
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer 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 accompanying form of proxy to the purchaser(s) or transferee(s), or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



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)

CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE ENTERING INTO OF THE CONSTRUCTION SERVICES FRAMEWORK AGREEMENT AND NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial adviser to the Company



Independent financial adviser to the Independent Board Committee and
the Independent Shareholders



Unless the context otherwise requires, capitalised terms used on this cover page shall have the same meanings as those defined in this circular.

A letter from the Board is set out on pages 5 to 17 of this circular and a letter from the Independent Board Committee of the Company is set out on page 18 of this circular. A letter of advice from the Independent Financial Adviser containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 19 to 40 of this circular.

A notice convening the EGM to be held at United Conference Centre, 10th Floor, United Centre, 95 Queensway, Admiralty, Hong Kong on Monday, 29 June 2020 at 10:00 a.m. is set out on pages EGM-1 to EGM-3 of this circular. A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof, provided that no account is to be taken of any part of a day that is a public holiday. Completion and return of the form of proxy will not preclude the shareholders of the Company from attending and voting in person at the EGM or any adjournment thereof if they so wish. In the event you attend the EGM after having lodged the form of proxy, it will be deemed to have been revoked.

Precautionary measures and special arrangements for the EGM

In view of the novel coronavirus (COVID-19) outbreak, certain measures will be implemented at the EGM to reduce the risk of infection to attendees of the EGM, including but not limited to (i) compulsory body temperature check; (ii) wearing of surgical mask throughout the EGM; and (iii) no refreshments or drinks being provided. Attendees who do not comply with the precautionary measures above may be denied entry to the EGM venue, at the absolute discretion of the Company as permitted by law.

For the health and safety of Shareholders, the Company would like to encourage Shareholders to exercise their right to vote at the EGM by appointing the Chairman of the EGM as their proxy and to return their proxy forms by the time specified above, instead of attending the EGM in person.

The Company will keep monitoring the COVID-19 situation and may implement additional measures which, if any, will be announced at a time closer to the date of the EGM.

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	5
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	18
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER	19
APPENDIX — GENERAL INFORMATION	I-1
NOTICE OF EGM	EGM-1

DEFINITIONS

In this circular (other than in the notice of the EGM and the accompanying form of proxy), unless the context otherwise requires, the following expressions have the following meanings:

“2020 Vessel Chartering Framework Agreement”	the agreement entered into between Prosper Construction Group Ltd. (瑞港建設集團有限公司) and Shenzhen Changsheng Marine Engineering Limited* (深圳長盛海事工程有限公司) on 18 February 2020 in relation to the chartering of vessels by the Group from Shenzhen Changsheng Marine Engineering Limited* (深圳長盛海事工程有限公司), the details of which were set out in the circular of the Company dated 13 March 2020
“Annual Caps”	the annual caps for the transactions contemplated under the Construction Services Framework Agreement, being HK\$900 million, HK\$1,350 million and HK\$1,850 million for the period from the Effective Date to 31 December 2020 and the two years ending 31 December 2021 and 31 December 2022, respectively
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	a day on which banks in Hong Kong are open for business in the ordinary course, other than public holidays, Saturdays and Sundays
“BVI”	the British Virgin Islands
“Company”	Prosper Construction Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 6816)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Construction Services Framework Agreement”	the framework agreement dated 28 April 2020 entered into between West Coast Development HK and Qingdao West Coast Group, pursuant to which the Group has agreed to provide construction services for construction projects to the Qingdao Group, which may involve tendering for the Qingdao Group’s construction projects in the PRC, in accordance with the tendering procedures of the Qingdao Group and the Group from time to time for the period commencing on the Effective Date until 31 December 2022

DEFINITIONS

“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rule
“Director(s)”	the director(s) of the Company
“Dongjie Construction”	Qingdao Dongjie Construction Engineering Co., Ltd.* (青島東捷建設工程有限公司), a company established in the PRC with limited liability and an indirect non-wholly owned subsidiary of the Company
“Effective Date”	the date upon which the approval by the Independent Shareholders of the Construction Services Framework Agreement, the transactions contemplated thereunder and the Annual Caps is obtained
“EGM”	an extraordinary general meeting to be convened at United Conference Centre, 10th Floor, United Centre, 95 Queensway, Admiralty, Hong Kong on Monday, 29 June 2020 at 10:00 a.m. or any adjournment thereof for the purpose of considering and, if thought fit, approving the Construction Services Framework Agreement, the transactions contemplated thereunder and the Annual Caps
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	a committee of the Board (comprising all the independent non-executive Directors) established for the purpose of advising the Independent Shareholders in respect of the Construction Services Framework Agreement, the transactions contemplated thereunder and the Annual Caps
“Independent Financial Adviser”	Red Sun Capital Limited, a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Construction Services Framework Agreement, the transactions contemplated thereunder and the Annual Caps

DEFINITIONS

“Independent Shareholders”	Shareholders who are not interested in the Construction Services Framework Agreement and are not required under the Listing Rules to abstain from voting at the EGM to approve the same, the transactions contemplated thereunder and the Annual Caps
“Landong Construction Contracts”	the construction contract and the supplemental contract entered into between Dongjie Construction and Qingdao Xifa Real Estate Company Limited* (青島西發置業有限公司), an indirect wholly-owned subsidiary of Qingdao West Coast Group, on 13 February 2020 with regard to the appointment of Dongjie Construction as the main contractor for the provision of construction services
“Lanxi Construction Contracts”	the construction contract and the supplemental contract entered into between Dongjie Construction and Qingdao West Coast New Area Development Company Limited* (青島西海岸新區開發建設有限公司), an indirect wholly-owned subsidiary of Qingdao West Coast Group, on 13 February 2020 with regard to the appointment of Dongjie Construction as the main contractor for the provision of construction services
“Latest Practicable Date”	31 May 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
“percentage ratio(s)”	has the meaning ascribed to it under the Listing Rules
“PRC”	the People’s Republic of China which, for the purpose of this circular only, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Qingdao Group”	Qingdao West Coast Group and its subsidiaries and/or affiliated companies
“Qingdao West Coast Holdings”	Qingdao West Coast Holdings (Internation) Limited, an investment holding company incorporated in BVI, a controlling shareholder of the Company directly holding 62.25% of the issued share capital of the Company and an indirect wholly-owned subsidiary of Qingdao West Coast Group

DEFINITIONS

“Qingdao West Coast Group”	Qingdao West Coast Development (Group) Limited* (青島西海岸發展(集團)有限公司), the ultimate holding company and controlling shareholder of the Company
“RMB”	Renminbi, the lawful currency of the PRC
“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 share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“West Coast Development HK”	West Coast Development (Hong Kong) Limited (西海岸發展(香港)有限公司), a company established in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company, which indirectly holds 80.0% equity interests in Dongjie Construction
“%”	per cent

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.

* *For identification purpose only. The English names are only translations of the official Chinese names. In case of inconsistency, the Chinese names prevail.*



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 Xuezhao

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

8 June 2020

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO THE ENTERING INTO OF THE
CONSTRUCTION SERVICES FRAMEWORK AGREEMENT
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

I. INTRODUCTION

References are made to the announcement of the Company dated 28 April 2020 in relation to the entering into of the Construction Services Framework Agreement, the transactions contemplated thereunder and the Annual Caps. The purpose of this circular is to provide you with, among other things, (i) details of the Construction Services Framework Agreement, the transactions contemplated thereunder and the Annual Caps; (ii) the letter from the Independent Board Committee to the Independent Shareholders; (iii) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (iv) the notice of EGM.

LETTER FROM THE BOARD

II. CONSTRUCTION SERVICES FRAMEWORK AGREEMENT

On 28 April 2020, West Coast Development HK and Qingdao West Coast Group entered into the Construction Services Framework Agreement, pursuant to which the Group has agreed to provide construction services for construction projects to the Qingdao Group, which may involve tendering for the Qingdao Group's construction projects in the PRC, in accordance with the tendering procedures of the Qingdao Group and the Group from time to time for the period commencing on the Effective Date until 31 December 2022.

The principal terms of the Construction Services Framework Agreement are set out below:

Date	:	28 April 2020
Parties	:	(a) Qingdao West Coast Group; and (b) West Coast Development HK
Subject matter	:	The Group will provide construction services to the Qingdao Group and may therefore participate in tenders for construction projects of the Qingdao Group in the PRC from time to time. If any tenders submitted by the Group have been awarded in accordance with the tendering procedures of the Qingdao Group, the Group shall enter into individual construction contracts (the “ Individual Contracts ”) with the Qingdao Group for the provision of construction services by the Group as the contractor subject to terms and conditions of the Construction Services Framework Agreement at fair and reasonable market prices.
Term	:	From the Effective Date to 31 December 2022 (both dates inclusive)

LETTER FROM THE BOARD

- Pricing : The contract sum payable under each of the Individual Contracts will be determined through an open tender process to ensure that the price and terms of the tender submitted by the Group are on normal commercial terms and no less favourable to the Group than those submitted to independent third parties, or the market prices or benchmarks for transactions of similar nature. In determining the pricing terms, the Group will take into account factors including but not limited to the types of construction works, technical requirements, risks, expected completion time, quantity specifications, labour costs, machinery and equipment costs, management fees, safety and civilized construction fees and the applicable tax rates for construction works in the PRC. The Group will take into account not less than three quotations from its suppliers and/or sub-contractors for the costs of each construction project. In addition, the Group will take into account the unit price for each type of construction work with reference to the standards and guidance on the relevant rates and fees published by the authorities such as Qingdao Municipal Bureau of Housing and Urban-Rural Development* (青島市住房和城鄉建設局), and the cost of materials issued by industry associations such as Qingdao Engineering Construction Standard & Cost Association* (青島市工程建設標準造價協會). Each of the final contract sums shall be finalised after the completion of the construction project, subject to further price adjustments to be made in accordance with the terms of adjustment as adopted by the parties under each of the Individual Contracts.
- Payment terms : The contract sum payable by the Qingdao Group will be settled pursuant to the payment terms as set out in each of the Individual Contracts in accordance with usual market practices and payment terms of similar projects.
- To the best of the knowledge and belief of the Directors and in accordance with usual market practices, the contract sum is usually settled in stages based on the actual progress of the project to be further delineated in the Individual Contracts.
- Condition precedent : The passing of relevant resolutions by the Independent Shareholders at the EGM to approve the Construction Services Framework Agreement, the transactions contemplated thereunder and the Annual Caps.

LETTER FROM THE BOARD

III. ANNUAL CAPS AND HISTORICAL TRANSACTION AMOUNTS

Set out below are the Annual Caps for the transactions contemplated under the Construction Services Framework Agreement for the relevant periods:

	For the period from the Effective Date to 31 December 2020 HK\$	1 January 2021 to 31 December 2021 HK\$	1 January 2022 to 31 December 2022 HK\$
Annual Caps	900,000,000	1,350,000,000	1,850,000,000

The Annual Caps were determined with reference to the estimated revenue to be derived from construction contracts that have been entered into, and that may be entered into between the Group and the Qingdao Group during the period from the Effective Date to 31 December 2020 and the two years ending 31 December 2022, including:

- (i) the Landong Construction Contracts with a total contract sum of approximately RMB538.9 million (equivalent to approximately HK\$592.8 million) entered into between Dongjie Construction and Qingdao Xifa Real Estate Company Limited* (青島西發置業有限公司) on 13 February 2020, under which, the Group is expected to derive revenue of approximately RMB298.0 million and RMB240.9 million during the two years ending 31 December 2020 and 31 December 2021, respectively;
- (ii) the Lanxi Construction Contracts with a total contract sum of approximately RMB486.1 million (equivalent to approximately HK\$534.7 million) entered into between Dongjie Construction and Qingdao West Coast New Area Development Company Limited* (青島西海岸新區開發建設有限公司) on 13 February 2020, under which, the Group is expected to derive revenue of approximately RMB252.0 million and RMB234.1 million during the two years ending 31 December 2020 and 31 December 2021, respectively;
- (iii) the six tenders with an estimated total contract sum of approximately RMB839.7 million (equivalent to approximately HK\$923.7 million) expected to be submitted by the Group to the Qingdao Group during the second to fourth quarter of 2020, under which, if the relevant contracts are granted to the Group, the Group is expected to derive revenue of approximately RMB266.5 million, RMB467.3 million and RMB105.9 million during the three years ending 31 December 2020, 31 December 2021 and 31 December 2022, respectively; and
- (iv) the expected increase in the number and total contract sum of new construction projects of the Qingdao Group which may be recognised as revenue by the Group during the two years ending 31 December 2021 and 31 December 2022.

LETTER FROM THE BOARD

Such projection is solely for determining the Annual Caps and shall not be regarded as any indication directly or indirectly as to the respective revenue or profitability of the Group.

IV. REASONS FOR AND BENEFITS OF ENTERING INTO THE CONSTRUCTION SERVICES FRAMEWORK AGREEMENT

As set out in the annual report of the Company for the year ended 31 December 2019, the Group is actively exploring business opportunities in the Southeast Asian region to counteract the impact of uncertainties in the Hong Kong marine construction market. The Directors have also been reviewing the Group's existing business and seeking opportunities to diversify the Group's business portfolio and broaden its source of income to maximise return to the Company and the Shareholders in the long run. As part of the strategy to diversify the Group's business portfolio, the Company has expanded into the construction industry in the PRC with the completion of the acquisition of 80.0% equity interests in Dongjie Construction in January 2020. Given that (i) Dongjie Construction possesses the necessary qualifications and/or licenses to engage in construction projects in the PRC; and (ii) the majority of the Directors are experienced in working with infrastructure and property project developers in the greater Qingdao area of Shandong Province in the PRC, the Board believes that the Group is well equipped to further expand into the construction industry in the PRC.

Further to the Landong Construction Contracts and Lanxi Construction Contracts entered into between Dongjie Construction and subsidiaries of Qingdao West Coast Group in February 2020, it is expected that the pipeline of new construction projects of the Qingdao Group would increase towards the second to fourth quarter of 2020, and the number and total contract sum of construction projects which the Qingdao Group may invite the Group to submit tenders would also increase. The Board believes that the entering into of the Construction Services Framework Agreement and the engagement of the Group as contractor upon successful tenders shall allow the Group to strengthen and further develop its construction business in the PRC, widen its business portfolio and enhance its competitiveness in the market.

The Directors (other than Mr. Liu Luqiang, Mr. Yang Zhenshan and Mr. Jiang Shuang, each an executive Director, and Mr. Wang Xuejun, a non-executive Director, who have abstained from voting on the relevant board resolutions due to conflict of interest) are of the view that the terms of the Construction Services Framework Agreement were concluded after arm's length negotiations and reflect normal commercial terms, and that the terms of the Construction Services Framework Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

V. INTERNAL CONTROL

The Group has adopted the following internal control procedures to govern the continuing connected transactions of the Group under the Construction Services Framework Agreement and the Annual Caps:

- (i) based on the nature of work and terms listed out in the tender invitation documents, the tender department and project department will prepare tentative construction plan and timetable;
- (ii) the tender department and contract department of the Company will compare the prices and terms with other construction projects of similar nature and scale entered into and/or tenders and/or quotations submitted by the Group with/to independent third parties, or compare the prices and terms with the market prices or benchmarks for transactions of similar nature, in order to ensure that the fees charged by the Group are fair and reasonable and no less favourable to the Group than those offered to independent third parties;
- (iii) the tender department is required to obtain confirmation from the finance department before submitting the tender to the Qingdao Group. The tender department and project department together will prepare a revenue forecast according to the estimated contract sum, construction plan, contract period and payment terms of each potential construction project (the “**Revenue Forecast**”), and analyse the same in conjunction with the revenue forecast of the Company’s projects on hand, to ensure that the estimated revenue to be generated from projects granted by the Qingdao Group, including the potential project, will not exceed the Annual Caps;
- (iv) after the tender has been awarded, the contract department will start preparing/reviewing the Individual Contract. The project department and finance department will review and modify (if needed) the construction plan and Revenue Forecast according to the Individual Contract, and upon confirmation from both departments, the contract department will submit the Individual Contract together with the updated construction plan and Revenue Forecast to the executive Directors for final review and approval before execution;
- (v) the project department will prepare monthly progress report for each of their construction projects, and submit the same to the executive Directors and the finance department for review. The project department shall alert the executive Directors if they notice or foresee any significant change in progress and amount of work which may lead to the Annual Caps being exceeded in the future;
- (vi) the finance department will closely monitor and record the actual transaction amounts of the continuing connected transactions under the Construction Services Framework Agreement, and submit monthly reports to the executive Directors for review, to ensure that the Annual Caps will not be exceeded;

LETTER FROM THE BOARD

- (vii) the Company's auditor will review the continuing connected transactions (which are subject to the annual review and disclosure requirements under the Listing Rules) annually and confirm whether (a) the transactions under the Construction Services Framework Agreement have been approved by the Board; (b) the transactions were entered into in accordance with the Construction Services Framework Agreement; and (c) the Annual Caps have not been exceeded; and
- (viii) the independent non-executive Directors will perform annual reviews (which are subject to the annual review and disclosure requirements under the Listing Rules) to confirm the transactions under the Construction Services Framework Agreement are conducted (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) according to the Construction Services Framework Agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The Board believes that the above internal control procedures are appropriate and can ensure that the transactions are carried out in accordance with the Construction Services Framework Agreement and the prices charged by the Company will not be less favourable than those charged under transactions with independent third parties.

VI. FUTURE PLAN AND UPDATE ON THE ON-GOING AND POTENTIAL PROJECTS OF THE GROUP

Further to the Group's acquisition of 80.0% equity interests in Dongjie Construction in January 2020, and the entering into of the Landong Construction Contracts and the Lanxi Construction Contracts in February 2020, it is the Directors' belief that the Company will continue to enjoy synergy by taking up more business opportunities in the construction industry. The Company has been continuously seeking opportunities to participate in projects and expects that by building up a presence in the general construction market, it can simultaneously extend the Group's reach into, and enhance its competitiveness in bidding for, projects that involve both general and marine construction works.

The Directors confirm that the Company will continue to develop and expand its general construction business and marine construction and vessel leasing businesses at the same time, and has not entered, or proposed to enter, into any agreement, arrangement, understanding or undertaking, whether formal or informal and whether expressed or implied, or any negotiation (whether concluded or not), and has no intention, to dispose of or downsize its marine construction and vessel leasing businesses.

As at the Latest Practicable Date, the Group has (i) eleven on-going marine construction projects with a total contract value of approximately HK\$2,602.8 million; (ii) eight potential marine construction projects with a total estimated contract value of approximately HK\$966.9 million; (iii) two on-going general construction projects, being the Landong Construction Contracts and Lanxi Construction Contracts, with a total contract value of approximately HK\$1,127.5 million; and (iv) eleven potential general construction projects with a total estimated contract value of approximately

LETTER FROM THE BOARD

HK\$3,007.3 million, among which, six of the potential general construction projects with an estimated total contract sum of approximately HK\$923.7 million are projects related to the Qingdao Group which forms part of the Annual Caps.

Set out below are the details and status of the Group's eleven 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 <i>HK\$ million</i>	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	540.2	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 around mid-2022.
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 hydraulic and hydro-power works.	3 years	Marine construction	Macao	21 months	248.0	According to the project stages or progress indicators depending on the category of work	Project is expected to be completed by around mid-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	269.7	According to the workload of crew onboard and progress indicators depending on the category of work	The leasing of vessels will end in December 2020.
Customer E	Customer E is a company registered in Cambodia and a subsidiary of a Hong Kong company listed on the Main Board of the Stock Exchange, and mainly engages in businesses including but not limited to real estate, construction, smart home and smart communities.	1 year	Marine construction	Cambodia	6 months	18.2	According to the project stages or progress indicators depending on the category of work	Project is expected to be completed by the end of 2020.
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, and the construction work is expected to commence in the second half of 2020.

LETTER FROM THE BOARD

Customer	Background of customer	Length of relationship with the Group	Project nature	Project location	Estimated contract/ construction period	Estimated total contract value <i>HKS million</i>	Service fees charging basis	Status as at the Latest Practicable Date
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	664.9	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 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	29.2	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	33.1	According to the project stages or progress indicators depending on the category of work	Tender has been awarded to the Group in May 2020, and the construction work is expected to commence in June 2020.
			Marine construction	Macao	36 months	114.1	According to the project stages or progress indicators depending on the category of work	Tender has been awarded to the Group in May 2020, and the construction work is expected to commence in July 2020.
Total						2,602.8		

LETTER FROM THE BOARD

Set out below are the details and status of the Group's two on-going general 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 <i>HK\$ million</i>	Service fees charging basis	Status as at the Latest Practicable Date
The Qingdao Group	The Qingdao Group is 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 stages or progress indicators depending on the category of work	Construction in progress.
			General construction	Qingdao, PRC	18 months	534.7	According to the project stages or progress indicators depending on the category of work	Construction in progress.
Total						1,127.5		

VII. INFORMATION ON THE COMPANIES

The Company

The Company is an investment holding company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange. The Group is principally engaged in the provision of marine and general construction services and the leasing and trading of vessels.

Qingdao West Coast Group

Qingdao West Coast Group is the ultimate holding company of the Company and 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).

West Coast Development HK

West Coast Development HK is an investment holding company incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Company. It indirectly holds 80.0% equity interests in Dongjie Construction, which principally engages in construction projects in the PRC, including but not limited to 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, pipeline engineering (excluding pressure piping), road construction, water conservancy and hydropower project construction, power engineering construction, municipal utilities

LETTER FROM THE BOARD

engineering construction, mechanical and electrical engineering construction, lifting equipment installation projects, fire control facilities engineering, waterproof anticorrosion insulation works, steel structure engineering, and building mechanical and electrical installation.

VIII. LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Qingdao West Coast Group is the ultimate holding company and a controlling Shareholder of the Company, which indirectly holds 62.25% of the issued share capital of the Company. The Qingdao Group is therefore a connected person of the Company and the transactions contemplated under the Construction Services Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Mr. Liu Luqiang, Mr. Yang Zhenshan and Mr. Jiang Shuang, each an executive Director, and Mr. Wang Xuejun, a non-executive Director, have abstained from voting on the relevant board resolutions of the Company. Qingdao West Coast Holdings, a controlling Shareholder of the Company directly holding 62.25% of the issued share capital of the Company and an indirect wholly-owned subsidiary of Qingdao West Coast Group, will be required to abstain from voting on the relevant shareholders' resolutions of the Company at the EGM.

Since one or more of the applicable percentage ratios on an annual basis in respect of the Annual Caps exceed 5% and each of the Annual Caps is above HK\$10,000,000, the transactions contemplated under the Construction Services Framework Agreement are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements.

IX. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising Mr. Cheung Chi Man Dennis, Mr. Wang Yaping and Mr. Cheng Xuezhao, being all the independent non-executive Directors, has been formed to advise the Independent Shareholders as to (i) whether the terms of the Construction Services Framework Agreement and the Annual Caps are fair and reasonable; (ii) whether the Construction Services Framework Agreement and the transactions contemplated thereunder are on normal commercial terms or better and in the ordinary and usual course of the business of the Group; (iii) whether the transactions contemplated under the Construction Services Framework Agreement are in the interests of the Company and the Shareholders as a whole; and (iv) the voting action that should be taken by the Independent Shareholders.

Red Sun Capital Limited has been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

X. EGM

The EGM will be convened by the Company for the Independent Shareholders to consider, and if thought fit, approve the Construction Services Framework Agreement, the transactions contemplated thereunder and the Annual Caps.

LETTER FROM THE BOARD

To the best of the knowledge and belief of the Directors having made all reasonable enquiries, save and except for Qingdao West Coast Holdings and its associates, no other Shareholder has a material interest in the transactions contemplated under the Construction Services Framework Agreement such that he or she or it shall abstain from voting at the EGM on the resolution to approve the Construction Services Framework Agreement, the transactions contemplated thereunder and the Annual Caps.

A notice convening the EGM to be held at United Conference Centre, 10th Floor, United Centre, 95 Queensway, Admiralty, Hong Kong on Monday, 29 June 2020 at 10:00 a.m. is set out on pages EGM-1 to EGM-3 of this circular. A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof, provided that no account is to be taken of any part of a day that is a public holiday. Completion and return of the form of proxy will not preclude the Shareholders from attending and voting in person at the EGM or any adjournment thereof if they so wish. In the event you attend the EGM after having lodged the form of proxy, it will be deemed to have been revoked.

In order to qualify for the right to attend and vote at the EGM or any adjournment thereof, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 22 June 2020.

XI. RECOMMENDATION

The Independent Board Committee, having considered the advice from the Independent Financial Adviser, considers that (i) the terms of the Construction Services Framework Agreement and the Annual Caps are fair and reasonable; (ii) the Construction Services Framework Agreement and the transactions contemplated thereunder are on normal commercial terms or better and in the ordinary and usual course of the business of the Group; and (iii) the transactions contemplated under the Construction Services Framework Agreement are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee has recommended the Independent Shareholders to vote in favour of the resolutions in respect of the Construction Services Framework Agreement, the transactions contemplated thereunder and the Annual Caps to be proposed at the EGM.

The Directors (excluding the Directors who had abstained from voting on the relevant board resolutions) consider that (i) the terms of the Construction Services Framework Agreement and the Annual Caps are fair and reasonable; (ii) the Construction Services Framework Agreement and the transactions contemplated thereunder are on normal commercial terms or better and in the ordinary and usual course of the business of the Group; and (iii) the transactions contemplated under the

LETTER FROM THE BOARD

Construction Services Framework Agreement are in the interests of the Company and the Shareholders as a whole, and as such, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolutions to approve the Construction Services Framework Agreement, the transactions contemplated thereunder and the Annual Caps at the EGM.

XII. GENERAL

Completion is subject to the necessary approval of the Construction Services Framework Agreement, the transactions contemplated thereunder and the Annual Caps having been obtained from the Independent Shareholders. As such, the Construction Services Framework Agreement may or may not materialise. Shareholders and potential investors of the Company should exercise caution when dealing in the Shares of the Company.

XIII. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in (i) the letter from the Independent Board Committee; (ii) the letter of advice from the Independent Financial Adviser; and (iii) the appendix to this circular.

Yours faithfully,
On behalf of the Board
Prosper Construction Holdings Limited
Jiang Shuang
Executive Director



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)

8 June 2020

To the Independent Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO THE ENTERING INTO OF
THE CONSTRUCTION SERVICES FRAMEWORK AGREEMENT
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

We refer to the circular of Prosper Construction Holdings Limited (the “**Company**”) dated 8 June 2020 (the “**Circular**”), of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context requires otherwise.

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders in respect of the Construction Services Framework Agreement, details of which are set out in the letter from the Board in the Circular. Red Sun Capital Limited has been appointed as the Independent Financial Adviser of the Company to advise the Independent Board Committee and the Independent Shareholders on the same.

Having considered the information set out in the letter from the Board as well as the major factors, reasons and opinion stated in the letter of advice from the Independent Financial Adviser, we concur with the opinion of the Independent Financial Adviser that (i) the terms of the Construction Services Framework Agreement and the Annual Caps are fair and reasonable; (ii) the Construction Services Framework Agreement and the transactions contemplated thereunder are on normal commercial terms or better and in the ordinary and usual course of the business of the Group; and (iii) the transactions contemplated under the Construction Services Framework Agreement are in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Construction Services Framework Agreement, the transactions contemplated thereunder and the Annual Caps.

Yours faithfully,
the Independent Board Committee of
Prosper Construction Holdings Limited
Mr. Cheung Chi Man Dennis, Mr. Wang Yaping and Mr. Cheng Xuezhao
Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter from the Independent Financial Adviser which sets out its advice to the Independent Board Committee and Independent Shareholders for inclusion in this circular.



红日资本有限公司
RED SUN CAPITAL LIMITED

8 June 2020

*To: The Independent Board Committee
and the Independent Shareholders*

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE ENTERING INTO OF THE CONSTRUCTION SERVICES FRAMEWORK AGREEMENT

I. INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the entering into of the Construction Services Framework Agreement, the transactions contemplated thereunder and the Annual Caps which constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules (the “**Transactions**”), details of which are disclosed in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company (the “**Circular**”) to the Shareholders dated 8 June 2020, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

Construction Services Framework Agreement

On 28 April 2020, West Coast Development HK and Qingdao West Coast Group entered into the Construction Services Framework Agreement, pursuant to which the Group has agreed to provide construction services for construction projects to the Qingdao Group, which may involve tendering for the Qingdao Group’s construction projects in the PRC, in accordance with the tendering procedures of the Qingdao Group and the Group from time to time for the period commencing on the Effective Date until 31 December 2022. The Annual Caps under the Construction Services Framework Agreement shall be capped at HK\$900 million, HK\$1,350 million and HK\$1,850 million for the period from the Effective Date to 31 December 2020 and the two years ended 31 December 2022, respectively.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

II. IMPLICATIONS ON THE LISTING RULES

As at the Latest Practicable Date, Qingdao West Coast Group is the ultimate holding company and a controlling shareholder of the Company, which indirectly holds 62.25% of the issued share capital of the Company. The Qingdao Group is therefore a connected person of the Company and the Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Mr. Liu Luqiang, Mr. Yang Zhenshan and Mr. Jiang Shuang, each an executive Director, and Mr. Wang Xuejun, a non-executive Director, have abstained from voting on the relevant board resolutions of the Company. Qingdao West Coast Holdings, a controlling shareholder of the Company directly holding 62.25% of the issued share capital of the Company and an indirect wholly-owned subsidiary of Qingdao West Coast Group, will be required to abstain from voting on the relevant shareholders' resolutions of the Company at the EGM.

As one or more of the applicable percentage ratios on an annual basis in respect of the Annual Caps exceed 5% and each of the Annual Caps is above HK\$10,000,000, the entering into of the Construction Services Framework Agreement and the transactions contemplated thereunder are subject to the reporting, annual review, announcement, and Independent Shareholders' approval requirements under the Listing Rules.

III. THE INDEPENDENT BOARD COMMITTEE

The Board currently comprises Mr. Liu Luqiang as executive Director and chairman, Mr. Cui Qi as executive Director and chief executive officer, Mr. Ding Hongbin as executive Director and chief operating officer, Mr. Yang Zhenshan and Mr. Jiang Shuang as executive Directors; Mr. Wang Xuejun as non-executive Director; and Mr. Cheung Chi Man Dennis, Mr. Wang Yaping and Mr. Cheng Xuezhao as independent non-executive Directors.

The EGM will be convened by the Company for the Independent Shareholders to consider, and if thought fit, approve the Transactions together with the Annual Caps. To the best of the knowledge and belief of the Directors having made all reasonable enquiries, save and except for Qingdao West Coast Holdings and its associates, no other Shareholder has a material interest in the Transactions, such that he or she or it shall abstain from voting at the EGM on the resolution to approve the Transactions.

The Independent Board Committee comprising all the aforementioned independent non-executive Directors has been formed to advise the Independent Shareholders as to whether (i) the terms of the Transactions, including the Annual Caps, are fair and reasonable; (ii) the Transactions are on normal commercial terms and in the ordinary and usual course of the business of the Group; (iii) the Transactions are in the interests of the Company and the Shareholders as a whole; and (iv) the voting action that should be taken by the Independent Shareholders.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We, Red Sun Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in these respects and to give our opinion in relation to the Transactions, for the Independent Board Committee's consideration when making their recommendation to the Independent Shareholders.

IV. OUR INDEPENDENCE

As at the Latest Practicable Date, we were independent from and not connected with the Company, the Qingdao Group and their respective shareholders, directors or chief executives, or any of their respective associates and accordingly, and were qualified to give independent advice to the Independent Board Committee and the Independent Shareholders regarding the Transactions. In the previous two years, save for our appointment as the independent financial adviser to the Company in relation to (i) the connected transactions in relation to the construction contracts and renewal of continuing connected transactions in relation to the 2017 vessel chartering framework agreement, details of which are disclosed in the circular dated 13 March 2020; and (ii) the unconditional mandatory cash offer by Qingdao West Coast Holdings to acquire all the issued shares of the Company (other than those already owned by it), details of which are disclosed in the composite document dated 12 September 2018, we have not acted as an independent financial adviser to the Company for any transaction. Apart from the normal advisory fee payable to us in connection with our appointment as the Independent Financial Adviser, no arrangement exists whereby we shall receive any other fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

V. BASIS AND ASSUMPTIONS OF OUR ADVICE

In formulating our advice, we have relied solely on the statements, information, opinions, beliefs and representations for matters relating to the Group, the Qingdao Group and their respective shareholders and management contained in the Circular and the information and representations provided to us by the Group and/or its senior management (the “**Management**”) and/or the Directors. We have assumed that all information, representations and opinions contained or referred to in the Circular, which have been provided by the Company, the Directors and the Management and for which they are solely and wholly responsible, were true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date.

We have assumed that all such statements, information, opinions, beliefs and representations contained or referred to in the Circular (including this letter) or otherwise provided or made or given by the Group and/or the Management and/or the Directors and for which it is/they are solely responsible were true and accurate, and valid and complete in all material respects at the time they were made and given and continue to be true and accurate, and valid and complete in all material respects as at the date of the Circular. We have assumed that all the opinions, beliefs and representations for matters relating to the Group and the Qingdao Group made or provided by the Management and/or the Directors contained in the Circular have been reasonably made after due

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

and careful enquiry. We have also sought and obtained confirmation from the Company and/or the Management and/or the Directors that no material facts have been omitted from the information provided and referred to in the Circular.

We consider that we have been provided with sufficient information and documents to enable us to reach an informed view and the Management has assured us no material information has been withheld from us to allow us to reasonably rely on the information provided so as to provide a reasonable basis for our advice. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions, beliefs and representations provided to us by the Group and/or the Management and/or the Directors and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out any independent verification nor have we conducted any independent investigation into information provided by the Directors and the Management, background, business or affairs or future prospects of the Company, the Qingdao Group and their respective shareholder(s) and subsidiaries or affiliates, and their respective history, experience and track records, or the prospects of the markets in which they respectively operate.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Transactions and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

VI. BACKGROUND INFORMATION OF THE TRANSACTIONS

In arriving at our opinion to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Transactions, we have taken into consideration the following principal factors and reasons:

1. Background information on the Group

Principal business activities of the Group

The Group is principally engaged in (i) the provision of marine and general construction services, which include dredging and non-dredging ground treatment works, reclamation works, pier construction, offshore facilities foundation works and marine transportation to both the public and private sectors; and (ii) the leasing and trading of vessels.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Summary of the Group's operating results

Set out below is a summary of (i) the audited consolidated statement of comprehensive income as extracted from the annual report of the Group for the year ended 31 December 2019 (the “**2019 Annual Report**”); and (ii) the audited consolidated statement of comprehensive income as extracted from the annual report of the Group for the year ended 31 December 2018 (the “**2018 Annual Report**”):

	For the year ended 31 December		
	2019	2018	2017
	HK\$'000	HK\$'000	HK\$'000
	(audited)	(audited)	(audited)
Revenue			
Rendering of services			
— Marine construction works	308,368	134,510	469,504
— Provision of auxiliary marine related services	<u>206,709</u>	<u>250,066</u>	<u>163,843</u>
Total revenue	515,077	384,576	633,347
Gross profit	49,846	71,300	94,307
Profit for the year attributable to equity holders of the Company	12,088	30,415	64,470

As disclosed in the 2019 Annual Report, the Group recorded a total revenue of approximately HK\$515.1 million for the year ended 31 December 2019, representing an increase of approximately 33.9% or HK\$130.5 million as compared to the total revenue of approximately HK\$384.6 million for the year ended 31 December 2018. Such increase was mainly due to the growth in marine construction activities in the Macao market.

Gross profit of the Group decreased by approximately HK\$21.5 million or 30.2% from approximately HK\$71.3 million for the year ended 31 December 2018 to approximately HK\$49.8 million for the year ended 31 December 2019, which was mainly attributable to (i) a comparatively higher proportion of the Group's revenue in the year ended 31 December 2019 generated from marine construction works, which generally yield a lower profit margin as more direct costs are required as compared to the provision of auxiliary marine related services; (ii) additional re-positioning costs incurred following the completion of various projects in Pakistan during the year ended 31 December 2019; and (iii) additional costs incurred for and the decrease in profit margin of marine construction projects, primarily due to the delay in progress in the Group's projects in Macao.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Profit for the year attributable to equity holders of the Company decreased by approximately HK\$18.3 million or 60.2% from approximately HK\$30.4 million for the year ended 31 December 2018 to approximately HK\$12.1 million for the year ended 31 December 2019. Such decrease was mainly attributable to the combined effect of (i) the change in revenue mix; (ii) the decline in gross profit margin and gross profit; and (iii) the rise in foreign exchange loss, which were partially offset by the decrease in impairment losses on financial assets and other administrative expenses and the net income tax credit recorded for the year ended December 2019.

As disclosed in the 2018 Annual Report, the Group recorded total revenue of approximately HK\$384.6 million for the year ended 31 December 2018, representing a decrease of approximately 39.3% or HK\$248.7 million as compared to the total revenue of approximately HK\$633.3 million for the year ended 31 December 2017. Such decrease in revenue was mainly due to the delay in progress in the Group's then ongoing project in Macao in relation to marine construction works.

Gross profit of the Group decreased by approximately HK\$23.0 million or 24.4% from approximately HK\$94.3 million for the year ended 31 December 2017 to approximately HK\$71.3 million for the year ended 31 December 2018, whereas the gross profit margin increased to 18.5% for the year ended 31 December 2018 from 14.9% for the year ended 31 December 2017. The increase in gross profit margin was mainly due to a higher proportion of the Group's revenue from leasing of vessels and equipment and provision of auxiliary marine related services, which generally yielded a higher profit margin.

Profit for the year attributable to equity holders of the Company decreased by approximately HK\$34.1 million or 52.9% from approximately HK\$64.5 million for the year ended 31 December 2017 to approximately HK\$30.4 million for the year ended 31 December 2018. Such decrease was mainly attributable to the combined effect of (i) the decrease in revenue as mentioned above; (ii) the corresponding decrease in cost of sales; and (iii) the increase in impairment losses on financial assets of approximately HK\$8.0 million and other administrative expenses of approximately HK\$2.1 million.

Summary of consolidated balance sheets of the Group

	As at 31 December		
	2019	2018	2017
	HK\$'000	HK\$'000	HK\$'000
	(audited)	(audited)	(audited)
Total assets	928,427	819,353	865,869
Total liabilities	411,425	319,673	361,453
Total equity	<u>517,002</u>	<u>499,680</u>	<u>504,416</u>

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at 31 December 2019, the Group's total assets increased to approximately HK\$928.4 million from approximately HK\$819.4 million as at 31 December 2018, which was mainly attributable to the increase in cash and cash equivalents of approximately HK\$229.5 million. It was also noted that the Group's total liabilities increased to approximately HK\$411.4 million as at 31 December 2019 from approximately HK\$319.7 million as at 31 December 2018, which was mainly attributable to a loan from an intermediate holding company of approximately HK\$100.0 million. As a result of the above, the total equity attributable to equity holders of the Company increased slightly from approximately HK\$499.7 million as at 31 December 2018 to approximately HK\$517.0 million as at 31 December 2019.

The Group's total assets decreased from approximately HK\$865.9 million as at 31 December 2017 to approximately HK\$819.4 million as at 31 December 2018. The decrease was mainly due to the decrease in cash and cash equivalents from approximately HK\$193.3 million as at 31 December 2017 to approximately HK\$106.7 million as at 31 December 2018. The Group's total liabilities also decreased from approximately HK\$361.5 million as at 31 December 2017 to approximately HK\$319.7 million as at 31 December 2018. Such decrease was mainly due to the decrease in borrowings from approximately HK\$172.8 million as at 31 December 2017 to approximately HK\$139.7 million as at 31 December 2018.

2. Background information on Qingdao West Coast Group and West Coast Development HK

Qingdao West Coast Group

Qingdao West Coast Group is the ultimate holding company of the Company and 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).

West Coast Development HK

West Coast Development HK is an investment holding company incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Company. It indirectly holds 80.0% equity interests in Dongjie Construction, which principally engages in construction projects in the PRC, including but not limited to 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, pipeline engineering (excluding pressure piping), road construction, water conservancy and hydropower project construction, power engineering construction, municipal utilities engineering construction, mechanical

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

and electrical engineering construction, lifting equipment installation projects, fire control facilities engineering, waterproof anticorrosion insulation works, steel structure engineering, and building mechanical and electrical installation.

3. Overview of the economy and construction industry in the PRC and Shandong province

Overview of the PRC economy and related policies

As disclosed on the website of the National Bureau of Statistics of the PRC (<http://data.stats.gov.cn>), year-on-year (“YoY”) growth in gross domestic products (“GDP”) in constant prices for the PRC in 2018 was approximately 6.6% (2017: 6.8%). Pursuant to the Thirteenth Five-year Plan* (十三五規劃) announced by the PRC government, the annual GDP growth target for the five years commenced from 2016 was approximately 6.5%. However, such target was subsequently adjusted down to 6.0% by the PRC government in March 2019. As stated in the Thirteenth Five Year Plan, the PRC government targets to, among others, (i) accelerate the agricultural population urbanisation* (加快農業轉移人口市民化) by implementing three main strategies, namely further reform of the household registration system* (深化戶籍制度改革), implementation of the residence permit system* (實施居住證制度) and improvement on the system for promoting urbanisation of agricultural population* (健全促進農業轉移人口市民化的機制); and (ii) optimise urbanisation layout* (優化城鎮化佈局和形態) by implementing three main strategies, namely the acceleration of the construction and advancement of urban agglomeration* (加快城市群建設發展), enhancing the drive of activities by central cities* (增強中心城市輻射帶動功能) and speeding up of the development of small and medium-sized cities and characteristic towns* (加快發展中小城市和特色鎮).

The table below shows a summary of the PRC’s key economic indicators from 2015 to 2018:

	2015	2016	2017	2018
GDP at constant prices (<i>RMB trillions</i>)				
(Note)	686.0	732.2	781.7	833.0
YoY increase in nominal GDP	6.9%	6.7%	6.8%	6.6%
GDP from the construction sector at constant prices (<i>RMB trillions</i>)	46.6	50.0	51.8	54.1
YoY increase in GDP from the construction sector	11.1%	7.2%	3.5%	4.5%

Source: National Bureau of Statistics of the PRC

Note: Constant prices refer to the price base year of 2015

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

GDP from the construction sector in the PRC (at constant prices) increased from approximately RMB46.6 trillion in 2015 to approximately RMB54.1 trillion in 2018, which was attributable to, among other factors, various urbanisation and development policies under the Thirteenth Five Year Plan as disclosed above, the continued development of major PRC regions and cities under various PRC government initiatives, such as the Coordinated Development of Beijing-Tianjin-Hebei* (京津冀協同發展), the development plan for Guangdong-Hong Kong-Macao Greater Bay Area* (粵港澳大灣區) and the Integration Plan of the Yangtze River Delta Region* (長江三角洲區域一體化).

Shandong province

The table below shows a summary of major financial and production indicators of Shandong province's construction industry from 2015 to 2018:

	2015	2016	2017	2018
Total gross output value of construction enterprises (<i>RMB billions</i>)	937.9	1,008.7	1,147.8	1,289.8
YoY increase in total gross output value of construction enterprises	0.7%	7.5%	13.8%	12.4%
State-owned gross output value of construction enterprises (<i>RMB billions</i>)	232.3	256.5	293.6	365.7
YoY increase in state-owned gross output value of construction enterprises	5.7%	10.4%	14.5%	24.6%

Source: Shandong Provincial Bureau of Statistics

As set out in the above table, both total gross output value of construction enterprises and state-owned gross output value of construction enterprises increased significantly from approximately RMB937.9 billion and RMB232.3 billion in 2015, respectively, to approximately RMB1,289.9 billion and RMB365.7 billion in 2018, respectively. Such increases were attributable to, among other factors, various domestic policies implemented by Shandong Provincial People's Government* (山東省人民政府) to stimulate growth in domestic heavy industry and support transitions of stated-owned enterprises from private enterprises, in which details were disclosed in Opinions from the Shandong Provincial People's Government on Accelerating the Development of the Domestic Private Economy, 2014, No. 15* (山東省人民政府關於加快全省民營經濟發展的意見〔2014〕15號). In addition to the aforementioned policy, Sixteen Opinions from the General Office of the Shandong Provincial People's Government on Further Accelerating the Reform and Development of the Construction Industry, 2019, No. 53* (山東省人民政府辦公廳關於進一步促進建築業改革發展的十六條意見〔2019〕53號) has been published under the guidance of 19th National Congress of the Communist Party of the PRC* (中共十九大).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We also noted that attributable to the recent COVID-19 outbreak (the “**Outbreak**”), the PRC authorities have implemented certain temporary measures, including, among others, quarantine policies, restriction of movement and crowd gathering, social distancing, suspension of work and school, with a view to limit and control the Outbreak in the first quarter of 2020. More recently in the second quarter of 2020 (up to the Latest Practicable Date), based on published information, as the overall situation of the Outbreak in the PRC continued to improve, some of these temporary measures have been relaxed and/or discontinued gradually. In the medium to long term, with (i) the continued development of the Shandong Province, in particular, in Qingdao; (ii) the expected increase in urban population in Qingdao, the Shandong Province, over time; and (iii) the continued demand for commercial and residential property spaces in Qingdao, the Shandong Province, the Management is of the view that the Group is well-positioned to capture the opportunities in the construction industry arising from the continued development of Qingdao, the Shandong Province.

VII. PRINCIPAL FACTORS AND REASONS CONSIDERED

1. Principal terms of the Construction Services Framework Agreement

Date:	28 April 2020
Parties:	(a) Qingdao West Coast Group; and (b) West Coast Development HK
Subject matter:	The Group will provide construction services to the Qingdao Group and may therefore participate in tenders for construction projects of the Qingdao Group in the PRC from time to time. If any tenders submitted by the Group have been awarded in accordance with the tendering procedures of the Qingdao Group, the Group shall enter into the Individual Contracts with the Qingdao Group for the provision of construction services as the contractor subject to terms and conditions of the Construction Services Framework Agreement at fair and reasonable market prices.
Term:	From the Effective Date to 31 December 2022 (both dates inclusive)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Pricing:

The contract sum payable under each of the Individual Contracts will be determined through an open tender process to ensure that price and terms of the tender submitted by the Group are on normal commercial terms and no less favourable to the Group than those submitted to independent third parties, or the market prices or benchmarks for transactions of similar nature. In determining the pricing terms, the Group will take into account factors including but not limited to the types of construction works, technical requirements, risks, expected completion time, quantity specifications, labour costs, machinery and equipment costs, management fees, safety and civilized construction fees and the applicable tax rates for construction works in the PRC.

The Group will take into account not less than three quotations from its suppliers and/or sub-contractors for the costing of each construction project. In addition, the Group will take into account the unit price for each type of construction work with reference to the standards and guidance on the relevant rates and fees published by the authorities such as Qingdao Municipal Bureau of Housing and Urban-Rural Development* (青島市住房和城鄉建設局), and the cost of materials issued by industry associations such as Qingdao Engineering Construction Standard & Cost Association* (青島市工程建設標準造價協會). Each of the final contract sums shall be finalised after the completion of the construction project, subject to further price adjustments to be made in accordance with the terms of adjustment as adopted by the parties under each of the Individual Contracts.

Payment terms:

The contract sum payable by the Qingdao Group or its subsidiaries will be settled pursuant to the payment terms as set out in each of the Individual Contracts in accordance with usual market practices and payment terms of similar projects.

To the best of the knowledge and belief of the Directors and in accordance with usual market practices, the contract sum is usually settled in stages based on the actual progress of the project to be further delineated in the Individual Contracts.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Condition precedent: The passing of relevant resolutions by the Independent Shareholders at the EGM to approve the Construction Services Framework Agreement, the transactions contemplated thereunder and the Annual Caps.

Further details of the principal terms of the Construction Services Framework Agreement are set out in the Letter from the Board.

2. Reasons for and benefits of entering into the Construction Services Framework Agreement

As disclosed in the Letter From the Board, the Group is actively exploring business opportunities in the Southeast Asian region and the Directors have also been reviewing the Group's existing business and seeking opportunities to diversify the Group's business portfolio and broaden its source of income to maximise return to the Company and the Shareholders in the long run. As part of the strategy to diversify the Group's business portfolio, the Company has expanded into the construction industry in the PRC with the completion of the acquisition of 80.0% equity interests in Dongjie Construction in January 2020.

Given that (i) Dongjie Construction possesses the necessary qualifications and/or licenses to engage in construction projects in the PRC; and (ii) majority of the Directors are experienced in working with infrastructure and property project developers in the greater Qingdao area of Shandong Province in the PRC, the Board believes that the Group is well equipped to further expand into the construction industry in the PRC.

Further to the Landong Construction Contracts and Lanxi Construction Contracts entered into between Dongjie Construction and subsidiaries of Qingdao West Coast Group in February 2020, it is expected that the pipeline of new construction projects of the Qingdao Group would increase towards the second to fourth quarter of 2020, and the number and total contract sum of construction projects which the Qingdao Group may invite the Group to submit tenders would also increase. The Board believes that the entering into of the Construction Services Framework Agreement and the engagement of the Group as contractor upon successful tenders shall allow the Group to strengthen and further develop its construction business in the PRC, widen its business portfolio and enhance its competitiveness in the market.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Having considered that, (i) Dongjie Construction 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, 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; (ii) Qingdao West Coast Group is principally engaged in infrastructure construction, land development, real estate development and other industrial investment and operations (including cultural, tourism and financial services); (iii) the transactions contemplated under the Construction Services Framework Agreement are a furtherance of the Group's construction business in the PRC; (iv) the Annual Caps, if approved, would facilitate the transactions contemplated under the Construction Services Framework Agreement for the years ending 31 December 2020, 2021 and 2022 to ensure that they can be carried out in an effective and efficient manner without the need for the Company to seek Shareholders' approval on a transaction-by-transaction basis; and (v) the Group has the right but not the obligation to tender/complete for the projects from the Qingdao Group on terms determined in accordance with the respective pricing policies, we concur with the Directors' view that the transactions contemplated under the Construction Services Framework Agreement are in the interests of the Company and the Shareholders as a whole.

3. Pricing basis and internal control procedures

As advised by the Management, in respect of the transactions under the Construction Services Framework Agreement, the price and terms of the Group's tender documents submitted to the Qingdao Group are subject to the standard tender submission procedures (the "**Standard Tender Submission Procedures**") maintained by the Group, which shall apply to all tenders in relation to the construction projects submitted to both connected persons and independent third parties.

The Standard Tender Submission Procedures, as advised by the Management, typically involve (i) receiving tenders or invitation for quotation notices, followed by the general manager of the tender department reviewing the project scale, and other factors of the projects to prepare the preliminary assessment reports; (ii) initial assessment of projects, which would involve the general manager of the tender department conducting analysis on the project in respect of profit analysis, technical feasibility, competitive environment studies, project planning, cost estimation as well as profit estimation, risk assessment, human resources planning, initial cash flow outlay and tender pricing, the aforesaid assessments enable the tender department to have a comprehensive evaluation of the costs and the corresponding profit to be derived from the subject contract; and (iii) preparation of tender reports based on

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the initial assessment of projects, and that such tender reports, which covers the pricing of tenders should be authorised by the general manager of the tender department and/or the management of the Group based on the initial assessment of projects and such personnel shall approve the tender submission, where appropriate, after taking into account the information available to the Company at the relevant time. As the determination of the tender price shall take into account, among others, the cost estimation as well as profit estimation, the personnel authorising the submission of tender shall ensure the estimated profit margin expected to be derived from the subject contract to be in line with the profit margin derived from similar independent third-party projects by the Group in the past.

We have (i) reviewed the Standard Tender Submission Procedures, which govern the procedures for evaluating and submitting tenders; and (ii) obtained samples of tenders for the provision of services as a construction contractor based on the Standard Tender Submission Procedures.

For our assessment, we have obtained and reviewed samples of construction contracts of the Group conducted/tenders submitted in relation to the construction projects and noted that the basis for the determination of pricing did not deviate from the stated pricing policies. The Management also advised that invitations for tendering construction contracts from members of the Qingdao Group shall be reviewed and evaluated under the same prescribed tender assessment method in a manner no different than that applied to those with independent third parties.

Based on our work performed, we concur with the Directors' view that the pricing basis applied to the transactions under the Construction Services Framework Agreement are fair and reasonable.

In addition, we noted that the Group shall adopt the following internal control procedures to govern the continuing connected transactions of the Group under the Construction Services Framework Agreement and the Annual Caps:

- (i) based on the nature of work and terms listed out in the tender invitation documents, the tender department and project department will prepare tentative construction plan and timetable;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (ii) the tender department and contract department of the Company will compare the prices and terms with other construction projects of similar nature and scale entered into and/or tenders and/or quotations submitted by the Group with/to independent third parties, or compare the prices and terms with the market prices or benchmarks for transactions of similar nature, in order to ensure that the fees charged by the Group are fair and reasonable and no less favourable to the Group than those offered to independent third parties;
- (iii) the tender department is required to obtain confirmation from the finance department before submitting the tender to the Qingdao Group. The tender department and project department together will prepare a revenue forecast (the “**Revenue Forecast**”), to ensure that the estimated revenue to be generated from projects granted by the Qingdao Group, including the potential project, will not exceed the Annual Caps;
- (iv) after the tender has been awarded, the contract department will start preparing/reviewing the Individual Contract. The project department and finance department will review and modify (if needed) the construction plan and Revenue Forecast according to the Individual Contract, and upon confirmation from both departments, the contract department will submit the Individual Contract together with the updated construction plan and Revenue Forecast to the executive Directors for final review and approval before execution;
- (v) the project department will prepare monthly progress report for each of their construction projects, and submit the same to the executive Directors and the finance department for review. The project department shall alert the executive Directors if they notice or foresee any significant change in progress and amount of work which may lead to the Annual Caps being exceeded in the future;
- (vi) the finance department will closely monitor and record the actual transaction amounts of the continuing connected transactions under the Construction Services Framework Agreement, and submit monthly reports to the executive Directors for review, to ensure that the Annual Caps will not be exceeded;
- (vii) the Company’s auditor will review the continuing connected transactions (which are subject to the annual review and disclosure requirements under the Listing Rules) annually and confirm whether (a) the transactions under the Construction Services Framework Agreement have been approved by the Board; (b) the transactions were entered into in accordance with the Construction Services Framework Agreement; and (c) the Annual Caps have not been exceeded; and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(viii) the independent non-executive Directors will perform annual reviews (which are subject to the annual review and disclosure requirements under the Listing Rules) to confirm the transactions under the Construction Services Framework Agreement are conducted (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) according to the Construction Services Framework Agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

In this connection, we have obtained and reviewed the relevant internal control policies and procedures, and we considered that effective implementation of these internal control policies would ensure that the transactions under the Construction Services Framework Agreement to be conducted on terms which are fair and reasonable.

4. Basis for determining the Annual Caps

As set out in the Letter from the Board, the Annual Caps were determined with reference to the estimated revenue to be derived from construction contracts that have been entered into, and that may be entered into between the Group and the Qingdao Group for the period from the Effective Date to 31 December 2020 and the two years ending 31 December 2021 and 2022, including:

- (i) the Landong Construction Contracts with a total contract sum of approximately RMB538.9 million (equivalent to approximately HK\$592.8 million) entered into between Dongjie Construction and Qingdao Xifa Real Estate Company Limited* (青島西發置業有限公司) on 13 February 2020, under which, the Group is expected to derive revenue of approximately RMB298.0 million and RMB240.9 million during the two years ending 31 December 2020 and 31 December 2021, respectively;
- (ii) the Lanxi Construction Contracts with a total contract sum of approximately RMB486.1 million (equivalent to approximately HK\$534.7 million) entered into between Dongjie Construction and Qingdao West Coast New Area Development Company Limited* (青島西海岸新區開發建設有限公司) on 13 February 2020, under which, the Group is expected to derive revenue of approximately RMB252.0 million and RMB234.1 million during the two years ending 31 December 2020, 31 December 2021, respectively;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (iii) the six tenders with an estimated total contract sum of approximately RMB839.7 (equivalent to approximately HK\$923.7 million) million expected to be submitted by the Group to the Qingdao Group during the second to fourth quarter of 2020, under which, if the relevant contracts are granted to the Group, the Group is expected to derive revenue of approximately RMB266.5 million, RMB467.3 million and RMB105.9 million during the three years ending 31 December 2020, 31 December 2021 and 31 December 2022, respectively; and
- (iv) the expected increase in the number and total contract sum of new construction projects of the Qingdao Group which may be recognised as revenue by the Group during the two years ending 31 December 2021 and 31 December 2022.

The Company estimates that the total transaction amount of the Qingdao Group's construction contracts which may be awarded to member(s) of the Group under the Construction Services Framework Agreement for the three years ending 31 December 2020, 2021 and 2022 will not exceed the Annual Caps as set out below:

	For the period from the Effective Date to 31 December 2020 HK\$	1 January 2021 to 31 December 2021 HK\$	1 January 2022 to 31 December 2022 HK\$
Annual Caps	900,000	1,350,000	1,850,000

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In assessing the Annual Caps, we have obtained from the Management a project schedule (the “**Project Schedule**”) setting out the upcoming construction projects of the Qingdao Group where the Group participated/intended to participate in and noted that these upcoming projects include, amongst others, the following:

Project locations	Property type(s)	For the period	1 January 2021	1 January 2022	Expected construction completion date
		from the Effective Date to 31 December 2020	to 31 December 2021	to 31 December 2022	
		RMB'000	RMB'000	RMB'000	
Landong, Qingdao	Residential and commercial properties	298,000	240,910	—	2nd half 2021
Lanxi, Qingdao	Residential and commercial properties	252,000	234,130	—	2nd half 2021
Qingdao West Coast	Commercial properties and offices	61,900	38,100	—	2nd half 2021
Qingdao West Coast	Residential and commercial properties	90,000	110,000	—	2nd half 2021
Lingshan Bay, Qingdao	Commercial properties	50,000	40,000	—	2nd half 2021
Qingdao West Coast	Residential properties	46,360	69,540	38,000	1st half 2022
Qingdao West Coast	Residential properties	7,700	132,000	38,500	1st half 2022
Qingdao West Coast	Institutional properties	10,500	77,700	29,400	1st half 2022
Potential construction projects	N/A	—	283,500	1,575,000	N/A
Total (RMB'000)		<u>816,460</u>	<u>1,225,880</u>	<u>1,680,900</u>	
Total (HK\$'000) ^{Note}		<u>898,106</u>	<u>1,348,468</u>	<u>1,848,990</u>	

Note: For the purpose of this table, conversion of RMB into HK\$ is based on the exchange rate of RMB1.0 to HK\$1.1. The exchange rate has been used, where applicable, for the purposes of the illustration only and does not constitute a representation in that any amounts were or may have been exchanged at this or any other rates at all.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We noted that the annual cap for the year ending 31 December 2020 of HK\$900 million (the “**2020 Annual Cap**”) was primarily based on the contracts set out in the Project Schedule. Such schedule primarily consisted of eight projects, (i) two secured construction projects (the “**Secured Construction Contracts**”) located in Landong and Lanxi, in Qingdao, with a total construction area of approximately 154,253 m² and 154,488 m², respectively, to be completed over two years, further details of which are set out in the circular of the Company dated 13 March 2020. The Secured Construction Contracts were approved by the then independent Shareholders at the general meeting of the Company dated 30 March 2020; and (ii) six upcoming potential projects of which are located in Qingdao West Coast, with expected contract size per year ranging from approximately RMB90 million to approximately RMB200 million with estimated construction area ranging from approximately 37,700 m² to approximately 81,000 m², to be completed over two to three years. Out of the six upcoming potential projects, the Group expects to complete construction works of approximately RMB266.5 million in value during the year ending 31 December 2020, involving various real estate development projects with an estimated construction area of approximately 93,600 m².

In addition, we noted that the Management has estimated the annual cap for the year ending 31 December 2021 (the “**2021 Annual Cap**”) to be approximately HK\$1,350 million, representing an increase of HK\$450 million or an increase of 50%. The 2021 Annual Caps was primarily based on (i) the Secured Construction Contracts, with the Group expecting to complete construction works of approximately RMB475.0 million in value during the year ending 31 December 2021; (ii) the six upcoming potential construction projects described above, with an estimated construction area to be completed of approximately 206,900 m² in 2021 with the Group expecting to complete construction works of approximately RMB467.3 million in value during the year ending 31 December 2021; and (iii) potential construction projects with estimated construction area of 135,000 m² and expected completed construction works of RMB283.5 million in value attributable to these potential construction projects. For information purposes only, the potential construction projects represented approximately 23.1% of the 2021 Annual Cap.

In connection with the potential construction projects, we have obtained and reviewed the Construction Services Framework Agreement provided by the Management supporting that the Qingdao Group, being the ultimate holding company of the Company and a state-owned enterprise wholly-owned by the State-owned Asset Supervision and Administration Commission of Qingdao, intends to develop three areas located in Qingdao West Coast with an aggregate gross floor area of not less than 97.35 square kilometres in stages in the next few years (the “**Qingdao West Coast Area**”). The Management advised that the estimated total contract sum of construction projects to be involved under Qingdao West Coast Area will be around RMB6 billion per annum for the next few years. Although the Management expects that the Group would be eligible to tender for a substantial portion of these construction contracts in Qingdao West Coast Area, for the purpose of prudence, the Management only estimated that the Group would successfully be awarded with a modest portion of these contracts for each of the year ending 31 December 2021 and 2022, respectively.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As for the annual cap for the year ending 31 December 2022 (the “**2022 Annual Cap**”), we noted that the Management has estimated the 2022 Annual Cap to be approximately HK\$1,850 million, representing an increase of HK\$500 million or an increase of approximately 27.0%. The 2021 Annual Caps was primarily based on (i) three of the upcoming potential construction projects described above, with an estimated construction area to be completed in 2022 of approximately 51,500 m² with the Group expecting to complete construction works of approximately RMB105.9 million in value during the year ending 31 December 2022; (ii) potential construction projects to be competed and awarded to the Group, construction works of which are commenced in 2021 and continued to be worked on by the Group in 2022 with estimated construction area of 400,000 m² and expected completed construction works of RMB840 million in value attributable to these potential construction projects; and (iii) potential construction projects to be competed and awarded to the Group, construction works of which are expected to commence in 2022 with estimated construction area of 350,000 m² and expected completed construction works of approximately RMB735 million in value attributable to these potential construction projects.

As set out above, in connection with the potential construction projects, we have obtained and reviewed the Construction Services Framework Agreement provided by the Management supporting that the Qingdao Group intends to develop three areas located in the Qingdao West Coast with an aggregate gross floor area of not less than 97.35 square kilometres in stages in the next few years (i.e. the Qingdao West Coast Area). The Management also advised that the estimated total contract sum of construction projects to be involved under the Qingdao West Coast Area will be around RMB6 billion per annum for the next few years. Having considered the above, we are of the view that the 2022 Annual Cap, which represent a year-on-year increase of approximately 27.0% from the 2021 Annual Cap, is reasonable.

Further to the above, we understand from the Management advised that typically construction contracts in the PRC would have a duration from approximately 12 months to 36 months. Given the duration and size of the construction contracts varies from project to project, the project construction schedule may be revised by the contract owner from time to time, additional construction contracts not identified previously may be available for tender. In this connection, it is difficult to accurately estimate the 2021 Annual Cap and the 2022 Annual Cap. As such, to ensure the Group has the option to assess and, if considered appropriate, to compete for construction projects as and when the opportunities arise, we considered that it is reasonable for the 2021 Annual Cap and the 2022 Annual Cap to include potential construction projects.

We also understand from the Management that in order to allow flexibility to cater for circumstances such as (i) in the event that the relevant annual cap at the time is insufficient, the Company would need to seek independent shareholders’ approval before commencing the relevant construction works for the Qingdao Group which would cause undue delay to the project; and (ii) the contracts available for tender and works being certified and recognised as

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

revenue by the Group may not be evenly distributed throughout 2021 and 2022, the 2021 Annual Cap and 2022 Annual Cap would allow a degree of flexibility to cater for unforeseen circumstances or changes to project schedule(s), if any.

The Management advised that the Group is not under obligation to submit tenders for construction contracts of the Qingdao Group and shall submit tender for projects after preliminary internal feasibility study as well as taking into account of the availability of resources at the relevant time. In addition, Shareholders should note that the Annual Caps represent estimates by the Group based on the information currently available. Furthermore, the Qingdao Group may or may not undertake any future real estate development projects and/or construction projects up to the potential size projected by the Company and appoint member(s) of the Group as construction contractor(s) in relation to future tenders for the Qingdao Group's existing and/or future construction projects, or if appointed, to take up construction works up to the level of the Annual Caps. As such, Shareholders should also be aware that the actual utilisation and sufficiency of the Annual Caps would depend on a host of factors, including but not limited to, the contract sum to be awarded to the Group after a competitive tender process (if at all), the progress of development in Qingdao West Coast Area and the scope of work. In this regard, we understand from the Management that the Company will actively monitor the progress and utilisation of the Annual Caps to ensure compliance with the Listing Rules from time to time.

Having taken into account (i) the Management shall continue to develop the Group's construction business under the Group's strategy and, subject to successful tender, seek appointment by the Qingdao Group as construction contractor(s) for the construction projects in the Qingdao West Coast Area; (ii) the information on the construction contracts as set out under the upcoming contracts schedule; (iii) our analysis and work performed as set out above; (vi) the Annual Caps offer the Group flexibility and facilitate the participation in tenders and (subject to successful tender(s)) taking on construction contracts from member(s) of the Qingdao Group as construction contractor(s); and (v) it is an option but not an obligation for the Group to participate in tendering process for construction contracts of the Qingdao Group, we consider that the basis for the Annual Caps to be fair and reasonable.

VIII. RECOMMENDATION

Having considered the factors as disclosed in this letter above, in particular,

- (i) the reasons for and benefits of entering into the Transactions;
- (ii) the award of construction services under the Construction Services Framework Agreement, subject to successful tender, facilitates the development of the Group's construction business in the PRC, thus shall broaden the Group's revenue base;
- (iii) the Transactions are conducted in the ordinary and usual course of business of the Group and shall be on normal commercial terms given the relevant internal control policies governing the tender procedures; and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (iv) the basis for determining the Annual Caps, details of which are disclosed in the section headed “4. Basis for determining the Annual Caps” in this letter above,

we are of the view that the Transactions are in the ordinary and usual course of business of the Group and on normal commercial terms and in the interests of the Company and the Shareholders as a whole, and the terms of the Transactions are fair and reasonable so far as the Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend, and we recommend, the Independent Shareholders to vote in favour of the relevant ordinary resolutions to approve the Transactions at the EGM.

Yours faithfully,
For and on behalf of
Red Sun Capital Limited
Lewis Lai
Managing Director

Mr. Lewis Lai is a licensed person registered with the SFC and a responsible officer of Red Sun Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 13 years of experience in the corporate finance industry.

* *English translation of names in Chinese which is marked with “*” in this letter is for identification purposes only.*

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. DISCLOSURE OF INTERESTS

(a) Directors' and chief executives' interests and short positions in the Shares, underlying Shares and debentures of the Company and 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 of Director	Capacity	Number of Shares	Approximate percentage of interest
Mr. Cui Qi ("Mr. Cui")	Interest through controlled corporations (<i>Note</i>)	102,000,000	12.75%

Note: The 102,000,000 Shares were held by Sky Hero Global Limited ("Sky Hero"), a company wholly owned by Solid Jewel Investments Limited ("Solid Jewel"), which was in turn owned as to 60% by Mr. Cui.

Long position in the shares of associated corporations of the Company

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

(b) Substantial shareholders' interests and other person's interests and short positions in the 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 Shareholders	Capacity	Number of Shares	Approximate percentage of interest
Qingdao West Coast Holdings (Note 4)	Beneficial owner	600,000,000	75.00%
West Coast Investment (Hong Kong) Limited (Note 1)	Interest of a controlled corporation	600,000,000	75.00%
West Coast Holdings (Hong Kong) Limited (Note 1)	Interest of 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 of a controlled corporation	600,000,000	75.00%

Name of Shareholders	Capacity	Number of Shares	Approximate percentage of interest
Qingdao West Coast Group (<i>Note 1</i>)	Interest of a controlled corporation	600,000,000	75.00%
Qingdao State-owned Assets Supervision and Administration Commission of the State Council	Interest of a controlled corporation	600,000,000	75.00%
Sky Hero	Beneficial owner	102,000,000	12.75%
Solid Jewel (<i>Note 2</i>)	Interest of a controlled corporation	102,000,000	12.75%
Ms. Mu Zhen (“ Ms. Mu ”) (<i>Note 3</i>)	Interest of spouse	102,000,000	12.75%

Notes:

- Each of these entities is wholly owned and controlled by the Qingdao State-owned Assets Supervision and Administration Commission of the State Council and is deemed under the SFO to be interested in all the Share which are directly and beneficially owned by Qingdao West Coast Holdings.
- Solid Jewel is deemed or taken to be interested in all the Shares which are beneficially owned by Sky Hero under the SFO. Sky Hero is wholly-owned by Solid Jewel.
- Ms. Mu is the spouse of Mr. Cui and she is deemed or taken to be interested in all the Shares which are beneficially owned by Mr. Cui under the SFO.
- The interest in Shares held by Qingdao West Coast Holdings included the 102,000,000 Shares held by Sky Hero which were charged in favour of Qingdao West Coast Holdings.

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' 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).

4. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

As at the Latest Practicable Date, other than (i) the Landong Construction Contracts, the Lanxi Construction Contracts and the Construction Services Framework Agreement which Mr. Liu Luqiang, Mr. Yang Zhenshan and Mr. Jiang Shuang, each an executive Director, and Mr. Wang Xuejun, a non-executive Director were interested in; and (ii) the 2020 Vessel Chartering Framework Agreement, which Mr. Cui, an executive Director was interested in, 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 Group. Details of the Landong Construction Contracts, Lanxi Construction Contracts and the 2020 Vessel Chartering Framework Agreement are set out in the letter from the Board in the Circular of the Company dated 13 March 2020.

As at the Latest Practicable Date, other than Mr. Cui who was indirectly interested in the vessels which had been chartered to the Group by Shenzhen Changsheng Marine Engineering Limited* (深圳長盛海事工程有限公司) (“**Shenzhen Changsheng**”) with a total transaction amount of approximately HK\$8.1 million since 31 December 2019 (being the date to which the latest published audited financial statements of the Group were made up), 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. COMPETING INTERESTS OF DIRECTORS

As at the Latest Practicable Date, Mr. Cui and his spouse, Ms. Mu held the entire equity interests in Shenzhen Changsheng. Therefore, Mr. Cui 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, none of the Directors and their respective close associates had any interest in any business, apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with the business of the Group pursuant to Rule 8.10 of the Listing Rules.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirmed that there was no material adverse change in the financial or trading position of the Group since 31 December 2019, being the date of which the latest published audited financial statements of the Group were made up.

7. EXPERT AND CONSENT

The following is the qualification of the expert who has provided opinion or advice contained in this circular:

Name	Qualification
Red Sun Capital Limited	A licensed corporation to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO

The letter, report and/or opinion from the above expert is given as of the date of this circular for incorporation in this circular. The above expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its letter, report and/or opinion, as the case may be, and references to its name in the form and context in which it appears.

As at the Latest Practicable Date, the above expert:

- (a) did not have any direct or indirect interest in any assets which have since 31 December 2019 (being the date to which the latest published audited financial statements of the Group were made up) been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group; and
- (b) did not have any shareholding 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.

8. MISCELLANEOUS

The English text of this circular shall prevail over the Chinese text in the event of inconsistency.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at Unit Nos. 04-05, 5/F, K. Wah Centre, 191 Java Road, North Point, Hong Kong during normal business hours on any business day from the date of this circular up to and including the date of the EGM:

- (a) the Construction Services Framework Agreement;
- (b) the letter from the Board, the text of which is set out in the section headed “Letter from the Board” of this circular;
- (c) the letter from the Independent Board Committee, the text of which is set out in the section headed “Letter from the Independent Board Committee” of this circular;

- (d) the letter from the Independent Financial Adviser, the text of which is set out in the section headed “Letter from the Independent Financial Adviser” of this circular;
- (e) the written consent referred to in the section headed “7. Expert and Consent” in this appendix; and
- (f) this circular.



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)

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting (the “**Meeting**”) of Prosper Construction Holdings Limited (the “**Company**”) will be held at United Conference Centre, 10th Floor, United Centre, 95 Queensway, Admiralty, Hong Kong on Monday, 29 June 2020 at 10:00 a.m. for the purpose of considering and, if thought fit, passing with or without modification, the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. To consider and, if thought fit, to pass the following resolutions as ordinary resolutions:

“**THAT:**

- (a) the entering into of the framework agreement dated 28 April 2020 between West Coast Development (Hong Kong) Limited (西海岸發展(香港)有限公司) and Qingdao West Coast Development (Group) Limited* (青島西海岸發展(集團)有限公司) (“**Qingdao West Coast Group**”) (the “**Construction Services Framework Agreement**”), pursuant to which the Company and its subsidiaries (the “**Group**”) have agreed to provide construction services for construction projects to Qingdao West Coast Group and its subsidiaries and/or affiliated companies (the “**Qingdao Group**”), which may involve tendering for the Qingdao Group’s construction projects in the People’s Republic of China, in accordance with the tendering procedures of the Qingdao Group and the Group from time to time for the period commencing on the date falling upon the passing of this resolution until 31 December 2022 (a copy of the Construction Services Framework Agreement marked “A” has been produced to the Meeting and signed by the Chairman of the Meeting for the purpose of identification), the transactions contemplated thereunder and the proposed annual caps be hereby approved, ratified and confirmed; and
- (b) any one director of the Company be and is hereby authorised to execute the Construction Services Framework Agreement and all such other documents and to do all such acts or things for and on behalf of the Company, and to make and agree such variations of a minor or non-material nature in or to the terms of the Construction Services Framework Agreement as he/she may consider appropriate or desirable relating to or in connection with the matters contemplated therein.”

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

Hong Kong, 8 June 2020

NOTICE OF EGM

Head office and principal place of business in Hong Kong:

Unit Nos. 04–05, 5/F

K. Wah Centre

191 Java Road

North Point

Hong Kong

Notes:

1. The resolutions set out in this notice of the Meeting will be taken by poll pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Listing Rules**”) and the results of the poll will be published on the websites of the Stock Exchange and the Company in accordance with the Listing Rules.
2. A member of the Company entitled to attend and vote at the Meeting will be entitled to appoint one or more proxies to attend and, on a poll, vote in his or her stead. A proxy need not be a member of the Company.
3. Whether or not you intend to attend the Meeting in person, you are urged to complete and return the form of proxy in accordance with the instructions printed thereon. Completion and return of the form of proxy will not preclude you from attending the Meeting and voting in person if you so wish. In the event that you attend the Meeting after having lodged the form of proxy, it will be deemed to have been revoked.
4. To be valid, the form of proxy, together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority, must be deposited at the Company’s branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, not less than 48 hours before the time fixed for holding the Meeting or any adjournment thereof, provided that no account is to be taken of any part of a day that is a public holiday.
5. Where there are joint registered holders of any Share, any one of such persons may vote at the Meeting, either personally or by proxy, in respect of such Share as if he/she were solely entitled thereto, but if more than one of such joint registered holders be present at the Meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such Share shall alone be entitled to vote in respect thereof.
6. In order for a shareholder of the Company to be eligible to attend and vote at the Meeting, all transfer forms accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 22 June 2020.

7. **Precautionary measures and special arrangements for the EGM**

In view of the novel coronavirus (“**COVID-19**”) outbreak, certain measures will be implemented at the EGM to reduce the risk of infection to attendees of the EGM, including but not limited to (i) compulsory body temperature check; (ii) wearing of surgical masks throughout the EGM; and (iii) no refreshments or drinks being provided. Attendees who do not comply with the precautionary measures above may be denied entry to the EGM venue, at the absolute discretion of the Company as permitted by law.

For the health and safety of Shareholders, the Company would like to encourage Shareholders to exercise their right to vote at the EGM by appointing the Chairman of the EGM as their proxy and to return their proxy forms by the time specified above, instead of attending the EGM in person.

The Company will keep monitoring the COVID-19 situation and may implement additional measures which, if any, will be announced at a time closer to the date of the EGM.

NOTICE OF EGM

As at the date of this notice, the Board comprises executive Directors, namely Mr. Liu Luqiang (chairman of the Board), Mr. Cui Qi, Mr. Ding Hongbin, Mr. Yang Zhenshan and Mr. Jiang Shuang; non-executive Director Mr. Wang Xuejun; and independent non-executive Directors Mr. Cheung Chi Man Dennis, Mr. Wang Yaping and Mr. Cheng Xuezhao.

* *English translation of names in Chinese which is marked with “*” in this notice is for identification purposes only.*