign exchange risk.

(ii) *Cash flow interest rate risk*

The Target Group's interest rate risk arises from interest bearing bank deposits and borrowings. Bank deposits at variable rates expose the Target Group to cash flow interest-rate risk. Borrowings obtained at fixed interest rates expose the Target Group to fair value interest rate risk. The Target Group currently does not use any derivative contracts to hedge its exposure to interest rate risk.

(b) *Credit risk*

The Target Group is exposed to credit risk in relation to its cash and cash equivalents, trade and retention receivables and notes receivables, deposits and other receivables and amount due from a shareholder. The Target Group's maximum exposure to credit risk is the carrying amounts of these financial assets.

For the years ended 31 December 2017, 2018 and 2019 and eight months ended 31 August 2019 and 2020, 61%, 51%, 46%, 44% and 56% of the Target Group's revenue was derived from its top five customers. As at 31 December 2017, 2018 and 2019 and 31 August 2020, the Target Group had concentration of credit risk as 53%, 33%, 18% and 24% of the total trade and retention receivables and contract assets due from the Target Group's top five customers.

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 and note receivable to ensure that adequate impairment provision is made for the irrecoverable amounts. The Target Group will also consider the creditworthiness and general reputation of customers before submitting any indication of interest or tender.

The credit risk on deposits with bank is limited because deposits are in banks with sound credit ratings and good payment history. Management does not expect any loss from non-performance by related companies.

(i) *Impairment of financial assets*

The Target Group has three types of financial assets that are subject to HKFRS 9's new expected credit loss model:

— trade and retention receivables and notes receivables

— contract assets relating to construction services

— other financial assets at amortised cost

Trade and retention receivables and notes receivables and contract assets

Since 1 January 2018, the Target Group applies HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime loss allowance for all trade and retention receivables and notes receivables and contract assets.

For trade and retention receivables, notes receivables and contract assets where there are objective evidence that the likelihood of receipts from and billing to customers are remote, they are assessed individually for impairment allowance. Accordingly, specific allowance of RMB2,997,000, RMB4,238,000, RMB5,348,000 and RMB6,974,000 were made as at 1 January 2018, 31 December 2018 and 31 December 2019 and 31 August 2020, respectively.

To measure the expected credit losses for the remaining balances, trade and retention receivables, notes receivables and contract assets have been grouped based on shared credit risk characteristics by different sectors of the customers.

The expected loss rates are based on the historical credit loss rate of relevant market players within the periods. 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.

For the expected credit losses of these collectively assessed trade and retention receivables, notes receivables and contract assets, the allowance of RMB260,000, RMB297,000, RMB867,000 and RMB1,011,000 were made for trade and retention receivables and notes receivables and RMB454,000, RMB613,000, RMB1,243,000 and RMB1,791,000 were made for contract assets as at 1 January 2018, 31 December 2018 and 31 December 2019 and 31 August 2020 respectively based on expected loss rates ranging from 0.21% to 3.65%, 0.38% to 2.84%, 0.94% to 4.44 and 0.94% to 4.43% as at 1 January 2018, 31 December 2018 and 31 December 2019 and 31 August 2020 respectively based on different age groupings and customer sectors.

The closing loss allowance for trade and retention receivables and notes receivables and contract assets as at 31 December 2018 and 31 December 2019 and 31 August 2020 reconcile to the opening loss allowance as follows:

	Contract assets	**Trade and retention receivables and notes receivables**
	RMB'000	*RMB'000*
As at 31 December 2017 — calculated under HKAS 39	1,632	1,365
Amounts restated through opening retained earnings	454	260
Opening loss allowance as at 1 January 2018 — calculated under HKFRS 9	2,086	1,625
Increase in loss allowance recognised in profit or loss during the year	985	452
As at 31 December 2018 and 1 January 2019	3,071	2,077
Increase in loss allowance recognised in profit or loss during the year	1,739	571
As at 31 December 2019 and 1 January 2020	4,810	2,648
Increase in loss allowance recognised in profit or loss during the period	300	2,018
As at 31 August 2020	5,110	4,666

Trade and retention receivables 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 the failure of a debtor to engage in a repayment plan with the Target Group.

Impairment losses on trade and retention receivables 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.

Previous accounting policy for impairment of trade and retention receivables and notes receivables

In the prior years before 1 January 2018, the impairment of trade and retention receivables and notes receivables was assessed based on the incurred loss model. Allowance for impairment of trade and other receivables is established when there is objective evidence that the Target Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments are considered as indicators that the receivable is impaired.

When a trade and retention receivable and note receivable is uncollectible, it is written off against the allowance account for trade and retention receivables and notes receivables. Subsequent recoveries of amounts previously written off are credited against administrative and general expenses in the consolidated statements of comprehensive income.

Cash and cash equivalents, pledged bank deposits and other financial assets at amortised cost

There is no loss allowance for cash and cash equivalents, pledged bank deposits and other financial assets at amortised cost as at each of the reporting period.

(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 asset.

Prudent liquidity risk management implies maintaining sufficient cash and bank balances. The Target 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 Target Group does not have any significant liquidity risk.

The table below analyses Target Group's non-derivative 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. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	On demand	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2017					
Borrowings (including interest payables)	13,222	—	—	—	13,222
Trade and notes payables	—	8,859	—	—	8,859
Accruals and other payables	—	3,760	—	—	3,760
Amounts due to shareholders	13,822	—	—	—	13,822
Total	27,044	12,619	—	—	39,663
At 31 December 2018					
Borrowings (including interest payables)	13,215	—	—	—	13,215
Trade and notes payables	—	23,546	—	—	23,546
Accruals and other payables	—	8,737	—	—	8,737
Total	13,215	32,283	—	—	45,498

	On demand	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2019					
Borrowings (including interest payables)	17,399	—	—	—	17,399
Trade and notes payables	—	49,775	—	—	49,775
Accruals and other payables	—	17,876	—	—	17,876
Lease liabilities	—	600	600	1,200	2,400
Total	17,399	68,251	600	1,200	87,450
At 31 August 2020					
Borrowings (including interest payables)	21,948	—	—	—	21,948
Trade and notes payables	—	65,903	—	—	65,903
Accruals and other payables	—	21,709	—	—	21,709
Lease liabilities	—	600	600	800	2,000
Amounts due to shareholders	2,175	—	—	—	2,175
Total	24,123	88,212	600	800	113,735

The table below summarises the maturity analysis of the Target Group's borrowings, including those subject to the lenders' rights to demand immediate repayment, based on agreed scheduled repayments set out in the relevant agreements. The amounts include interest payments computed using contractual rates. Taking into account the Target Group's financial position, the directors do not consider that it is probable that the relevant lenders will exercise their discretion to demand immediate repayment. The directors believe that such borrowings will be repaid in accordance with the scheduled repayment dates set out in the relevant agreements.

	Less than 1 year	Between 1 to 2 years	Between 2 to 5 years	Total undiscounted cash outflows
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2017	13,222	—	—	13,222
31 December 2018	13,215	—	—	13,215
31 December 2019	17,399	—	—	17,399
31 August 2020	21,948	—	—	21,948

3.2 Capital risk management

The Target Group's objectives when managing capital are to safeguard the Target 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 Target Group consists of equity and borrowings. In order to maintain or adjust the capital structure, the Target 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 capital. Net debt is calculated as borrowings less cash and cash equivalents and pledged bank deposits. Total capital is calculated as net debt add total equity. The debt to equity ratios as at 31 December 2017, 2018 and 2019 and 31 August 2020 are as follows:

	As at 31 December			As at 31 August
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Borrowings *(Note 22)*	13,000	13,000	17,200	21,220
Less: cash and cash equivalents and pledged bank deposits *(Note 18)*	(1,319)	(1,858)	(2,275)	(5,434)
Net debt	11,681	11,142	14,925	15,786
Total equity	26,036	29,674	33,567	70,117
Total capital	37,717	40,816	48,492	85,903
Debt to equity ratio	31%	27%	31%	18%

3.3 Fair value estimation

The carrying amount of the Target Group's financial assets and liabilities, including cash and cash equivalents, pledged bank deposits, trade and retention receivables and notes receivables, deposits and other receivables, amount due from a shareholder, and trade payables and notes payables, accruals and other payables, amounts due to shareholders and borrowings approximate their fair values, which due to their short-term maturities.

3.4 Financial instruments by category

Assets as per consolidated statements of financial position

	Financial assets at amortised cost			
	As at 31 December			As at 31 August
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade and retention receivables and notes receivables, deposits and other receivables	41,202	32,892	51,665	57,393
Amount due from a shareholder	—	1,320	6,679	3,008
Pledged bank deposits	—	—	—	200
Cash and cash equivalents	1,319	1,858	2,275	5,234
Total	42,521	36,070	60,619	65,835

Liabilities as per consolidated statements of financial position

	Financial liabilities at amortised cost			
				As at
	As at 31 December			31 August
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Borrowings	13,000	13,000	17,200	21,220
Trade payables and notes payables, accruals and other payables	12,619	32,283	67,651	87,612
Lease liabilities	—	—	2,242	1,694
Amounts due to shareholders	13,822	—	—	2,175
Total	39,441	45,283	87,093	112,701

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 Target 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 Target 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 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 Target 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. Management regularly reviews the progress of the contracts and the corresponding costs of the contract.

(b) Impairment of trade, notes and retention receivables and contract assets

The loss allowances for trade, note and retention receivables and contract assets are based on assumptions about risk of default and expected loss rates. The Target 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).

(c) Income taxes and deferred taxation

Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such difference will impact the recognition of deferred income tax assets and income tax expense in the periods in which such estimate is changed.

5 REVENUE AND SEGMENT INFORMATION

The chief operating decision-maker has been identified as the board of directors. Management determines the operating segments based on the Target Group's internal reports, which are then submitted to the board of directors for performance assessment and resources allocation.

The board of directors of the Target Group assesses the performance of the operating segment based on a measure of profit before income tax. The Target Group has identified one operating segment — Provision of construction services. Accordingly, segment disclosures are not presented. No geographical segment analysis is presented as all assets and liabilities and operation of the Target Group is located in the PRC, which is considered as one geographical location in an economic environment with similar risk and returns.

The revenue recognised during the Track Record Period principally comprises revenue from provision of construction services, all of which are recognised over time.

Information about major customers

Revenue from customers contributing over 10% of the total revenue of the Target Group during the Track Record Period is as follows:

	For the year ended 31 December			For the eight months ended 31 August	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Customer A	10,859	12,706	N/A	N/A	N/A
Customer B	6,771	N/A	N/A	N/A	N/A
Customer C	N/A	9,800	N/A	N/A	N/A
Customer D	N/A	N/A	21,200	11,829	N/A
Customer E	N/A	N/A	N/A	N/A	17,828
Customer F	N/A	N/A	N/A	N/A	17,804
Customer G	N/A	N/A	N/A	N/A	12,479

N/A — The corresponding customers did not contribute over 10% of the total revenue of the Target Group for the specific year/period.

6 EXPENSES BY NATURE

	For the year ended 31 December			For the eight months ended 31 August	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Cost of services:					
Consultancy and design fee	26	276	218	131	382
Depreciation of property, plant and equipment *(Note 11)*	266	160	174	128	295
Depreciation of right-of-use assets *(Note 12)*	—	—	548	365	365
Materials	24,985	39,546	61,340	33,934	56,867
Subcontracting charges	8,856	18,477	28,250	19,337	28,507
Staff costs, including directors' emoluments *(Note a)*	1,821	1,939	2,026	1,638	1,575
Business and other taxes	158	228	326	185	306
Rental expenses for:					
— manufacturing plant	600	600	—	—	—
— machineries and equipment	752	1,996	—	—	—
Leases expenses relating to short-term leases	—	—	2,158	1,727	2,381
Others	485	1,510	4,405	2,034	1,122
	37,949	64,732	99,445	59,479	91,800
Administrative and general expenses:					
Staff costs, including directors' emoluments *(Note a)*	2,852	4,156	4,470	2,680	4,393
Depreciation of property, plant and equipment *(Note 11)*	111	170	225	89	202
Entertainment expenses	149	237	538	258	425
Travelling expenses	121	92	190	86	55
Research and development expenses	20	1,020	1,362	253	686
Office expenses	123	142	264	187	190
Professional fee	241	132	503	160	228
Motor vehicle expenses	203	227	368	222	127
Others	916	230	1,054	484	217
	4,736	6,406	8,974	4,419	6,523
Total cost of services and administrative and general expenses	42,685	71,138	108,419	63,898	98,323

Note a:

	For the year ended 31 December			For the eight months ended 31 August	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Wages and salaries	3,404	4,471	4,772	3,173	4,766
Other social security costs, housing benefits and other employee benefits	1,269	1,624	1,724	1,145	1,202
	4,673	6,095	6,496	4,318	5,968
Charged to cost of services	1,821	1,939	2,026	1,638	1,575
Charged to administrative and general expenses	2,852	4,156	4,470	2,680	4,393
	4,673	6,095	6,496	4,318	5,968

7 FINANCE COSTS

	For the year ended 31 December			For the eight months ended 31 August	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Finance costs					
— Interest expense on borrowings	846	842	1,564	1,029	1,264
— Interest expense on lease liabilities	—	—	102	68	52
	846	842	1,666	1,097	1,316

8 INCOME TAX EXPENSES

	For the year ended 31 December			For the eight months ended 31 August	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Current income tax					
— PRC corporate income tax	474	1,971	772	497	2,480
Deferred income tax *(Note 13)*	(162)	(359)	161	195	(348)
Income tax expenses	312	1,612	933	692	2,132

The income tax on the Target Group's profit before income tax differs from the theoretical amount that would arise using the profits tax rate of the PRC and the difference is set out below:

	For the year ended 31 December			For the eight months ended 31 August	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Profit before income tax	1,202	5,785	4,826	3,669	13,217
Tax calculated at PRC corporate income tax rate — 25%	300	1,446	1,207	917	3,304
Tax concession	—	—	(483)	(367)	(1,322)
Expenses not deductible for tax purposes	12	166	209	142	150
Income tax expenses	312	1,612	933	692	2,132

PRC corporate income tax

The income tax provision has been calculated at the applicable tax rate of 25% on the estimated assessable profits for the years ended 31 December 2017 and 2018. The Target Company was subject to PRC corporate income tax at 15% as a High-New Technology Enterprise for the year ended 31 December 2019 and periods ended 31 August 2019 and 2020. No provision for PRC corporate income tax has been made for the subsidiaries of the Target Company as they had no estimated assessable profit for the years/period according to the Corporate Income Tax Law of the PRC (the "CIT Law").

9 DIVIDENDS

No dividend has been declared or paid for the years ended 31 December 2017, 2018 and 2019 and the eight months ended 31 August 2020.

10 INVESTMENTS IN SUBSIDIARIES

	As at 31 December 2017	2018	2019	As at 31 August 2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Unlisted investments, at cost	—	—	—	27,420

The following is a list of subsidiaries at 31 December 2017, 2018 and 2019 and 31 August 2020:

Name	Place of incorporation and type of legal entity	Principal activities and place of operation	Registered capital/paid in capital	Effective interest held as at 31 December 2017	2018	2019	31 August 2020
Directly held by the Target Company:							
青島宏海綠建科技發展有限公司 *(Note a)*	PRC, limited liability company	Provision of construction services	RMB21,800,000/ RMB nil	N/A	N/A	100%	100%
青島合投建設工程有限公司 *(Note 25)* *(Note b)*	PRC, limited liability company	Provision of construction services	RMB1,000,000/ RMB nil	N/A	N/A	N/A	100%

Note a: The company is incorporated on 19 December 2019.

Note b: The company is acquired on 10 August 2020, the investment in the subsidiary comprises of the fair value of the equity interest of RMB25,245,000 and cash payable of RMB2,175,000 (Note 25).

11 PROPERTY, PLANT AND EQUIPMENT

	Machinery and equipment	Office equipment and vehicles	Construction-in-progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2017				
Cost	4,549	142	—	4,691
Accumulated depreciation	(3,875)	(10)	—	(3,885)
Net book amount	674	132	—	806
Year ended 31 December 2017				
Opening net book amount	674	132	—	806
Additions	115	124	—	239
Depreciation	(350)	(27)	—	(377)
Closing net book amount	439	229	—	668
At 31 December 2017				
Cost	4,664	266	—	4,930
Accumulated depreciation	(4,225)	(37)	—	(4,262)
Net book amount	439	229	—	668

	Machinery and equipment	Office equipment and vehicles	Construction-in-progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2018				
Opening net book amount	439	229	—	668
Additions	520	153	—	673
Depreciation	(188)	(142)	—	(330)
Closing net book amount	771	240	—	1,011
At 31 December 2018				
Cost	5,184	419	—	5,603
Accumulated depreciation	(4,413)	(179)	—	(4,592)
Net book amount	771	240	—	1,011
Year ended 31 December 2019				
Opening net book amount	771	240	—	1,011
Additions	2,010	204	—	2,214
Depreciation	(286)	(113)	—	(399)
Closing net book amount	2,495	331	—	2,826
At 31 December 2019				
Cost	7,194	623	—	7,817
Accumulated depreciation	(4,699)	(292)	—	(4,991)
Net book amount	2,495	331	—	2,826
Eight months ended 31 August 2020				
Opening net book amount	2,495	331	—	2,826
Additions	874	—	180	1,054
Acquisition of a subsidiary *(Note 25)*	—	—	8,419	8,419
Depreciation	(412)	(85)	—	(497)
Closing net book amount	2,957	246	8,599	11,802
At 31 August 2020				
Cost	8,068	623	8,599	17,290
Accumulated depreciation	(5,111)	(377)	—	(5,488)
Net book amount	2,957	246	8,599	11,802

	Machinery and equipment	Office equipment and vehicles	Construction-in-progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
(Unaudited)				
Eight months ended 31 August 2019				
Opening net book amount	771	240	—	1,011
Additions	986	75	—	1,061
Depreciation	(171)	(46)	—	(217)
Closing net book amount	1,586	269	—	1,855
At 31 August 2019				
Cost	6,170	494	—	6,664
Accumulated depreciation	(4,584)	(225)	—	(4,809)
Net book amount	1,586	269	—	1,855

Depreciation expenses included in cost of services and administrative and general expenses are analysed as follow:

	For the year ended 31 December			For the eight months ended 31 August	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Cost of services	266	160	174	128	295
Administrative and general expenses	111	170	225	89	202
	377	330	399	217	497

12 LEASES

(a) Amounts recognised in the consolidated statements of financial position

The consolidated statements of financial position shows the following amounts relating to right-of-use assets:

(i) *Right-of-use assets*

	As at 1 January 2019	As at 31 December 2019	As at 31August 2020
	RMB'000	*RMB'000*	*RMB'000*
Properties	2,740	2,192	1,827
Land use rights	—	—	21,110
	2,740	2,192	22,937

No additions to the right-of-use assets were made during the year ended 31 December 2019. Additions to the right-of-use assets during the period ended 31 August 2020 included RMB2,150,000 land use rights purchased from third parties and RMB18,960,000 land use rights arising from acquisition of a subsidiary, respectively.

(ii) ***Lease liabilities***

	As at 1 January 2019	**As at 31 December 2019**	**As at 31 August 2020**
	RMB'000	*RMB'000*	*RMB'000*
Non-current	2,242	1,720	1,129
Current	498	522	565
	2,740	2,242	1,694

(b) Amounts recognised in the consolidated statements of comprehensive income

	For the year ended 31 December	**For the eight months ended 31 August**	
	2019	**2019**	**2020**
	RMB'000	*RMB'000* (Unaudited)	*RMB'000*
Depreciation of right-of-use assets *(Note 6)*	548	365	365
Interest on lease liabilities *(Note 7)*	102	68	52
Leases expenses relating to short-term leases *(Note 6)*	2,158	1,727	2,381

The total cash outflow for leases for the year ended 31 December 2019, eight months ended 31 August 2019 and 2020 were RMB2,758,000, RMB2,327,000 and RMB2,981,000 respectively.

(c) The Target Group's leasing activities and how these are accounted for

As a lessee

The Target Group leases a manufacturing plant. Rental contracts are typically made for fixed periods of 4 years, but may have extension and termination options as described in (d) below.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

(d) Extension and termination options

Extension and termination options are included in a lease. These terms are used to maximise operational flexibility in terms of managing contracts. The extension and termination options held are exercisable only by the Target Group and not by the respective lessor.

13 DEFERRED INCOME TAX

	As at 31 December 2017	As at 31 December 2018	As at 31 December 2019	As at 31 August 2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred income tax assets:				
— to be recovered after 12 months	749	1,287	1,126	1,474

The movement in deferred income tax asset during the years/period is as follows:

	Provision for impairment losses on financial assets	Others	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2017	587	—	587
Credited to the consolidated statements of comprehensive income *(Note 8)*	162	—	162
At 31 December 2017 as originally presented	749	—	749
Credited in accounting policy *(Note 2.1.1)*	179	—	179
At 1 January 2018 as restated	928	—	928
Credited to the consolidated statements of comprehensive income *(Note 8)*	359	—	359
At 31 December 2018	1,287	—	1,287
(Charged)/credited to the consolidated statements of comprehensive income *(Note 8)*	(168)	7	(161)
At 31 December 2019 and 1 January 2020	1,119	7	1,126
Credited to the consolidated statements of comprehensive income *(Note 8)*	345	3	348
At 31 August 2020	1,464	10	1,474

14 INVENTORIES

	Note	As at 31 December 2017	As at 31 December 2018	As at 31 December 2019	As at 31 August 2020
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials		3,130	2,120	3,070	3,280

Inventories recognised as an expense during the years ended 31 December 2017, 2018 and 2019 and the eight months ended 31 August 2019 and 2020 amounted to RMB24,985,000, RMB39,546,000, RMB61,340,000, RMB33,934,000 and RMB56,867,000 respectively (Note 6).

15 TRADE AND RETENTION RECEIVABLES AND NOTES RECEIVABLES, AND DEPOSITS AND OTHER RECEIVABLES

	As at 31 December			As at 31 August
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	10,549	19,024	30,660	32,435
Less: Loss allowance	—	(217)	(547)	(2,142)
	10,549	18,807	30,113	30,293
Notes receivables	3,540	86	4,200	4,526
Less: Loss allowance	—	(1)	(92)	(99)
	3,540	85	4,108	4,427
Retention receivables	3,138	7,762	12,752	18,288
Less: Loss allowance	(1,365)	(1,859)	(2,009)	(2,425)
	1,773	5,903	10,743	15,863
Trade and retention receivables and notes receivables	15,862	24,795	44,964	50,583
Deposits and other receivables *(Note)*	25,340	8,097	6,701	6,810

Note: The balance mainly represents advances to project managers, deposits for tendering and other miscellaneous receivables.

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

	As at 31 December			As at 31 August
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Up to 1 year	7,889	17,075	21,716	15,762
1 to 2 years	1,388	1,562	8,375	11,424
2 to 3 years	1,272	170	22	3,107
	10,549	18,807	30,113	30,293

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

	As at 31 December			As at 31 August
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
1 to 30 days	1,240	—	—	1,787
31 to 60 days	300	—	—	1,467
61 to 90 days	800	—	391	—
91 to 180 days	1,200	—	1,565	293
Over 180 days	—	85	2,152	880
	3,540	85	4,108	4,427

As at 31 December 2019 and 31 August 2020, the Target Group's notes receivables in exchange for cash with recourse in the ordinary course of business. The Target Group continued to recognise the full carrying amount of notes receivables and has recognised the cash received as secured other borrowings which are included in "Borrowings" in the consolidated statements of financial position.

As at 31 December 2019 and 31 August 2020, the carrying amounts of notes receivables and the associated liability was RMB4,200,000 and RMB2,400,000 respectively.

In the consolidated statements of financial position, retention receivables were classified as current assets based on operating cycle. The terms and conditions in relation to the release of retention vary from contract to contract, normally upon the expiry of the defects liability period or a pre-agreed time period. The ageing of the retention receivables based on invoice date was as follows:

	As at 31 December			As at 31 August
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	1,773	4,462	5,403	6,551
1 to 5 years	—	1,441	5,340	9,312
	1,773	5,903	10,743	15,863

The Target Group applies HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and retention receivables and notes receivables since 1 January 2018. This resulted in an increase of the loss allowance on 1 January 2018 by RMB170,000 for trade receivables, RMB29,000 for retention receivables and RMB61,000 for notes receivables respectively. Note 3.1(b) provides for details about the calculation of the allowance.

Information about the Target Group's exposure to credit risk can be found in Note 3.1(b).

The carrying amounts of trade and retention receivables and notes receivables, and deposits and other receivables were denominated in RMB.

16 AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

	31 December 2017
	RMB'000
Contract costs incurred plus attributable profits less foreseeable losses to date	62,532
Progress billings to date	(32,608)
	29,924
Less: Provision for impairment	(1,632)
	28,292
Included in current assets is the following:	
Due from customers for contract work	28,292

17 CONTRACT ASSETS AND CONTRACT LIABILITIES

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

	1 January 2018	31 December 2018	31 December 2019	31 August 2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contract assets				
Construction works performed	62,532	104,703	162,378	175,194
Construction works billed to customers	(32,608)	(55,354)	(97,328)	(79,440)
	29,924	49,349	65,050	95,754
Less: Loss allowance	(2,086)	(3,071)	(4,810)	(5,110)
	27,838	46,278	60,240	90,644
Contract liabilities				
Provision for construction services	(6,189)	(6,641)	(2,393)	(3,086)

(a) Significant changes in contract assets and liabilities

Contract assets fluctuates as the Target Group has provided more construction services ahead of the right to payment upon receiving certification from quantity surveyors for fixed-price contracts. The Target 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 Historical Financial Information.

(b) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised during the years ended 31 December 2018 and 2019 and the period 31 August 2020 relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in previous periods.

	For the year ended 31 December 2018	For the year ended 31 December 2019	For eight months ended 31 August 2020
	RMB'000	*RMB'000*	*RMB'000*
Revenue recognised that was included in the contract liability balance at the beginning of the period	340	6,596	1,502

(c) Unsatisfied performance obligations

The following table shows unsatisfied performance obligations resulting from fixed-price long-term construction contracts.

	31 December 2018	31 December 2019	31 August 2020
	RMB'000	*RMB'000*	*RMB'000*
Aggregate amount of the transaction price of long-term construction contracts that are partially or fully unsatisfied	49,320	97,947	183,069

As at 31 December 2018, 2019 and 31 August 2020, management expects that approximately RMB27,583,000, RMB73,221,000 and RMB139,354,000 respectively, will be recognised as revenue during the next reporting period and the remaining will be recognised within two years from each reporting period.

18 CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	As at 31 December			As at 31 August
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash at bank	1,319	1,858	2,275	5,434
Less: Pledged bank deposits *(Note (a))*	—	—	—	(200)
Cash and cash equivalents	1,319	1,858	2,275	5,234
Maximum exposure to credit risk	1,319	1,858	2,275	5,434

Note:

(a) As at 31 August 2020, the Target Group's bank deposit of RMB200,000 was pledged for notes payables (Note 21).

(b) The above balances represent cash and cash equivalents as at 31 December 2017, 2018 and 2019 and 31 August 2020 and all are denominated in RMB and deposited with banks in the PRC, where the remittance of funds outside the PRC is subject to foreign exchange control.

19 PAID IN CAPITAL

	As at 31 December			As at 31 August
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2016, 2017, 2018 and 2019 and 31 August 2020 *(Note)*	12,000	12,000	12,000	14,708

Note: During the eight months ended 31 August 2020, the issued capital of the Target Company increased by RMB2,708,000 as a result of the capital injection by a shareholder and acquisition of a subsidiary as detailed in Note 25.

20 OTHER RESERVES

	Statutory reserves	**Capital reserve**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Balance at 1 January 2017	1,315	—	1,315
Appropriation to statutory reserves	89	—	89
Balance at 31 December 2017	1,404	—	1,404
Balance at 1 January 2018	1,404	—	1,404
Appropriation to statutory reserves	471	—	471
Balance at 31 December 2018	1,875	—	1,875
Balance at 1 January 2019	1,875	—	1,875
Appropriation to statutory reserves	389	—	389
Balance at 31 December 2019	2,264	—	2,264
Balance at 1 January 2020	2,264	—	2,264
Acquisition of a subsidiary *(Note 25)*	—	22,757	22,757
Appropriation to statutory reserves	1,109	—	1,109
Balance at 31 August 2020	3,373	22,757	26,130

Statutory reserves

In accordance with the relevant regulations, the Target Company and its subsidiaries incorporated in the PRC is required to allocate at least 10% of their after-tax profit according to PRC accounting standards and regulations to the general statutory reserves. These reserves can only be used for specific purposes and are not distributable or transferable in the form of loans, advances, or cash dividends.

Capital reserve

Capital reserve mainly represents the reserves derived from the acquisition of a subsidiary as detailed in Note 25.

21 TRADE AND NOTES PAYABLES, ACCRUALS AND OTHER PAYABLES

	As at 31 December			As at 31 August
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	8,859	23,546	49,775	65,703
Notes payables	—	—	—	200
Accruals and other payables *(Note)*	5,653	10,151	20,411	24,890
	14,512	33,697	70,186	90,793

Note: The balance mainly represents accrued salaries, payments on behalf by the project managers for construction projects and other miscellaneous payables.

The credit period granted for the trade payables was within 90 days. The ageing analysis of the trade payables based on invoice date was as follows:

	As at 31 December			As at 31 August
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Up to 1 year	6,200	19,771	45,434	60,223
1 to 2 years	1,330	2,897	3,336	2,937
2–3 years	1,329	365	1,005	2,193
Over 3 years	—	513	—	350
	8,859	23,546	49,775	65,703

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

	As at 31 December			As at 31 August
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
61–90 days	—	—	—	200

The carrying amounts of trade and notes payables, accrual and other payables approximate their fair values and are denominated in RMB.

22 BORROWINGS

	As at 31 December			As at 31 August
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current				
Bank borrowings — guaranteed	13,000	13,000	13,000	18,820
Other borrowings — secured	—	—	4,200	2,400
	13,000	13,000	17,200	21,220

As at 31 December 2017, 2018 and 2019 and 31 August 2020, all of the Target Group's borrowings are denominated in RMB.

Bank borrowings

(a) The weighted average interest rates at the date of consolidated statements of financial position were:

	As at 31 December			As at 31 August
	2017	2018	2019	2020
Bank borrowings	6.5%	6.5%	6.5%	6.3%

(b) The repayment terms of the bank borrowings are as follows:

	As at 31 December			As at 31 August
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	13,000	13,000	13,000	18,820

(c) The carrying amount of the bank borrowings approximate their fair values as at 31 December 2017, 2018 and 2019 and 31 August 2020 as the impact of discounting of borrowings with fixed interest rates was not significant.

(d) As at 31 December 2017, 2018 and 2019 and 31 August 2020, the bank borrowings are guaranteed by the directors and shareholders of the Target Group.

Other borrowings

As at 31 December 2019 and 31 August 2020, the other borrowings amounting to RMB4,200,000 and RMB2,400,000 were secured by the Target Group's notes receivables (Note 15).

23 NON-CANCELLABLE OPERATING LEASE COMMITMENTS

From 1 January 2019, the Target Group has recognised right-of-use assets for these leases, except for short-term and low-value leases, see Note 6 and Note 12 for further information.

As at 31 December 2017 and 2018, the future aggregate minimum lease rental expenses in respect of office premises under non-cancellable operating leases are as follows:

	2017	2018
	RMB'000	*RMB'000*
No later than 1 year	600	600
Later than 1 year and no later than 5 years	600	—
	1,200	600

24 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOW

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 years/periods.

	Borrowings	Lease liabilities	Amounts due to/(from) shareholders
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2017	13,000	—	13,897
Cash inflows			
— Proceeds of borrowings	13,000	—	—
— Repayments from shareholders	—	—	23,727
Cash outflows			
— Repayment of borrowings	(13,000)	—	
— Advances to shareholders	—	—	(23,802)
At 31 December 2017	13,000	—	13,822
At 1 January 2018	13,000	—	13,822
Cash inflows			
— Proceeds of borrowings	13,000	—	—
— Repayments from shareholders	—	—	16,425
Cash outflows			
— Repayment of borrowings	(13,000)	—	—
— Advances to shareholders	—	—	(31,567)
At 31 December 2018	13,000	—	(1,320)

	Borrowings	Lease liabilities	Amounts due to/(from) shareholders
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2019	13,000	—	(1,320)
Recognised on adoption of HKFRS 16	—	2,740	—
Cash inflows			
— Proceeds of borrowings	17,200	—	—
— Repayments from shareholders	—	—	16,688
Cash outflows			
— Repayment of borrowings	(13,000)	—	—
— Principal elements of lease payments	—	(498)	—
— Interest paid	—	(102)	—
— Advances to shareholders	—	—	(22,047)
Other non-cash transaction	—	102	—
At 31 December 2019	17,200	2,242	(6,679)
At 1 January 2020	17,200	2,242	(6,679)
Cash inflows			
— Proceeds of borrowings	20,620	—	—
— Repayments from shareholders	—	—	13,499
Cash outflows		—	—
— Repayment of borrowings	(16,600)	—	—
— Principal elements of lease payments	—	(548)	—
— Interest paid	—	(52)	—
— Advances to shareholders	—	—	(9,828)
Other non-cash transaction	—	52	2,175
At 31 August 2020	21,220	1,694	(833)
(Unaudited)			
At 1 January 2019	13,000	—	(1,320)
Cash inflows			
— Proceeds of borrowings	17,200	—	—
— Repayments from shareholders	—	—	8,580
Recognised on adoption of HKFRS 16	—	2,740	—
Cash outflows		—	—
— Repayment of borrowings	(13,000)	—	—
— Principal elements of lease payments	—	(532)	—
— Interest paid	—	(68)	—
— Advances to shareholders	—	—	(16,443)
Other non-cash transaction	—	68	—
At 31 August 2019	17,200	2,208	(9,183)

25 ACQUISITION OF A SUBSIDIARY

On 20 August 2020, the Target Company acquired 100% of the issued capital of Qingdao Hetou Construction Engineering Co., Ltd ("Qingdao Hetou"), for a consideration of RMB27,420,000. The principal assets of Qingdao Hetou are property, plant and equipment and land use rights and accordingly, the transactions have been accounted for as an acquisition of assets.

Details of the purchase consideration and the net assets acquired are as follows:

	20 August 2020
	RMB'000
Purchase consideration	
Consideration payable	2,175
Fair value of equity interest of the Target Company *(Note)*	25,245
Total consideration	27,420
Recognised amounts of identifiable assets acquired	
Property, plant and equipment	8,419
Land use rights	18,960
Cash and cash equivalents	41
Net assets acquired	27,420
Net cash inflow arising from acquisition of subsidiaries	
Net inflow of cash — investing activities	41

Note: The fair value of the 17.2% equity interest of the Target Company as a consideration paid for Qingdao Hetou was estimated by an independent professional qualified valuer to be RMB25,245,000, the excess of which over the par value of the 17.2% issued capital of RMB2,488,000, amounting to RMB22,757,000, was recognised in capital reserve.

26 RELATED PARTY TRANSACTIONS

(a) Except for those disclosed below and other than those disclosed elsewhere in the Historical Financial Information, the Target Group has no other significant transaction with related parties during the Track Record Period:

	For the year ended 31 December			**For the eight months ended 31 August**	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Transaction with 青島東祺晟資訊諮詢有限公司, a related party of the Target Group — Lease payments in respect of a manufacturing plant	600	600	600	600	600

During the Track Record Period, there are common shareholders in the Target Group and this related company. A shareholder of the related company also provided key management personnel services to the Target Group.

(b) Balances with related parties are as follows:

	As at 31 December			As at 31 August	
	2017	**2018**	**2019**	**2020**	**Nature**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	
Amount due from a shareholder — Mr. Wang YongHong *(Note i)*	—	1,320	6,679	3,008	Non-trade
Amounts due to shareholders					
— Mr. Wang YongHong *(Note i)*	(13,822)	—	—	—	Non-trade
— 中德生態園被動房建築科技有限公司 *(Note ii)*	—	—	—	(2,175)	Non-trade
	(13,822)	—	—	(2,175)	

Note (i): Amounts due from/(to) a shareholder mainly represents cash advances which are interest-free, unsecured and repayable on demand.

Note (ii): Amount due to a shareholder represents the consideration payable in connection with the acquisition of a subsidiary as detailed in Note 25, the balance was interest-free, unsecured and repayable on demand.

(c) Key management compensation

During the years ended 31 December 2017, 2018 and 2019 and the eight months ended 31 August 2019 and 2020, key management compensation is equivalent to the director's remuneration of the Target Group as disclosed in Note 27(a).

27 BENEFITS AND INTERESTS OF KEY MANAGEMENT

(a) Key management compensation

Key management personnel refer to those who are entitled to plan, direct and control the activities of the Target Group. Directors of the Target Group are regarded as the key management personnel, their remuneration are set out below:

	For the year ended 31 December			For the eight months ended 31 August	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Wages and salaries	153	204	210	140	861
Other social security costs and other employee benefits	63	84	90	52	70
	216	288	300	192	931

(b) Directors' retirement benefits

None of the directors received or will receive any retirement benefits during the Track Record Period.

(c) Directors' termination benefits

None of the directors received or will receive any termination benefits during the Track Record Period.

(d) Consideration provided to third parties for making available directors' services

During the years ended 31 December 2017, 2018 and 2019 and the eight months ended 31 August 2019 and 2020, the Target Group did not pay consideration to any third parties for making available directors' services.

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

Save as disclosed in Note 26(b), during the year ended 31 December 2017, 2018 and 2019 and eight months ended 31 August 2019 and 2020, there is no loans, quasi-loans and other dealing arrangements in favour of directors, or controlled bodies corporate by and connected entities with such directors.

(f) Directors' material interests in transactions, arrangements or contracts

Save as disclosed in Note 26(a), no significant transactions, arrangements and contracts in relation the Target Group's business to which the Target Group was a party and in which a director of the Target Company had a material interest, whether directly to indirectly, subsisted at the end of the year/period or at any time during the Track Record Period.

28 EVENTS AFTER REPORTING PERIOD

After the outbreak of Coronavirus Disease 2019 (''COVID-19 outbreak'') in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country/region. The Target Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited consolidated financial statements have been prepared by the Target Group in respect of any period subsequent to 31 August 2020 and up to the date of this report. Save as disclosed in this report, no dividend or distribution has been declared or made by the Target Group in respect of any period subsequent to 31 August 2020.

Set out below is the management discussion and analysis of the Target Group for the three years ended 31 December 2019 and the eight months ended 31 August 2020 (the "Track Record Period"). The following financial information is based on the audited financial information of the Target Group set forth in the Appendix II of this circular.

BUSINESS REVIEW

青島宏海幕牆有限公司 (Qingdao Honghai Curtain Wall Co., Ltd.*) was established in the PRC on 12 March 2007 with a registered capital of RMB108.7 million. The Target Company has obtained the grade three professional contractor in steel structure construction works qualification, the grade one professional contractor in curtain wall construction works qualification and the grade one engineering design for curtain wall projects qualification.

During the Track Record Period, the Target Company has engaged in 160 curtain wall engineering projects as a main contractor.

REVENUE

During the Track Record Period, the Target Group derived revenue from one operating segment, which is the provision of curtain wall engineering services. The operating revenue was approximately RMB45.4 million, RMB79.2 million, RMB117.2 million and RMB115.1 million for each of the years ended 31 December 2017 ("**Year 2017**"), 2018 ("**Year 2018**") and 2019 ("**Year 2019**") and the eight months ended 31 August 2020, respectively. The Target Group recorded a revenue growth of approximately RMB33.8 million or 74.4% from Year 2017 to Year 2018 approximately RMB38.0 million or 48.0% from Year 2018 to Year 2019, respectively and record an increase as compared to the same period in 2020 which was attributable to an increase in number of projects undertaken during the years/periods.

COST OF SALES

The operating cost was approximately RMB37.9 million, RMB64.7 million, RMB99.4 million and RMB91.8 million for the Years 2017, 2018 and 2019 and the eight months ended 31 August 2020, respectively. Cost of sales of the Target Group mainly comprised subcontracting charges, materials and rental/lease expenses of manufacturing plant, machines and equipment. While cost of sales for individual projects may differ according to the nature and technical specifications of each project, the fluctuation in cost of sales during the Track Record Period was in-line with the trend of operating revenue.

GROSS PROFIT

The gross profit was approximately RMB7.4 million, RMB14.5 million, RMB17.8 million and RMB23.3 million for the Years 2017, 2018 and 2019 and the eight months end 31 August 2020, respectively, and the gross profit margin for the same was approximately 16.4%, 18.3%, 15.2% and 20.2%, respectively.

The scope of works involved for individual projects may differ according to the nature and technical specifications of each project and as such, the profit margin fluctuates according to the works performed for different projects in a particular year/period during the Track Record Period. Overall, the Target Group's gross profit margin during the Track Record Period was reasonable and comparable to market norms.

ADMINISTRATIVE AND GENERAL EXPENSES

The administrative and general expenses were RMB4.7 million, RMB6.4 million, RMB9.0 million and RMB6.5 million for the Years 2017, 2018 and 2019 and the eight months ended 31 August 2020, respectively. Administrative and general expenses mainly include salary of management, back office and research and development personnel, depreciation of office equipment, travel expenses, staff education expenses, etc. and have maintained generally stable during the Track Record Period.

PROFIT FOR THE YEARS/PERIOD

The Target Group recorded a profit of RMB0.9 million, RMB4.2 million, RMB 3.9 million and RMB11.1 million for Years 2017, 2018, 2019 and the eight months ended 31 August 2020, respectively. As mentioned above, the fluctuation in profits for the years/period during the Track Record Period was the result of (i) an increase in gross profit according to the level of work performed for different projects throughout the Track Record Period and (ii) a relatively stable level of administrative and general expenses.

PROPERTY, PLANT AND EQUIPMENT/RIGHT-OF-USE ASSETS

The Target Group's property, plant and equipment mainly comprised a plant construction-in-progress and certain machinery and equipment, which carried at cost less accumulated impairment. Right-of-use assets mainly comprised two parcel of lands located in Shandong Province, PRC.

TRADE RECEIVABLES

Trade receivables represent amounts certified by customers for curtain wall construction works performed. The amounts of trade receivables were approximately RMB10.5 million, RMB18.8 million, RMB30.1 million, RMB30.3 million as at 31 December 2017, 2018 and 2019 and 31 August 2020, respectively. The balance of trade receivable was relatively high as at 31 December 2019 and 31 August 2020, mainly due to relatively large amount of revenue certified but pending payment from customers at end of 31 December 2019 and 31 August 2020. The trade and receivables balances have been assessed individually for impairment allowance where there are objective evidence that the likelihood of receipts from customers are remote. There is currently no indication of significant risk of default on the remaining trade and retention receivables balances.

CONTRACT ASSETS/(LIABILITIES)/AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

Contract assets/amounts due from customers for contract work during the Track Record Period were approximately RMB28.3 million, RMB46.3 million, RMB60.2 million and RMB90.6 million, respectively. The increase in contract assets as at 31 December 2017, 2018 and 2019 and as at 31 August 2020 was due to relatively high level of work performed during the year being net yet certified by customers.

Contract liabilities as at 31 December 2017, 2018 and 2019 and 31 August 2020 represents amounts due to contract customers for payment received in excess of revenue recognisable by the Target Group according to the progress achieved.

DEPOSITS AND OTHER RECEIVABLES

The deposits and receivables were approximately RMB25.3 million, RMB8.1 million, RMB6.7 million and RMB6.8 million as at 31 December 2017, 2018 and 2019 and 31 August 2020, respectively and mainly comprised advances to project managers, deposits for tendering and other miscellaneous receivables.

CAPITAL STRUCTURE, LIQUIDITY AND GEARING

As at 31 December 2017, 2018 and 2019 and 31 August 2020, the net assets of the Target Group were RMB26.0 million, RMB29.7 million, RMB33.6 million and RMB70.1 million, respectively; the net current assets were RMB24.6 million, RMB27.4 million, RMB29.1 million and RMB35.0 million, respectively; and the net cash and bank balances were RMB1.3 million, RMB1.9 million, RMB2.3 million and RMB5.2 million, respectively. The Target Group's gearing ratio (calculated by dividing total debts by total capital) as at 31 December 2017, 2018 and 2019 and 31 August 2020 were 31%, 27%, 31% and 18%. The gearing ratio of the Target Group remained relatively stable during the Track Record Period. The maturity and interest rate profile of the Target Group's borrowings are set out in Note 22 to the Accountant's Report of the Target Group.

PLEDGE OF ASSETS

As at 31 August 2020, RMB0.2 million of the Target Group's bank deposits were pledged to secure for bank acceptance notes.

MATERIAL INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

On 20 August 2020, the Target Company acquired 100% of the issued capital of Qingdao Hetou Construction Engineering Co., Ltd, for a consideration of RMB27,420,000. Details of the acquisition are set out in Note 25 to the Accountant's Report of the Target Group.

MATERIAL RELATED PARTY TRANSACTIONS

During the Track Record Period, the Target Group entered into transactions with 青島東祺晟資訊諮詢有限公司, which is a related party of the Target Group. Details of the related party transactions are set out in Note 26 to the Accountant's Report of the Target Group.

CONTINGENT LIABILITIES

As at 31 December 2017, 2018 and 2019 and 31 August 2020, the Target Group did not have any contingent liability.

CAPITAL COMMITMENTS

As at 31 December 2017, 2018 and 2019 and 31 August 2020, the Target Group did not have any capital commitment.

LITIGATION

To the Directors' knowledge, the Target Group did not engage in any litigation, arbitration or claims of material importance as at the Latest Practicable Date.

FOREIGN EXCHANGE RISK

The principal business of the Target Group is conducted in the PRC and the revenue and expenses of the Target Company are denominated in RMB. As a result, the Target Group has not subject to significant risks directly related to exchange rate fluctuations and has not entered into any contracts to hedge its foreign exchange risk exposure.

EMPLOYMENT AND COMPENSATION POLICY

The Target Group adopts a compensation policy similar to its peers with reference to its employees's responsibilities and current market levels in the region. After the assessment, employees are paid discretionary bonuses as rewards for their contributions. According to the applicable statutory requirements in the PRC and the existing regulations of the local government, the Target Group participates in different social welfare programs for the benefit of its employees.

As at 31 December 2017, 2018 and 2019 and 31 August 2020, the Target Company employed 117, 108, 116 and 113 employees, respectively.

Among the existing 113 employees, there are more than 18 engineers and technicians with intermediate professional title or above, including more than 11 registered constructors and registered cost engineers; and more than 6 management personnel.

FUTURE PLANS AND SUBSEQUENT EVENTS

The Target Company will further accelerate the research and development of core technologies in various fields including the research and development of passive curtain wall systems, to enhance its core competitiveness. Apart from striving for rapid and steady development, the Target Company will gradually promote its capability to integrate design, manufacture and construction (設計、製造、施工一體化能力). The Target Company will support the Purchaser's further development as a comprehensive construction services provider in the PRC, and will actively implement market expansion and in-depth cooperation with well-known domestic and international customers, to enhance its brand value and to strive to become an influential company in the curtain wall industry in the PRC.

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group (the "Unaudited Pro Forma Financial Information") has been prepared on the basis of the notes set out below and in accordance with paragraph 4.29 of the Listing Rules for the purpose of illustrating the effects on the assets and liabilities of the Enlarged Group as if the Acquisition had been completed on 30 June 2020.

The Unaudited Pro Forma Financial Information as at 30 June 2020 has been prepared based on (i) the unaudited interim condensed consolidated balance sheet of the Group as at 30 June 2020, as set out in its published interim report for the six months ended 30 June 2020; and (ii) the consolidated statement of financial position of the Target Group as at 31 August 2020; and (iii) the pro forma adjustments prepared to reflect the effects of the Acquisition of 34% equity interests in the Target Group by the Group as explained in the notes set out below that are directly attributable to the Acquisition and not relating to future events or decisions and are factually supportable.

The Unaudited Pro Forma Financial Information should be read in conjunction with other financial information contained in this Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors of the Company for illustrative purposes only and is based on a number of assumptions, estimates and currently available information. Because of its hypothetical nature, the Unaudited Pro Forma Financial Information may not give a true picture of the financial position of the Enlarged Group had the Acquisition been completed as at 30 June 2020 or any future date.

(I) UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP AS AT 30 JUNE 2020

	The Group as at 30 June 2020	The Target Group as at 31 August 2020		Pro forma adjustments		The Enlarged Group as at 30 June 2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	
ASSETS						
Non-current assets						
Property, plant and equipment	262,899	12,982	—	—	—	275,881
Right-of-use assets	4,494	25,231	—	—	—	29,725
Goodwill	20,537	—	21,287	—	—	41,824
Intangible assets	—	—	25,526	—	—	25,526
Deferred income tax assets	1,813	1,621	—	—	—	3,434
Deposits and other receivables	9,388	—	—	—	—	9,388
Total non-current assets	299,131	39,834	46,813	—	—	385,778
Current assets						
Inventories	—	3,608	—	—	—	3,608
Trade and retention receivables and notes receivables	722,456	55,641	—	—	—	778,097
Deposits, prepayments and other receivables	51,557	7,491	—	3,309	—	62,357
Contract assets	196,282	99,708	—	—	—	295,990
Amount due from a related party	3,380	—	—	—	—	3,380
Amount due from a shareholder	—	3,309	—	(3,309)	—	—
Income tax recoverable	4,251	—	—	—	—	4,251
Time deposits with maturity over 3 months	11,132	—	—	—	—	11,132
Pledged bank deposits	18,700	220	—	—	—	18,920
Cash and cash equivalents	194,300	5,757	—	—	—	200,057
	1,202,058	175,734	—	—	—	1,377,792
Total assets	1,501,189	215,568	46,813	—	—	1,763,570

	The Group as at 30 June 2020	The Target Group as at 31 August 2020	Pro forma adjustments			The Enlarged Group as at 30 June 2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	
LIABILITIES						
Non-current liabilities						
Lease liabilities	934	1,242	—	—	—	2,176
Deferred income tax liabilities	16,765	—	3,829	—	—	20,594
Total non-current liabilities	17,699	1,242	3,829	—	—	22,770
Current liabilities						
Trade and retention payables and note payables	504,837	72,493	—	—	—	577,330
Accruals and other payables	58,341	27,376	54,888	2,393	3,622	146,620
Contracts liabilities	130,397	3,395	—	—	—	133,792
Loan from an intermediate holding company	100,000	—	—	—	—	100,000
Amounts due to related parties	1,120	—	—	—	—	1,120
Dividend payable	176	—	—	—	—	176
Amount due to shareholders	—	2,393	—	(2,393)	—	—
Borrowings	145,749	23,342	—	—	—	169,091
Lease liabilities	2,432	622	—	—	—	3,054
Income tax payable	8,851	7,576	—	—	—	16,427
	951,903	137,197	54,888	—	3,622	1,147,610
Total liabilities	969,602	138,439	58,717	—	3,622	1,170,380
Net assets	531,587	77,129	(11,904)	—	(3,622)	593,190

(II) NOTES TO THE UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

1. The amounts are extracted from the unaudited interim condensed consolidated balance sheet of the Group as at 30 June 2020 as set out in its published interim condensed consolidated financial information for the six months ended 30 June 2020.

2. The assets and liabilities of the Target Group in RMB are derived from the consolidated statement of financial position of the Target Group as at 31 August 2020 as set out in Accountant's Report set out in Appendix II to this Circular. For the purpose of the Unaudited Pro Forma Financial Information, the amounts are translated from RMB to HKD at a rate of RMB1=HK$1.10.

3. As the Group is entitled to appoint a majority number of directors of the Target Company and will be able to control the management and operation of the Target Company, upon completion of the Acquisition, the identifiable assets and liabilities of the Target Group will be accounted for in the consolidated financial statements of the Enlarged Group at their fair value under the acquisition method in accordance with Hong Kong Financial Reporting Standard 3 "Business Combinations" ("HKFRS 3") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

   For the purpose of the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group and for illustrative purpose only, the Group has estimated the fair values of the major assets and liabilities of the Target Group with reference to the valuation report as at 31 August 2020 prepared by an independent professional valuer, CBRE Limited.

   The adjustments represent the recognition of goodwill of approximately to HK$21,287,000 arising from the Acquisition, being the excess amount of the cash consideration of the Acquisition over the fair value of acquired identifiable net assets net of deferred tax liabilities of the Target Group, and is calculated as follows:

	HK$'000
Consideration payable *(a)*	54,888
Fair values of assets to be acquired and liabilities to be assumed	
Carrying amounts of net assets of the Target Group *(b)*	77,129
Recognition of intangible assets: *(b) (c)*	
— Patented technology	15,573
— Contract backlogs	9,953
Deferred tax liabilities recognised *(d)*	(3,829)
Total identifiable net assets of the Target Group	98,826
Non-controlling interests of 66% equity interest in the Target Group	(65,225)
Fair value of 34% equity interest in the Target Group	33,601
Goodwill arising from the Acquisition *(c)*	21,287

(a) As stipulated in the Sale and Purchase Agreement, the Purchaser, an indirectly non wholly-owned subsidiary of the Company, will settle the Consideration amounted to RMB49,898,000 (equivalent to approximately HK$54,888,000 translated at a rate of RMB1=HK$1.10) in cash payable to the Vendors within 7 days after the date of Completion of the Acquisition.

(b) For the purpose of preparing the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group, the Directors assumed that with the exception of the intangible assets, the pro forma fair value of assets and liabilities of the Target Group are the same as their respective carrying amounts as at 31 August 2020.

The technology represents the patented technology developed by the Target Group used in the production of materials for the construction projects. The backlogs represent the total estimated construction contracts that has been secured and remained to be completed as at the valuation date. According to the valuation report that (i) the fair value of the technology is determined using relief-from-royalty method. In applying the relief-from-royalty method, an asset is valued based on the forecast revenue according to the owner by virtue of the fact that the owner does not have to pay a fair royalty to a third party for use of the asset; and (ii) the fair value of backlogs is determined using multi-period excess earnings method. In the multi-period excess earnings method, the value is estimated as the present value of the benefits anticipated from ownership of the subject intangible asset in excess of the returns required on the investment in the contributory assets necessary to realise those benefits.

(c) The Directors of the Company confirm that consistent policies and assumptions have been applied for the purpose of assessing impairment of intangible assets and goodwill under HKAS 36 "Impairment of Assets". The Directors of the Company consider there is no impairment provision required for the purpose of this Unaudited Pro Forma Financial Information.

(d) The adjustments on deferred income tax liabilities is determined based on the difference between the tax bases and fair values of intangible assets by applying the Target Group's applicable income tax rate of 15% during the official authorisation period as a High/New Tech Enterprise in the PRC and 25% tax rate after the authorisation period. These are the respective tax rates expected to be applied to the Target Group in the period when the liabilities are settled.

Since the fair values and carrying amounts of the identifiable net assets of the Target Group as at the date of Completion may be materially different from their respective values used in the preparation of the Unaudited Pro Forma Financial Information, the actual amounts of the assets and liabilities and goodwill to be recorded in the consolidated financial statements of the Group upon Completion may be materially different from the estimated amounts shown in this Appendix.

4. Certain reclassifications have been made to conform with the Group's presentation.

5. The adjustment represents the estimated professional fees of approximately HK$3,622,000, relating to the Acquisition. The amounts included the costs of professional advisers for the Acquisition, which is assumed to be paid after the Completion of the Acquisition.

6. No adjustments have been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions entered into by the Enlarged Group subsequent to 30 June 2020.

(B) REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc 羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF PROSPER CONSTRUCTION HOLDINGS LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Prosper Construction Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") and Qingdao Honghai Curtain Wall Co., Ltd. (青島宏海幕牆有限公司) (the "Target Company") and its subsidiary (collectively the "Target Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of unaudited pro forma consolidated statement of assets and liabilities as at 30 June 2020 and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages IV-1 to IV-6 of the Company's circular dated 18 December 2020, in connection with the proposed acquisition of the Target Group (the "Transaction") by the Qingdao Dongjie Construction Engineering Co., Ltd., an indirect non-wholly owned subsidiary of the Company. The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on pages IV-1 to IV-6 of the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Acquisition on the Group's financial position as at 30 June 2020 as if the Acquisition had taken place at 30 June 2020. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's consolidated financial statements for the period ended 30 June 2020, on which no audit or review has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the Acquisition had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Acquisition at 30 June 2020 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

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

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 18 December 2020

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Estate Agent's Licence (Co.) No. C-004065

18 December 2020
Our reference: C2011-0654-BV

Prosper Construction Holdings Limited
Unit Nos. 04–05 on 5th Floor
K Wah Centre
191 Java Road, North Point
Hong Kong

Dear Sirs,

1 INTRODUCTION

In accordance with the instruction of Prosper Construction Holdings Limited (the "Company" or "Prosper Construction"), we were engaged to assess the fair value of the 100% equity interest in 青島宏海幕牆有限公司 and its subsidiaries (jointly refers to as the "Target Company") for acquisition and transaction purposes according to International Financial Reporting Standard ("IFRS") 13 *Fair Value*.

The purpose of this report is to provide an independent analysis of the fair value of 100% equity interest in the Target Company for acquisition and transaction purpose only. We have made relevant investigations, enquired and obtained such further information, as we consider necessary for the purpose of providing our valuation result.

The information used by CBRE in preparing this report has been obtained from a variety of sources as indicated within the report. Historical financial data, financial projections and key assumptions used in our valuation analysis and as set out in this report are the responsibility of the management of the Company (the "Management"). Please note that the procedures and enquiries undertaken by us in preparing this report do not include any verification work, nor do they constitute an examination made in accordance with generally accepted auditing standards.

Accordingly, we assume no responsibility and make no representations with respect to the accuracy or completeness of any information provided to us, except where otherwise stated herein, and no assurance is given.

1.1 Basis of Valuation

Our valuation has been conducted on a fair value basis. Fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" under IFRS 13.

2 BACKGROUND

2.1 Background of the Company

The Company is an investment holding company and its subsidiaries provide marine construction services, auxiliary marine related services and general construction contracting services. 青島東捷建設工程有限公司 (Qingdao Dongjie Construction Engineering Co., Ltd.*) (the "Purchaser") was established in the PRC and is the subsidiary of the Company.

The Purchaser is principally engaged in general contracting of building construction, building foundation, garden greening projects, garden landscape projects, cultural relic protection projects, real estate development business, building materials wholesale, building demolition activities, pipeline engineering (excluding pressure piping), road construction, water conservancy and hydropower project construction, power engineering construction, municipal utilities engineering construction, mechanical and electrical engineering construction, lifting equipment installation projects, fire control facilities engineering, waterproof anti-corrosion insulation works, steel structure engineering, and building mechanical and electrical installation works.

2.2 Background of the Target Company

Company Profile

The Target Company was established in March 2007 with a registered capital of RMB108.7 million. It is a company with grade one qualifications in curtain wall construction and curtain wall engineering design in China. The Target Company is a comprehensive curtain wall system provider that manufactures and installs curtain wall systems tailored to client's unique needs, as well as offering engineering design and consulting services.

The passive window and passive curtain wall systems developed by the Target Company have passed all requirements and received certification from Passive House Institute (PHI). The Target Company, in cooperation with the Ministry of Housing and

Urban-Rural Development (MOHURD), tested and certified its products at the National Testing Center (國家檢測中心), which all met or exceeded the national standard requirements for ultra-low-energy buildings. It also obtained the certification of Comfortable Living by MOHURD and became a member unit of the "Passive Low Energy Building Industry Technology Innovation Strategic Alliance" (被動式低能耗建築產業技術創新戰略聯盟).

The Target Company's manufacturing plant is equipped with automated machineries imported from Germany, Italy and various countries. This enables them to make breakthroughs in passive curtain wall systems and continue to innovate its design and manufacturing process to fulfill the different needs of their customers.

Qualifications and Licenses

- Grade one professional contractor in curtain wall construction works qualification;
- Grade one engineering design for curtain wall projects qualification; and
- Grade three professional contractor in steel structure construction works qualification.

Experience of the Management Team and Major Projects

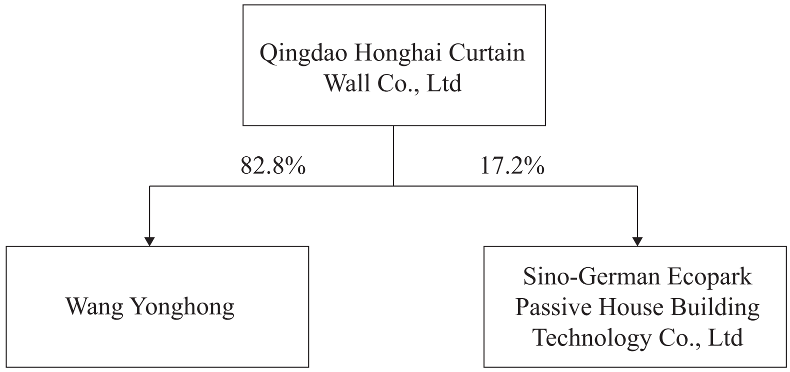
The management team and the technical team both have 15–25 years of experience in the industry, and were responsible for the design and construction of major projects such as the Naluwan Hotel (currently known as Sheraton Huangdao Hotel), Grand Hyatt Chengdu (成都群光大酒店), Shangri-La Hotel Qingdao, Easyhome Tower in Beijing, Yunnan Haideng Conference Center, etc., which are all local landmark buildings.

2.3 Acquisition Background

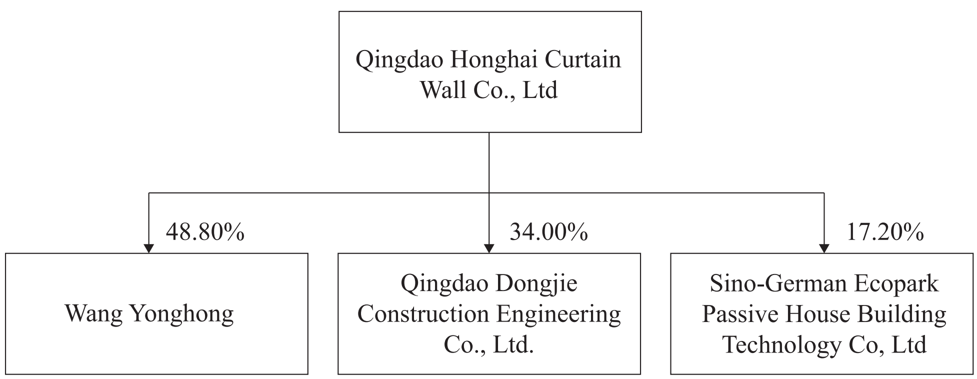
Currently, the Target Company is owned by 王永宏 (Wang Yonghong*) (the "Vendor"), a substantial shareholder, and 中德生態園被動房建築科技有限公司 (Sino-German Ecopark Passive House Building Technology Co., Ltd.*), a wholly state-owned enterprise, both of which holds 82.80% and 17.20% equity interest respectively in the Target Company.

The Company intends to acquire 34% equity interest held by the Vendor, a substantial shareholder of the Target Company, through the Purchaser. Upon completion of the transaction, the Target Company will form a board of directors in which four out of seven directors will be appointed by the Purchaser.

Structure of the Target Company Pre-Transaction



Structure of the Target Company Post-Transaction



2.4 Industry Overview

2.4.1 *China Market Commentary*

China Overview

Over the past few decades, through various economic and regulatory reforms, China has transformed itself into an economic powerhouse. Currently, China claims top spot in a number of important economic league tables as it replaced Germany as the world's biggest exporter in 2009, and overtook Japan as the second largest world economy in 2010.

Among the most fundamental changes in China over the past decades has been the massive population shift from rural to urban areas. The scale of urbanisation in China is unprecedented, official data indicated that urban population as a percentage of total population grew from 36% in 2000 to 61% in 2019. The World Bank has forecast that up to 70% of the country's population would live in urban areas by 2030.

Although China has been facing a slowing economic growth since the last decade as it realigned its structure from being export-driven to a more balanced economy, it still remains as the leading growth engine to the global economy. The Chinese government is actively taking steps to stimulate investment, boost consumption and create more jobs, as part of its ongoing efforts to foster domestic market amid slowing economic growth.

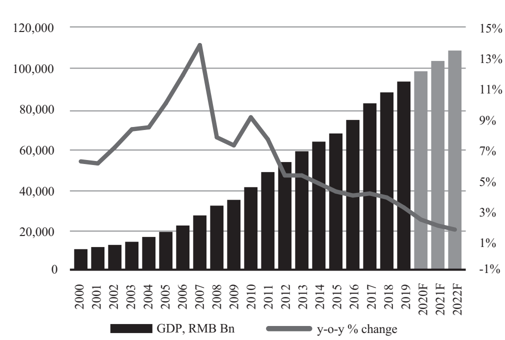
China's Macroeconomic Environment

After a sharp contraction in the first quarter due to the COVID-19 pandemic, China's economy has bounced back strongly in the second quarter of 2020 due to the timely measures by the government in containing the outbreak. China's GDP grew by 3.2% y-o-y in Q2 2020, following a 6.8% contraction from the first quarter. This recovery was led by manufacturing, increasing by 5.2% y-o-y. The improvement has been slower in the service sector, up by 1.9% y-o-y in Q2 2020.

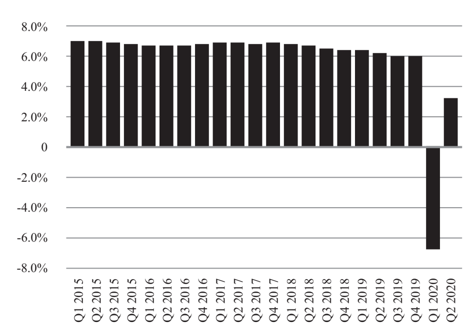
In bid to shore up the real economy against the COVID-19 pandemic, the People' Bank of China (PBOC) increased the pace of monetary easing and lower the actual costs of financing, the PBOC has decided to cut the targeted Required Reserve Ratio (RRR) for inclusive finance on 15 April and again on 15 May, lowering the RRR for banks that meet assessment criteria by a total of 1 percentage point (0.5 ppt each). In addition, eligible joint-stock commercial banks will enjoy an additional targeted RRR cut of 1 percentage point for lending in inclusive finance. The cuts will release RMB550 billion of long-term funds.

In April 2020, the one-year LPR was further lowered by 20 basis points to 3.85% from 4.05% in February, and the five-year LPR was cut by 10 bps to 4.65% from 4.75% that reduced borrowing costs and mortgage prices. The PBOC will continue to adopt a flexible monetary policy in the second half of 2020 amid the impact from the COVID-19 pandemic with its wide range of tools at its disposal to boost credit and lower funding costs.

China GDP & Real GDP Growth (y-o-y %)



China Quarterly GDP Growth



Source: Oxford Economics, CBRE, National Bureau Statistics of China

The service sector has been displaying a steady growth as a pillar industry of the new economic growth model over the past decade. The Central Government introduced a series of policy guidelines to boost the development of the service sector covering areas from telecommunications, healthcare, tourism, engineering, finance and legal services, ensuring it to maintain its current momentum. The current geographical imbalance in economic growth will continue, with regions suffering most from overcapacity and population outflows, such as provinces in the country's North East, set to continue to underperform.

In terms of the GDP structure, the primary industry includes agriculture, forestry, animal husbandry and fishery sectors accounts for approximately 6% of total GDP outputs; the secondary industry includes mining industry, manufacturing, electricity, gas and water production and supply industry as well as the construction industry, collectively accounts for 38% of total GDP outputs; the tertiary industry comprised of wholesale and retail trades, transportation, storage and post, financial institutions, real estate, accommodation and catering services industry accounts for 57% of total outputs.

ECONOMIC INDICATORS	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	1H 2020
GDP Growth (annual %)	10.6%	9.5%	7.7%	7.7%	7.3%	6.9%	6.7%	6.9%	6.6%	6.1%	–1.6%
Population (Million)	1,340	1,347	1,354	1,360	1,367	1,374	1,382	1,390	1,395	1,400	1,400
Inflation, Consumer Prices	3.3%	5.4%	2.6%	2.6%	2.0%	1.4%	1.8%	1.6%	2.1%	2.9%	2.7%^
Unemployment Rate	4.10%	4.10%	4.10%	4.10%	4.10%	4.10%	4.11%	4.12%	4.1%	4.1%	6.2%*
Export (Billion RMB)	10,702	12,324	12,936	13,713	14,388	14,126	15,987	16,923	16,420	17,230	7,713
Import (Billion RMB)	9,470	11,316	11,480	12,104	12,036	10,449	14,436	15,091	14,090	14,310	6,524

Source: Oxford Economics, National Bureau of Statistics, China General Administration of Customs

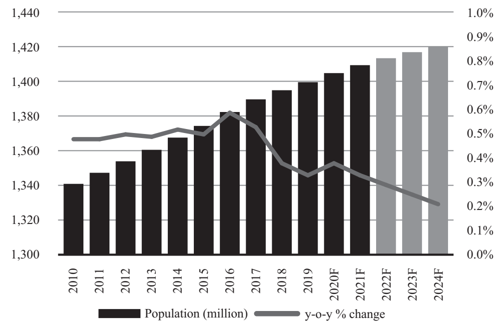
^July 2020; *June 2020

Population and Employment

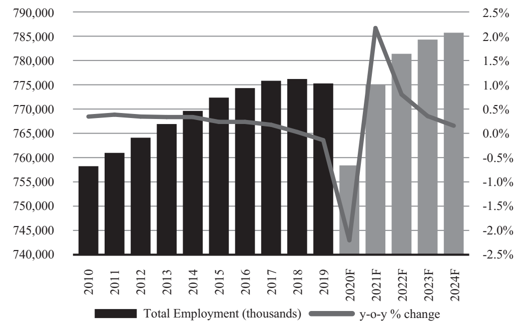
According to the United Nation's World Population Prospect Report, the current population of China is approximately 1.41 billion compared with 1.34 billion in India. In 2024, both countries are expected to have roughly 1.44 billion of population. Thereafter, the population of China is expected to remain stable until the 2030s, after which it may begin a slow decline. The slowing population growth is expected to affect the future supply of labour force and may decelerate the growth of employment.

Due to the uncertainties stemmed from the COVID-19 pandemic, the Central Government has abandoned the country's annual economic growth target. The gloomy economic outlook would see fewer new job opportunities generated by businesses. A survey-based unemployment rate of the population aged from 25 to 59 in June stood at 5.2%. Unemployment rate in city hovered between 3% to 4% over the past decade.

China Population Growth Trend



China Total Employment Growth Trend



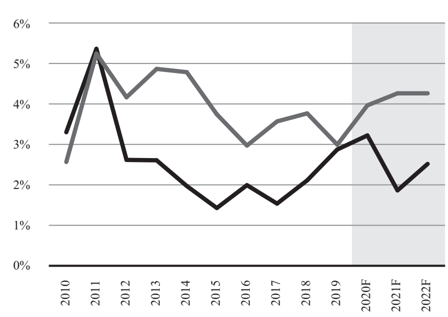
Source: Oxford Economics, CBRE, Bureau Statistics of China

Consumer Price Index

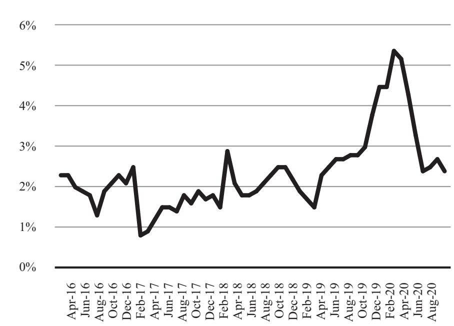
China's CPI stood at 2.4% y-o-y in August, marking the lowest since May this year. The food price inflation grew by 11.2% y-o-y, remained as the main factor driving up the overall CPI in July. By type of consumer good, the prices of medical products rose by 1.5 % y-o-y, jewellery increased by 15.3% y-o-y, transportation and communications prices fell 3.9% y-o-y; gasoline and diesel prices fell 14.5% y-o-y.

A further ramp-up in fiscal stimulus is expected to shore up infrastructure spending in the coming months, supporting the recovery of economic activities. China's consumer price is expected to hover at 3% for the whole of 2020, meanwhile the short-term interest rate will remain at around 4%, according to the forecast by Oxford Economics.

China Short Term Interest Rate & CPI



China Monthly Consumer Price Index



Source: Oxford Economics, CBRE, National Bureau Statistics of China

Retail Sales

Consumption was heavily hit during the COVID-19 outbreak under the shortened business hours in shopping malls, and temporarily closed down of stores, the footfall in brick-and-mortar retail assets fell drastically during the period. The steady decline in COVID-19 infection cases coupled with the implementation of stimulus measures provided support to domestic consumption. In Q2 2020, China's retail sales fell by 3.9% y-o-y, compared to the 19% y-o-y decline recorded in the previous quarter.

In the first eight months of 2020, China's retail sales of consumer goods reached RMB20,664 billion, down by 8.6% y-o-y. By sector, daily necessities, grains/oils, beverages increased by 6.3%, 11.0%, 10.9%, respectively. Other consumer goods such as clothing and garments, accessories and jewelleries, electronic appliances decreased by 15.0%, 15.6%, and 9.0% y-o-y, respectively.

As society returns to normal in China, retail sales has picked up significantly, especially in the e-commerce sector as COVID-19 has accelerated consumer's appetite to purchase online. Retail sales during this year's 'Double 11' online shopping festival in Mainland China set a new record, with the country's major e-commerce platforms reporting RMB 760 billion worth of sales on November 11, an increase of 63% y-o-y on last year's figure. A total of 2,321 million individual logistics orders were received, a rise of 80% y-o-y.

Double 11 sales revenue and logistics orders 2020 vs 2019

	2019	**2020**
Double 11 sales (RMB100 million)[1]	4,728	7,697
Number of logistics orders (100 million)[2]	12.92	23.21

Notes:

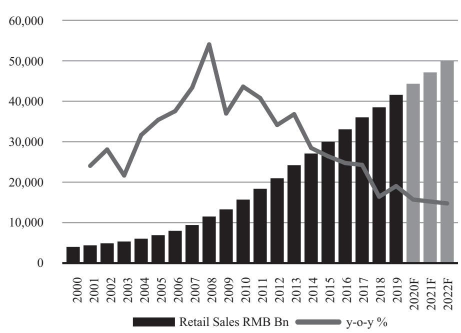
1. Total sales on Tmall and JD.com

2. Number of logistics orders announced by Cainiao

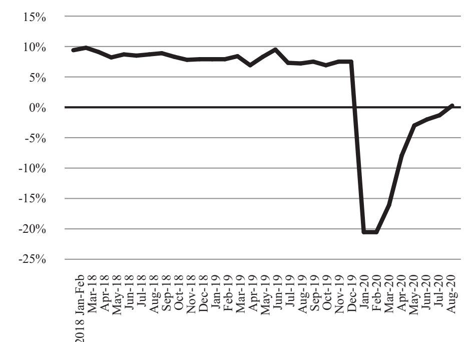
This year's strong sales confirm the recovery of Mainland China's retail market, which has been supported by the containment of the pandemic, the improving economic outlook, 'revenge spending' by consumers and the localisation of consumption.

Household disposable income in China has been growing consistently over recent years and is expected to continue in the coming years. McKinsey & Company predicts the number of "upper middle-class" Chinese (individual annual income between RMB106,000 and RMB229,000) will increase tremendously in the coming decade — 54% of China's urban consumers will be regarded as "upper middle-class" by 2022.

China Retail Sales Growth



China Monthly Retail Sales Growth (y-o-y %)



Source: Oxford Economics, CBRE, National Bureau Statistics of China

The income gap between urban and rural residents continued to narrow. In 2019, the annual disposable income per capita of urban residents was RMB42,359, grew by 7.9% y-o-y; the annual disposable income per capita of rural residents was RMB16,021, went up 9.6% in real terms.

Likewise, the nationwide annual private consumption expenditure continued to show steady increase supported by the corresponding income growth, the consumption expenditure per capita was RMB21,559, up by 8.6% y-o-y and 5.5% after eliminating price factor. Consumption expenditure per capita in urban household stood at RMB28,063, up by 7.5% y-o-y and 4.6% y-o-y after price factor.

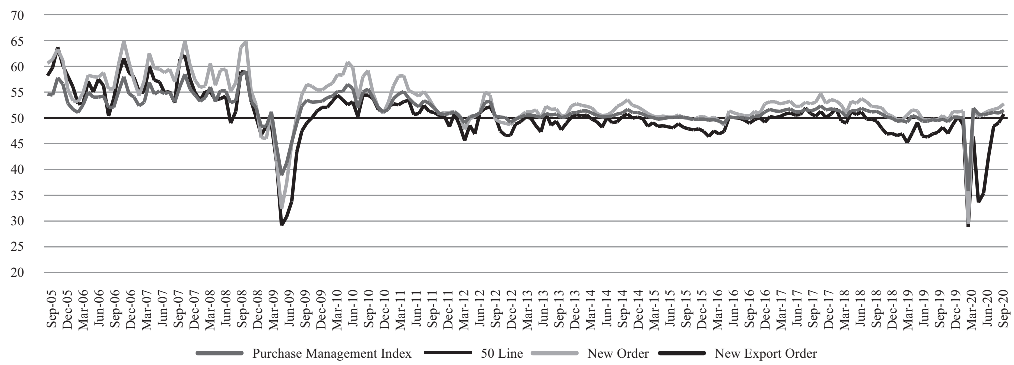
Purchasing Managers Index

China's manufacturing headline Purchasing Managers Index (PMI) recovered gradually, after increasing for two consecutive months, the PMI grew slightly from 51.0 in August to 51.5 in September, staying slightly above the contractionary zone of 50-mark under the stimulus measures. The new order index edged up from 52.0 in August to 52.8 in September, while new export order climbed from 49.1 to 50.8 amid a recovering business sentiment after the peak of COVID-19 cases.

By size of enterprises, the PMI of all three enterprises scales stayed above the critical 50-mark. In September, PMI of large enterprises edged up slightly to 52.5 by 0.5pts, and medium enterprises registered 50.7, down by 0.9pts from the previous month in August. While the PMI of 'small enterprises' saw an increase of

2.4 pts to 50.1. Out of the 13 sub-indices, 6 indices recorded a growth compared to the previous month in August. The supplier distribution time index was 50.4 percent, unchanged from last month, but still stayed above the threshold, indicating that the delivery time of raw material suppliers in manufacturing industry has been accelerated continually. In addition, production and business activities expectation index increased from 57.8 to 58.6 from last month in August, reflected an improved view on the future production activities.

China Manufacturing PMI, New Order & New Export Order Sub-Indices

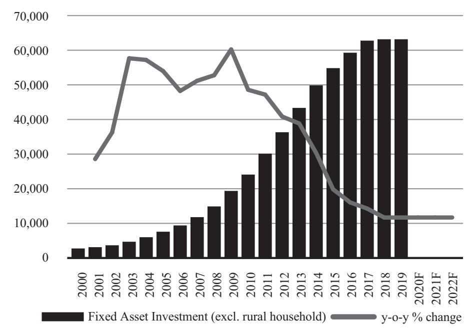


Fixed Asset Investment

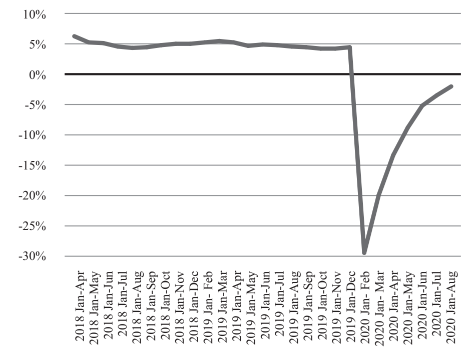
Investment plays a key role on economic growth. The new development model of mass entrepreneurship and innovation continued to gain momentum in recent years. The State Council issued guidelines covering emerging sectors of strategic importance during the 13th Five-Year Plan period (2016–2020). The guidelines aim to improve the output of these sectors which include information technology, bio-industry, new energy vehicles, and digital and creative industry. The State Council has set a target of increasing these industries' share of GDP from 8% in 2015 to 15% by 2020 by providing policy support on tax, financing and administrative regulations. The government is expected to leverage fiscal stimuli such as local government bonds to boost infrastructure investment and stabilise economic growth in 2020.

As business and economic sentiment was severely affected by the COVID-19 in the beginning of 2020, investment in fixed assets (excluding rural households) declined by 0.3% y-o-y to RMB37.9 billion in the first eight months of 2020. The decline narrowed by 1.3 percentage points compared to the January to July period. By industry, the investment in the primary industry recorded RMB1,106.3 billion, up by 11.5% y-o-y. Investment in the secondary industry fell by 4.8% y-o-y to RMB11.2 trillion, while tertiary industry investment up by 1.4% y-o-y to RMB25.6 trillion.

China Fixed Asset Investment



China Monthly Fixed Asset Investment (y-o-y %)



2.4.2 *Curtain Wall Industry in the PRC*

The use of curtain wall began at the beginning of the 20th century. Curtain wall system is the exterior enclosing structure of the building that shields its occupants from any natural discomforts. Curtain wall are placed within the building and do not support any structural weight of the building; it is generally made of aluminium, glass, granite and other cladding materials.

Curtain wall systems are widely used in today's building structures due to the reduction of construction period and costs, lightweight, simplified temporary construction, and strong performance:

- Reduced construction period and cost — in the early stages of a construction project, while the foundation and structure of the building is being constructed, curtain walls are manufactured simultaneously in the factory, and immediately transported and installed after the building structure is completed to significantly reduce the time and cost of the whole construction process.

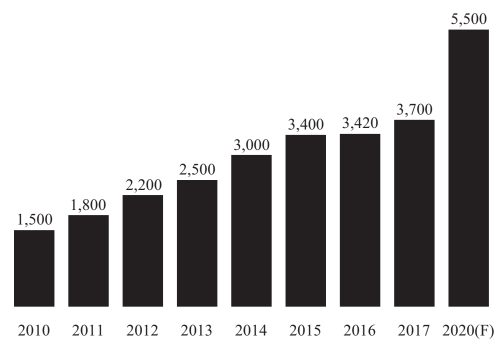
- Lightweight — compared to other external materials such as cast-in-place concrete and bricks, curtain wall system is lighter, reducing the weight of building and saving considerable costs required for the construction of foundation or structure.

- Simplified temporary construction — the curtain wall system allows construction without large machineries, making it possible to simplify temporary construction.

- Strong performance — the curtain wall system has a good control function, which can be used as a filter to adjust and isolate all external impacts affecting the indoor environment.

Curtain wall is widely used in the present day, and could be seen in various forms, especially in most urban landmark buildings. By asset class, commercial buildings dominates the usage of curtain wall systems, representing 66.8% of the total curtain wall consumption in China, followed by public buildings representing 30.1%, high-end residential buildings accounts for the smallest proportion with approximately 3.1%. The diagram below shows the total output value of external wall and curtain wall engineering industry in the PRC:

Total output value and forecast of curtain wall projects in the PRC, 2010–2020 (RMB100 million)



Source: The Analysis Plan on the Outlook and Investment Strategic Planning for Curtain Wall Industry in the PRC (《中國建築幕牆行業前瞻與投資戰略規劃分析計劃》)

The total output value of curtain wall projects in the PRC increased from RMB150 billion in 2010 to approximately RMB370 billion in 2017. Considering that more and more commercial and residential buildings need to upgrade its external wall and integrates new curtain wall system, the demand for curtain wall system will continue to increase. The Chinese government has set out a number of regulations and standards to promote more energy efficiencies in buildings, namely the "13th Five-Year Development Plan for the Building Decoration Industry" (《建築裝飾行業「十三五」發展規劃綱要》) which promotes the adoption of green buildings. It is estimated that by 2020, as green buildings are expected to represent 50% of new developments, the scale of the construction market will grow to RMB550 billion. As a result of the government's initial of developing green buildings, the application and implementation of more energy efficient curtain wall systems will continue to accelerate. Today, we have seen various innovations in curtain wall systems, such as low-radiation glass, that can reduce heat loss and air leakage, thereby achieving the requirements of energy savings.

The development of curtain wall industry

The curtain wall industry has experienced three stages of transformation. The first-generation curtain wall refers to the curtain wall applied from the early 1970s to the late stage. Most of them are exposed frame supported curtain wall with columns, beams and panels that were being installed on site.

The second-generation curtain wall refers to the curtain wall applied from the early 1980s to the mid-1990s. It is represented by unitized curtain wall, a frame supporting curtain wall composed of pre-fabricated panels. It can be manufactured, produced and assembled in the factory and subsequently sent to the construction site for installation. The development of the second-generation unitized curtain wall has greatly reduced construction costs.

The third-generation curtain wall refers to the curtain wall applied after the mid-1990s, mainly the unitized curtain wall with energy saving, new technology application and diversified functions. With the advancement of technology, new materials, new processes and new methods are gradually applied to the construction industry, which allows buildings to be equipped with smart facilities, security protection, data transmission and communications facilities. In addition, the use of more waterproof and insulation materials in building materials, the novel design in walls, and the energy development and utilization in buildings are also reflective of the progress in science and technology.

The development of passive curtain wall

The Chinese government is placing more importance to developing green buildings. China's National New Urbanization Plan (2014–2020) (《國家新型城鎮化規劃(2014–2020)》) sets a target of green buildings accounting for more than 50% of newly established buildings in cities and towns by 2020. The Opinions of the CPC Central Committee and the State Council on Accelerating the Ecological Civilization Construction on Accelerating the Construction of Ecological Civilization (《關於加快推進生態文明建設的意見》) requires the vigorous development of green buildings and the implementation of energy efficiency improvement plans for key industries, setting forth new tasks and requirements for promoting urban and rural construction.

As the Chinese government has increased the standards and requirements for building more sustainable buildings, passive house is an excellent solution to achieve this requirement. Referred to as "Passivhaus" in German, this construction concept focuses on airtight insulation to create a living space that does not require additional heating or cooling. Passive house buildings can reduce heat loss significantly with the potential to use up to 90% less energy than traditional current buildings. Not only can it provide a high comfort standard for internal occupants, it can achieve what traditional curtain wall systems can with significant less consumption of energy.

According to the Passive House Institute China, for a building to be considered a Passive House, it must meet the following criteria:

- The Space Heating Energy Demand is not to exceed 15 kWh per square meter of net living space (treated floor area) per year or 10 W per square meter heat load for space heating. In climates where active cooling is needed, the Space Cooling Energy Demand requirement roughly matches the heat demand requirements above, with a slight additional allowance for dehumidification.

- In climates where active cooling is needed, the space cooling energy demand requirement roughly matches the heat demand requirements above, with an additional allowance for dehumidification.

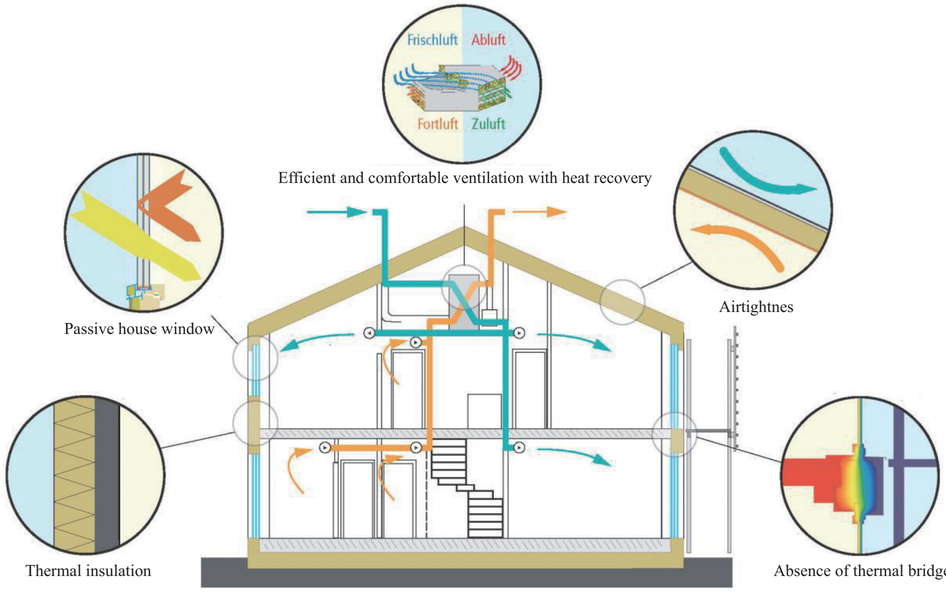
- The Primary Energy Demand, the total energy to be used for all domestic applications (heating, hot water and domestic electricity) must not exceed 120 kWh per square meter of treated floor area per year.

- In terms of Airtightness, a maximum of 0.6 air changes per hour at 50 Pascals pressure (ACH50), as verified with an onsite pressure test (in both pressurized and depressurized states).

- Thermal comfort must be met for all living areas during winter as well as in summer, with not more than 10 % of the hours in a given year over 25°C. For a complete overview of general quality requirements.

- Passive houses are planned, optimized and verified with the Passive House Planning Package (PHPP).

- All of the above criteria are achieved through intelligent design and implementation of the 5 Passive House principles: thermal bridge free design, superior windows, ventilation with heat recovery, quality insulation and airtight construction.



Source: Passive House Institute China

Thermal insulation — All opaque building components of the exterior envelope of the house must be very well-insulated. For most cool-temperate climates, this means a heat transfer coefficient (U-value) of 0.15 W/(m^2K) at the most, i.e. a maximum of 0.15 watts per degree of temperature difference and per square metre of exterior surface are lost.

Passive House windows — The window frames must be well insulated and fitted with low-e glazings filled with argon or krypton to prevent heat transfer. For most cool-termperate climates, this means a U-value of 0.80 W/(m^2K) or less, with g-values around 50% (g-value= total solar transmittance, proportion of the solar energy available for the room).

Ventilation heat recovery — Efficient heat recovery ventilation is key, allowing for a good indoor air quality and saving energy. In Passive House, at least 75% of the heat from the exhaust air is transferred to the fresh air again by means of a heat exchanger.

Airtightness of the building — Uncontrolled leakage through gaps must be smaller than 0.6 of the total house volume per hour during a pressure test at 50 Pascal (both pressurised and depressurised).

Absence of thermal bridges — all edges, corners, connections and penetrations must be planned and executed with great care, so that thermal bridges can be avoided. Thermal bridges which cannot be avoided must be minimised as far as possible.

According to the website "Passive House Accelerator" which promotes Passive House concept, Michael Ingui, an architect, introduced the advantages of Passive House, where he pointed out that passive doors and windows:

- reduced energy cost (i.e. heating and cooling) by up to 80–90%;
- have filtered fresh air 24/7 regardless of whether your windows and doors are open or closed;
- prevent bacteria and are sealed from bugs, critters, dust and allergens;
- have significantly less outside street noise;
- the path towards fulfilling the requirements of zero net emission.

Competitive landscape of curtain wall industry in the PRC

With the explosive growth of curtain wall industry in China, competition within the industry is increasingly fierce. On one hand, companies from other sectors, such as real estate developers, is entering into the industry; on the other hand, leading curtain wall companies is expanding into different business lines, such as interior design. Currently, the competitive nature of the curtain wall industry can be segregated into three groups:

Group	Representing company	Enterprise characteristics	Future trends
1	江河創維 (Jangho Chuangwei*), Yuanda China	The first group is dominated by several leaders in the industry with a scale of hundreds of millions and core competitiveness in the national and even the global market. These enterprises are relatively large-scaled, complete set of technologies, scale management and deep talent reserve.	As the curtain wall industry continues to grow, the leading companies of the first camp will remain its high-scale growth.
2	Gold Mantis, YASHA, CSCEC	The second group is dominated by curtain wall subsidiaries of large construction or decoration enterprises. These subsidiaries rely on the parent company and tap into the curtain wall business from the construction or decoration industry.	Relying on the resources and funds of the parent company, it will become an important force that shall not be neglected in the curtain wall industry in the future.
3	振華幕牆 (Zhenhua Curtain*), 凱庭幕牆 (Kaiting Curtain*)	The third group is dominated by small and medium-sized enterprises in regional markets and segmented fields, and enterprises engaging in minor works. These enterprises have strong sensitivity and quick response to the market. Their advantage lies in their flexibility.	As the labour costs gradually increase, the cost competitive advantage of small and medium-sized curtain wall companies will gradually be weakened, and their market space will gradually be squeezed.

Source: The Analysis Plan on the Outlook and Investment Strategic Planning for Curtain Wall Industry in the PRC (《中國建築幕牆行業前瞻與投資戰略規劃分析計劃》)

Barriers to entry

In order to perform curtain wall construction and design contracts in China, companies must obtain appropriate licenses. There are currently three levels of license for curtain wall construction and design, and a contractor must have sufficient experience, skilled employees, and track records in order to obtain the license. As the level of license progresses, so do the requirements. With the curtain wall industry becoming saturated, getting approval from regulators is increasingly difficult.

3 ASSESSMENT METHODOLOGIES

According to International Valuation Standards (2020), in selecting the most appropriate valuation approach, consideration must be given to the relevant and appropriate valuation approaches. There are three common valuation approaches, namely, the asset-based approach, the market approach and the income approach.

Asset-based Approach

The application of the asset-based approach begins with a company's financial statements. Necessary and appropriate adjustments are made to book values to reflect the fair value of the company.

The asset-based approach measures the value of the business entity by making reference to the value of individual assets and liabilities. Adjustments are made to the balance sheet based on the differences between the fair value and book value of the assets and liabilities. The net asset value from the adjusted balance sheet represents the fair value of the business entity.

Market Approach

The market approach considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised intangible assets relative to the market comparative.

There are two major methods under the market approach to determine the fair value of the equity interest, namely, (i) Guideline Public Company Method; and (ii) Guideline Transaction Method.

- Guideline Public Company Method — Under the Guideline Public Company Method, the equity value is derived from the use of valuation metrics from publicly traded companies that are deemed suitably comparable to the Target Company. Valuation metrics that are widely used in business valuation includes P/E, P/B, P/S and EV/EBITDA.

- Guideline Transactions Method — Under the Guideline Transaction Method, the equity value is derived from the acquisition multiple which is based on what other purchasers in the market have paid for companies that are considered reasonably similar to the Target Company.

Income Approach

The income approach derived the fair value through discounting the future economic benefits the company anticipates will receive in the future by taking into account of their risk. The risk is expressed as the required rate of return of the company.

3.1 Selection of Valuation Approach

Asset-based approach

Taking into account of the Target Company's business operations, it does not require significant investments in physical assets to generate revenue. The value of the Target Company depends on its future earning capabilities, therefore, the fair valuation of its assets and liabilities alone does not reflect the Target Company's ability to generate future profits. As a result, the asset-based approach was not selected.

Market Approach

The Target Company's core business operation is performing curtain wall and various other building-related construction projects in China. Our industry research showed that there are a number of China and Hong Kong-listed comparable companies with large business scale, positive net income, generate sustainable cash flow and have appropriate licenses to operate curtain wall construction projects in China. In light of the Target Company's ability to generate future earnings, using a Price-to-Earnings Ratio ("P/E Ratio") is appropriate. Therefore, we adopted the market approach as there are enough comparable companies for use in assessing the fair value of the Target Company.

Guideline Public Company Method was selected as we have identified a set of suitable comparable companies with similar business model, with positive net income, and have appropriate licenses to perform curtain wall construction projects in China. Details of the comparable companies' financial information are publicly available.

Guideline Transactions Method was not selected as it is difficult to identify recent transactions where the acquisition targets are comparable to the Target Company. In addition, details of acquisition transactions are usually not publicly available information.

Income Approach

The Income Approach was used internally for the purpose of cross-checking. Under Income Approach, the reasonableness of the equity value hinges on various assumptions and projections, which is difficult to verify and subject to economic and geo-political risks that is difficult to predict and control. Therefore, the Income Approach was not adopted to determine the fair value of the Target Company.

In summary, Market Approach — Guideline Company Method was adopted to value the Target Company.

3.2 Market Approach — Guideline Public Company Method Procedure

3.2.1 *Selection of Comparable Companies*

Comparable companies were selected based on the following criteria:

- Publicly listed company in Mainland China or Hong Kong;
- Positive net income in the last twelve months;
- Major business operation is in curtain wall design and construction; and
- Holds appropriate construction licenses that can perform curtain wall construction in China.

Based on our research, nine comparable companies were identified. Within the nine comparable companies, three comparable companies were outliers and therefore not considered in the valuation as their P/E ratio was significantly higher and/or lower than the other comparables.

After removing the outliers, six comparable companies were identified for our valuation:

Bloomberg Ticker	Company Name
002081 CH	Suzhou Gold Mantis Construction Decoration Co Ltd
002620 CH	Shenzhen Ruihe Construction Decoration Co Ltd
603030 CH	Shanghai Trendzone Construction Decoration Group Co Ltd
200055 CH	China Fangda Group Co Ltd
601886 CH	Jangho Group Co Ltd
1897 HK	Million Hope Industries Holdings Ltd

3.2.2 ***Valuation Multiple***

The P/E Ratio was adopted as the valuation metric to derive the equity value of the Target Company. P/E Ratio is a commonly adopted valuation metric for relative valuation in this industry.

Bloomberg Ticker	P/E ratio
002081 CH	12.55
002620 CH	21.73
603030 CH	18.94
200055 CH	12.16
601886 CH	31.63
1897 HK	10.62

Based on the P/E Ratios above, we have adopted an average earnings multiple of 17.94 in our valuation.

3.2.3 ***Valuation Inputs***

The key input in market approach, specifically using the P/E Ratio, is the earnings of the Target Company. We have adopted the trailing 12-month net income of the Target Company as at 31 August 2020 based on the audited financial statements provided by the Management, which is RMB 12,001,000.

3.2.4 ***Control Premium***

The controlling interest in a company can be a distinct advantage as controlling shareholders can make discretionary decisions on behalf of shareholders. Therefore, the controlling interest value in a company is usually higher than the minority interest, as minority shareholders have little influence in key decisions and are subject to risk and decisions that might not be beneficial to them.

In this transaction, although the Purchaser will only own 34% equity interest of the Target Company, according to the terms of the Sale and Purchase Agreement entered into by the Vendor and Purchaser, the Target Company will form a board of directors in which four out of seven board seats will be represented by the Purchaser. The Purchaser therefore obtains control over the Target Company through a majority representation on the board.

In this valuation, we are of the view that applying 10% control premium is reasonable.

3.2.5 *Discount for Lack of Marketability*

The concept of marketability deals with the liquidity of an ownership interest, that is, how quickly and easily it can be converted to cash if the owner chooses to sell. The lack of marketability discount reflects the fact that there is no ready market for shares in a closely held corporation. Ownership interests in closely held companies are typically not readily marketable compared to similar interests in public companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company.

In this valuation, we are of the view that applying 30% discount for lack of marketability is reasonable.

4 SOURCES OF INFORMATION AND PRINCIPAL ASSUMPTIONS

Our investigation covers the discussion with the Company and the Target Company's representatives, collecting the information about the Target Company's history, operations and prospects of the business. We requested detailed information about the Target Company's position in order to conduct a detailed review and make an independent valuation. We assume that the data obtained in the course of the valuation, along with the opinions and representations provided to us by the Target Company are prepared in reasonable care.

Sources of information include but not limited to:

- Latest available historical financial statements of the Target Company;
- Financial projections of the Target Company;
- Explanations provided by the Target Company with regard to the information provided and the assumptions underlying the financial projections;
- Agreements; and
- Relevant market data from Bloomberg.

The factors considered in this valuation included, but were not limited to, the following:

- The nature and history of the valuation subject and the assets being held;
- The financial conditions of the valuation subject;
- The terms and conditions of relevant contracts and agreements;
- The economic conditions and the industry outlooks in general;
- The specific economic environment and competition of the valuation subject;
- Market-derived investment returns of entities engaged in similar lines of business; and
- The financial and business risks of the valuation subject.

The general assumptions considered in this valuation included, but were not limited to, the following:

- There will be no material changes in the existing political, legal, fiscal or economic conditions in which the valuation subject is carried or plans to be carried on;
- The valuation subject will continue to operate as a going concern basis;
- There will be no material changes as to the Management, business strategies and operations of the valuation subject;
- There will be no material changes, after the date of this report, in the relevant corporate tax rates, interest rates and exchange rates which would impact the value of the valuation subject;
- There are no undisclosed actual or contingent assets or liabilities, no unusual obligations or substantial commitments, other than in the ordinary course of business and as reflected in the financials, nor any litigation pending or threatened, which would have a material impact on the value of the valuation subject; and
- Responsible ownership and competent management are assumed.

5 VALUATION RESULTS

The valuation has been conducted based on generally-accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, which not all of which can be easily quantified or ascertained. While the assumptions and consideration of such matters are considered to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company and/or CBRE Limited.

In accordance with the purpose and scope of our engagement set out in Section 1, and subject to the limitation of our work set out in Section 6, source of information and principal assumptions set out in Section 4, based on the methodology adopted as outlined in Section 3, we are of the opinion that the fair value of the 100% equity interest in the Target Company as at 31 August 2020, free from any encumbrances, is **RMB165,000,000** (**RENMINBI ONE HUNDRED SIXTY FIVE MILLION ONLY**).

We hereby certify that we have neither present nor prospective interests in the Company or the values reported.

Yours faithfully,
For and on behalf of
CBRE Limited

Jazz Chow *MBA, LLB, CFA, FRM*
Director
Valuation & Advisory Services

Note: Jazz Chow is a Chartered Financial Analyst and Financial Risk Manager with more than 15 years of extensive business valuation and advisory experience

6 LIMITING CONDITIONS

The primary assumptions and limiting conditions pertaining to the value estimate conclusion(s) stated in this report are summarized below. Other assumptions are cited elsewhere in this report.

- Unless otherwise stated in this report, the valuation of the business has not considered or incorporated the potential economic gain or loss resulting from contingent assets, liabilities or events existing as at the Valuation Date.

- The Management is assumed to be competent, and the ownership to be in responsible hands, unless otherwise noted in this report. The quality of the business management can have a direct effect on the viability and value of the business/asset being assessed.

- Unless otherwise stated, no effort has been made to determine the possible effect, if any, on the subject business because of future country, provincial or local legislations/ regulations, including any environmental or ecological matters or interpretations thereof.

- All facts and data set forth in our report are true and accurate to the best of our knowledge and belief. No investigation of legal fees or title of the business has been made, and the owner's claim to the business has been assumed valid. No consideration has been given to liens or encumbrances that may be against the business except as specifically stated (if any) in the auditors' report.

- During the course of the valuation, we have considered information provided by the Company and other third parties. We believe these sources to be reliable, but no further responsibility is assumed for their accuracy. We have had verbal conversations with the current management of the Company concerning the past, present, and prospective operating results of the Company. We assume that there are no hidden or unexpected conditions associated with the businesses that might adversely affect the reported value.

- This valuation is based upon data, conditions, hypotheses and assumption stated herein and as presented to us by the Company and other third parties, upon which we relied.

- This appraisal reflects facts and conditions existing at the Valuation Date. Subsequent events have not been considered, and we have no obligation to update our report for such events and conditions. We have no responsibility or obligation to update this report for events or circumstances occurring subsequent to the Valuation Date.

7 APPENDIX — COMPARABLE COMPANIES

Ticker	Company Name	Company Description
002081 CH	Suzhou Gold Mantis Construction Decoration Co Ltd	Suzhou Gold Mantis Construction Decoration Co., Ltd. designs and constructs hotels, office buildings, hospitals, stadiums and other public buildings.
002620 CH	Shenzhen Ruihe Construction Decoration Co Ltd	Shenzhen Ruihe Construction Decoration Company Limited is a full service construction company. The Company undertakes decorative works on hotel, office building, theater, subway and other public constructions, as well as renovation and construction projects on high-end residentials.
603030 CH	Shanghai Trendzone Construction Decoration Group Co Ltd	Shanghai Trendzone Construction Decoration Group Co., Ltd. offers an integrated solution to renovation by offering a complete set of capabilities, ranging from construction, architectural design, furniture manufacturing, to architectural technology.
200055 CH	China Fangda Group Co Ltd	China Fangda Group Co., Ltd. develops, manufactures and markets new building materials and semiconductor products. The company's main products include: curtain walls, aluminum-plastics composite panels, single aluminum panels, energy-saving and environment-friendly doors and windows, blue and white LED, laser LD and full color screen, etc.
601886 CH	Jangho Group Co Ltd	Jangho Group Co., Ltd offers engineering construction services. The Company provides curtain wall engineering and interior decoration services. Jangho Group also conducts health care businesses.
1897 HK	Million Hope Industries Holdings Ltd	Million Hope Industries Holdings Limited and its subsidiaries principally engage in the design, supply and installation of facade and curtain wall systems, with a focus on curtain walls, aluminium windows and doors, with an operating history of over 20 years in Hong Kong.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES

(a) Directors' and chief executives' interests and short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations

Save as disclosed below, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of SFO); or were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or were required, or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, to be notified to the Company and the Stock Exchange:

Long position in the Shares

Name	**Capacity**	**Number of Shares held**	**Approximate percentage of interest**
Mr. Cui Qi *(Note)*	Interest in controlled corporation	102,000,000	12.75%

Note: The 102,000,000 Shares are held by Sky Hero Global Limited which is wholly owned by Solid Jewel Investments Limited, which is in turn owned as to 60% by Mr. Cui Qi. Therefore, Mr. Cui Qi is deemed to be interested in the 102,000,000 Shares held by Sky Hero Global Limited pursuant to the SFO.

Long position in the shares of associated corporations of the Company

Name	Associated corporations	Capacity	Approximate percentage of interest
Mr. Cui Qi	Solid Jewel Investments Limited	Beneficial owner	60.00%
Mr. Cui Qi	Sky Hero Global Limited	Interest in controlled corporation	100.00%

(b) Substantial Shareholders' interests and other persons' interests and short positions in Shares and underlying Shares

As at the Latest Practicable Date, the following persons had, or were deemed to have, interests or short positions in the Shares or underlying shares of the Company as recorded in the register kept by the Company pursuant to section 336 of the SFO which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long position in the Shares and underlying Shares

Name of shareholder	Capacity	Number of Shares held	Approximate percentage of interest
Qingdao West Coast Holdings (Internation) Limited *(Note 4)*	Beneficial owner	600,000,000	75.00%
West Coast Investment (Hong Kong) Limited *(Note 1)*	Interest in a controlled corporation	600,000,000	75.00%
West Coast Holdings (Hong Kong) Limited *(Note 1)*	Interest in a controlled corporation	600,000,000	75.00%
Qingdao West Coast Holding Development Limited* 青島西海岸控股發展有限公司 *(Note 1)*	Interest in a controlled corporation	600,000,000	75.00%

Name of shareholder	**Capacity**	**Number of Shares held**	**Approximate percentage of interest**
Qingdao West Coast Development (Group) Limited* 青島西海岸發展(集團)有限公司 *(Note 1)*	Interest in a controlled corporation	600,000,000	75.00%
Qingdao State-owned Assets Supervision and Administration Commission of the State Council	Interest in a controlled corporation	600,000,000	75.00%
Sky Hero Global Limited	Beneficial owner	102,000,000	12.75%
Solid Jewel Investments Limited *(Note 2)*	Interest in a controlled corporation	102,000,000	12.75%
Ms. Mu Zhen *(Note 3)*	Spouse interest	102,000,000	12.75%

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 were directly and beneficially owned by Qingdao West Coast Holdings (Internation) Limited.

2 Solid Jewel Investments Limited was deemed or taken to be interested in all the Shares which were beneficially owned by Sky Hero Global Limited under the SFO. Sky Hero Global Limited was wholly owned by Solid Jewel Investments Limited.

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

4 The interest in Shares held by Qingdao West Coast Holdings (Internation) Limited included the 102,000,000 Shares held by Sky Hero Global Limited which were charged in favour of Qingdao West Coast Holdings (Internation) Limited.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any persons (other the Directors or chief executive of the Company) who had any interest or short position in the Shares, underlying Shares which would be required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO or was directly or indirectly, interested in 10% or more of the issued voting shares of other member of the Group carrying rights to vote in all circumstances at general meetings of the Group or had options in respect of such capital.

3. DIRECTORS' INTERESTS IN CONTRACTS

(a) As at the Latest Practicable Date, none of the Directors was interested, directly or indirectly, in any assets which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2019 (being the date to which the latest published audited consolidated results of the Group were made up).

(b) As at the Latest Practicable Date, there was no contract or arrangement subsisting in which any Director was materially interested and which was significant in relation to the business of the Enlarged Group.

4. COMPETING INTERESTS OF DIRECTORS

As at the Latest Practicable Date, Mr. Cui Qi and his spouse, Ms. Mu Zhen held the entire equity interest in Shenzhen Changsheng Marine Engineering Limited* (深圳長盛海事工程有限公司), a company established in the PRC, which is principally engaged in leasing of vessels and equipment, dredging and excavation, trading and sale of building materials, machinery and equipment, port cargo transport and port and costal engineering. Therefore, Mr. Cui Qi is considered to have interest in the business which competes or is likely to compete, either directly or indirectly, with the business of the Group pursuant to the Listing Rules.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2019, (i) acquired or disposed of by; or (ii) leased to; or (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to, any member of the Group.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which does not expire or is not terminable by such member of the Group within one year without payment of compensation (other than statutory compensation).

6. MATERIAL CONTRACTS

Set out below are the contracts (not being contracts entered in the ordinary course of business) entered into by any member of the Group within two years immediately preceding the Latest Practicable Date which are or may be material:

(1) the Sale and Purchase Agreement; and

(2) the sale and purchase agreement dated 23 September 2019 entered into among (a)青島西發瑞海實業發展有限公司 (Qingdao Xifa Ruihai Industrial Development Co. Ltd.*) as purchaser, (b) 于華毅 (Yu Huayi*), 牟文樂 (Mou Wenle*), 牟麗萍 (Mou Liping*), 邴起宏 (Bing Qihong*), 丁培增 (Ding Peizeng*), 王金升 (Wang Jinsheng*), 董良玉 (Dong Liangyu*), 國得義 (Guo Deyi*), 季進亮 (Ji Jinliang*), 楊麗紅 (Yang Lihong*), 程顯祥 (Cheng Xianxiang*), 孫艦 (Sun Jian*), 孫曉林 (Sun Xiaolin*), 郭立敏 (Guo Limin*) and 李沖 (Li Chong*) as vendors and (c) the Purchaser in relation to the acquisition of 80% equity interest in the Purchaser at a consideration of approximately RMB71.4 million.

7. LITIGATION

To the best of the Directors' knowledge, information and belief, no member of the Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened against any member of the Group as at the Latest Practicable Date.

8. EXPERTS' QUALIFICATIONS AND CONSENTS

The following are the qualifications of the experts who had given their opinions or advice which are contained in this circular:

Name	Qualification
PricewaterhouseCoopers	Certified Public Accountants Registered Public Interest Entity Auditor
CBRE Limited	Independent valuer

As at the Latest Practicable Date, each of PricewaterhouseCoopers and CBRE Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its report or letter and reference to its name in the form and context in which it appears.

Each of PricewaterhouseCoopers and CBRE Limited confirmed that, as at the Latest Practicable Date, (a) it did not have any shareholding interest in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and (b) it was not interested, directly or indirectly, in any asset which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group, since 31 December 2019, the date to which the latest published audited consolidated results of the Group was made up.

9. GENERAL

(a) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The head office and principal place of business in Hong Kong is situated at Unit Nos. 04-05 on 5th Floor, K Wah Centre, 191 Java Road, North Point, Hong Kong.

(b) The Hong Kong branch share registrar of the Company is Tricor Investor Services Limited of Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(c) The secretary of the Company is Mr. Lee Baldwin, who is an associate member of the Hong Kong Institute of Certified Public Accountants.

(d) The English text of this circular shall prevail over the Chinese text in case of inconsistency.

10. DOCUMENTS FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at Unit Nos. 04-05 on 5th Floor, K Wah Centre, 191 Java Road, North Point, Hong Kong during normal business hours on any business day (Saturdays excluded) from the date of this circular up to any including 31 December 2020 (14 days from the date of this circular):

(a) the memorandum and articles of association of the Company;

(b) the annual reports of the Company for each of the two years ended 31 December 2018 and 31 December 2019;

(c) the interim report of the Company for the six months ended 30 June 2020;

(d) the accountant's report from PricewaterhouseCoopers on the financial information of the Target Group, the text of which is set out in Appendix II to this circular;

(e) the accountant's report from PricewaterhouseCoopers on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix IV to this circular;

(f) the valuation report from CBRE Limited in relation to the valuation of the Target Group, the text of which is set out in Appendix V to this circular;

(g) the material contracts as referred to in the paragraph headed "Material Contracts" in this appendix;

(h) the written consents referred to in the paragraph headed "Experts' Qualifications and Consents" in this appendix;

(i) the circular of the Company dated 8 June 2020; and

(j) this circular.