THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

瑞港建設控股有限公司
PROSPER CONSTRUCTION HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6816)

MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF 80% EQUITY INTERESTS IN QINGDAO DONGJIE CONSTRUCTION ENGINEERING CO., LTD.* AND NOTICE OF EXTRAORDINARY GENERAL MEETING

A notice convening the extraordinary general meeting of Prosper Construction Holdings Limited to be held at 10:00 a.m. on Wednesday, 18 December 2019 at United Conference Centre, 10th Floor, United Centre, 95 Queensway, Hong Kong is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the extraordinary general meeting is enclosed with this circular. Whether or not you are able to attend such meeting, you are requested to complete and sign the accompanying form of proxy in accordance with the instructions printed thereon and return it, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of the power of attorney or authority, to the Company's Hong Kong branch share registrar, 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 holding such meeting or any adjourned meeting thereof (as the case may be).

Completion and return of the form of proxy will not preclude you from attending and voting in person at such meeting or any adjourned meeting thereof (as the case may be) and, in such event, the form of proxy shall be deemed to be revoked.

29 November 2019

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

"Acquisition"	the proposed acquisition by the Purchaser of the Sale Interests subject to and upon the terms and conditions of the Sale and Purchase Agreement
"Board"	the board of Directors
"Business Day(s)"	a day (other than a Saturday, Sunday and public holidays) on which licensed banks are generally open for business in the PRC throughout their normal business hours
"Company"	Prosper Construction Holdings Limited (瑞港建設控股有限公司), a company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on the Stock Exchange (Stock Code: 6816)
"Completion"	completion of the Acquisition in accordance with the terms and conditions of the Sale and Purchase Agreement
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"Consideration"	the consideration for the Acquisition
"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, approve the Acquisition and the entering into and performance of the Sale and Purchase Agreement
"Enlarged Group"	the Group and the Target Company upon the Completion
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"Latest Practicable Date"	22 November 2019, 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

"PRC"	the People's Republic of China, and for the purpose of this circular, excludes Hong Kong, Macau Special Administrative Region and Taiwan
"Purchaser"	青島西發瑞海實業發展有限公司 (Qingdao Xifa Ruihai Industrial Development Co. Ltd.*), a company established in the PRC with limited liability and a wholly owned subsidiary of the Company
"RMB"	Renminbi, the lawful currency of the PRC
"Sale and Purchase Agreement"	the conditional sale and purchase agreement dated 23 September 2019 entered into among the Purchaser, the Vendors and the Target Company in relation to the Acquisition
"Sale Interests"	the 80% equity interests in the Target Company as at the date of the Sale and Purchase Agreement
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share of HK$0.01 each in the capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Company"	青島東捷建設工程有限公司 (Qingdao Dongjie Construction Engineering Co., Ltd.*), a company established in the PRC with limited liability
"Vendor(s)"	collectively, 于華毅 (Yu Huayi*), 牟文樂 (Mou Wenle*), 牟麗萍 (Mou Liping*), 邴起宏 (Bing Qihong*), 丁培增 (Ding Peizeng*), 王金升 (Wang Jinsheng*), 董良玉 (Dong Liangyu*), 國得義 (Guo Deyi*), 季進亮 (Ji Jinliang*), 楊麗紅 (Yang Lihong*), 程顯祥 (Cheng Xianxiang*), 孫艦 (Sun Jian*), 孫曉林 (Sun Xiaolin*), 郭立敏 (Guo Limin*) and 李沖 (Li Chong*)
"%"	per cent.

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

Amounts denominated in RMB in this circular have been converted into HK$ at the rate of RMB1.0 to HK$1.1 for illustrative purposes only.

瑞港建設控股有限公司
PROSPER CONSTRUCTION HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 6816)

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

Non-executive Director:
Mr. Wang Xuejun

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

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

Head Office and Principal Place of business in Hong Kong:
Unit Nos. 04–05 on 5th Floor
K Wah Centre
191 Java Road, North Point
Hong Kong

29 November 2019

To the Shareholders

Dear Sir/Madam,

MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF 80% EQUITY INTERESTS IN QINGDAO DONGJIE CONSTRUCTION ENGINEERING CO., LTD.* AND NOTICE OF EXTRAORDINARY GENERAL MEETING

A. INTRODUCTION

Reference is made to the announcements of the Company dated 26 June 2019 and 23 September 2019, respectively.

On 23 September 2019 (after trading hours of the Stock Exchange), the Purchaser, a wholly owned subsidiary of the Company, the Vendors and the Target Company entered into the Sale and Purchase Agreement, pursuant to which the Purchaser has conditionally agreed to acquire and the Vendors have conditionally agreed to dispose of the Sale Interests at an aggregate Consideration of RMB71,352,000 (equivalent to approximately HK$78,487,200) (subject to adjustment).

The purpose of this circular is to provide you with, among other things, (i) details of the Sale and Purchase Agreement; (ii) the financial information of the Group; (iii) the accountant's report and management discussion and analysis of the Target Company; (iv) the unaudited pro forma financial information of the Enlarged Group; (v) a notice of EGM; and (vi) other information as required under the Listing Rules.

B. THE SALE AND PURCHASE AGREEMENT

The principal terms of the Sale and Purchase Agreement are summarised below:

Date

23 September 2019

Parties

(1) the Purchaser;

(2) the Vendors; and

(3) the Target Company.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendors are third parties independent of the Company and its connected persons.

Assets to be acquired

Pursuant to the Sale and Purchase Agreement, the Vendors shall sell the Sale Interests as beneficial owners and the Purchaser shall purchase all of the Sale Interests, representing 80% of the equity interests in the Target Company.

Consideration

Pursuant to the Sale and Purchase Agreement and subject to the adjustment set out below, the aggregate Consideration for the sale and purchase of the Sale Interests shall be RMB71,352,000 (equivalent to approximately HK$78,487,200) which shall be settled in the following manner:

(a) subject to the possible adjustment of the Consideration mentioned below, the Purchaser shall pay a sum of RMB46,378,800 (equivalent to approximately HK$51,016,680) being 65% of the Consideration to the Vendors by way of remittance to the bank account(s) as designated by the Vendors within three Business Days after the date of the Completion; and

(b) subject to the possible adjustment of the Consideration mentioned below, the remaining balance of the Consideration shall be paid by the Purchaser to the Vendors by way of remittance to the bank account(s) as designated by the Vendors within six months after the date of the Completion.

The Consideration was determined after arm's length negotiations between the Purchaser and the Vendors and the Directors are of the view that the Consideration is fair and reasonable, having assessed and taken into account, among other things, (i) the unaudited net asset value of the Target Company, excluding its fixed assets, as at 31 May 2019 in the amount of approximately RMB27,800,000 (equivalent to approximately HK$30,580,000); (ii) the market value of the commercial building properties of the Target Company as at 31 May 2019, as assessed by an independent professional valuer, in the amount of approximately RMB61,000,000 (equivalent to approximately HK$67,100,000); and (iii) the valuation of the Target Company of approximately RMB102,000,000 (equivalent to approximately HK$112,200,000) based on the market approach as at 31 May 2019, prepared by an independent professional valuer which is approximately RMB13,200,000 (equivalent to approximately HK$14,520,000) higher than the sum of items (i) and (ii) above. The Directors believed that such a difference between item (iii) and the sum of items (i) and (ii) above is fair and reasonable considering the following factors: (i) the Target Company's PRC grade one general construction contractor qualification and PRC grade two construction and decoration engineering contractor qualification and other licenses which require time and resources to achieve; (ii) the on-going profitable operation in 2017 and 2018 and the future business prospects of the Target Company; (iii) the 25 active patents relating to construction know-hows and methods registered with the China National Intellectual Property Administration (國家知識產權局) under the name of the Target Company; (iv) the Target Company's industry knowledge, established customers base, suppliers network and management team in the PRC; and (v) other reasons and benefits of the Acquisition, in particular, the synergy between the businesses of the Group and the Target Company as detailed under the section headed "E. Reasons and benefits of the Acquisition" in this circular.

The Consideration is equivalent to RMB1.7838 (equivalent to approximately HK1.9622) per share of the Sale Interests and represents a discount of approximately 12.56% to the market value of RMB102,000,000 of the Target Company as at 31 May 2019 as valued by an independent professional valuer and a premium of approximately 5.80% to the unaudited net asset value of the Target Company after fair value adjustments on certain non-current assets stated at historical cost as at 31 May 2019. The Directors are of the view that the premium of the Consideration over the Target Company's adjusted net asset value as at 31 May 2019 is fair and reasonable, considering that the adjusted net asset value neither includes the value of the Target Company's qualifications and licenses nor the value of the Target Company's active patents, as well as for the reasons and justifications mentioned above.

Pursuant to the Sale and Purchase Agreement, the Purchaser and the Vendors agreed that if the audited net asset value of the Target Company (except for the adjustments to the valuation of properties held by the Target Company) as shown in the audited financial statements of the Target Company is less than the unaudited net asset value of the Target Company as at 31 May 2019, the Consideration shall be reduced accordingly based on the proportion of the equity interests held by the Vendors in the Target Company. Since the net asset value of the Target Company (except for the adjustments to the valuation of properties held by the Target Company) based on the audited financial statements of the Target Company as at 31 May 2019 is approximately RMB4,126,000 (equivalent to approximately HK$4,538,600) less than the unaudited net asset value of the Target Company as at 31 May 2019 which is mainly attributable to credit loss allowance on financial assets of the Target Company, the parties to the Sale and Purchase Agreement have agreed that the Consideration shall be reduced in the amount of approximately RMB3,300,800 (equivalent to approximately HK$3,630,880) (the "**Reduction Amount**") in proportion to the 80% equity interests in the Target Company to be disposed of by the Vendors. Accordingly, the adjusted Consideration is RMB68,051,200 (equivalent to approximately HK$74,856,320). Pursuant to the Sale and Purchase Agreement, in the event that the relevant account receivables are collected by the Target Company subsequent to the Completion, the Purchaser shall repay the Reduction Amount to the Vendors.

Further, as agreed in the Sale and Purchase Agreement, the Consideration shall be adjusted if there is any event occurring on or after the date of the Sale and Purchase Agreement up to the Completion which has the effect of reducing the audited net asset value of the Target Company. As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, there is no such event occurring on or after the date of the Sale and Purchase Agreement which has the effect of reducing the audited net asset value of the Target Company and no such adjustment has been made.

The Directors are of the view that the terms of the Sale and Purchase Agreement are fair and reasonable in the interests of the Company and the Shareholders as a whole.

Conditions Precedent

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

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

2. the passing of necessary resolutions by the Shareholders (other than those required to be abstain from voting under the Listing Rules (if any)) of the Company at an extraordinary general meeting of the Company to be convened and held to approve the Sale and Purchase Agreement and the transactions contemplated thereunder and the obtaining of the approval from the Stock Exchange (if required);

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

4. the completion of the reorganisation such that the only subsidiary of the Target Company, namely, 青島鴻展工程勞務有限公司 (Qingdao Hongzhan Engineering Labour Service Co. Ltd.*) shall be disposed of;

5. the perfection of the relevant industrial and commercial registration procedures in respect of the current shareholding information of the Target Company;

6. the execution of documentations between the Target Company and four of the Vendors confirming the cancellation of the sale and purchase agreements of several properties of the Target Company; and

7. all representations, warranties and undertakings given by the Vendors, the Purchaser and the Target Company set out in the Sale and Purchase Agreement remaining true and accurate from the date of the Sale and Purchase Agreement until the Completion.

As at the Latest Practicable Date, save as the conditions precedent 4, 5 and 6, none of the above conditions precedent has been fulfilled.

Completion

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

Upon the Completion, the Purchaser will be interested in 80% equity interests in the Target Company. As such, the Target Company will become an indirect non-wholly owned subsidiary of the Company.

C. INFORMATION ON THE TARGET COMPANY

The Target Company was established in the PRC in July 2003 and 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.

As at the Latest Practicable Date, the shareholding structure of the Target Company is as follows:

	Paid-up capital of the Target Company	Approximate interest in the Target Company
The Vendors		
于華毅 (Yu Huayi*)	RMB11,216,863	22.43373%
牟文樂 (Mou Wenle*)	RMB9,921,137	19.84227%
牟麗萍 (Mou Liping*)	RMB4,126,856	8.25371%
邴起宏 (Bing Qihong*)	RMB2,704,731	5.40946%
丁培增 (Ding Peizeng*)	RMB2,643,330	5.28666%
王金升 (Wang Jinsheng*)	RMB2,619,702	5.23940%
董良玉 (Dong Liangyu*)	RMB2,011,251	4.02250%
國得義 (Guo Deyi*)	RMB1,512,195	3.02439%
季進亮 (Ji Jinliang*)	RMB885,869	1.77175%
楊麗紅 (Yang Lihong*)	RMB783,489	1.56698%
程顯祥 (Cheng Xianxiang*)	RMB674,026	1.34805%
孫艦 (Sun Jian*)	RMB547,216	1.09443%
孫曉林 (Sun Xiaolin*)	RMB449,350	0.89870%
郭立敏 (Guo Limin*)	RMB251,425	0.50285%
李沖 (Li Chong*)	RMB224,675	0.44935%
Other shareholder		
蘇茂生 (Su Maosheng*)	RMB9,427,885	18.85577%
Total:	RMB50,000,000	100%

Upon the Completion, 蘇茂生 (Su Maosheng*), being the remaining shareholder who did not sell his equity interests in the Target Company, will continue to hold 18.85577% of the equity interests in the Target Company and 于華毅 (Yu Huayi*), being one of the Vendors, will retain 1.14423% of the equity interests in the Target Company.

Set out below is a summary of the audited financial information of the Target Company for the years ended 31 December 2016, 2017, 2018 and the five-months ended 31 May 2019:

	For the year ended 31 December			For the five-months ended 31 May
	2016	**2017**	**2018**	**2019**
	Audited	Audited	Audited	Audited
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	177,730	274,561	333,534	56,322
Gross profit	520	12,665	10,111	2,053
(Loss)/profit for the year/period	(4,082)	4,149	2,829	(1,553)

The total assets, total liabilities and net assets of the Target Company as at 31 May 2019 according to its audited financial information were approximately RMB381,968,000, RMB336,076,000 and RMB45,892,000, respectively.

As set out in the sections headed "Revenue" and "(Loss)/Profit for the Years/Period" in Appendix III "Management Discussion and Analysis of the Target Company" to this circular, the Target Company recorded a decrease in revenue for the five months ended 31 May 2019 as compared to the corresponding period in 2018 mainly due to the delay of three large-scale potential construction and decoration projects. The decrease in revenue caused by such delay, coupled with the relatively fixed level of administrative expenses for the purpose of maintaining a sufficient scale of operations during the period, have resulted in the net loss of the Target Company for the period ended 31 May 2019 as compared to the record of net profit in 2017 and 2018.

As far as the delayed projects are concerned, as at the Latest Practicable Date, the Target Company has been actively following up on the three large-scale construction and decoration projects with a total estimate contract amount of approximately RMB1,100,000,000 (equivalent to approximately HK$1,210,000,000). Commercial negotiations of such projects have reached an advanced stage based on the communication between the management of the Target Company and the counterparties of these projects, with whom the management of the Target Company has a long-term business relationship. Based on the progress of the negotiations and the past business relationship between the parties, the management of the Target Company and the Directors believe that the Target Company has the opportunity to win the contracts of the projects. The Directors anticipate that the operation and financial performance of the Target Company will largely improve after the commencement of the projects.

D. INFORMATION ON THE GROUP

The Company is an investment holding company and its subsidiaries provide marine construction services and leasing and trading of vessels. The Purchaser, namely 青島西發瑞海實業發展有限公司 (Qingdao Xifa Ruihai Industrial Development Co. Ltd.*), was established in PRC and is wholly owned by the Company.

The Purchaser is principally engaged in foreign investment, municipal engineering construction, design and construction of landscaping projects, road construction, foundation and foundation engineering construction, earthwork construction, bridge construction, planning of cultural and art exchange activities, development, operation and management of ecological tourism projects and real estate development.

As at the date of this circular, the Company has no intention to effect any significant change to the Group's existing businesses, namely the provision of marine construction services and leasing and trading of vessels upon the Completion as it is the Company's intention to continue its current businesses. In addition, except for any disposal arising from its ordinary course of business of vessel trading, as at the date of this circular, the Company has no intention to enter into, and has not entered into any agreement, arrangement, understanding or negotiation to dispose of or discontinue its existing business or assets (whether concluded or not).

As far as the Group's business in the provision of marine construction services is concerned, it will continue to be one of the principal businesses and one of the major income streams of the Group. Nevertheless, the Group's financial performance in relation to the segment is largely subject to certain factors which are not entirely within the Group's control to a large extent. For instance, the marine construction industry is dependent on the general economic conditions of the markets and the level of government spending on infrastructure construction and the relevant policies regarding the industry in the regions where the Company operates its marine construction projects. In addition, the Group's marine construction projects are operated on or under water and are subject to seasonal weather conditions in the regions where the construction works are carried out. The factors mentioned above will not only affect the Group's ability to secure projects, but also the progress of the construction works of the Group's projects on hand which in turn will affect the Group's recognition of revenue from such projects during the relevant financial year.

It was mainly due to the aforesaid factors that the Group's revenue of the marine construction services segment has decreased substantially from approximately HK$636 million for the year ended 31 December 2016 to approximately HK$80 million during the six months ended 30 June 2019. For example, revenue derived from marine construction projects in Indonesia accounted for approximately 67.1% of the Group's total revenue for the year ended 31 December 2016, but contribution from marine construction projects in Indonesia drastically reduced to 13.6% for the year ended 31 December 2017, primarily due to the completion of substantially all the Group's projects in Indonesia by mid-2017 coupled with a change in policies affecting foreign investment in Indonesia. Meanwhile, approximately 43.0% of the Group's total revenue for the year ended 31 December 2017 was derived from projects in Macao as a land reclamation project was completed and a new electricity generation facility project was commenced during the year. However, the said electricity generation facility project in Macao was suspended during the year ended 31 December 2018 owing to the change in construction design by the project owner, causing a significant decline in the Group's total revenue for the year. During the six months ended 30 June 2019, although the Group had secured two new land reclamation projects in Macao with total estimate contract value of over HK$700 million, the commencement date of the two projects were delayed due to the prolonged approval process of the related marine dumping certificate and delays caused by official activities related to the Macao Special Administrative Region Establishment Day and the "Regatta Festival" in Macao which resulted in the temporary suspension of construction works in the relevant waters where the construction works of the project were carried out. Moreover, the Group's major dredging project in Mongla in Bangladesh was delayed in 2019 due to the beginning of the monsoon season. Owing to the aforesaid delays, as well as the slowdown of the overall marine construction market in Hong Kong, the delay in progress payments from the customers, the influence of China — United States trade war and the general market uncertainty that impacted financial markets in Hong Kong, the Group only recorded revenue of approximately HK$80 million for the marine construction services segment during the six months ended 30 June 2019.

In order to enhance the financial performance of the Group's marine construction services segment, the Group will continue to closely monitor the progress of its projects on hand and submit and follow up on more tenders for marine construction projects, especially in Macao and Southeast Asian countries where the Group has a comparatively stronger presence and established business operations. The Directors believe that the Group's financial performance in the marine construction services segment is expected to benefit from the commencement of the substantial construction works of the Group's projects on hand in the near future based on the Directors understanding of the latest progress of the projects and the future intake of new construction projects in the years to come.

In respect of the Group's marine construction projects on hand, as at the Latest Practicable Date, the Group has eight major projects on hand including the major marine reclamation project in Macao and the major dredging project in Bangladesh mentioned above, a major marine construction and engineering project of a coal-fired thermal power plant in Vietnam, as well as other projects located in Pakistan and Cambodia. As at the Latest Practicable Date, the total contract value of the Group's projects on hand amounted to approximately more than HK$1,800 million, of which a considerable amount is expected to be recognised in the year ending 31 December 2019. Further, as at the Latest Practicable Date, the Group has 10 potential marine construction and engineering projects under negotiation which are mainly located in Macao and Southeast Asian countries such as The Philippines, Pakistan and Vietnam with a total estimate contract value of over HK$1,200 million. The Directors believe that the winning of such project(s) will further provide the Group with additional and stable revenue source from the provision of marine construction services in the long run.

E. REASONS AND BENEFITS OF THE ACQUISITION

Although the Target Company has recorded net loss for the period ended 31 May 2019 as compared to net profit in 2017 and 2018, the Directors believe that the Acquisition is in the interest of the Company and the Shareholders as a whole for the justifications and reasons mentioned above in the paragraphs headed "Consideration" under section "B. The Sale and Purchase Agreement" in this circular. More importantly, the Directors are of the view that the Acquisition will enable the Group to expand its business portfolio and broaden its source of income. As disclosed in the announcements of the Company dated 26 June 2019 and 23 September 2019, in order to maximize the return to the Company and the Shareholders in the long run, the Directors have been reviewing the Group's existing business and seeking investment opportunities that could diversify the Group's existing business portfolio and broaden its source of income. The Directors are aware of vast amount of business opportunities in the construction industry in the greater Qingdao area of the Shandong Province in the PRC and a majority of the Directors are experienced in working with infrastructure and property project developers in both private and public sectors in the area. Nevertheless, the Group currently does not hold any qualification and/or license to engage in engineering and/or construction operation in the PRC and the process to obtain such qualification and/or license is time-consuming. The Directors considered that the Target Company is a legally qualified construction company with good reputation and the Acquisition is a logical step forward in the pursuit of the Group's business development opportunities in the construction industry in the PRC.

The Directors considered that the Acquisition represents a good opportunity to the Group to tap into the construction industry in the PRC, in particular, having considered the Target Company's existing qualifications and licenses, industry knowledge, established customers base, suppliers network and management team in the PRC and the Directors are of the view that the Acquisition will produce synergy and enable the Group to take up business opportunities in the construction industry (including projects with element of marine construction) in the greater Qingdao area in an efficient and effective manner. The Directors believe that with the qualifications, capabilities and experience of the Target Company in the general construction industry, the Company might be able to further tap into the general construction industry in Hong Kong and such other regions where the Company has marine construction businesses in the long run. By setting a foothold into the general construction industry in such regions, the Company will be able to enjoy synergy by accepting both marine construction projects and the general construction projects above the marine infrastructure constructed by the Company in the capacity as the Engineering, Procurement and Construction ("**EPC**") main contractor.

Currently, the Group only has the qualifications and capabilities in undertaking marine construction projects but not the general construction works above the marine infrastructure constructed by the Group. As a result, for construction projects involving both marine construction and general construction elements which are more often of larger scale in terms of contract value, the Group is only able to submit tenders as a subcontractor solely for the marine construction works under the projects. With the Target Company's PRC grade one general construction contractor qualification and PRC grade two construction and decoration engineering contractor qualification, the Group will be able to submit the tenders in the capacity as an EPC main contractor for both the marine construction works and the general construction works under such projects in Macao and certain Southeast Asian countries where the Group has a presence upon the fulfillment and compliance of certain local administration and registration procedures. The Directors believe that by acting as the EPC main contractor of such projects, the Group will be able to strengthen its position among its competitors and hence improving its probability in winning the tenders. Further, the Group will be able to have better control on the progress of the projects and enjoy a higher profit margin of such projects in its capacity as an EPC main contractor.

In light of the above, the Directors believe that qualifications and capabilities in the two construction segments are supplemental to each other. The Acquisition will not only broaden the Group's revenue source with its expansion into the general construction industry, but also benefit the Group's ability and competitiveness in winning large-scale projects as an EPC main contractor which require qualifications and capabilities in providing more comprehensive construction solutions involving both marine construction and general construction elements and will eventually benefit the Group's financial performance as a whole.

The Directors consider that the terms of the Sale and Purchase Agreement are fair and reasonable and on normal commercial terms, and that the entering into of the Sale and Purchase Agreement is in the interests of the Company and its Shareholders as a whole.

F. POSSIBLE FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, the Group will be interested in 80% equity interests of the Target Company and accordingly the Target Company will become an indirect non-wholly owned subsidiary of the Company and the financial results, assets and liabilities of the Target Company will be consolidated into the accounts of the Group.

As shown in the unaudited pro forma financial information of the Enlarged Group set out in Appendix IV to this circular, the Acquisition will increase the total assets and total liabilities of the Group by approximately HK$484,208,000 and HK$468,907,000, respectively. For the year ended 31 December 2018, the audited profit attributable to owners of the Target Company was approximately RMB2,829,000 (equivalent to approximately HK$3,111,900). Please refer to Appendix IV "Unaudited Pro Forma Financial Information of the Enlarged Group" to this circular for more information on the basis of preparation of the unaudited pro forma consolidated financial information of the Enlarged Group.

G. IMPLICATIONS UNDER THE LISTING RULES

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

H. EGM

The EGM will be held for the Shareholders to consider and, if thought fit, approve the Sale and Purchase Agreement and the transactions contemplated thereunder. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder will be required to abstain from voting in relation to the resolution(s) to approve the Sale and Purchase Agreement and the transactions contemplated thereunder at the EGM.

The notice convening the EGM to be held at 10:00 a.m. on Wednesday, 18 December 2019 at United Conference Centre, 10th Floor, United Centre, 95 Queensway, Hong Kong is set out on pages EGM-1 to EGM-2 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 and return the accompanying form of proxy in accordance with the instructions printed thereon and return it together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of the power of attorney or authority, to the Company's Hong Kong branch share registrar, 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 adjourned meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof (as the case may be) and, in such event, the form of proxy shall be deemed to be revoked.

I. CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 13 December 2019 to Wednesday, 18 December 2019, both days inclusive, during which period no transfer of Shares will be effected. In order to qualify to attend and vote at the EGM, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Thursday, 12 December 2019.

J. RECOMMENDATIONS

The Board believes that the terms of the Sale and Purchase Agreement are on normal commercial terms which are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends all Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

K. ADDITIONAL INFORMATION

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

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

1. FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial statements, together with the accompanying notes to the financial statements, of the Group for the years ended 31 December 2016 and 2017 and 2018, the unaudited condensed consolidated financial information of the Group for the six months ended 30 June 2019 were set out in the in the following documents which have been published on the websites of the Stock Exchange (**www.hkexnews.hk**) and the Company (**www.prosperch.com**). The quick links to the relevant documents as are below:

Annual report of the Company for the year ended 31 December 2016:
www1.hkexnews.hk/listedco/listconews/sehk/2017/0419/ltn20170419285.pdf

Annual report of the Company for the year ended 31 December 2017:
www1.hkexnews.hk/listedco/listconews/sehk/2018/0416/ltn20180416378.pdf

Annual report of the Company for the year ended 31 December 2018:
www1.hkexnews.hk/listedco/listconews/sehk/2019/0429/ltn201904291541.pdf

Interim report of the Company for the six months ended 30 June 2019
www1.hkexnews.hk/listedco/listconews/sehk/2019/0913/ltn20190913197.pdf

2. STATEMENT OF INDEBTEDNESS

As at 31 October 2019, the latest practicable date for the purpose of the indebtedness statement, the Group has outstanding borrowings of approximately HK$144.4 million, which were denominated in HK$, RMB and MOP.

As at 31 October 2019, the Group has no material covenants relating to our outstanding debts.

The Group's loan facilities are secured or guaranteed by (i) unlimited guarantees provided by the Company as at 31 October 2019; (ii) vessels and machinery and equipment with carrying amounts of HK$12.2 million as at 31 October 2019; (iii) deposits of not less than HK$13.2 million; and (iv) guarantees of HK$133.5 million from a subsidiary for a bank facility which covers a loan of HK$24.3 million and performance bond facility of HK$21.1 million as at 31 October 2019.

As at 31 October 2019, plant and equipment with carrying value of approximately HK$20.9 million were pledged as security for a provision of a performance bond and a prepayment surety bond totaling HK$21.1 million for the Group's project in Macao.

As at 31 October 2019, the joint operations held by the Group have given guarantees on performance bonds relating to construction contracts in the ordinary course of business, and the amounts shared by the Group were of HK$21.1 million. These performance bonds are expected to be released in accordance with the terms of the respective construction contracts. Save for the guarantees given on these performance bonds, we had no material contingent liabilities.

The Group leases various properties for the use of office and staff quarters. These lease liabilities were measured at net present value of the lease payments during the lease terms that are not yet paid. As at 31 October 2019, the lease liabilities was approximately HK$3.9 million, of which approximately HK$3.4 million would be due within one year and approximately HK$0.5 million would be due after one year.

As at 31 October 2019, the Target Company has amounts due to shareholders of approximately HK$0.4 million which are non-trade in nature, interest-free, unsecured and repayable on demand.

Save as disclosed above or as otherwise mentioned herein, and apart from intra-group liabilities, the Enlarged Group did not have any other outstanding mortgages, charges, debentures, loan capital, bank overdrafts, debt securities or other similar indebtedness, finance lease or hire purchases and finance lease commitments, liabilities under acceptances or acceptance credits, or any other guarantees or other material contingent liabilities as at 31 October 2019.

3. WORKING CAPITAL

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

4. FINANCIAL AND TRADING PROSPECT OF THE ENLARGED GROUP

The marine construction market in Hong Kong remained sluggish as public sector projects are being held up as a result of interruption of legislation council proceedings since year 2017. The Directors have been reviewing the Group's existing business and seeking opportunities that could diversify the Group's business coverage and broaden its source of income in order to counteract the impact of uncertainties in the Hong Kong market and maximize the return to the Company and its shareholders in the long run.

The Directors are aware of vast amount of construction business opportunities in the greater Qingdao area of the Shandong Province in the PRC and a majority of the Directors are experienced in working with infrastructure and property project developers in both private and public sector in the area. The Directors believe that the acquisition of the Target Company, being a legally qualified construction company with good reputation, will afford a good opportunity to the Group to tap into the construction market in the PRC. In particular, the Target Company's existing qualifications and licenses, industry knowledge, established customers base, suppliers network and management team in the PRC will produce synergy and enable the Group to take up business opportunities in the greater Qingdao area in an efficient and effective manner.

The Enlarged Group will focus on developing business in three key geographic regions: (i) marine construction market in Hong Kong SAR and Macao SAR; (ii) marine construction market in Southeast and Southern Asia; and (iii) buildings construction and public sector engineering and construction projects in the PRC.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirmed that there are no material adverse changes in the financial or trading position of the Group since 30 June 2019, being the date to which the latest published interim condensed consolidated financial information of the Group were made up and as disclosed in the interim report for the six months ended 30 June 2019, and up to and including the Latest Practicable Date.

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

pwc 羅兵咸永道

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

Introduction

We report on the historical financial information of Qingdao Dongjie Construction Engineering Co., Ltd. (青島東捷建設工程有限公司) (the "Target Company") set out on pages II-4 to II-38, which comprises the statements of financial position as at 31 December 2016, 2017 and 2018 and 31 May 2019, and the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for each of the periods then ended (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages II-4 to II-38 forms an integral part of this report, which has been prepared for inclusion in the circular of Prosper Construction Holdings Limited (the "Company") dated 29 November 2019 (the "Circular") in connection with the proposed acquisition of the Target Company by the Company.

Directors' responsibility for the Historical Financial Information

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

The financial statements of the Target Company for the Track Record Period ("Underlying Financial Statements"), on which the Historical Financial Information is based, were prepared by the directors of the Company based on the previously issued financial statements and management accounts of the Target Company for the Track Record Period. The directors of the Target Company are responsible for the preparation of the previously issued financial statements of the Target Company in accordance with the Accounting Standards for Business Enterprises promulgated before 15 February 2006 and the "Accounting System for Business Enterprises" of the People's Republic of China, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Reporting accountant's responsibility

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

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

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

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Target Company as at 31 December 2016, 2017 and 2018 and 31 May 2019 and of its financial performance and its cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Target Company which comprises the statements of comprehensive income, changes in equity and cash flows for the five months ended 31 May 2018 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant's report, is not prepared, in all material respects, in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

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

Adjustments

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

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong
29 November 2019

I HISTORICAL FINANCIAL INFORMATION OF THE TARGET COMPANY

Preparation of Historical Financial Information

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

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

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

STATEMENTS OF COMPREHENSIVE INCOME

		For the year ended 31 December			For the period ended 31 May	
		2016	**2017**	**2018**	**2018**	**2019**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Revenue	*5*	177,730	274,561	333,534	129,203	56,322
Cost of services	*7*	(177,210)	(261,896)	(323,423)	(126,495)	(54,269)
Gross profit		520	12,665	10,111	2,708	2,053
Other gains/(losses)	*6*	216	15	(10)	(205)	(30)
Reversal of/(provision for) impairment losses on financial assets	*13, 15*	—	—	632	—	(774)
Other administrative expenses	*7*	(6,055)	(6,649)	(6,357)	(2,159)	(2,775)
Operating (loss)/profit		(5,319)	6,031	4,376	344	(1,526)
Finance income	*8*	11	27	61	4	55
Finance costs	*8*	—	(394)	(538)	(288)	(528)
Finance income/(costs), net		11	(367)	(477)	(284)	(473)
(Loss)/profit before income tax		(5,308)	5,664	3,899	60	(1,999)
Income tax credit/ (expenses)	*9*	1,226	(1,515)	(1,070)	(62)	446
(Loss)/profit and total comprehensive (loss)/ income attributable to owners of the Target Company for the years/periods		(4,082)	4,149	2,829	(2)	(1,553)

STATEMENTS OF FINANCIAL POSITION

		As at 31 December		As at 31 May	
		2016	2017	2018	2019
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS					
Non-current assets					
Property, plant and equipment	*11*	25,650	24,605	23,268	22,506
Deferred income tax assets	*12*	2,006	491	1,423	1,869
Total non-current assets		27,656	25,096	24,691	24,375
Current assets					
Trade and retention receivables and note receivables	*13*	93,173	130,073	88,207	91,215
Deposits and other receivables	*13*	15,922	31,699	27,121	32,706
Income tax recoverable		12	12	—	—
Contract assets	*15*	—	—	283,895	228,068
Amounts due from customers for contract work	*14*	243,479	233,308	—	—
Amounts due from shareholders	*20*	281	6,026	546	65
Pledged bank deposits	*16*	200	200	5,200	5,200
Cash and cash equivalents	*16*	373	330	82	339
Total current assets		353,440	401,648	405,051	357,593
Total assets		381,096	426,744	429,742	381,968
EQUITY AND LIABILITIES					
Equity attributable to owners of the Target Company					
Share capital	*17*	50,000	50,000	50,000	50,000
Statutory reserve	*18*	203	203	203	203
Accumulated losses		(4,995)	(846)	(2,758)	(4,311)
Total equity		45,208	49,357	47,445	45,892
LIABILITIES					
Current liabilities					
Trade payables and note payables	*19*	125,701	110,735	172,732	121,332
Accruals and other payables	*19*	33,261	52,508	30,608	37,716
Amount due to a related party	*20*	165,117	207,221	170,760	168,344
Amounts due to shareholders	*20*	11,809	6,923	7,933	8,420
Income tax payable		—	—	264	264
Total liabilities		335,888	377,387	382,297	336,076
Total equity and liabilities		381,096	426,744	429,742	381,968

STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Target Company			
	Share capital	Accumulated losses	Statutory reserve (Note 18)	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2016	50,000	(913)	203	49,290
Loss and total comprehensive loss for the year	—	(4,082)	—	(4,082)
Balance at 31 December 2016	50,000	(4,995)	203	45,208
Balance at 1 January 2017	50,000	(4,995)	203	45,208
Profit and total comprehensive income for the year	—	4,149	—	4,149
Balance at 31 December 2017	50,000	(846)	203	49,357
Balance at 31 December 2017 as originally presented	50,000	(846)	203	49,357
Changes in accounting policy *(Note 2.1.1)*	—	(4,741)	—	(4,741)
Balance at 1 January 2018, as restated	50,000	(5,587)	203	44,616
Profit and total comprehensive income for the year	—	2,829	—	2,829
Balance at 31 December 2018	50,000	(2,758)	203	47,445
Balance at 1 January 2019	50,000	(2,758)	203	47,445
Loss and total comprehensive loss for the period	—	(1,553)	—	(1,553)
Balance at 31 May 2019	50,000	(4,311)	203	45,892
(Unaudited)				
Balance at 31 December 2017 as originally presented	50,000	(846)	203	49,357
Changes in accounting policy *(Note 2.1.1)*	—	(4,741)	—	(4,741)
Balance at 1 January 2018, as restated	50,000	(5,587)	203	44,616
Loss and total comprehensive loss for the period	—	(2)	—	(2)
Balance at 31 May 2018	50,000	(5,589)	203	44,614

STATEMENTS OF CASH FLOWS

		Year ended 31 December			Five months ended 31 May	
		2016	2017	2018	2018	2019
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Cash flows from operating activities						
(Loss)/profit before income tax		(5,308)	5,664	3,899	60	(1,999)
Adjustments for:						
— Depreciation	*11*	1,566	1,471	1,499	481	641
— Gains on disposal of plant and equipment	*6*	(242)	—	—	—	—
— (Reversal of)/provision for impairment losses on financial assets	*13,15*	—	—	(632)	—	774
— Finance income	*8*	(11)	(27)	(61)	(4)	(55)
— Finance costs	*8*	—	394	538	288	528
Operating (loss)/profit before working capital changes		(3,995)	7,502	5,243	825	(111)
— Trade and retention receivables and notes receivables		(27,464)	(36,900)	36,200	9,613	(3,237)
— Deposits and other receivables		(5,962)	(15,777)	4,578	17,502	(5,585)
— Contract assets		—	—	(50,611)	(25,244)	55,282
— Amounts due from customers for contract work		45,930	10,171	—	—	—
— Trade payables and note payables		(27,374)	(14,966)	61,997	229,081	(51,400)
— Accruals and other payables		(6,728)	19,509	(21,900)	(17,765)	7,229
— Amount due to a related party		25,381	42,104	(36,461)	(205,551)	(2,416)
— Pledged bank deposits		—	—	(5,000)	(5,000)	—
Cash (used in)/generated from operations		(212)	11,643	(5,954)	3,461	(238)
Income tax paid		(12)	—	(145)	—	—
Interest paid		—	(394)	(538)	(288)	(528)
Net cash (used in)/generated from operating activities		(224)	11,249	(6,637)	3,173	(766)

		Year ended 31 December			Five months ended 31 May	
		2016	2017	2018	2018	2019
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Cash flows from investing activities						
Payments for purchases of property, plant and equipment	*11*	(8)	(688)	(162)	(162)	—
Interest received		11	27	61	4	55
(Repayment to)/advance from shareholders		(38)	(5,745)	5,480	(3,348)	481
Net cash (used in)/generated from investing activities		(35)	(6,406)	5,379	(3,506)	536
Cash flows from financing activity						
Amounts due to shareholders		529	(4,886)	1,010	532	487
Net cash generated from/(used in) financing activity		529	(4,886)	1,010	532	487
Net increase/(decrease) in cash and cash equivalents		270	(43)	(248)	199	257
Cash and cash equivalents at the beginning of years/periods		103	373	330	330	82
Cash and cash equivalents at the end of years/periods	*16*	373	330	82	529	339

Reconciliation of liabilities arising from financing activities

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

	Amounts due to shareholders
	RMB'000
At 1 January 2017	11,809
Cash outflows	(4,886)
At 31 December 2017	6,923
At 1 January 2018	6,923
Cash inflows	1,010
At 31 December 2018	7,933
At 1 January 2019	7,933
Cash inflows	487
At 31 May 2019	8,420
(Unaudited)	
At 1 January 2018	6,923
Cash inflows	532
At 31 May 2018	7,455

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 GENERAL INFORMATION OF THE TARGET COMPANY

The Target Company is principally engaged in the provision of construction services in the People's Republic of China (the "PRC"). The Target Company is a limited liability company incorporated in the People's Republic of China. The address of its registered office is Unit 6–7, No. 33, Hai'er Road, Laoshan District, Qingdao, the PRC.

As at 31 May 2019, the Target Company is owned by Mr. Yu Huayi (于華毅) of approximately 22% and other individuals, who individually held less than 20% of shares, of approximately 78%.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

2.1.1 *Changes in accounting policy and disclosures*

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

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

A number of new or amended standards became applicable for the reporting period beginning on 1 January 2018 and the Target Company had to change its accounting policies and make modified retrospective adjustments as a result of adopting the following standards:

- HKFRS 9 Financial Instruments, and
- HKFRS 15 Revenue from Contracts with Customers

The below explains the impact of adoption of HKFRS 9 and HKFRS 15 on the Target Company's financial statements.

(i) Adoption of HKFRS 9

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

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

Classification and measurement of financial instruments

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

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

Impairment of financial assets

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

— trade and retention receivables

— contract assets relating to construction services

— other financial assets at amortised cost

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

Trade and retention receivables and contract assets

The Target Company applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected losses for all trade and retention receivables and contract assets. This resulted in an increase of the loss allowance on 1 January 2018 by RMB1,588,000 for trade and retention receivables and RMB4,734,000 for contract assets respectively. Note 3.1(b) provides for details about the calculation of the allowance.

The loss allowance decreased by RMB656,000 to RMB932,000 for trade and retention receivables and further increased by RMB24,000 to RMB4,758,000 for contract assets respectively during the year ended 31 December 2018.

Other financial asset at amortised cost

For other financial assets at amortised cost, the expected credit loss is based on the 12-month expected credit loss. It is the portion of lifetime expected credit loss that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime expected credit loss. Management has closely monitored the credit qualities and the collectability of the other financial assets at amortised cost and considers that the expected credit loss is immaterial.

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

(ii) Adoption of HKFRS 15

The Target Company has adopted HKFRS 15 from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the Historical Financial Information. The Target Company has adopted the modified retrospective approach with the cumulative effect on initial adoption recognised at the date of initial application, which is 1 January 2018, and comparative information has not been restated. The accounting policies are as follows:

<u>Construction services</u>

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

<u>Contract assets and contract liabilities</u>

Upon entering into a contract with a customer, the Target Company obtains rights to receive consideration from the customer and assume performance obligations to transfer goods or services to the customer. The combination of those rights and performance obligations give rise to a net asset or net liability depending on the relationship between the remaining rights and the performance obligations. In the statements of financial position, the contract assets mainly consist of unbilled revenue arising from the construction contracts.

(iii) Adoption of HKFRS 16

From 1 January 2019, leases are recognised as right-of-use assets and corresponding liabilities at the date at which the leased assets are available for use by the Target Company. Each lease payment is allocated between the liability and finance cost.

The Target Company has adopted HKFRS 16 from 1 January 2019, the adoption of the HKFRS 16 did not have any material impact on the Target Company's Historical Financial Information since all of the Target Company's lease are short-term leases with lease term of 12 months or less.

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

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

	As previously stated	Effects of the adoption of HKFRS 15	Effects of the adoption of HKFRS 9	As restated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2018				
Assets				
Deferred income tax assets	491	—	1,581	2,072
Trade and retention receivables and note receivables	130,073	—	(1,588)	128,485
Contract assets	—	233,308	(4,734)	228,574
Amounts due from customers for contract work	233,308	(233,308)	—	—
Others	62,872	—	—	62,872
Total assets	426,744	—	(4,741)	422,003
Liabilities				
Others liabilities	377,387	—	—	377,387
Total liabilities	377,387	—	—	377,387
Equity				
Accumulated losses	(846)	—	(4,741)	(5,587)
Others	50,203	—	—	50,203
Total equity	49,357	—	(4,741)	44,616

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

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

		Effective for accounting periods beginning on or after
Amendments to HKFRS 3	Definition of a Business	1 January 2020
Amendments to HKAS 1 and HKAS 8	Definition of Material	1 January 2020
Amendments to HKFRS 3	Definition of a Business	1 January 2020
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020
HKFRS 17	Insurance Contracts	1 January 2021
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

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

2.2 Segment reporting

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

2.3 Foreign currency translation

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

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

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

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

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

2.4 Property, plant and equipment

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

Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Target Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the statements of comprehensive income during the financial period in which they are incurred.

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

Buildings	20 years
Machinery and equipment	10 years
Office equipment and vehicles	10 years

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

Gains or losses on disposals are determined by comparing proceeds with carrying amount and are recognised in the statements of comprehensive income.

2.5 Impairment of non-financial assets

Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.6 Investments and other financial assets

(a) *Classification*

From 1 January 2018, the Target Company classifies its financial assets as those to be measured at amortised cost.

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

(b) *Recognition and derecognition*

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

(c) *Measurement*

At initial recognition, the Target Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial asset carried at fair value through profit or loss are expensed in the statements of comprehensive income.

(d) *Impairment*

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

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

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

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

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

(i) *Reclassification*

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

(ii) *Subsequent measurement*

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

(iii) *Impairment*

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

Assets carried at amortised cost

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

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

2.7 Offsetting financial instruments

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

2.8 Trade and other receivables

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

Trade and note receivables and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. The carrying amount of the assets is reduced through the use of a provision account, and the amount of the loss is recognised in the statements of comprehensive income within "other administrative expenses". When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against "other administrative expenses" in the statements of comprehensive income.

2.9 Cash and cash equivalents

In the statements of cash flows, cash and cash equivalents include cash at bank and deposits held at call with banks with original maturity of three months or less.

2.10 Share capital

Shares are classified as equity.

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

2.11 Trade and other payables

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

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

2.12 Provisions

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

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

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

2.13 Current and deferred income tax

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

(a) *Current income tax*

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

(b) *Deferred income tax*

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

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

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

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

2.14 Employee benefits

(i) *Pension obligations*

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

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

(ii) *Employee leave entitlements*

Employee entitlements to annual leave are reorganised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

2.15 Revenue recognition

(i) *Construction services*

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

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

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

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

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

Upon entering into a contract with a customer, the Target Company obtains rights to receive consideration from the customer and assume performance obligations to transfer goods or services to the customer. The combination of those rights and performance obligations give rise to a net asset or net liability depending on the relationship between the remaining rights and the performance obligations. The contract is an asset and recognised as contract assets if the measure of the remaining conditional rights to consideration exceeds the satisfied performance obligations. Conversely, the contract is a liability and recognised as contract liabilities if consideration received (or an amount of consideration is due) from the customer exceed the measure of the remaining unsatisfied performance obligations. In the statements of financial position, the contract assets mainly consist of unbilled revenue arising from the construction contracts.

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

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

Construction services

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

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

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

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

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

2.16 Interest income

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

2.17 Leases

The Target Company leases various machines and equipment for the use of their construction. Leases are typically short-term leases which are with a lease term of less than 12 months. Lease terms are negotiated on an individual basis and contain various different terms and conditions. Payments associated with short-term leases are recognised on a straight-line basis as an expense.

Accounting policies applied until 31 December 2018

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

2.18 Contingent liabilities

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

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Target Company's activities expose it to a variety of financial risk: market risk (including foreign exchange risk and cash flow interest rate risk), credit risk and liquidity risk. The Target Company's overall risk management programme focuses on the unpredictability of the financial markets and seeks to minimise potential adverse effects on the Target Company's financial performance.

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

(a) ***Market risk***

(i) *Foreign exchange risk*

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

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

(ii) *Cash flow interest rate risk*

The Target Company's interest rate risk arises from interest bearing bank deposits. Bank deposits at variable rates expose the Target Company to cash flow interest-rate risk. The Target Company currently does not use any derivative contracts to hedge its exposure to interest rate risk. There are no significant interest bearing bank deposits during the Track Record Period, the Target Company is therefore not exposed to significant cash flow interest rate risk.

(b) ***Credit risk***

The Target Company is exposed to credit risk in relation to its cash and cash equivalents, trade and retention receivables and note receivables, deposits and other receivables and amounts due from related parties. The Target Company's maximum exposure to credit risk is the carrying amounts of these financial assets.

For the years ended 31 December 2016, 2017 and 2018 and the five months ended 31 May 2018 and 2019, 87%, 76%, 46%, 44% and 82% of the Target Company's revenue was derived from its top five customers. As at 31 December 2016, 2017 and 2018 and 31 May 2019, the Target Company had concentration of credit risk as 59%, 53%, 52%, and 65% of the total trade receivables due from the Target Company's top five customers.

To manage this risk, management has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, management reviews regularly the recoverable amount of each individual trade and retention receivable to ensure that adequate impairment provision is made for the irrecoverable amounts. The Target Company will also consider the creditworthiness and general reputation of customers before submitting any indication of interest or tender.

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

(i) *Impairment of financial assets*

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

— trade and retention receivables

— contract assets relating to construction services

— other financial assets at amortised cost

Trade and retention receivables and contract assets

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

As the Target Company's historical credit loss experience does not indicate different loss patterns for different customers, the loss allowance based on past due status and timing of billing to customers is not further distinguished among the customers. The expected loss rates are based on the historical payment profiles of revenue from the contracts over the past 3 years for trade and retention receivables and the historical billing pattern for contract assets, respectively, and the corresponding historical credit losses experienced within this period. These rates are adjusted to reflect the current and forward-looking information on economic condition.

As at 31 May 2019, the expected credit losses of these collectively assessed trade and retention receivables and contract assets was RMB1,161,000 (1 January 2018: RMB1,588,000 and 31 December 2018: RMB932,000) and RMB5,303,000 (1 January 2018: RMB4,734,000 and 31 December 2018: RMB4,758,000) respectively based on expected loss rates ranging from 1.18% to 2.55% (1 January 2018: 1.52% to 3.30% and 31 December 2018: 1.18% to 2.55%) based on different age groupings.

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

	Contract assets	**Trade and retention receivables**
	RMB'000	*RMB'000*
As at 31 December 2017 — calculated under HKAS 39	—	—
Amounts restated through opening retained earnings	4,734	1,588
Opening loss allowance as at 1 January 2018 — calculated under HKFRS 9	4,734	1,588
Increase/(decrease) in loss allowance recognised in profit or loss during the year	24	(656)
As at 31 December 2018	4,758	932

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

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

Previous accounting policy for impairment of trade and retention receivables

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

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

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

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

(c) *Liquidity risk*

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

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

The table below analyses Target Company's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year			
	As at 31 December			**As at 31 May**
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables and notes payables	125,701	110,735	172,732	121,332
Accruals and other payables	31,919	51,649	29,618	36,902
Amount due to a related party	165,117	207,221	170,760	168,344
Amounts due to shareholders	11,809	6,923	7,933	8,420
Total	334,546	376,528	381,043	334,998

3.2 Capital risk management

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

In order to maintain or adjust the capital structure, the Target Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Target Company monitors capital on the basis of gearing ratio. This ratio is calculated as total debt divided by total capital.

The Target Company does not have any borrowings as at 31 December 2016, 2017 and 2018 and 31 May 2019.

3.3 Fair value estimation

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

3.4 Financial instruments by category

Assets as per statements of financial position

	Financial assets at amortised cost			
	As at 31 December			**As at 31 May**
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade and retention receivables and notes receivables, deposits and other receivables	109,095	161,772	115,328	123,921
Amounts due from shareholders	281	6,026	546	65
Pledged bank deposits	200	200	5,200	5,200
Cash and cash equivalents	373	330	82	339
Total	109,949	168,328	121,156	129,525

Liabilities as per statements of financial position

	Financial liabilities at amortised cost			
	As at 31 December			**As at 31 May**
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables and note payables, accruals and other payables	157,620	162,384	202,350	158,234
Amount due to a related party	165,117	207,221	170,760	168,344
Amounts due to shareholders	11,809	6,923	7,933	8,420
Total	334,546	376,528	381,043	334,998

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Construction contracts

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

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

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

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

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

(c) Income taxes and deferred taxation

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

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

5 REVENUE AND SEGMENT INFORMATION

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

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

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

Information about major customers

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

	For the year ended 31 December			For the period ended 31 May	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Customer A	48,233	42,043	35,688	14,870	6,201
Customer B	65,124	75,468	N/A	N/A	N/A
Customer C	22,365	N/A	N/A	N/A	N/A
Customer D	N/A	43,589	36,713	14,934	14,049
Customer E	N/A	N/A	N/A	N/A	10,588
Customer F	N/A	N/A	N/A	N/A	9,926

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

6 OTHER GAINS/(LOSSES)

	For the year ended 31 December			For the period ended 31 May	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Gains on disposal of plant and equipment	242	—	—	—	—
Others	(26)	15	(10)	(205)	(30)
	216	15	(10)	(205)	(30)

7 EXPENSES BY NATURE

	For the year ended 31 December			For the period ended 31 May	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Cost of services					
Consultancy and design fee	636	590	281	672	—
Depreciation	210	23	10	4	3
Materials	68,955	67,208	75,595	30,721	8,604
Subcontracting charges	89,104	184,646	236,483	89,466	41,271
Staff costs, including directors' emoluments *(Note a)*	4,050	3,712	3,727	1,587	1,658
Business and other taxes	7,709	536	626	300	173
Rental expenses for machineries and equipment *(Note b)*	2,576	2,928	5,208	2,826	1,586
Others	3,970	2,253	1,493	919	974
	177,210	261,896	323,423	126,495	54,269
Other administrative expenses					
Staff costs, including directors' emoluments *(Note a)*	3,902	4,107	3,488	957	1,712
Depreciation	1,356	1,448	1,489	477	638
Entertainment expenses	15	55	24	10	2
Travelling expenses	345	645	815	188	314
Others	437	394	541	527	109
	6,055	6,649	6,357	2,159	2,775
Total cost of services and administrative expenses	183,265	268,545	329,780	128,654	57,044

Note a:

	For the year ended 31 December			For the period ended 31 May	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Wages and salaries	5,419	5,651	4,723	1,830	2,275
Other social security costs, housing benefits and other employee benefits	2,533	2,168	2,492	714	1,095
	7,952	7,819	7,215	2,544	3,370
Amounts charged to cost of services	4,050	3,712	3,727	1,587	1,658
Amounts charged to administrative expenses	3,902	4,107	3,488	957	1,712
	7,952	7,819	7,215	2,544	3,370

Note b:

Payments for short-term leases in respect of machineries and equipment for the years ended 31 December 2016, 2017 and 2018 and the five months ended 31 May 2018 and 2019 are approximately RMB2,576,000, RMB2,928,000, RMB5,208,000 and, RMB2,826,000 and RMB1,586,000, respectively.

8 FINANCE INCOME/(COSTS), NET

	For the year ended 31 December			For the period ended 31 May	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Finance income					
— Interest income on bank deposits	11	27	61	4	55
Finance costs					
— Interest expense on note payables	—	(394)	(538)	(288)	(528)
Finance income/(costs), net	11	(367)	(477)	(284)	(473)

9 INCOME TAX (CREDIT)/EXPENSES

	For the year ended 31 December			For the period ended 31 May	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Current income tax					
— PRC corporate income tax	—	—	421	—	—
Deferred income tax *(Note 12)*	(1,226)	1,515	649	62	(446)
Income tax (credit)/expenses	(1,226)	1,515	1,070	62	(446)

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

	For the year ended 31 December			For the period ended 31 May	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
(Loss)/profit before income tax	(5,308)	5,664	3,899	60	(1,999)
Tax calculated at PRC corporate income tax rate of 25%	(1,327)	1,416	975	15	(500)
Income not subject to tax	(63)	(7)	(15)	(1)	(14)
Expenses not deductible for tax purposes	164	106	110	48	68
Income tax (credit)/expenses	(1,226)	1,515	1,070	62	(446)

PRC corporate income tax

The income tax provision has been calculated at the applicable tax rate of 25% on the estimated assessable profits for the years ended 31 December 2016, 2017 and 2018 and the five months ended 31 May 2018 and 2019 according to the Corporate Income Tax Law of the People's Republic of China (the "CIT Law").

10 DIVIDENDS

No dividend has been declared or paid for the years ended 31 December 2016, 2017 and 2018 and the five months ended 31 May 2018 and 2019.

11 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery and equipment	Office equipment and vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2016				
Cost	27,211	2,492	1,873	31,576
Accumulated depreciation	(465)	(2,208)	(1,615)	(4,288)
Net book amount	26,746	284	258	27,288
Year ended 31 December 2016				
Opening net book amount	26,746	284	258	27,288
Additions	—	—	8	8
Disposals	—	—	(80)	(80)
Depreciation	(1,287)	(210)	(69)	(1,566)
Closing net book amount	25,459	74	117	25,650
At 31 December 2016				
Cost	27,211	2,492	1,801	31,504
Accumulated depreciation	(1,752)	(2,418)	(1,684)	(5,854)
Net book amount	25,459	74	117	25,650
Year ended 31 December 2017				
Opening net book amount	25,459	74	117	25,650
Additions	—	—	688	688
Disposals	—	—	(262)	(262)
Depreciation	(1,321)	(23)	(127)	(1,471)
Closing net book amount	24,138	51	416	24,605
At 31 December 2017				
Cost	27,211	2,492	2,227	31,930
Accumulated depreciation	(3,073)	(2,441)	(1,811)	(7,325)
Net book amount	24,138	51	416	24,605
Year ended 31 December 2018				
Opening net book amount	24,138	51	416	24,605
Additions	—	—	162	162
Depreciation	(1,371)	(10)	(118)	(1,499)
Closing net book amount	22,767	41	460	23,268

	Buildings	Machinery and equipment	Office equipment and vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2018				
Cost	27,211	2,492	2,389	32,092
Accumulated depreciation	(4,444)	(2,451)	(1,929)	(8,824)
Net book amount	22,767	41	460	23,268
Five months ended 31 May 2019				
Opening net book amount	22,767	41	460	23,268
Disposals	—	—	(121)	(121)
Depreciation	(589)	(3)	(49)	(641)
Closing net book amount	22,178	38	290	22,506
At 31 May 2019				
Cost	27,211	2,492	2,268	31,971
Accumulated depreciation	(5,033)	(2,454)	(1,978)	(9,465)
Net book amount	22,178	38	290	22,506

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

	For the year ended 31 December			For the period ended 31 May	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Cost of services	210	23	10	4	3
Other administrative expenses	1,356	1,448	1,489	477	638
	1,566	1,471	1,499	481	641

12 DEFERRED INCOME TAX ASSETS

	As at 31 December			As at 31 May
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred income tax asset:				
— to be recovered after 12 months	2,006	491	1,423	1,869

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

	Loss allowance	Tax losses	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2016	—	780	780
Credited to the statements of comprehensive income *(Note 9)*	—	1,226	1,226
At 31 December 2017 and 1 January 2017	—	2,006	2,006
Charged to the statements of comprehensive income *(Note 9)*	—	(1,515)	(1,515)
At 31 December 2017 as originally presented	—	491	491
Changes in accounting policy *(Note 2.1.1)*	1,581	—	1,581
At 1 January 2018 as restated	1,581	491	2,072
Charged to the statements of comprehensive income *(Note 9)*	(158)	(491)	(649)
At 31 December 2018 and 1 January 2019	1,423	—	1,423
Credited to the statements of comprehensive income *(Note 9)*	193	253	446
At 31 May 2019	1,616	253	1,869

13 TRADE AND RETENTION RECEIVABLES AND NOTE RECEIVABLES, AND DEPOSITS AND OTHER RECEIVABLES

	As at 31 December			As at 31 May
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	72,005	101,628	57,999	46,536
Less: Provision for impairment losses	—	—	(295)	(364)
	72,005	101,628	57,704	46,172
Note receivables	—	4,150	4,735	1,400
Retention receivables	21,168	24,295	26,405	44,440
Less: Provision for impairment losses	—	—	(637)	(797)
	21,168	24,295	25,768	43,643
Trade and retention receivables and note receivables	93,173	130,073	88,207	91,215
Deposits and other receivables *(Note)*	15,922	31,699	27,121	32,706

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

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

	As at 31 December			As at 31 May
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Up to 1 year	24,386	51,445	43,660	26,307
1 to 2 years	28,128	25,365	4,930	10,751
2–3 years	6,350	15,466	—	—
Over 3 years	13,141	9,352	9,114	9,114
	72,005	101,628	57,704	46,172

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

	As at 31 December			As at 31 May
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
1 to 30 days	—	1,100	—	—
31–60 days	—	1,900	—	—
61–90 days	—	50	—	100
91–180 days	—	1,100	4,735	1,000
Over 180 days	—	—	—	300
	—	4,150	4,735	1,400

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

	As at 31 December			As at 31 May
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	16,517	7,853	2,639	24,268
Over 1 year	4,651	16,442	23,129	19,375
	21,168	24,295	25,768	43,643

The Target Company applies HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and retention receivables and note receivables since 1 January 2018. This resulted in an increase of the loss allowance on 1 January 2018 by RMB926,000 for trade receivables and RMB662,000 for retention receivables respectively. Noted 3.1(b) provides for details about the calculation of the allowance.

The loss allowance decreased by RMB631,000 to RMB295,000 and increased by RMB69,000 to RMB364,000 for trade receivables and decreased by RMB25,000 to RMB637,000 and increased by RMB160,000 to RMB797,000 for retention receivables respectively during the year ended 31 December 2018 and the five months ended 31 May 2019.

Information about the impairment of trade and retention receivables and note receivables and the Target Company's exposure to credit risk can be found in Note 3.1(b).

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

14 CONTRACTING WORK-IN-PROGRESS

	As at 31 December	
	2016	**2017**
	RMB'000	*RMB'000*
Contract costs incurred plus attributable profits less foreseeable losses to date	1,915,960	2,191,260
Progress billings to date	(1,672,481)	(1,957,952)
	243,479	233,308
Included in current assets is the following:		
Due from customers for contract work	243,479	233,308

15 CONTRACT ASSETS

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

	1 January 2018	**31 December 2018**	**31 May 2019**
	RMB'000	*RMB'000*	*RMB'000*
Contract assets			
Construction works performed	2,191,260	2,040,971	2,102,789
Construction works billed to customers	(1,957,952)	(1,752,318)	(1,869,418)
	233,308	288,653	233,371
Less: Provision for impairment losses	(4,734)	(4,758)	(5,303)
	228,574	283,895	228,068

(a) Significant changes in contract assets

Contract assets fluctuates as the Target Company has provided more construction services ahead of the right to payment upon receiving certification from quantity surveyors for fixed-price contracts. The Target Company also applied the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for contract assets. Details of the impairment assessment of contract assets are set out in Note 3.1(b) to the Historical Financial Information.

(b) Unsatisfied performance obligations

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

	31 December 2018	**31 May 2019**
	RMB'000	*RMB'000*
Aggregate amount of the transaction price of long-term construction contracts that are partially or fully unsatisfied	144,664	97,791

Management expects that the transaction prices regarding the unsatisfied contracts as of 31 December 2018 and 31 May 2019 will be recognised as revenue by referencing to the progress towards completion of the contract activity.

16 CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	As at 31 December			As at 31 May
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash at bank	573	530	5,282	5,539
Less: Pledged bank deposits *(Note (a))*	(200)	(200)	(5,200)	(5,200)
Cash and cash equivalents	373	330	82	339
Maximum exposure to credit risk	573	530	5,282	5,539

Note:

(a) As at 31 December 2016, 2017 and 2018 and 31 May 2019, the Target Company's bank deposits of RMB200,000, RMB200,000, RMB5,200,000 and RMB5,200,000 were pledged for note payables (Note 19).

(b) The above balances represent cash and cash equivalents as at 31 December 2016, 2017 and 2018 and 31 May 2019 and all are denominated in RMB and deposited with banks in the PRC, where the remittance of funds is subject to foreign exchange control.

17 PAID IN CAPITAL

	RMB'000
At 31 December 2015, 2016, 2017 and 2018 and 31 May 2019	50,000

18 STATUTORY RESERVE

In accordance with the relevant regulations and its articles of association, the Target Company incorporated in the PRC is required to allocate at least 10% of their after-tax profit according to PRC accounting standards and regulations to the general statutory reserve until such reserve has reached 50% of registered capital. Appropriations to the enterprise expansion fund and staff welfare and bonus fund are at the discretion of the respective board of directors. These reserves can only be used for specific purposes and are not distributable or transferable in the form of loans, advances, or cash dividends.

19 TRADE AND NOTE PAYABLES, ACCRUALS AND OTHER PAYABLES

	As at 31 December			As at 31 May
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	125,701	110,735	162,732	113,332
Note payables	—	—	10,000	8,000
Accruals and other payables *(Note)*	33,261	52,508	30,608	37,716
	158,962	163,243	203,340	159,048

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

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

	As at 31 December			As at 31 May
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Up to 1 year	125,701	110,735	162,732	113,332

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

	As at 31 December			As at 31 May
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
91–180 days	—	—	10,000	—
Over 180 days	—	—	—	8,000
	—	—	10,000	8,000

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

20 RELATED PARTY TRANSACTIONS

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

	For the year ended 31 December			For the period ended 31 May	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Transaction with 青島鴻展工程勞務有限公司, a related party of the Target Company					
— Subcontracting charges	83,406	141,712	101,934	42,473	44,317

During the track record period, there are common shareholders in the Target Company and this related company. A shareholder of the related company also provided key management personnel services to the Target Company.

(b) Balances with related parties are as follows:

	As at 31 December			As at 31 May	
	2016	**2017**	**2018**	**2019**	**Nature**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	
Amounts due from shareholders *(Note i)*	281	6,026	546	65	Non-trade
Amounts due to shareholders *(Note i)*	11,809	6,923	7,933	8,420	Non-trade
Amount due to a related party — 青島鴻展工程勞務有限公司 *(Note ii)*	165,117	207,221	170,760	168,344	Trade

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

Note ii: Amount due to a related party represents the payables of sub-contracting services. The balances are interest free and repayable on demand.

(c) Key management compensation

During the years ended 31 December 2016, 2017 and 2018 and the five months ended 31 May 2018 and 2019, key management compensation is equivalent to the director's remuneration as disclosed in Note 21(a).

21 BENEFITS AND INTERESTS OF KEY MANAGEMENT

(a) Key management compensation

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

	For the year ended 31 December			For the period ended 31 May	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Wages and salaries	401	385	366	160	161
Other social security costs, housing benefits and other employee benefits	132	102	74	36	49
	533	487	440	196	210

(b) Directors' retirement benefits

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

(c) Directors' termination benefits

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

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

During the year ended 31 December 2016, 2017 and 2018 and the five months ended 31 May 2018 and 2019, The Target Company did not pay consideration to any third parties for making available directors' services.

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

Save as disclosed in Note 20(b), during the year ended 31 December 2016, 2017 and 2018 and the five months ended 31 May 2018 and 2019, there is no loans, quasi-loans and other dealing arrangements in favour of directors, or controlled bodies corporate by and connected entities with such directors.

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

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

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company in respect of any period subsequent to 31 May 2019 and up to the date of this report. Save as disclosed in this report, no dividend or distribution has been declared or made by the Target Company in respect of any period subsequent to 31 May 2019.

Set out below is the management discussion and analysis of the Target Company for the three years ended 31 December 2018 and five months ended 31 May 2019 (the "Track Record Period"). The following financial information is based on the audited financial information of the Target Company set forth in the Appendix II of this circular.

BUSINESS REVIEW

青島東捷建設工程有限公司 (Qingdao Dongjie Construction Engineering Co., Ltd.*) (the "Target Company", formerly known as Qingdao Construction Group Dongjie Engineering Co., Ltd., and renamed as Qingdao Dongjie Construction Engineering Co., Ltd.* on 21 December 2009) was converted from 青島建設集團公司東捷工程項目公司 (Qingdao Construction Group Dongjie Engineering Project Co.,Ltd.*) on 25 July 2003, with a registered capital of RMB50 million. The Target Company has obtained grade one general construction contractor qualification, grade two construction and decoration engineering specialized contractor qualification, grade three foundation construction specialized contractor qualification and grade three steel structure construction specialized contractor qualification, respectively.

During the Track Record Period, the Target Company has engaged in over 70 engineering projects as a main contractor, including projects of residence, office building, school and documents archive centre.

REVENUE

During the Track Record Period, the Target Company derived revenue from one operating segment, which is the provision of construction services. The operating revenue was approximately RMB177.73 million, RMB274.56 million, RMB333.53 million and RMB56.32 million for each of the years ended 31 December 2016 ("Year 2016"), 2017 ("Year 2017") and 2018 ("Year 2018") and the five months ended 31 May 2019, respectively. The Target Company recorded a revenue growth of approximately RMB96.83 million or 54.5% from Year 2016 to Year 2017 and a growth of approximately RMB58.97 million or 21.5% from Year 2017 to Year 2018, which was attributable to the increase in number of projects undertaken during Years 2017 and 2018. The revenue for the five months ended 31 May 2019 recorded a decrease as compared to the same period in 2018, which was due to relatively high volume of construction works completed in Year 2018 and the timetable for launch of certain potential projects were delayed. The Target Company remains vigilant for business opportunities to replenish its contracts on hand to appropriate level.

COST OF SALES

The operating cost was approximately RMB177.21 million, RMB261.90 million, RMB323.42 million and RMB54.27 million for the Years 2016, 2017 and 2018 and from January to May 2019, respectively. Cost of sales of the Target Company mainly comprised subcontractor charges, material costs and machinery and equipment rental. While cost of sales for individual projects may differ according to the nature and technical specifications of each project, the fluctuation in cost of sales during the Track Record Period was in-line with the trend of operating revenue.

GROSS PROFIT

The gross profit was approximately RMB0.52 million, RMB12.67 million, RMB10.11 million and RMB2.05 million for the Years 2016, 2017 and 2018 and from January to May 2019, respectively, and the gross profit margin for the same was approximately 0.3%, 4.6%, 3.0% and 3.6%, respectively.

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

ADMINISTRATIVE EXPENSES

The administrative expenses were RMB6.06 million, RMB6.65 million, RMB6.36 million and RMB2.78 million for the Years 2016, 2017 and 2018 and from January to May 2019, respectively. Administrative expenses mainly include salary of management and back office personnel, depreciation of office equipment, travel expenses, staff education expenses, etc. and have maintained generally stable during the Track Record Period.

(LOSS)/PROFIT FOR THE YEARS/PERIOD

The Target Company recorded a loss for the year of RMB4.08 million for Year 2016, a profit for the year of RMB4.15 million and RMB2.83 million for Year 2017 and Year 2018 respectively, and a loss for the period of RMB1.55 million for the five months ended 31 May 2019. As mentioned above, the fluctuation in profits/losses for the years/period during the Track Record Period was the combined result of (i) fluctuation in gross profit according to level of works performed for different projects in a particular year/period and (ii) a relatively fixed level of administrative expenses.

PROPERTY, PLANT AND EQUIPMENT

The Target Company's property, plant and equipment mainly comprised self-occupied building properties located in Qingdao, PRC, which were carried at cost net of accumulated depreciation. There has been no material acquisition or disposal of property, plant and equipment during the Track Record Period.

TRADE RECEIVABLES

Trade receivables represent amounts certified by customers for construction works performed. The amounts of trade receivables were approximately RMB72.01 million, RMB101.63 million, RMB57.70 million, RMB46.17 million as at 31 December 2016, 2017 and 2018 and 31 May 2019, respectively. The balance of trade receivable was relatively high as at 31 December 2017, mainly due to relatively high amount of revenue certified but pending payment from customers at end of the year. The balance of trade and retention receivables at the end of other years/period maintained reasonably stable. For the trade receivables as at 31 May 2019, more than 65% have subsequently been settled. There is currently no indication of significant risk of default on the remaining trade and retention receivables balances.

CONTRACT ASSETS/AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

Contract assets/amounts due from customers for contract work (for the financial year ended 31 December 2017 and before) represent value of construction works performed and pending for certification from customers. The increase in contract assets as at 31 December 2018 was due to relatively high level of works performed during the year being not yet certified by customers, which corresponded to a decrease in trade receivables as at 31 December 2018. The balance of contract assets/amounts due from customers remained relatively stable at the end of other years/period during the Track Record Period.

DEPOSITS AND OTHER RECEIVABLES

The deposits and receivables were approximately RMB15.92 million, RMB31.70 million, RMB27.12 million and RMB32.71 million as at 31 December 2016, 2017 and 2018 and 31 May 2019 respectively and mainly comprised deposits for tendering and other miscellaneous receivables.

CAPITAL STRUCTURE, LIQUIDITY AND GEARING

As at 31 December 2016, 2017 and 2018 and 31 May 2019, the net assets of the Target Company were RMB45.21 million, RMB49.36 million, RMB47.45 million and RMB45.89 million, respectively; the net current assets were RMB17.55 million, RMB24.26 million, RMB22.75 million and RMB21.52 million, respectively; and the net cash and bank balances were RMB0.57 million, RMB0.53 million, RMB5.28 million and RMB5.54 million respectively. The Target Company did not have any borrowings as at 31 December 2016, 2017 and 2018 and 31 May 2019 and thus no gearing ratio is presented.

PLEDGE OF ASSETS

As at 31 December 2016, 2017 and 2018 and 31 May 2019, RMB0.20 million, RMB0.20 million, RMB5.20 million and RMB5.20 million of the Target Company's bank deposits were pledged to secure for bank acceptance notes.

MATERIAL INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

During the Track Record Period, the Target Company did not have any material investment, material acquisition and disposal.

MATERIAL RELATED PARTY TRANSACTIONS

During the Track Record Period, the Target Company entered into transactions with 青島鴻展工程勞務有限公司, which is a related party of the Target Company. Details of the related party transactions are set out in Note 20 to the Accountant's Report of the Target Company.

CONTINGENT LIABILITIES

As at 31 December 2016, 2017 and 2018 and 31 May 2019, the Target Company did not have any contingent liability.

CAPITAL COMMITMENTS

As at 31 December 2016, 2017 and 2018 and 31 May 2019, the Target Company did not have any capital commitment.

LITIGATION

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

FOREIGN EXCHANGE RISK

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

EMPLOYMENT AND COMPENSATION POLICY

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

As at 31 December 2016, 2017 and 2018 and 31 May 2019, the Target Company employed 148, 106, 109 and 91 employees, respectively.

Among the existing 91 employees, there are more than 30 engineers and technicians with intermediate professional title or above, including more than 20 registered constructors and registered cost engineers; and more than 40 management personnel.

FUTURE PLANS AND SUBSEQUENT EVENTS

The Target Company mainly engages in general contracting of housing construction engineering and the businesses relating to the construction industry. It will leverage on its present achievements to maintain advantages in the industry, actively develop its business scope, enlarge construction contracting field and participate in more large scale projects, which will create greater economic benefits for its shareholders and establish more harmonious working environment for our employees.

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group (the ''Unaudited Pro Forma Financial Information'') has been prepared on the basis of the notes set out below for the purpose of illustrating the effects on the assets and liabilities of the Enlarged Group as if the Acquisition had been completed on 30 June 2019.

The Unaudited Pro Forma Financial Information as at 30 June 2019 has been prepared based on (i) the unaudited interim condensed consolidated balance sheet of the Group as at 30 June 2019, as set out in its published interim report for the six months ended 30 June 2019; and (ii) the pro forma adjustments prepared to reflect the effects of the Acquisition of 80% equity interests in the Target Company by the Group as explained in the notes set out below that are directly attributable to the Acquisition and not relating to future events or decisions and are factually supportable.

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

The Unaudited Pro Forma Financial Information has been compiled by the Directors of the Company for illustrative purposes only and is based on a number of assumptions, estimates and currently available information. Because of its hypothetical nature, the Unaudited Pro Forma Financial Information may not give a true picture of the financial position of the Enlarged Group had the Acquisition been completed as at 30 June 2019 or any future date.

(I) UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP AS AT 30 JUNE 2019

	The Group as at 30 June 2019	The Target Company as at 31 May 2019	Pro forma adjustments			The Enlarged Group as at 30 June 2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	
ASSETS						
Non-current assets						
Property, plant and equipment	213,518	25,207	43,113	—	—	281,838
Right-of-use assets	5,768	—	—	—	—	5,768
Intangible assets	—	—	15,384	—	—	15,384
Deferred income tax assets	—	2,093	—	(2,093)	—	—
Deposits and other receivables	8,432	—	—	—	—	8,432
Total non-current assets	227,718	27,300	58,497	(2,093)	—	311,422
Current assets						
Trade and retention receivables and note receivables	359,124	102,161	—	—	—	461,285
Deposits, prepayments and other receivables	29,225	36,631	—	72	—	65,928
Contract assets	75,161	255,436	—	—	—	330,597
Amounts due from shareholders	—	72	—	(72)	—	—
Income tax recoverable	3,885	—	—	—	—	3,885
Time deposits with maturity over 3 months	11,082	—	—	—	—	11,082
Pledged bank deposits	13,200	5,824	—	—	—	19,024
Cash and cash equivalents	180,123	380	—	—	—	180,503
	671,800	400,504	—	—	—	1,072,304
Total assets	899,518	427,804	58,497	(2,093)	—	1,383,726

	The Group as at 30 June 2019	The Target Company as at 31 May 2019	Pro forma adjustments			The Enlarged Group as at 30 June 2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	
LIABILITIES						
Non-current liabilities						
Lease liabilities	1,302	—	—	—	—	1,302
Deferred income tax liabilities	11,655	—	14,625	(2,093)	—	24,187
Total non-current liabilities	12,957	—	14,625	(2,093)	—	25,489
Current liabilities						
Trade and retention payables and note payables	43,932	135,892	—	188,545	—	368,369
Accruals and other payables	6,503	42,242	76,217	9,430	3,753	138,145
Contracts liabilities	199,682	—	—	—	—	199,682
Amounts due to related parties	8,812	188,545	—	(188,545)	—	8,812
Amount due to shareholders	—	9,430	—	(9,430)	—	—
Borrowings	112,257	—	—	—	—	112,257
Lease liabilities	3,491	—	—	—	—	3,491
Income tax payable	2,511	296	—	—	—	2,807
	377,188	376,405	76,217	—	3,753	833,563
Total liabilities	390,145	376,405	90,842	(2,093)	3,753	859,052
Net assets	509,373	51,399	(32,345)	—	(3,753)	524,674

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

1. The amounts are derived from the unaudited interim condensed consolidated balance sheet of the Group as at 30 June 2019 as set out in its published interim condensed consolidated financial information for the six months ended 30 June 2019.

2. The assets and liabilities of the Target Company in RMB are extracted from the statement of financial position of the Target Company as at 31 May 2019 as set out in Accountant's Report set out in Appendix II to this Circular. For the purpose of the Unaudited Pro Forma Financial Information, the amounts are translated from RMB to HKD at a rate of RMB1 = HK$1.12.

3. For the purpose of the unaudited pro forma statement of assets and liabilities of the Enlarged Group, the Group has estimated the fair values of the major assets and liabilities of the Target Company based on the valuation report as at 31 May 2019 prepared by an independent professional valuer. The acquisition accounting adjustments comprise the recognition of:

   (i) fair value adjustments of property, plant and equipment;
   (ii) intangible assets; and
   (iii) the related tax adjustments from the fair value adjustments based on the applicable tax rate.

   The calculation of the fair value adjustments are as follows:

	HK$'000
Consideration payable (a)	76,217
Fair values of assets to be acquired and liabilities to be assumed	
Carrying amounts of net assets of the Target Company (b)	51,399
Intangible assets (b) (c)	15,384
Fair value adjustments on property, plant and equipment (b)	43,113
Deferred tax liabilities recognised (d)	(14,625)
Total net assets acquired by the Group	95,271
Non-controlling interests of 20% in the Target Company	(19,054)
	76,217

   (a) As stipulated in the Sale and Purchase Agreement, the Purchaser, an indirectly wholly-owned subsidiary of the Company, will settle the consideration amounted to RMB71,352,000 (equivalent to approximately HK$79,914,000 translated at a rate of RMB1 = HK$1.12) in cash payable to Vendors within 6 months after the date of Completion of the Acquisition. Pursuant to the Sale and Purchase Agreement, the Purchaser and the Vendors agreed that the Consideration shall be adjusted with reference to the audited financial statements of the Target Company as at 31 May 2019. The parties to the Sale and Purchase Agreement have agreed that the Consideration shall be reduced to RMB68,051,200 (equivalent to approximately HK$76,217,000 translated at a rate of RMB1 = HK$1.12).

   (b) For the purpose of preparing the unaudited pro forma statement of assets and liabilities of the Enlarged Group, the Directors assumed that with the exception of the property, plant and equipment and intangible assets, the pro forma fair value of assets and liabilities of the Target Group are the same as their respective carrying amounts as at 31 May 2019.

Fair values of property, plant and equipment were assessed by the independent valuer based on market approach. It is based on the assumptions that the property, plant and equipment are sold in their existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market.

Intangible assets which are mainly attributed to the Target Company's general construction contractor qualifications and other licenses are estimated by the directors using relief-from-royalty method. In applying the relief-from-royalty method, an asset is valued based on the forecast revenue according to the owner by virtue of the fact that the owner does not have to pay a fair royalty to a third party for use of the asset.

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

(d) The adjustments on deferred income tax liabilities is determined based on the difference between the tax bases and fair values of intangible assets and property, plant and equipment by applying the Target Company's income tax rate of 25%. It is the tax rate expected to be applied to the Target Company in the period when the liabilities are settled.

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

4. Certain reclassifications have been made to conform with the Group's presentation. Deferred tax assets and liabilities of the Target Company are offset since there is a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities are related to the same taxation authority.

5. The adjustment represents the estimated professional fees of approximately HK$3,753,000, relating to the Acquisition. The amounts included the costs of professional advisers for the Acquisition, which is assumed to be paid after the Completion of the Acquisition.

6. No adjustments have been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions entered into by the Enlarged Group subsequent to 30 June 2019.

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

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

pwc 羅兵咸永道

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

TO THE DIRECTORS OF PROSPER CONSTRUCTION HOLDINGS LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Prosper Construction Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") and Qingdao Dongjie Construction Engineering Co., Ltd. (青島東捷建設工程有限公司) (the "Target Company") (collectively the "Enlarged Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of unaudited pro forma statement of assets and liabilities as at 30 June 2019 and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages IV-1 to IV-5 of the Company's circular dated 29 November 2019, in connection with the proposed acquisition of the Target Company (the "Transaction") by the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages IV-1 to IV-5.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the Transaction on the Group's financial position as at 30 June 2019 as if the Transaction had taken place at 30 June 2019. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's interim condensed consolidated financial information for the period ended 30 June 2019, on which no audit or review has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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Our Independence and Quality Control

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

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

Reporting Accountant's Responsibilities

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

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

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

The purpose of unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Transaction at 30 June 2019 would have been as presented.

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

- The related pro forma adjustments give appropriate effect to those criteria; and

- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

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

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

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

Opinion

In our opinion:

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

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

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

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 29 November 2019

1. RESPONSIBILITY STATEMENT

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

2. DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES

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

As at the Latest Practicable Date, save as disclosed in this circular, none of the Directors and chief executives of the Company or their respective associates had or was deemed to have any interests and short position in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required (i) 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 were taken or deemed to have under such provisions of the SFO), or (ii) pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein, or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers:

Long position in the Shares

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

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

Long position in the shares of associated corporations of the Company

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

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

As at the Latest Practicable Date, save as disclosed in this circular, so far as was known to the Directors, persons other than the Directors or chief executives of the Company who had, or were deemed to have, interests or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, or required to be recorded in the register maintained by the Company under section 336 of the SFO, or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, were as follows:

Long position in the Shares and underlying Shares

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

Name of shareholder	Capacity	Number of Shares held	Approximate percentage of interest
Qingdao State-owned Assets Supervision and Administration Commission of the State Council	Interest in a controlled corporation	600,000,000	75.00%
Sky Hero Global Limited	Beneficial owner	102,000,000	12.75%
Solid Jewel Investments Limited *(Note 2)*	Interest in a controlled corporation	102,000,000	12.75%
Ms. Mu Zhen *(Note 3)*	Spouse interest	102,000,000	12.75%

Notes:

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

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

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

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

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

3. DIRECTORS' INTERESTS IN CONTRACTS

(a) As at the Latest Practicable Date, none of the Directors was interested, directly or indirectly, in any assets which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2018 (being the date to which the latest published audited consolidated results of the Group were made up).

(b) As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement, which was subsisting and was significant in relation to the business of the Group.

4. COMPETING INTERESTS OF DIRECTORS

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

Save as disclosed above, As at the Latest Practicable Date, none of the Directors 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.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, there was no existing or proposed service contract between any Director and any member of the Group which is not determinable within one year without payment of compensation other than by statutory compensation.

6. MATERIAL CONTRACTS

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

1. the deed of non-competition dated 16 August 2018 given by Mr. Cui in favour of the Company (for itself and as representative of its subsidiaries) pursuant to which Mr. Cui has undertaken, among other things, not to, directly or indirectly, be interested or involved or engaged in, carry on or hold any right or interest in a business which any member of the Group carries from time to time (including but not limited to dredging and non-dredging ground treatment works, reclamation works, pier construction works, offshore facilities foundation works, marine transportation, leasing and trading of vessels), for a period expiring on 21 June 2022, subject to certain exceptions;

2. the deed of non-competition dated 16 August 2018 given by Mr. Yu Ming in favour of the Company (for itself and as representative of its subsidiaries) pursuant to which Mr. Yu Ming has undertaken, among other things, not to, directly or indirectly, be interested or involved or engaged in, carry on or hold any right or interest in a business which any member of the Group carries from time to time (including but not limited to dredging and non-dredging ground treatment works, reclamation works, pier construction works, offshore facilities foundation works, marine transportation, leasing and trading of vessels), for a period ending on the expiration date of Mr. Yu Ming's non-competition obligations towards the Company under the service contract entered into between the Mr. Yu Ming and the Company, subject to certain exceptions;

3. the deed of non-competition dated 16 August 2018 given by Ms. Kui Ching Wah in favour of the Company (for itself and representative of its subsidiaries) pursuant to which Ms. Kui Ching Wah has undertaken, among other things, not to, directly or indirectly, be interested or involved or engaged in, carry on or hold any right or interest in a business which any member of the Group carries from time to time (including but not limited to dredging and non-dredging ground treatment works, reclamation works, pier construction works, offshore facilities foundation works, marine transportation, leasing and trading of vessels), for a period ending on the expiration date of Ms. Kui Ching Wah's non-competition obligations towards the Company under the service contract entered into between the Ms. Kui Ching Wah and the Company, subject to certain exceptions; and

4. the Sale and Purchase Agreement.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018, being the date to which the latest published audited consolidated results of the Group were made up.

8. LITIGATION

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

9. EXPERTS' QUALIFICATION AND CONSENT

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

Name	Qualification
PricewaterhouseCoopers	Certified Public Accountants

PricewaterhouseCoopers has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its report or letter and reference to its name in the form and context in which it appears.

PricewaterhouseCoopers confirmed that, as at the Latest Practicable Date, (a) it did not have any shareholding interest in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and (b) it was not interested, directly or indirectly, in any asset which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group, since 31 December 2018, the date to which the latest published audited consolidated results of the Group was made up.

10. GENERAL

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

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

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

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

11. DOCUMENTS FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at Unit Nos. 04–05 on 5th Floor, K Wah Centre, 191 Java Road, North Point, Hong Kong during normal business hours on any business day (Saturdays excluded) from the date of this circular up to and including 13 December 2019 (14 days after the date of this circular):

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

(b) the annual reports of the Company for each of the two years ended 31 December 2017 and 31 December 2018;

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

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

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

(f) the written consent referred to in the paragraph headed "Experts' Qualification and Consent" in this appendix; and

(g) 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 "**EGM**") of Prosper Construction Holdings Limited (the "**Company**") will be held at 10:00 a.m. on Wednesday, 18 December 2019 at United Conference Centre, 10th Floor, United Centre, 95 Queensway, Hong Kong, for the purpose of considering and, if thought fit, passing, with or without amendments, the following resolution as ordinary resolution.

ORDINARY RESOLUTION

"**THAT**:

(a) the conditional sale and purchase agreement dated 23 September 2019 (the "**Sale and Purchase Agreement**") and entered into among 青島西發瑞海實業發展有限公司 (Qingdao Xifa Ruihai Industrial Development Co. Ltd.*), 于華毅 (Yu Huayi*), 牟文樂 (Mou Wenle*), 牟麗萍 (Mou Liping*), 邴起宏 (Bing Qihong*), 丁培增 (Ding Peizeng*), 王金升 (Wang Jinsheng*), 董良玉 (Dong Liangyu*), 國得義 (Guo Deyi*), 季進亮 (Ji Jinliang*), 楊麗紅 (Yang Lihong*), 程顯祥 (Cheng Xianxiang*), 孫艦 (Sun Jian*), 孫曉林 (Sun Xiaolin*), 郭立敏 (Guo Limin*) and 李沖 (Li Chong*) and 青島東捷建設工程有限公司 (Qingdao Dongjie Construction Engineering Co., Ltd.*) in relation to the acquisition for 80% of the equity interest in 青島東捷建設工程有限公司 (Qingdao Dongjie Construction Engineering Co., Ltd.*) at an aggregate consideration of RMB71,352,000 (subject to adjustment), and all the transactions contemplated thereunder be and are hereby approved, confirmed and ratified (copy of the Sale and Purchase Agreement has been signed by the chairman of the EGM and tabled at the EGM for identification purpose); and

(b) any one or more director(s) of the Company be and is/are hereby authorised to do all such acts and things and sign, agree, ratify and/or execute all such further documents or instruments under hand (or where required, under the common seal of the Company together with such other director of the Company or person authorised by the board of directors of the Company) and take all such steps as he/they in his/their sole discretion may consider necessary, desirable or expedient to implement, give effect to or in connection with the Sale and Purchase Agreement and any of the transactions contemplated thereunder."

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

Hong Kong, 29 November 2019

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

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

Notes:

1. All resolutions at the EGM will be taken by poll (except where the chairman decides to allow a resolution relating to a procedural or administrative matter to be voted on by a show of hands) pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). The results of the poll will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Company in accordance with the Listing Rules.

2. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxy to attend and, subject to the provisions of the articles of association of the Company, vote in his stead. A proxy need not be a member of the Company. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.

   In the case of joint registered holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto; but if more than one of such joint holders are present at the meeting, whether in person or by proxy, that one of the said persons so present whose name stands first on the register in respect of such share shall alone be entitled to vote in respect thereof.

3. A form of proxy for use at the meeting is being despatched together with this notice. In order to be valid, the form of proxy duly completed and signed in accordance with the instructions printed thereon together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof must be delivered to the office of the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

4. The register of members of the Company will be closed from Friday, 13 December 2019 to Wednesday, 18 December 2019 (both days inclusive), during which period no transfer of shares will be registered. All transfer of the Company's shares together with the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong no later than 4:30 p.m. on Thursday, 12 December 2019 in order for the holders of the shares to qualify to attend and vote at the EGM or any adjournment thereof.

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