THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of the Offer, this Composite Document and/or the accompanying Form of Acceptance and Transfer or the action to be taken, you should consult a licensed securities dealer or 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 Composite Document and the accompanying Form of Acceptance and Transfer to the purchaser(s) or the transferee(s) or to the bank or licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

This Composite Document should be read in conjunction with the accompanying Form of Acceptance and Transfer, the contents of which form part of the terms and conditions of the Offer contained herein.

QINGDAO WEST COAST HOLDINGS (INTERNATION) LIMITED
青島西海岸控股(國際)有限公司
(Incorporated in the British Virgin Islands with limited liability)

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

COMPOSITE DOCUMENT RELATING TO UNCONDITIONAL MANDATORY CASH OFFER BY GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

FOR AND ON BEHALF OF QINGDAO WEST COAST HOLDINGS (INTERNATION) LIMITED TO ACQUIRE ALL THE ISSUED SHARES OF PROSPER CONSTRUCTION HOLDINGS LIMITED (OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY QINGDAO WEST COAST HOLDINGS (INTERNATION) LIMITED AND/OR PARTIES ACTING IN CONCERT WITH IT)

Financial Adviser to Qingdao West Coast Holdings (Internation) Limited

GUOTAI JUNAN CAPITAL LIMITED

Financial Adviser to Prosper Construction Holdings Limited

VMS SECURITIES LIMITED

Independent Financial Adviser to the Independent Board Committee

红日资本有限公司
RED SUN CAPITAL LIMITED

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this Composite Document.

A letter from Guotai Junan Capital containing, among other things, the terms of the Offer is set out on pages 8 to 19 of this Composite Document.

A letter from the Board is set out on pages 20 to 27 of this Composite Document. A letter from the Independent Board Committee containing its recommendation in respect of the Offer to the Independent Shareholders is set out on pages 28 to 29 of this Composite Document. A letter from Red Sun Capital containing its advice on the Offer to the Independent Board Committee and the Independent Shareholders is set out on pages 30 to 59 of this Composite Document.

The procedures for acceptance and settlement of the Offer and related information are set out in Appendix I to this Composite Document and in the accompanying Form of Acceptance and Transfer. Acceptance of the Offer should be received by the Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event by no later than 4:00 p.m. on Wednesday, 3 October 2018 or such later time(s) and/or date(s) as the Offeror may determine and the Offeror and the Company may jointly announce, with the consent of the Executive, in accordance with the Takeovers Code.

Persons including, without limitation, custodians, nominees and trustees, who would, or otherwise intend to, forward this Composite Document and/or the Form of Acceptance and Transfer to any jurisdiction outside Hong Kong, should read the details in this regard which are contained in the sub-paragraph headed "Overseas Shareholders" under the paragraph headed "The Offer" in the "Letter from Guotai Junan Capital" on page 12 of this Composite Document and the paragraph headed "7. Overseas Shareholders" in Appendix I to this Composite Document before taking any action. It is the responsibility of each Overseas Shareholder wishing to accept the Offer to satisfy himself, herself or itself as to the full observance of the laws and regulations of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents and any registration or filing which may be required and the compliance with all necessary formalities, regulatory and/or legal requirements. Overseas Shareholders are advised to seek professional advice on deciding whether or not to accept the Offer.

This Composite Document will remain on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (www.prosperch.com) as long as the Offer remains open.

Hong Kong, 12 September 2018

CONTENTS

The timetable set out below is indicative only and may be subject to changes. Any changes to the timetable will be jointly announced by the Offeror and the Company.

Despatch date of this Composite Document and the accompanying Form of Acceptance and Transfer and commencement date of the Offer *(Note 1)*	Wednesday, 12 September 2018
Offers open for acceptance *(Note 1)*	Wednesday, 12 September 2018
Latest time and date for acceptance of the Offer *(Notes 2 and 4)*	4:00 p.m. on Wednesday, 3 October 2018
Closing Date *(Notes 2 and 4)*	Wednesday, 3 October 2018
Announcement of the results of the Offer (or its extension or revision, if any), to be posted on the website of the Stock Exchange and the Company *(Notes 2 and 4)*	No later than 7:00 p.m. on Wednesday, 3 October 2018
Latest date for posting of remittances in respect of valid acceptances received under the Offer *(Notes 3 and 4)*	Friday, 12 October 2018

Notes:

1. The Offer, which is unconditional in all respects, is made on the date of posting of this Composite Document, and is capable of acceptance on and from that date until the Closing Date.

2. In accordance with the Takeovers Code, the Offer must initially be open for acceptance for at least 21 days following the date on which this Composite Document is posted. The latest time and date for acceptance of the Offer will be at 4:00 p.m. on 3 October 2018 unless the Offeror revises or extends the Offer in accordance with the Takeovers Code. The Offeror and the Company will jointly issue an announcement through the websites of the Stock Exchange and the Company no later than 7:00 p.m. on 3 October 2018 stating the results of the Offer and whether the Offer has been extended, revised or has expired. In the event that the Offeror decides to extend the Offer, at least 14 days' notice by way of an announcement will be given before the Offer is closed to those Independent Shareholders who have not accepted the Offer.

   Beneficial owners of Shares who hold their Shares in CCASS directly as an investor participant or indirectly via a broker or custodian participant should note the timing requirements (set out in Appendix I to this Composite Document) for causing instructions to be made to CCASS in accordance with the General Rules of CCASS and CCASS Operational Procedures.

3. Remittances in respect of the cash consideration (after deducting the seller's ad valorem stamp duty) in respect of acceptances of the Offer payable for the Offer Shares tendered under the Offer will be despatched to the Independent Shareholders accepting the Offer by ordinary post at their own risk as soon as possible, but in any event within seven (7) Business Days following the date of receipt by the Registrar of the duly completed and signed Form of Acceptance and Transfer and all relevant documents (receipt of which renders such acceptance complete and valid), in accordance with the Takeovers Code.

Acceptance of the Offer shall be irrevocable and not capable of being withdrawn, except as permitted under the Takeovers Code. Please refer to paragraph headed "5. Right of withdrawal" in Appendix I to this Composite Document for further information on the circumstances where acceptances may be withdrawn.

4. If there is a tropical cyclone warning signal number 8 or above, or a black rainstorm warning: (a) in force in Hong Kong at any local time before 12: 00 noon but no longer in force after 12: 00 noon on the latest date for acceptance of the Offer and the latest date for posting of remittances for the amounts due under the Offer in respect of valid acceptances, the latest time for acceptance of the Offer will remain at 4: 00 p.m. on the same Business Day and the posting of the remittances will be made on the same Business Day; or (b) in force in Hong Kong at any local time between 12: 00 noon and 4: 00 p.m. on the latest date for acceptance of the Offer and the latest date for posting of remittances for the amounts due under the Offer in respect of valid acceptances, the latest time for acceptance of the Offer will be rescheduled to 4: 00 p.m. on the following Business Day which does not have either of those warning in force at any time between 9: 00 a.m. and 4: 00 p.m. or such other day as the Executive may approve in accordance with the Takeovers Code and the posting of the remittances will be made on the following Business Day which does not have either of those warning in force at any time between 9: 00 a.m. and 4: 00 p.m..

Unless otherwise expressly stated, all references to dates and times contained in this Composite Document and the Form of Acceptance and Transfer refer to Hong Kong dates and times.

Save as mentioned above, if the latest time for the acceptance of the Offer and the despatch of remittances do not take effect on the date and time as stated above, the other dates mentioned above may be affected. The Offeror and the Company will notify the Shareholders by way of announcement(s), of any change in the expected timetable as soon as possible.

In this Composite Document, unless the context otherwise requires, the following expressions have the following meanings:

"acting in concert"	has the same meaning ascribed to it under the Takeovers Code
"associate(s)"	has the same meaning ascribed to it under the Takeovers Code
"Board"	the board of Directors of the Company
"Business Day(s)"	a day (other than a Saturday, Sunday or public holiday) on which banks are open in Hong Kong to the general public for normal banking business
"BVI"	The British Virgin Islands
"CCASS"	the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited
"Closing Date"	3 October 2018, the date stated in this Composite Document as the first closing date of the Offer or any subsequent closing date as and may be announced by the Offeror and approved by the Executive
"Company"	Prosper Construction Holdings Limited (Stock Code: 6816), a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
"Composite Document"	this composite offer document jointly issued and despatched by the Offeror and the Company in accordance with the Takeovers Code, containing, among other things, details of the Offer, the Form of Acceptance and Transfer, the recommendation of the Independent Board Committee and the advice of the Independent Financial Adviser
"Consideration"	being HK$537,540,000, representing the amount payable by the Offeror to the Vendor for the Sale Shares
"Director(s)"	the director(s) of the Company
"Encumbrance(s)"	any claim, charge, mortgage, security, lien, pledge, option, equity, power of sale, hypothecation or other third party rights, retention of title, right of pre-emption, right of first refusal or security interest of any kind, and Encumber shall be construed accordingly

"Executive"	the Executive Director of the Corporate Finance Division of the SFC from time to time or any of its delegate
"Form of Acceptance and Transfer"	the form of acceptance and transfer of the Offer Shares in respect of the Offer (accompanying this Composite Document)
"Group"	the Company and its subsidiaries
"Guarantors"	being Mr. Cui and Mr. Yu
"Guotai Junan Capital"	Guotai Junan Capital Limited, a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO, being the financial adviser to the Offeror
"Guotai Junan Securities"	Guotai Junan Securities (Hong Kong) Limited, a corporation licensed to carry out type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO, and a fellow subsidiary of Guotai Junan Capital
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	The Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent committee of the Board comprising all three independent non-executive Directors, which has been established by the Company to make recommendations to the Independent Shareholders as to whether the terms of the Offer are fair and reasonable and as to the acceptance of the Offer
"Independent Financial Adviser" or "Red Sun Capital"	Red Sun Capital Limited, a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, and the independent financial adviser to the Independent Board Committee in respect of the Offer
"Independent Shareholder(s)"	Shareholder(s), other than the Offeror and parties acting in concert with it
"Joint Announcement"	the announcement dated 1 August 2018 jointly issued by the Company and the Offeror in relation to, among other things, the Share Transfer Agreement and the Offer
"Last Trading Day"	18 July 2018, being the last trading day for the Shares immediately prior to the suspension of trading in the Shares on the Main Board of the Stock Exchange pending the issue and publication of the Joint Announcement

"Latest Practicable Date"	7 September 2018, being the latest practicable date prior to the printing of this Composite Document for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Main Board"	means the main board maintained and operated by the Stock Exchange
"Mr. Cui"	Mr. Cui Qi, being the chairman, chief executive officer and an executive Director of the Company
"Mr. Yu"	Mr. Yu Ming, being an executive Director of the Company
"Offer"	the unconditional mandatory cash offer being made by Guotai Junan Securities for and on behalf of the Offeror to acquire all the issued Shares (other than those already owned or agreed to be acquired by the Offeror and/or parties acting in concert with it) pursuant to Rule 26.1 of the Takeovers Code
"Offer Period"	the period from 23 March 2018, being the date of the first of the Rule 3.7 Announcements, until the Closing Date
"Offer Price"	the price at which the Offer will be made, being HK$1.3175 per Share
"Offer Share(s)"	290,000,000 Shares, being all the issued Share(s), other than those Shares acquired by the Offeror under the Share Transfer Agreement and the 102,000,000 Remaining Shares
"Offeror"	Qingdao West Coast Holdings (Internation) Limited 青島西海岸控股(國際)有限公司, a company incorporated in the BVI, whose ultimate parent company is Qingdao West Coast Development (Group) Limited* 青島西海岸發展(集團)有限公司, which is a state-owned enterprise wholly-owned by the State-owned Asset Supervision and Administration Commission of Qingdao
"Overseas Shareholder(s)"	Independent Shareholder(s) whose addresses, as shown on the register of members of the Company, are outside Hong Kong

"PRC"	the People's Republic of China which, for the purpose of this Composite Document, excludes Hong Kong, Macau Special Administrative Region of the People's Republic of China and Taiwan
"Registrar"	Tricor Investor Services Limited, the Hong Kong branch share registrar and transfer office of the Company, situated at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong
"Relevant Period"	the period commencing on 23 September 2017, being the date falling six months preceding the date of the commencement of the Offer Period, and ending on the Latest Practicable Date
"Relevant Securities"	has the meaning ascribed to it under the Takeovers Code
"Remaining Shares"	102,000,000 Shares held by the Vendor immediately after the Share Transfer Completion
"Sale Shares"	408,000,000 Shares, representing 51.00% of the entire issued share capital of the Company legally and beneficially owned by the Vendor and agreed to be sold to the Offeror under the Share Transfer Agreement
"SFC"	the Securities and Futures Commission
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Share Transfer Agreement"	the conditional sale and purchase agreement dated 18 July 2018 entered into among the Vendor, the Guarantors and the Offeror for the sale and purchase of the Sale Shares
"Share Transfer Completion"	the completion of the sale and purchase of the Sale Shares in accordance with the terms and conditions of the Share Transfer Agreement
"Share Transfer Completion Date"	the date on which the Share Transfer Completion took place, being 16 August 2018
"Share Transfer Conditions"	the conditions precedent to the Share Transfer Completion as stipulated in the Share Transfer Agreement

"Solid Jewel"	Solid Jewel Investments Limited, a company incorporated in the BVI with limited liability, which is owned as to approximately 87.00% by Mr. Cui, and as to approximately 13.00% by Mr. Yu
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers, as amended from time to time
"Trading Day"	a day when the Stock Exchange is open for trading in Hong Kong
"Vendor"	Sky Hero Global Limited, a company incorporated in the BVI with limited liability, which is a wholly-owned subsidiary of Solid Jewel
"VMS Securities"	VMS Securities Limited, a corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO, being the financial adviser to the Company
"%"	per cent.

English translation of names in Chinese or another language which are marked with "" in this Composite Document are for identification purpose only.*

國泰君安國際
GUOTAI JUNAN INTERNATIONAL

26/F – 28/F, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

12 September 2018

To the Independent Shareholders

Dear Sir or Madam,

UNCONDITIONAL MANDATORY CASH OFFER BY GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED ON BEHALF OF QINGDAO WEST COAST HOLDINGS (INTERNATION) LIMITED TO ACQUIRE ALL THE ISSUED SHARES OF PROSPER CONSTRUCTION HOLDINGS LIMITED (OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY QINGDAO WEST COAST HOLDINGS (INTERNATION) LIMITED AND/OR PARTIES ACTING IN CONCERT WITH IT)

INTRODUCTION

Reference is made to the Joint Announcement. On 1 August 2018 (after trading hours of the Stock Exchange), the Offeror and the Company jointly announced that on 18 July 2018, the Vendor, the Guarantors and the Offeror entered into the Share Transfer Agreement, pursuant to which the Vendor conditionally agreed to sell and the Offeror conditionally agreed to acquire the Sale Shares comprising an aggregate of 408,000,000 Shares, representing 51.00% of the Shares in issue as at the date of the Share Transfer Agreement, at a consideration of HK$537,540,000 (equivalent to approximately HK$1.3175 per Sale Share).

Share Transfer Completion took place on 16 August 2018.

Immediately before the Share Transfer Completion, the Offeror and parties acting in concert with it did not own, control or have direction over any Shares or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company, and had not dealt for value in the Shares or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company. Immediately following the Share Transfer Completion and as at the Latest Practicable Date, the Offeror and/or parties acting in concert with it owned an aggregate of 408,000,000 Shares (representing 51.00% of the Shares in issue as at the Latest Practicable Date); and the Vendor is interested in 102,000,000 Shares (representing 12.75% of the Shares in issue as at the Latest Practicable Date). Pursuant to Rule 26.1 of the Takeovers Code, immediately following the Share Transfer Completion, the Offeror is required to make an unconditional mandatory cash offer for all the issued Shares (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it). Guotai Junan Securities is making the Offer on behalf of the Offeror.

This letter forms part of this Composite Document and sets out, among other things, the principal terms of the Offer, the information on the Offeror and its intention in relation to the Company. Further details of the Offer and the procedures for accepting the Offer are set out in Appendix I to this Composite Document and in the accompanying Form of Acceptance and Transfer. Your attention is also drawn to the information contained in the "Letter from the Board", the "Letter from the Independent Board Committee", the "Letter from Red Sun Capital" and the appendices set out in this Composite Document before reaching a decision as to whether or not to accept the Offer.

THE OFFER

Principal terms of the Offer

Guotai Junan Securities is making the Offer for and on behalf of the Offeror on the following basis:

For each Offer Share . . . . **HK$1.3175 in cash**

The Offer is unconditional in all respects.

The Offer Price of HK$1.3175 for each Share under the Offer is equivalent to the price payable by the Offeror for each Sale Share under the Share Transfer Agreement.

The Offer will extend to all the issued Shares, other than those already owned or agreed to be acquired by the Offeror and/or parties acting in concert with it on the date on which the Offer is made, being the date of despatch of this Composite Document.

The procedures for acceptance and further details of the Offer are set out in Appendix I to this Composite Document and the accompanying Form of Acceptance and Transfer.

Comparisons of value

The Offer Price of HK$1.3175 per Offer Share represents:

— a premium of approximately 1.35% over the closing price of HK$1.30 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

— a premium of approximately 15.57% over the closing price of HK$1.14 per Share as quoted on the Stock Exchange on 18 July 2018, being the Last Trading Day;

— a premium of approximately 17.63% over the average of the closing prices of the Shares of approximately HK$1.12 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

— a premium of approximately 21.32% over the average of the closing prices of the Shares of approximately HK$1.09 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day;

— a premium of approximately 23.67% over the average of the closing prices of the Shares of approximately HK$1.07 per Share as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Day;

— a premium of approximately 34.42% over the average of the closing prices of the Shares of approximately HK$0.98 per Share as quoted on the Stock Exchange for the last 90 consecutive trading days up to and including the Last Trading Day;

— a premium of approximately 78.27% over the average of the closing prices of the Shares of approximately HK$0.74 per Share as quoted on the Stock Exchange for the last 180 consecutive trading days up to and including the Last Trading Day;

— a premium of approximately 108.96% over the audited consolidated net asset value per Share of approximately HK$0.63 as at 31 December 2017, calculated based on the Group's audited consolidated net assets of approximately HK$504.42 million as at 31 December 2017 as disclosed in the annual report of the Company for the year ended 31 December 2017 and 800,000,000 Shares in issue as at the Latest Practicable Date; and

— a premium of approximately 108.96% over the unaudited consolidated net asset value per Share of approximately HK$0.63 as at 30 June 2018, calculated based on the Group's unaudited consolidated net assets of approximately HK$505.03 million as at 30 June 2018 as disclosed in the interim report of the Company for the six months ended 30 June 2018 and 800,000,000 Shares in issue as at the Latest Practicable Date.

Highest and lowest Share prices

During the Relevant Period, the highest closing price of the Shares as quoted on the Stock Exchange was HK$1.32 on 22 August 2018 and 3 September 2018 and the lowest closing price of the Shares as quoted on the Stock Exchange was HK$0.44 on 9 February 2018.

The irrevocable undertaking and deed of share pledge

The Vendor has entered into an irrevocable undertaking with the Offeror that, in respect of the Remaining Shares, (i) it will not accept the Offer; and (ii) it will not dispose of the Remaining Shares after the Share Transfer Completion up to and including the Closing Date.

Pursuant to the Share Transfer Agreement, to ensure the Vendor performs its duties and responsibilities under the Share Transfer Agreement including (i) Mr. Cui continues to perform the existing services contract (the "**Existing Services Contract**") with the Company after the Share Transfer Completion and up to the expiry of the Existing Services Contract, (ii) if, after the expiry of the Existing Services Contract and subject to the Listing Rules and the applicable laws and regulations thereof, the Company chooses to appoint Mr. Cui as an executive Director or to other senior management role(s) of the Company, Mr. Cui shall take up such appointment and execute a new 3-year fixed term services contract with the Company (the "**New Services Contract**") with comparable principal terms of the Existing Services Contract, (iii) the Vendor and the Guarantors shall procure Mr. Cui and other senior management of the Company to remain in the Company during the terms of the Existing Services Contract and the New Services Contract and (iv) the undertaking in respect of recovery of the account receivables of the Company as at 31 December 2017, the Vendor has entered into a deed of share pledge (the "**Deed of Share Pledge**") on the Share Transfer Completion Date whereby the Remaining Shares are charged in favour of the Offeror for a period of 24 months commencing from the Share Transfer Completion Date. If the Vendor shall fully perform its duties and responsibilities under the Share Transfer Agreement, the Deed of Share Pledge shall be released unconditionally after the aforesaid period. In addition, during the period while Mr. Cui remains as an executive Director or takes up other senior management role(s) of the Company, the Vendor shall not dispose of or deal with the Remaining Shares except as pursuant to the Deed of Share Pledge or that the prior consent of the Offeror has been obtained. During such period after the Deed of Share Pledge is released whilst Mr. Cui remains as an executive Director or takes up other senior management role(s) of the Company, prior consent from the Offeror should be obtained if the Vendor shall pledge or charge the Remaining Shares to any third party. Pursuant to the Deed of Share Pledge, the Vendor is at liberty to exercise its voting rights attached to the Remaining Shares during the effective period of the Deed of Share Pledge (i.e. a period of 24 months commencing from the Share Transfer Completion Date). In addition, each of Mr. Cui, Mr. Yu and Ms. Kui executed a deed of non-competition on 16 August 2018 in favour of the Company (for itself and as representative of its subsidiaries) as fulfilment of certain condition precedents to the Share Transfer Agreement as set out in the Joint Announcement. The details of the aforesaid deeds of non-competition are set out under the section "9. Material contracts" in Appendix IV to this Composite Document. Furthermore, the Vendor has not entered into any agreement or consensus with the Offeror or any party acting in concert with it in respect of the voting rights of the Remaining Shares.

Value of the Offer

On the basis of the Offer Price of HK$1.3175 per Share and 800,000,000 issued Shares as at the Latest Practicable Date, the entire issued share capital of the Company is valued at approximately HK$1,054,000,000.

Excluding the Sale Shares acquired by the Offeror under the Share Transfer Agreement and the 102,000,000 Remaining Shares, in respect of which the Vendor has irrevocably undertaken not to accept the Offer, and on the basis that there is no change in the issued share capital of the Company, a total of 290,000,000 Shares will be subject to the Offer. The maximum cash consideration payable by the Offeror under the Offer will be approximately HK$382,075,000.

Confirmation of financial resources

The Offeror intends to finance the Offer by means of bank loan facility. An amount which is sufficient to satisfy the maximum cash consideration payable by the Offeror under the Offer have been drawn down from the bank loan facility and deposited into the custodian account of the

Offeror maintained in Guotai Junan Securities. The Offeror does not intend that the payment of the interest on, repayment of or security for any liability (contingent or otherwise) under the bank loan facility will depend to any significant extent on the business of the Company.

Guotai Junan Capital, the financial adviser to the Offeror, is satisfied that there are sufficient financial resources available to the Offeror to satisfy the amount of funds required for the full acceptance of the Offer in respect of the 290,000,000 Offer Shares (excluding the Remaining Shares).

Effect of accepting the Offer

By accepting the Offer, the Independent Shareholders will sell their Shares free from all Encumbrances and together with all rights attaching to them including, without limitation, the right to receive all dividends and distributions which may be recommended, declared, made or paid, if any, at any time on or after the date on which the Offer is made, being the date of despatch of this Composite Document.

Acceptance of the Offer by any Independent Shareholder will be deemed to constitute a warranty by such person that all Shares sold by such person under the Offer are free from all Encumbrances and together with all rights accruing or attaching to them including, without limitation, the right to receive all dividends and distributions which may be recommended, declared, made or paid, if any, on or after the date on which the Offer is made. Acceptances of the Offer shall be irrevocable and not capable of being withdrawn, except as permitted under the Takeovers Code.

Payment

Payment in cash in respect of acceptances of the Offer will be made as soon as possible but within seven (7) Business Days following the date on which the duly completed acceptance of the Offer and the relevant documents of title of the Offer Shares in respect of such acceptance are received by or for the Offeror to render each such acceptance complete and valid. No fractions of a cent will be payable and the amount of the consideration payable to an Independent Shareholder who accepts the Offer will be rounded up to the nearest cent.

Overseas Shareholders

The Offer will be available to all Independent Shareholders, including the Overseas Shareholders. The making of the Offer to or acceptance thereof by persons not resident in Hong Kong may be affected by the laws and regulations of the relevant jurisdiction in which they are resident. Overseas Shareholders who are citizens, residents or nationals of a jurisdiction outside Hong Kong should observe any applicable legal or regulatory requirements and, where necessary, seek legal advice.

It is the sole responsibility of the Overseas Shareholders who wish to accept the Offer to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdictions in connection with the acceptance of the Offer (including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due in respect of such jurisdictions).

Acceptance of the Offer by any Overseas Shareholders will be deemed to constitute a representation and warranty from such Overseas Shareholders to the Offeror that the local laws and requirements have been complied with. The Overseas Shareholders should consult their professional advisers if in doubt.

Stamp duty

The seller's ad valorem stamp duty payable by the Independent Shareholders on acceptances of the Offer and calculated at a rate of 0.1% of the market value of the Offer Shares or consideration payable by the Offeror in respect of the relevant acceptances of the Offer, whichever is the higher, will be deducted from the amount payable by the Offeror to the relevant Independent Shareholders on the acceptance of the Offer. The Offeror will arrange for payment of the seller's ad valorem stamp duty on behalf of the Independent Shareholders who accept the Offer and will pay the buyer's ad valorem stamp duty in connection with the acceptance of the Offer and the transfer of the Offer Shares in accordance with the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong).

Taxation advice

Independent Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting or rejecting the Offer. None of the Offeror, parties acting in concert with it, the Company, Guotai Junan Capital, Guotai Junan Securities, VMS Securities, Red Sun Capital, the Registrar or any of their respective ultimate beneficial owners, directors, officers, agents or associates or any other persons involved in the Offer accepts any responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Offer.

INFORMATION ON THE OFFEROR

The Offeror is an investment holding company incorporated in the BVI with limited liability in 2014 and is principally engaged in investment holding business in the PRC. The directors of the Offeror are Mr. Wang Zhijun, Mr. Zhang Hao, Mr. Wang Xuejun, Mr. Zhu Jiangfeng and Mr. Yu Zhan.

The Offeror is indirectly wholly-owned by Qingdao West Coast Development (Group) Limited* 青島西海岸發展(集團)有限公司 which is the ultimate parent company of the Offeror and a state-owned enterprise wholly-owned by the State-owned Asset Supervision and Administration Commission of Qingdao. Qingdao West Coast Development (Group) Limited* 青島西海岸發展(集

團)有限公司 is principally engaged in infrastructure construction, land development, real estate development and other industrial investment and operations (including cultural, tourism and financial services).

The Offeror and parties acting in concert with it did not own, control or have direction over any Shares or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company immediately prior to Share Transfer Completion, and had not dealt for value in the Shares or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the 6-month period preceding the date of the Joint Announcement.

INTENTION OF THE OFFEROR REGARDING THE GROUP

Following the completion of the Offer, the Offeror intends to continue the existing principal activities of the Group. The Offeror will conduct a detailed review of the business operations and financial position of the Group for the purpose of developing a sustainable business plan or strategy for the Group. Subject to the result of the review, the Offeror plans to leverage its experience and network to explore further investment opportunities for the Group. However, as at the date of this Composite Document, no such investment or business opportunities have been identified nor has the Offeror entered into any agreement, arrangements, understandings, intention or negotiation in relation to the injection of any assets or business into the Group. If any possible investment materializes, the Company will make further announcement(s) as and when required under the Listing Rules.

Save as required for the implementation of the Offeror's intention regarding the Group as aforementioned, the Offeror has no intention to terminate the employment of any key employees of the Group except for the proposed changes to the members of the Board as detailed in the section headed "Proposed change of the board composition" below or to dispose of or re-allocate the Group's assets which are not in the ordinary and usual course of business of the Group. As at the date of this Composite Document, the Offeror has no plans to restructure the Group's existing structure.

The Offeror intends to change the name of the Company after the close of the Offer to reflect the change in control of the Company. Further announcement(s) will be made as and when appropriate.

PROPOSED CHANGE OF THE BOARD COMPOSITION

As at the Latest Practicable Date, the Board comprises Mr. Cui Qi (Chairman of the Board), Mr. Yu Ming, Ms. Kui Ching Wah and Mr. Tao Yang as executive Directors; Mr. Cheung Chi Man Dennis, Ms. Leung Sau Fan Sylvia and Mr. Leung Yee Tak as independent non-executive Directors.

Save for Mr. Cui Qi and Mr. Tao Yang, all of the existing Directors intend to resign from the Board with effect from the earliest time permitted under the Takeovers Code, being the date subsequent to the Closing Date. Such resignation will be made in compliance with the Takeovers Code and the Listing Rules.

The Offeror intends to nominate seven new Directors to the Board including three executive Directors, namely Mr. Liu Luqiang, Mr. Zhu Jiangfeng and Mr. Xue Qingfu, one non-executive Director, namely Wang Xuejun and three independent non-executive Directors with effect from the date subsequent to the Closing Date. Any such appointment will be made in compliance with the Takeovers Code and the Listing Rules.

The proposed nomination of new independent non-executive Directors have not yet been finalised as at the date of this Composite Document. Further announcement(s) will be made upon any changes to the composition of the Board in accordance with the requirements of the Listing Rules and the Takeovers Code as appropriate.

The biography of the proposed Directors are set out below:

Mr. Liu Luqiang

Mr. Liu Luqiang ("**Mr. Liu**"), aged 49, will be appointed as the chairman of the Board and an executive Director. Mr. Liu obtained a postgraduate degree in technology economics and business administration from Tianjin University in December 1993 and the professional title of senior engineer in December 2001. He has been serving as the chairman and the secretary of the party committee of Qingdao West Coast Development (Group) Limited* 青島西海岸發展(集團)有限公司 since August 2018 and July 2018, respectively. Qingdao West Coast Development (Group) Limited* 青島西海岸發展(集團)有限公司 is principally engaged in reclamation, construction and management of fishing ports and marine ranches, construction of bridges, coastline management and island reef development. He was the vice chairman of Qingdao West Coast Holding Development Limited* 青島西海岸控股發展有限公司 from November 2015 to November 2017 and has been serving as the chairman of Qingdao West Coast Holding Development Limited* 青島西海岸控股發展有限公司 since November 2017. Qingdao West Coast Holding Development Limited* 青島西海岸控股發展有限公司, the subsidiary of Qingdao West Coast Development (Group) Limited* 青島西海岸發展(集團)有限公司, is principally engaged in the investment in services industries such as property management industry and overseas investments. He has also been serving as the general manager and director of Qingdao West Coast Development (Group) Limited* 青島西海岸發展(集團)有限公司 since March 2015. He has accumulated over 20 years of experience in municipal planning, design and management, government administration, and corporate operation and management. He served as, among others, office manager of Huangdao District Party Committee of Qingdao* 青島市黃島區委 from November 2012 to April 2015, member of the working committee of Qingdao West Coast New Area under Qingdao Municipal Party Committee* 青島市委青島西海岸新區工作委員會 from March 2012 to June 2014, standing member of Working Committee of Qingdao Economic & Technology Development Area* 青島經濟技術開發區工作委員會 from December 2011 to June 2014, standing member of

Huangdao District Party Committee of Qingdao* 青島市黃島區委 from December 2011 to March 2015, deputy director of Management Committee of Qingdao Economic & Technology Development Area* 青島經濟技術開發區管理委員會 from July 2009 to December 2011; and the head of Rural Planning Division (Building Management) of the Qingdao Urban Planning Bureau* 青島市規劃局村鎮規劃(建築管理)處 from December 2006 to July 2009.

Mr. Zhu Jiangfeng

Mr. Zhu Jiangfeng ("**Mr. Zhu**"), aged 40, will be appointed as an executive Director. Mr. Zhu obtained a master's degree in management from Renmin University of China in January 2015. He has been serving as assistant to the general manager of Qingdao West Coast Development (Group) Limited* 青島西海岸發展(集團)有限公司 since June 2014, and the chairman and general manager of Qingdao Big Data Technology Development Co., Ltd* 青島大數據科技發展有限公司 since November 2017. He has over 10 years of experience in business management. From April 2016 to November 2017, he served as the chairman and general manager of Qingdao West Coast Finance Development Co., Ltd* 青島西海岸金融發展有限公司. From June 2014 to October 2016, he served as the head of the asset management department of Qingdao West Coast Development (Group) Limited* 青島西海岸發展(集團)有限公司. From July 2013 to November 2016, he served as the officer of the tender department of Qingdao West Coast Development (Group) Limited* 青島西海岸發展(集團)有限公司. From December 2007 to June 2009, he worked in Qingdao Haier Co., Ltd. 青島海爾股份有限公司, and his last position was the chief product officer of the refrigerator segment. From July 2000 to August 2007, he worked in AUCMA Group Limited 澳柯瑪集團有限公司, where he held a number of positions including the head of market development and marketing planning department.

Mr. Xue Qingfu

Mr. Xue Qingfu ("**Mr. Xue**"), aged 47, will be appointed as an executive Director. Mr. Xue obtained a master's degree (part-time) in software engineering from Beijing Jiaotong University in June 2016. Since November 2014, he has been the head of risk control department of Qingdao West Coast Development (Group) Limited* 青島西海岸發展(集團)有限公司 and serving as director or supervisor of its several subsidiaries, such as supervisor of Qingdao West Coast Holding Development Limited* 青島西海岸控股發展有限公司. He accumulated many years of experience in finance and internal control management. He served as, among others, deputy general manager of Qingdao West Coast Industrial Development Co., Ltd.* 青島西海岸實業發展有限公司 from February 2013 to November 2014, general financial manager of Qingdao Sino-German Ecopark Joint Development Co., Ltd.* 青島中德生態園聯合發展有限公司 from February 2012 to January 2013; and manager of the financial audit department of Qingdao Development Zone Urban Development Investment Co., Ltd.* 青島市開發區城市發展投資有限公司 from January 2007 to December 2011.

Mr. Wang Xuejun

Mr. Wang Xuejun ("**Mr Wang**"), aged 55, will be appointed as a non-executive Director. Mr Wang obtained a bachelor degree in Chinese from Shandong College of Education* 山東省教育學院 in June 1989. He has been serving as the general manager of Qingdao West Coast Holding Development Limited* 青島西海岸控股發展有限公司 since November 2015, and the deputy general manager of Qingdao West Coast Development (Group) Limited* 青島西海岸發展(集團)有限公司 since September 2012. Mr. Wang has more than 20 years of experience in government administration, transportation supervision, and enterprise management. From September 2010 to September 2012, he was appointed as director general* 局長 and secretary of the party committee* 黨委書記 of Jiaonan Communications and Transportation Bureau* 膠南市交通運輸局. From January 2007 to September 2010, he was appointed as director general* 局長 and secretary of the party committee* 黨委書記 of Jiaonan Transportation Bureau* 膠南市交通局. From August 2002 to January 2007, he was appointed as secretary of the working committee* 工委書記 of Jiaonan Zhuhai Street* 膠南市委珠海街道. From August 1999 to September 2001, he worked in Jiaonan Yitong Thermal Power Co., Ltd.* 膠南市易通熱電有限責任公司 (formerly "Jiaonan Thermal Power Plant* 膠南市熱電廠"), where he held a number of positions including director and chairman.

PUBLIC FLOAT AND MAINTAINING THE LISTING STATUS OF THE COMPANY

The Stock Exchange has stated that if, at the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25%, of the issued Shares are held by the public, or if the Stock Exchange believes that:

(i) a false market exists or may exist in the trading of the Shares; or

(ii) there are insufficient Shares in public hands to maintain an orderly market,

it will consider exercising its discretion to suspend dealings in the Shares.

The Offeror intends the Company to remain listed on the Stock Exchange. Mr. Cui Qi, Mr. Tao Yang and the directors of the Offeror have jointly and severally undertaken, and the new directors to be appointed to the Board will jointly and severally undertake, to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares.

As the Company and the Offeror are unable to ascertain at this stage the level of acceptances by Independent Shareholders under the Offer, they have not decided the exact steps/actions that will be taken by them after the close of the Offer to restore the public float of the Shares, if required. Notwithstanding this, the Company and the Offeror consider that the appropriate actions to be taken shall include placing down of sufficient number of accepted Shares by the Offeror and/or issue of new Shares by the Company for this purpose. The Company and the Offeror will issue a separate announcement as and when necessary in this regard.

COMPULSORY ACQUISITION

The Offeror does not intend to exercise any right or power which may be available to it to compulsorily acquire of the remaining Shares not acquired under the Offer after the close of the Offer.

FURTHER DETAILS OF THE OFFER

Further details regarding the Offer, including the terms of the Offer and procedures for acceptance, are set out in Appendix I to this Composite Document and the accompanying Form of Acceptance and Transfer.

GENERAL

This Composite Document has been prepared for the purposes of complying with the laws of Hong Kong, the Takeovers Code and the Listing Rules and the information disclosed may not be the same as which would have been disclosed if this Composite Document had been prepared in accordance with the laws of jurisdictions outside Hong Kong.

To ensure equality of treatment of all Independent Shareholders, those Independent Shareholders who hold Shares as nominee on behalf of more than one beneficial owner should, as far as practicable, treat the holding of such beneficial owner separately. It is essential for the beneficial owners of the Shares whose investments are registered in the names of nominees to provide instructions to their nominees of their intentions with regard to the Offer.

All documents and remittances to be sent to the Independent Shareholders will be sent to them by ordinary post at their own risk. Such documents and remittances will be sent to the Independent Shareholders at their respective addresses as they appear in the register of members of the Company or in the case of joint Shareholders, to such Shareholder whose name appears first in the register of members of the Company. None of the Offeror and parties acting in concert with it, the Company, Guotai Junan Capital, Guotai Junan Securities, VMS Securities, Red Sun Capital, the Registrar or any of their respective ultimate beneficial owners, directors, officers, agents or associates or any other persons involved in the Offer will be responsible for any loss or delay in transmission of such documents and remittances or any other liabilities that may arise as a result thereof or in connection therewith.

WARNING

Independent Shareholders and potential investors are advised to exercise caution when dealing in the shares of the Company. Persons who are in doubt as to the action they should take should consult a licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional advisers.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this Composite Document which form part of this Composite Document. You are reminded to read carefully the "Letter from the Board", the "Letter from the Independent Board Committee", the "Letter from Red Sun Capital" and "Other information about the Group", which are set out in this Composite Document, before deciding whether or not to accept the Offer.

Yours faithfully,
For and on behalf of
Guotai Junan Capital Limited
Anthony Wong
Deputy General Manager

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6816)

Executive Directors:
Mr. Cui Qi
Ms. Kui Ching Wah
Mr. Tao Yang
Mr. Yu Ming

Independent non-executive Directors:
Mr. Cheung Chi Man Dennis
Ms. Leung Sau Fan Sylvia
Mr. Leung Yee Tak

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:
Units Nos. 04–05 on the 5th Floor
K. Wah Centre, No. 191 Java Road
North Point
Hong Kong

12 September 2018

To the Independent Shareholders

Dear Sir or Madam,

UNCONDITIONAL MANDATORY CASH OFFER BY GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED FOR AND ON BEHALF OF QINGDAO WEST COAST HOLDINGS (INTERNATION) LIMITED TO ACQUIRE ALL THE ISSUED SHARES OF PROSPER CONSTRUCTION HOLDINGS LIMITED (OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY QINGDAO WEST COAST HOLDINGS (INTERNATION) LIMITED AND/OR PARTIES ACTING IN CONCERT WITH IT)

INTRODUCTION

Reference is made to the Joint Announcement in relation to, among other matters, the Share Transfer Agreement and the Offer. Terms used in this letter have the same meanings as defined in this Composite Document unless the context otherwise requires.

As mentioned in the Joint Announcement, on 18 July 2018, the Offeror as purchaser entered into the Share Transfer Agreement.

Pursuant to the Share Transfer Agreement, the Vendor conditionally agreed to sell and the Offeror conditionally agreed to acquire the Sale Shares, being 408,000,000 Shares beneficially owned by the Vendor and representing 51.00% of the entire issued share capital of the Company as at the date of the Joint Announcement, free from all encumbrances and together with all rights attached to the Sale Shares including, without limitation, the right to receive all dividends and distributions which may be recommended, declared, made or paid, the record date of which is on or after the Share Transfer Completion Date.

Consideration for the Sale Shares

The consideration for the Sale Shares is HK$537,540,000, equivalent to HK$1.3175 per Sale Share, which was determined after arm's length negotiations between the Vendor and the Offeror, after taking into consideration, among others, (i) the prevailing market prices of the Shares as further described in the sub-section headed "Comparisons of value" below; (ii) the financial position of the Group; and (iii) the fact that the Offeror can obtain a controlling interest in the Company upon the Share Transfer Completion.

All Share Transfer Conditions were satisfied and the Share Transfer Completion took place on 16 August 2018. The consideration was paid by the Offeror in full upon the Share Transfer Completion.

Immediately following the Share Transfer Completion and as at the Latest Practicable Date, the Offeror and parties acting in concert with it were interested in, and controlled the voting rights in respect of, an aggregate of 408,000,000 Shares, representing 51.00% of the entire issued share capital of the Company. Pursuant to Rule 26.1 of the Takeovers Code, the Offeror and the parties acting in concert with it are required to make an unconditional mandatory general offer in cash for all the issued Shares other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it. Guotai Junan Securities, for and on behalf of the Offeror, is now making the Offer on the terms as set out in this Composite Document in compliance with the Takeovers Code.

Immediately after the Share Transfer Completion and as at the Latest Practicable Date, the Vendor will continue to be interested in the Remaining Shares, being 102,000,000 Shares and representing 12.75% of the entire issued share capital of the Company. The Vendor has entered into an irrevocable undertaking with the Offeror that, in respect of the Remaining Shares, (i) it will not accept the Offer; and (ii) it will not dispose of the Remaining Shares immediately after the Share Transfer Completion up to and including the Closing Date.

Pursuant to the Share Transfer Agreement, to ensure the Vendor performs its duties and responsibilities under the Share Transfer Agreement including (i) Mr. Cui continues to perform the existing services contract (the "**Existing Services Contract**") with the Company after the Share Transfer Completion and up to the expiry of the Existing Services Contract, (ii) if, after the expiry of the Existing Services Contract and subject to the Listing Rules and the applicable laws and regulations thereof, the Company chooses to appoint Mr. Cui as an executive Director or to other senior management role(s) of the Company, Mr. Cui shall take up such appointment and execute a new 3-year fixed term services contract with the Company (the "**New Services Contract**") with comparable principal terms of the Existing Services Contract, (iii) the Vendor and the Guarantors shall procure Mr. Cui and other senior management of the Company to remain in the Company during the terms of the Existing Services Contract and the New Services Contract and (iv) the undertaking in respect of recovery of the account receivables of the Company as at 31 December 2017, the Vendor has entered into a deed of share pledge (the "**Deed of Share Pledge**") on the Share Transfer Completion Date whereby the Remaining Shares are charged in favour of the Offeror for a period of 24 months commencing from the Share Transfer Completion Date. If the Vendor shall fully perform its duties and responsibilities under the Share Transfer Agreement, the Deed of Share Pledge shall be released unconditionally after the aforesaid period. In addition, during the period while Mr. Cui remains as an executive Director or takes up other senior management role(s) of the Company, the Vendor shall not dispose of or deal with the Remaining Shares except as pursuant to the Deed of Share Pledge or that the prior consent of the Offeror has been obtained. During such period after the Deed of Share Pledge is released whilst Mr. Cui remains as an executive Director or takes up other senior management role(s) of the Company, prior consent from the Offeror should be obtained if the Vendor shall pledge or charge the Remaining Shares to any third party. Pursuant to the Deed of Share Pledge, the Vendor is at liberty to exercise its voting rights attached to the Remaining Shares during the effective period of the Deed of Share Pledge (i.e. a period of 24 months commencing from the Share Transfer Completion Date). In addition, each of Mr. Cui, Mr. Yu and Ms. Kui executed a deed of non-competition on 16 August 2018 in favour of the Company (for itself and as representative of its subsidiaries) as fulfilment of certain condition precedents to the Share Transfer Agreement as set out in the Joint Announcement. The details of the aforesaid deeds of non-competition are set out under the section "9. Material contracts" in Appendix IV to this Composite Document. Furthermore, the Vendor has not entered into any agreement or consensus with the Offeror or any party acting in concert with it in respect of the voting rights of the Remaining Shares.

Details of the Offer are set out in the "Letter from Guotai Junan Capital", Appendix I to this Composite Document and the Form of Acceptance and Transfer.

The purpose of this Composite Document is to provide you with, among other matters, information relating to the Group and the Offeror, the Offer (including the expected timetable and terms of the Offer), the letter from the Board, the letter of recommendation from the Independent Board Committee to the Independent Shareholders in respect of the Offer and the letter of advice from the Independent Financial Adviser to the Independent Board Committee in respect of the Offer.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

Pursuant to Rules 2.1 and 2.8 of the Takeovers Code, on 1 August 2018, the Board has established the Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Cheung Chi Man Dennis, Ms. Leung Sau Fan Sylvia and Mr. Leung Yee Tak to make a recommendation to the Independent Shareholders in respect of the Offer as to whether the terms of the Offer are fair and reasonable and as to acceptance of the Offer.

Pursuant to Rule 2.1 of the Takeovers Code, on 1 August 2018, Red Sun Capital has been appointed as the Independent Financial Adviser with the approval of the Independent Board Committee to advise the Independent Board Committee in respect of the Offer as to whether the terms of the Offer are fair and reasonable and as to the acceptance of the Offer. The letter of advice from Independent Financial Adviser addressed to the Independent Board Committee is set out on pages 30 to 59 of this Composite Document.

You are advised to read the "Letter from the Independent Board Committee" addressed to the Independent Shareholders, the "Letter from Red Sun Capital" and the additional information contained in the Appendices to this Composite Document carefully before taking any action in respect of the Offer.

THE OFFER

As mentioned in the "Letter from Guotai Junan Capital" as set out in this Composite Document, Guotai Junan Securities, for and on behalf of the Offeror, is making the Offer on the following basis:

For every Offer Share . . . . **HK$1.3175 in cash**

The Offer Price of HK$1.3175 for each Offer Share is the same as the price paid by the Offeror for each Share under the Share Transfer Agreement.

On the basis of 800,000,000 Shares in issue as at the Latest Practicable Date, the entire issued share capital of the Company would be valued at HK$1,054,000,000. As at the Latest Practicable Date, the Company did not have any outstanding options, warrants, derivatives or securities which are convertible or exchangeable into Shares and had not entered into any agreement for the issue of such options, derivatives, warrants or other securities which are convertible or exchangeable into Shares. As at the Latest Practicable Date, 408,000,000 Shares were held by the Offeror and parties acting in concert with it, and excluding the 102,000,000 Remaining Shares, in respect of which the Vendor has irrevocably undertaken not to accept the Offer, the number of Shares subject to the Offer will be 290,000,000 and the value of the Offer is HK$382,075,000.

The Offer is unconditional in all respects. The Offer will be extended to all Independent Shareholders in accordance with the Takeovers Code. The Offer Shares to be acquired under the Offer shall be fully paid and free from all Encumbrances and together with all rights now and thereafter attached thereto, including all rights any dividend or other distribution paid, made or declared on or after the date on which the Offer is made, being the date of the despatch of this Composite Document.

COMPARISONS OF VALUE

The Offer Price of HK$1.3175 per Offer Share represents:

— a premium of approximately 1.35% over the closing price of HK$1.30 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

— a premium of approximately 15.57% over the closing price of HK$1.14 per Share as quoted on the Stock Exchange on the Last Trading Day;

— a premium of approximately 17.63% over the average closing price of approximately HK$1.12 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

— a premium of approximately 21.32% over the average closing price of approximately HK$1.09 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day;

— a premium of approximately 23.67% over the average closing price of approximately HK$1.07 per Share as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Day;

— a premium of approximately 34.42% over the average of the closing prices of the Shares of approximately HK$0.98 per Share as quoted on the Stock Exchange for the last 90 consecutive trading days up to and including the Last Trading Day;

— a premium of approximately 78.27% over the average of the closing prices of the Shares of approximately HK$0.74 per Share as quoted on the Stock Exchange for the last 180 consecutive trading days up to and including the Last Trading Day;

— a premium of approximately 108.96% over the audited consolidated net asset value per Share of approximately HK$0.63 as at 31 December 2017, calculated based on the Group's audited consolidated net assets of approximately HK$504.42 million as at 31 December 2017 as disclosed in the annual report of the Company for the year ended 31 December 2017 and 800,000,000 Shares in issue as at the Latest Practicable Date; and

— a premium of approximately 108.96% over the unaudited consolidated net asset value per Share of approximately HK$0.63 as at 30 June 2018, calculated based on the Group's unaudited consolidated net assets of approximately HK$505.03 million as at 30 June 2018 as disclosed in the interim report of the Company for the six months ended 30 June 2018 published on 29 August 2018 and 800,000,000 Shares in issue as at the Latest Practicable Date.

Highest and lowest Share prices

During the Relevant Period, the highest closing price of the Shares as quoted on the Stock Exchange was HK$1.32 on 22 August 2018 and 3 September 2018 and the lowest closing price of the Shares as quoted on the Stock Exchange was HK$0.44 on 9 February 2018.

Further details of the Offer

Further details of the Offer including, among other things, its extension to the Overseas Shareholders, information on taxation, the terms and conditions and the procedures for acceptance and settlement and acceptance period are set out in the "Letter from Guotai Junan Capital" as set out in this Composite Document, Appendix I to this Composite Document and the accompanying Form of Acceptance and Transfer.

INFORMATION ON THE GROUP

The Company is incorporated in the Cayman Islands with limited liability on 6 October 2015, and its shares are listed on the Main Board of the Stock Exchange.

The principal activity of the Company is investment holdings. The principal activities of the Group are the provision of marine construction services and, to a lesser extent, leasing and trading of vessels.

The following table is a summary of certain audited consolidated financial information of the Company for the three years ended 31 December 2015, 2016 and 2017 respectively.

	For the year ended 31 December 2017	**For the year ended 31 December 2016**	**For the year ended 31 December 2015**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	633,347	658,860	572,928
Profit before taxation	67,177	82,085	110,828
Profit after taxation	64,470	69,449	95,988

	As at 31 December 2017	**As at 31 December 2016**	**As at 31 December 2015**
	HK$'000	*HK$'000*	*HK$'000*
Net assets	504,416	464,123	171,834

Your attention is drawn to Appendices II and IV to this Composite Document which contain further financial and general information of the Group.

SHAREHOLDING STRUCTURE OF THE COMPANY

The following table sets out the shareholding structure of the Company (i) immediately prior to the Share Transfer Completion and (ii) immediately upon the Share Transfer Completion and as at the Latest Practicable Date:

Name of Shareholder	Immediately prior to the Share Transfer Completion		Immediately upon the Share Transfer Completion and as at the Latest Practicable Date	
	Number of Shares held	*%*	*Number of Shares held*	*%*
The Vendor	510,000,000	63.75	102,000,000	12.75
CITICC International Investment Limited	90,000,000	11.25	90,000,000	11.25
The Offeror and parties acting in concert with it	—	—	408,000,000	51.00
Public Shareholders *(Note 1)*	200,000,000	25.00	200,000,000	25.00
Total	800,000,000	100.00	800,000,000	100.00

Note:

1. As at the Latest Practicable Date, the "Public Shareholders" as stated above are third parties independent of the Company and its connected persons.

INTENTION OF THE OFFEROR REGARDING THE GROUP

Please refer to the section headed "Intention of the Offeror regarding the Group" in the "Letter from Guotai Junan Capital" for detailed information on the Offeror's intention on the business and management of the Group. The Board is aware of the intention of the Offeror regarding the Group and its employees and is willing to render reasonable co-operation with the Offeror which is in the interests of the Company and its Shareholders as a whole.

PROPOSED CHANGE OF THE BOARD COMPOSITION

Please refer to the section headed "Proposed Change of the Board Composition" in the "Letter from Guotai Junan Capital" for detailed information on the Offeror's intention on the business and management of the Group.

MAINTAINING THE LISTING STATUS OF THE COMPANY AND PUBLIC FLOAT

The Stock Exchange has stated that if, at the closing of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public, or if the Stock Exchange believes that:

(i) a false market exists or may exist in the trading of the Shares; or

(ii) there are insufficient Shares in public hands to maintain an orderly market,

it will consider exercising its discretion to suspend dealings in the Shares.

The Board noted from the "Letter from Guotai Junan Capital" that the Offeror intends the Company to remain listed on the Stock Exchange after the close of the Offer. The Board further noted that Mr. Cui and Mr. Tao Yang (the executive Director) and the directors of the Offeror have jointly and severally undertaken, and the new directors to be appointed to the Board will jointly and severally undertake, to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares following closing of the Offer.

RECOMMENDATION

Your attention is drawn to (i) the "Letter from the Independent Board Committee" on pages 28 to 29 of this Composite Document, which sets out its recommendations to the Independent Shareholders in relation to the Offer; and (ii) the "Letter from Red Sun Capital" on pages 30 to 59 of this Composite Document, which sets out its advice to the Independent Board Committee in relation to the Offer and the principal factors considered by it before arriving at its recommendations.

ADDITIONAL INFORMATION

You are also advised to read this Composite Document together with the accompanying Form of Acceptance and Transfer in respect of the acceptance and settlement procedures of the Offer. Your attention is drawn to the additional information contained in the Appendices to this Composite Document.

In considering what action to take in connection with the Offer, you should consider your own tax positions, if any, and, in case of any doubt, consult your professional advisers.

Yours faithfully,
For and on behalf of the Board
Prosper Construction Holdings Limited
Cui Qi
Chairman and Chief Executive Officer

PROSPER CONSTRUCTION HOLDINGS LIMITED

瑞港建設控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6816)

12 September 2018

To the Independent Shareholders

Dear Sir or Madam,

UNCONDITIONAL MANDATORY CASH OFFER BY GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED FOR AND ON BEHALF OF QINGDAO WEST COAST HOLDINGS (INTERNATION) LIMITED TO ACQUIRE ALL THE ISSUED SHARES OF PROSPER CONSTRUCTION HOLDINGS LIMITED (OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY QINGDAO WEST COAST HOLDINGS (INTERNATION) LIMITED AND/OR PARTIES ACTING IN CONCERT WITH IT)

INTRODUCTION

We refer to the composite document dated 12 September 2018 ("**Composite Document**") jointly issued by the Company and the Offeror of which this letter forms part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as those defined in the Composite Document.

We have been appointed to constitute the Independent Board Committee to consider the terms of the Offer and to advise the Independent Shareholders as to whether or not the terms of the Offer are fair and reasonable and to make recommendation in respect of acceptance of the Offer. Red Sun Capital has been appointed as the Independent Financial Adviser to make recommendation to us in respect of the terms of the Offer and, in particular, whether the Offer is fair and reasonable, and as to the acceptance of the Offer. Details of its advice and recommendation, together with the principal factors and reasons which it has considered before arriving at such recommendation, are set out in the "Letter from Red Sun Capital" on pages 30 to 59 of the Composite Document. We also wish to draw your attention to the "Letter from the Board", the "Letter from Guotai Junan Capital" and the additional information set out in the appendices to the Composite Document.

RECOMMENDATION

Having considered the terms of the Offer and the advice from the Independent Financial Adviser, in particular the factors, reasons and recommendation as set out in the "Letter from Red Sun Capital", we concur with the view of the Independent Financial Adviser and consider that the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned, and recommend the Independent Shareholders to accept the Offer.

However, Independent Shareholders who intend to accept the Offer are reminded to closely monitor the market price and liquidity of the Shares during the Offer Period, and consider selling their Shares in the open market rather than accepting the Offer if the net proceeds from the sale of such Shares in the open market would exceed the net proceeds receivable under the Offer.

The Independent Shareholders are recommended to read the full text of the "Letter from Red Sun Capital" on pages 30 to 59 of the Composite Document. In any case, the Independent Shareholders are strongly advised that the decision to realise or to hold their investment is subject to individual circumstances and investment objectives. If in doubt, the Independent Shareholders should consult their own professional advisers for professional advice. Furthermore, the Independent Shareholders who wish to accept the Offer are recommended to read carefully the procedures for accepting the Offer as detailed in the Composite Document and the Form of Acceptance and Transfer.

Yours faithfully,
For and on behalf of
Independent Board Committee
PROSPER CONSTRUCTION HOLDINGS LIMITED
Mr. Cheung Chi Man Dennis **Ms. Leung Sau Fan Sylvia** **Mr. Leung Yee Tak**
Independent non-executive Directors

Set out below is the text of a letter received from Red Sun Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Offer prepared for the purpose of inclusion in this Composite Document.

红日资本有限公司
RED SUN CAPITAL LIMITED

12 September 2018

To: the Independent Board Committee and the Independent Shareholders of Prosper Construction Holdings Limited

Dear Sir or Madam,

UNCONDITIONAL MANDATORY CASH OFFER BY GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED FOR AND ON BEHALF OF QINGDAO WEST COAST HOLDINGS (INTERNATION) LIMITED TO ACQUIRE ALL THE ISSUED SHARES OF PROSPER CONSTRUCTION HOLDINGS LIMITED (OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY QINGDAO WEST COAST HOLDINGS (INTERNATION) LIMITED AND/OR PARTIES ACTING IN CONCERT WITH IT)

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect to the Offer, details of which are set out in Composite Document dated 12 September 2018 jointly despatched by the Company and the Offeror to the Shareholders, of which this letter forms part. Unless otherwise stated, terms defined in the Composite Document have the same meanings in this letter.

As set out in the Composite Document, Sky Hero Global Limited as the Vendor, the Offeror as the purchaser, and Mr. Cui and Mr. Yu as the Guarantors, entered into the Share Transfer Agreement on 18 July 2018. Pursuant to the terms of the Share Transfer Agreement, the Vendor has conditionally agreed to sell and Offeror has conditionally agreed to acquire the Sale Shares comprising an aggregate of 408,000,000 Shares, representing 51.00% of the Shares in issue as at the date of the Share Transfer Agreement, at a consideration of HK$537,540,000 (equivalent to approximately HK$1.3175 per Sale Share).

Share Transfer Completion took place on 16 August 2018.

Immediately before the Share Transfer Completion, the Offeror and parties acting in concert with it did not own, control or have direction over any Shares or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company, and had not dealt for value in the Shares or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company. Immediately following the Share Transfer Completion and as at the Latest Practicable Date, the Offeror and/or parties acting in concert with it owned an aggregate of 408,000,000 Shares (representing 51.00% of the Shares in issue as at the Latest Practicable Date); and the Vendor is interested in 102,000,000 Shares (representing 12.75% of the Shares in issue as at the Latest Practicable Date). Pursuant to Rule 26.1 of the Takeovers Code, immediately following the Share Transfer Completion, the Offeror is required to make an unconditional mandatory cash offer for all the issued Shares (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it). Guotai Junan Securities is making the Offer on behalf of the Offeror.

On the basis of 800,000,000 Shares in issue as at the Latest Practicable Date, the entire issued share capital of the Company would be valued at HK$1,054,000,000. As at the Latest Practicable Date, the Company did not have any outstanding options, warrants, derivatives or securities which are convertible or exchangeable into Shares and had not entered into any agreement for the issue of such options, derivatives, warrants or other securities which are convertible or exchangeable into Shares. As at the Latest Practicable Date, 408,000,000 Shares were held by the Offeror and parties acting in concert with it, and excluding the 102,000,000 Remaining Shares, in respect of which the Vendor has irrevocably undertaken not to accept the Offer, the number of Shares subject to the Offer will be 290,000,000 and the value of the Offer is HK$382,075,000.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all three independent non-executive Directors, namely Mr. Cheung Chi Man Dennis, Ms. Leung Sau Fan Sylvia and Mr. Leung Yee Tak, none of whom has any direct or indirect interest in the Offer, has been established to advise to the Independent Shareholders as to whether the Offer are fair and reasonable and as to acceptance. Pursuant to Rule 2.1 of the Takeovers Code, our appointment as the Independent Financial Adviser has been approved by the Independent Board Committee. As the Independent Financial Adviser in relation to the Offer, our role is to provide the Independent Board Committee and the Independent Shareholders with an independent opinion and recommendation as to whether the terms of the Offer are fair and reasonable as far as the Independent Shareholders and whether the Independent Shareholders should, or should not, accept the Offer.

As at the Latest Practicable Date, we were independent from and not connected with the Group, the Offeror and any parties acting in concert with the Offeror, and accordingly, are qualified to give independent advice to the Independent Board Committee and the Independent Shareholders regarding the Offer. Apart from the normal advisory fee payable to us in connection with our appointment as the Independent Financial Adviser, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the statements, information, opinions, beliefs and representations contained or referred to in the Composite Document and the information and representations as provided to us by the Group, its advisers, its management team (the "**Management**") and/or the Directors. We have assumed that such information and statements, and any representation made to us, which we have relied upon in formulating our opinion, are true, accurate and complete in all material respects as at the Latest Practicable Date and the Shareholders will be notified of any material changes (if any) as soon as possible in accordance with Rule 9.1 of the Takeovers Code.

We have also assumed that all statements of belief, opinion, expectation and intention made by the Group, its advisers, the Management and/or the Directors in the Composite Document were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Composite Document, or the reasonableness of the opinions expressed by the Group, its advisers, the Management and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Offer. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 2 of the Takeovers Code.

We consider that we have been provided with, and we have reviewed, all currently available information and documents which are available under present circumstances to enable us to reach an informed view regarding the terms of the Offer to justify reliance on the accuracy of the information contained in the Composite Document so as to provide a reasonable basis of our opinion. We have no reasons to suspect that any material information has been withheld by the Group, its advisers, the Management and/or the Directors, or is misleading, untrue or inaccurate. We have not, however, for the purpose of this exercise, conducted any independent investigation or audit into the business or affairs or future prospects of the Company, Sky Hero Global Limited, the Offeror and their respective shareholder(s)/partners and subsidiaries or affiliates, and their respective histories, experience and track records, or the prospects of the markets in which they respectively operate. Our opinion is necessarily based on financial, economic, market and other conditions in effect and the information made available to us at the Latest Practicable Date. This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely for their consideration of the Offer.

UNCONDITIONAL MANDATORY CASH OFFER

As set out in the Composite Document, immediately following the Share Transfer Completion and as at the Latest Practicable Date, the Offeror and/or parties acting in concert with it owned an aggregate of 408,000,000 Shares (representing 51.00% of the Shares in issue as at the Latest Practicable Date); and the Vendor is interested in 102,000,000 Shares (representing 12.75% of the Shares in issue as at the Latest Practicable Date).

Pursuant to Rule 26.1 of the Takeovers Code, immediately following the Share Transfer Completion, the Offeror is required to make an unconditional mandatory cash offer for all the issued Shares (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it). Guotai Junan Securities is making the Offer on behalf of the Offeror.

PRINCIPAL TERMS OF THE OFFER

Pursuant to Composite Document, the Offer is being made by Guotai Junan Securities, which is unconditional in all respects pursuant to Note 1 to Rule 26.2 of the Takeovers Code, for and on behalf of the Offeror in compliance with the Takeovers Code on the following basis:

For each Offer Share . . . . **HK$1.3175 in cash**

The Offer Price of HK$1.3175 for each Share under the Offer is equivalent to the price payable by the Offeror for each Sale Share under the Shares Transfer Agreement.

As set out in the "Letter from Guotai Junan Capital" to the Composite Document, the Offer Price of HK$1.3175 per Offer Share paid by the Offeror represents:

(i) a premium of approximately 1.35% over the closing price of HK$1.30 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a premium of approximately 15.57% over the closing price of HK$1.14 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) a premium of approximately 17.63% over the average closing price of approximately HK$ 1.12 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

(iv) a premium of approximately 21.32% over the average closing price of approximately HK$1.09 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day;

(v) a premium of approximately 23.67% over the average closing price of approximately HK$1.07 per Share as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Day;

(vi) a premium of approximately 34.42% over the average closing price of approximately HK$0.98 per Share as quoted on the Stock Exchange for the last 90 consecutive trading days up to and including the Last Trading Day;

(vii) a premium of approximately 78.27% over the average closing price of approximately HK$0.74 per Share as quoted on the Stock Exchange for the last 180 consecutive trading days up to and including the Last Trading Day;

(viii) a premium of approximately 108.96% over the audited consolidated net asset value per Share of approximately HK$0.63 as at 31 December 2017, calculated based on the Group's audited consolidated net assets of approximately HK$504.42 million as at 31 December 2017 as disclosed in the annual report of the Company for the year ended 31 December 2017 and 800,000,000 Shares in issue as at the Latest Practicable Date; and

(ix) a premium of approximately 108.96% over the unaudited consolidated net asset value per Share of approximately HK$0.63 as at 30 June 2018, calculated based on the Group's unaudited consolidated net assets of approximately HK$505.03 million as at 30 June 2018 as disclosed in the interim report of the Company for the six months ended 30 June 2018 published on 29 August 2018 and 800,000,000 Shares in issue as at the Latest Practicable Date.

Immediately following the Share Transfer Completion and as at the Latest Practicable Date, the Offeror and/or parties acting in concert with it owned an aggregate of 408,000,000 Shares (representing 51.00% of the Shares in issue as at the Latest Practicable Date); and the Vendor is interested in 102,000,000 Shares (representing 12.75% of the Shares in issue as at the Latest Practicable Date).

On the basis of 800,000,000 Shares in issue as at the Latest Practicable Date, the entire issued share capital of the Company would be valued at HK$1,054,000,000. As at the Latest Practicable Date, the Company did not have any outstanding options, warrants, derivatives or securities which are convertible or exchangeable into Shares and had not entered into any agreement for the issue of such options, derivatives, warrants or other securities which are convertible or exchangeable into Shares. As at the Latest Practicable Date, 408,000,000 Shares were held by the Offeror and parties acting in concert with it, and excluding the 102,000,000 Remaining Shares, in respect of which the Vendor has irrevocably undertaken not to accept the Offer, the number of Shares subject to the Offer will be 290,000,000 and the value of the Offer is HK$382,075,000.

Acceptance of the Offer by any Independent Shareholder will be deemed to constitute a warranty by such person that all Shares sold by such person under the Offer are free from all Encumbrances and together with all rights accruing or attaching to them including, without limitation, the right to receive all dividends and distributions which may be recommended, declared, made or paid, if any, on or after the date on which the Offer is made. Acceptances of the Offer shall be irrevocable and not capable of being withdrawn, except as permitted under the Takeovers Code.

The irrevocable undertaking and deed of share pledge

As disclosed in the Letter from Guotai Junan Capital, the Vendor has entered into an irrevocable undertaking with the Offeror that, in respect of the Remaining Shares, (i) it will not accept the Offer; and (ii) it will not dispose of the Remaining Shares after the Share Transfer Completion up to and including the Closing Date.

Pursuant to the Share Transfer Agreement, to ensure the Vendor performs its duties and responsibilities under the Share Transfer Agreement including (i) Mr. Cui continues to perform the existing services contract (the "**Existing Services Contract**") with the Company after the Share Transfer Completion and up to the expiry of the Existing Services Contract; (ii) if, after the expiry of the Existing Services Contract and subject to the Listing Rules and the applicable laws and regulations thereof, the Company chooses to appoint Mr. Cui as an executive Director or to other senior management role(s) of the Company, Mr. Cui shall take up such appointment and execute a new 3-year fixed term services contract with the Company (the "**New Services Contract**") with comparable principal terms of the Existing Services Contract; (iii) the Vendor and the Guarantors shall procure Mr. Cui and other senior management of the Company to remain in the Company during the terms of the Existing Services Contract and the New Services Contract; and (iv) the undertaking in respect of recovery of the account receivables of the Company as at 31 December 2017, the Vendor has entered into a deed of share pledge (the "**Deed of Share Pledge**") on the Share Transfer Completion Date whereby the Remaining Shares are charged in favour of the Offeror for a period of 24 months commencing from the Share Transfer Completion Date. If the Vendor shall fully perform its duties and responsibilities under the Share Transfer Agreement, the Deed of Share Pledge shall be released unconditionally after the aforesaid period. In addition, during the period while Mr. Cui remains as an executive Director or takes up other senior management role(s) of the Company, the Vendor shall not dispose of or deal with the Remaining Shares except as pursuant to the Deed of Share Pledge or that the prior consent of the Offeror has been obtained. During such period after the Deed of Share Pledge is released whilst Mr. Cui remains as an executive Director or takes up other senior management role(s) of the Company, prior consent from the Offeror should be obtained if the Vendor shall pledge or charge the Remaining Shares to any third party. Pursuant to the Deed of Share Pledge, the Vendor is at liberty to exercise its voting rights attached to the Remaining Shares during the effective period of the Deed of Share Pledge (i.e. a period of 24 months commencing from the Share Transfer Completion Date). In addition, each of Mr. Cui, Mr. Yu and Ms. Kui executed a deed of non-competition on 16 August 2018 in favour of the Company (for itself and as representative of its subsidiaries) as fulfilment of certain condition precedents to the Share Transfer Agreement as set out in the Joint Announcement. The details of the aforesaid deeds of non-competition are set out under the section "9. Material contracts" in Appendix IV to the Composite Document. Furthermore, the Vendor has not entered into any agreement or consensus with the Offeror or any party acting in concert with it in respect of the voting rights of the Remaining Shares.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion regarding the Offer, we have taken into consideration the following principal factors:

1. Background information of the Group

1.1 *Information of the Group*

The Company was incorporated in the Cayman Islands with limited liability on 6 October 2015, and its Shares are listed on the Main Board of the Stock Exchange.

The principal activity of the Company is investment holdings. The principal activities of the Group are the provision of marine construction services and, to a lesser extent, leasing and trading of vessels.

As set out in the Group's annual report for the year ended 31 December 2017 (the "**2017 Annual Report**"), the Group has two reportable operating segments, namely (i) marine construction works; and (ii) leasing of vessels. The Group has derived its revenues primarily from its marine construction business, which contributed in excess of 70% of its revenues for each of the years ended 31 December 2016 and 2017, respectively. Please refer to Appendices II and IV to the Composite Document which contain further financial and general information of the Group.

1.2 *Historical financial performance of the Group*

Set out below is a summary of (i) the audited consolidated financial results of the Group for the year ended 2016 and 2017 as extracted from the 2017 Annual Report; and (ii) the unaudited consolidated financial results of the Group for the six months ended 2017 and 2018 as extracted from the interim report of the Group for the six months ended 30 June 2018 published on 29 August 2018 (the "**2018 Interim Report**").

	For the six months ended 30 June		**For the year ended 31 December**	
	2018	**2017**	**2017**	**2016**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(unaudited)	(audited)	(audited)
Revenue				
— Marine construction works	91,995	359,782	469,504	636,019
— Leasing of vessels	165,688	5,954	163,843	22,841
Total revenue	257,683	365,736	633,347	658,860
Cost of sales	(213,307)	(316,838)	(539,040)	(534,234)
Gross profit	44,376	48,898	94,307	124,626
Profit before taxation	30,719	34,816	67,177	82,085
Taxation	(24)	(4,366)	(2,707)	(12,636)
Profit for the year/period	30,695	30,450	64,470	69,449

Financial performance for the year ended 31 December 2017

As set out in the 2017 Annual Report, the Group recorded total revenue and net profit of approximately HK$633.3 and HK$64.5 million, respectively, for the year ended 31 December 2017, representing a decrease of approximately 3.9% and 7.2%, respectively, compared to that for the year ended 31 December 2016. Over 70% of the revenue of the Group were attributable to the marine construction works of the Group.

The decrease in revenue was primarily attributable to the Group's projects in Indonesia having been completed by mid-2017, resulting in a decrease of approximately HK$355.7 million in revenue from Indonesia, which was partly offset by (i) the increase in the Group's revenue from Macau by approximately HK$121.4 million for the year ended 31 December 2017 as a result of the engineering, procurement and construction ("**EPC**") contract for an electricity generation facility which commenced during the year ended 31 December 2017; (ii) a new revenue stream from leasing of vessels to the contractor of a marine engineering project in Pakistan, which contributed revenue of approximately HK$145.4 million for the year ended 31 December 2017; and (iii) marine construction activities in Hong Kong gradually picked up during 2017 with the launch of a few public sector projects and the revenue from Hong Kong projects increased by approximately HK$47.1 million to approximately HK$112.9 million for the year ended 31 December 2017, contributing approximately 17.8% of the Group's total revenue.

As the Group recorded a slight increase in cost of sales in 2017 despite a decrease in revenue, the Group recognised a decrease in gross profit by approximately HK$30.3 million. The gross profit margin of the Group for the year ended 31 December 2017 was approximately 14.9% as compared to that of approximately 18.9% for the year ended 31 December 2016. The decrease in gross profit and gross profit margin was attributable to the change in the mix of the Group's projects and delay in progress of certain projects for the year ended 31 December 2017. The decrease in revenue from Indonesia projects, which generally yielded higher profit margin than those in Hong Kong and Macau due to relatively less competition and higher level of contingencies or variation orders allowed by or acceptable to customers, led to a decline in gross profit margin for the year ended 31 December 2017. Furthermore, the Group's projects in Macau experienced delay for the year ended 31 December 2017 owing to external factors, resulting in additional overhead and fixed costs, such as vessels and equipment rental, which impacted the profitability of such projects.

In addition to the above, for the years ended 31 December 2016 and 2017, the Group recorded (i) other administrative expenses of approximately HK$25.7 million and HK$26.3 million, respectively; (ii) approximately HK$14.9 million and nil of professional fees incurred for its initial public offering, respectively; and (iii) approximately HK$25,000 and HK$3.6 million of other income and gain, net, respectively.

As a result of the foregoing, the Group recorded profit of approximately HK$64.5 million for the year ended 31 December 2017 as compared to that of approximately HK$69.4 million for the year ended 31 December 2016.

Financial performance for the six months ended 30 June 2018

As set out in the 2018 Interim Report, the Group recorded total revenue and net profit of approximately HK$257.7 and HK$30.7 million, respectively, for the six months ended 30 June 2018, representing a decrease of approximately 29.5% and an increase of 0.8%, respectively, compared to that for the six months ended 30 June 2017. For the six months ended 30 June 2018, over 60% of the revenue of the Group were attributable to the leasing of vessels of the Group.

The Management advised that the decrease in revenue was primarily due to the decrease in revenue generated from marine construction works, which was mainly attributable to (i) the majority of the Group's projects in Indonesia and the land reclamation project in Macau had been completed during the six months ended 30 June 2018, resulted in a decrease in revenue of approximately HK$78.5 million and HK$191.1 million derived from Indonesia and Macau, respectively; and (ii) the progress of the EPC project for an electricity generation facility in Macau had slowed down as a result of certain changes in design. Such decrease was partly offset by revenue generated from the leasing of vessels of approximately HK$165.7 million for the six months ended 30 June 2018, which was mainly attributable to the leasing of vessels and associated equipment to the contractor of a marine engineering project in Pakistan.

The Group recorded a decrease in gross profit of approximately HK$4.5 million, representing a decrease of approximately 9.2%, for the six months ended 30 June 2018. The gross profit margin of the Group increased to approximately 17.2% for the six months ended 30 June 2018, as compared to that of approximately 13.4% for the six months ended 30 June 2017.

In addition, for the six months ended 30 June 2017 and 2018, the Group recorded (i) other administrative expenses of approximately HK$12.4 million and HK$12.1 million, respectively; and (ii) approximately HK$63,000 and HK$1.7 million of other income and gain, net, respectively.

1.3 *Historical financial position of the Group*

Set out below is a summary of the consolidated financial position of the Group as at 31 December 2016 and 2017 and 30 June 2018 as extracted from the 2017 Annual Report and 2018 Interim Report, respectively.

	As at 30 June	**As at 31 December**	
	2018	**2017**	**2016**
	(unaudited)	(audited)	(audited)
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets	236,858	238,572	174,497
— Plant and equipment	229,526	230,185	156,927
Current assets	647,656	627,297	524,454
— Trade and retention receivable	317,397	309,571	183,494
— Amount due from customers for contract work	80,809	73,615	84,466
— Cash and cash equivalents	200,324	193,348	220,157
Total assets	884,514	865,869	698,951
Non-current liabilities	16,659	20,973	26,353
— Borrowings	8,186	12,500	16,952
— Deferred income tax liabilities	8,473	8,473	9,402
Current liabilities	362,826	340,480	208,474
— Trade and retention payables	46,766	61,551	43,481
— Receipt in advance	—	—	84,592
— Amounts due to customers for contract work	119,396	96,724	10,054
— Borrowings	158,897	160,266	51,234
Total liabilities	379,485	361,453	234,828
Total equity	505,029	504,416	464,123

Financial position as at 31 December 2017

As at 31 December 2017, the Group's total assets amounted to approximately HK$865.9 million as compared to approximately HK$699.0 million as at 31 December 2016, representing an increase of approximately 23.9%.

The non-current assets of the Group as at 31 December 2017 amounted to approximately HK$238.6 million (as at 31 December 2016: approximately HK$174.5 million), approximately 96.5% of which was plant and equipment, being the largest balance under non-current assets of the Group and the majority of which was vessels. The Group recorded an increase in plant and equipment from approximately HK$156.9 million as at 31 December 2016 to approximately HK$230.2 million as at 31 December 2017, which was primarily attributable to the acquisitions of vessels and machinery and equipment during the year ended 31 December 2017 to facilitate its new projects in Macau and its vessels and equipment leasing operations. As at 31 December 2017, the Group owned a total of 47 units of marine vessels and 74 units of machinery and equipment.

The current assets of the Group as at 31 December 2017 amounted to approximately HK$627.3 million (as at 31 December 2016: approximately HK$524.5 million), approximately 49.3% of which was attributable to trade and retention receivables, being the largest balance under the current assets of the Group. The Group's trade and retention receivables increased from approximately HK$183.5 million as at 31 December 2016 to approximately HK$309.6 million as at 31 December 2017 which mainly comprised of receivables for works on projects already completed and pending settlement of final account. The increase was mainly attributable to (i) rental in arrears for leasing of vessels and equipment; and (ii) the completion of a cement grinding project in Indonesia.

The Group's total liabilities amounted to approximately HK$361.5 million as at 31 December 2017 compared to approximately HK$234.8 million as at 31 December 2016, representing an increase of approximately 53.9%, which was mainly due to the increase in the current liabilities of the Group.

The Group recorded current liabilities of approximately HK$340.5 million as at 31 December 2017, representing an increase of approximately 63.3% compared to approximately HK$208.5 million as at 31 December 2016. The abovementioned movement in the Group's current liabilities was primarily attributable to (i) the increase in borrowings of approximately HK$109.0 million; and (ii) the increase of amounts due to customers for contract work of HK$86.7 million, and partly offset by the decrease in receipt in advance of approximately HK$84.6 million.

As a result of the aforesaid, the Group's net asset value increased to approximately HK$504.4 million as at 31 December 2017 from approximately HK$464.1 million as at 31 December 2016, representing an increase of approximately 8.7%.

Financial position as at 30 June 2018

As at 30 June 2018, the Group's total assets amounted to approximately HK$884.5 million as compared to approximately HK$865.9 million as at 31 December 2017, representing an increase of approximately 2.1%.

The non-current assets of the Group as at 30 June 2018 amounted to approximately HK$236.9 million (as at 31 December 2017: approximately HK$238.6 million), approximately 96.9% of which was plant and equipment, being the largest balance under non-current assets of the Group and the majority of which was vessels. Plant and equipment of the Group was largely stable at approximately HK$230.2 million as at 31 December 2017 and approximately HK$229.5 million as at 30 June 2018. As at 30 June 2018, the Group owned a total of 45 units of construction vessels and 78 units of machinery and equipment.

The current assets of the Group as at 30 June 2018 amounted to approximately HK$647.7 million (as at 31 December 2017: approximately HK$627.3 million), approximately 49.0% of which was attributable to trade and retention receivables, being the largest balance under the current assets of the Group. The Group's trade and retention receivables increased from approximately HK$309.6 million as at 31 December 2017 to approximately HK$317.4 million as at 30 June 2018 which mainly comprised of receivables for works on projects already completed and pending settlement of final account. The increase in trade and retention receivables balances during the six months ended 30 June 2018 was attributable to increase in leasing revenue to be settled by customer.

The Group's total liabilities amounted to approximately HK$379.5 million as at 30 June 2018 compared to approximately HK$361.5 million as at 31 December 2017, representing an increase of approximately 5.0%, which was mainly due to the increase in the current liabilities of the Group.

The Group recorded current liabilities of approximately HK$362.8 million as at 30 June 2018, representing an increase of approximately 6.6% compared to approximately HK$340.5 million as at 31 December 2017. The above-mentioned movement in the Group's current liabilities was primarily attributable to the increase in amounts due to customers for contract work of approximately HK$22.7 million, which was partly offset by the decrease in trade and retention payables of approximately HK$14.8 million.

As a result of the aforesaid, the Group's net asset value increased to approximately HK$505.0 million as at 30 June 2018 from approximately HK$504.4 million as at 31 December 2017, representing a slight increase of approximately 0.1%.

2. Overview of macro-economy and the maritime industry

The marine construction services undertaken by the Group in the past included dredging and non-dredging ground treatment works, reclamation works, pier construction works, offshore facilities foundation works and marine transportation, as well as leasing and trading of vessels. The Management advised that the Group's operations are affected by the level of activities in the maritime industry, which in general includes marine transportation, port infrastructure, waterway engineering, and marine engineering. Marine transportation generally refers to the use of vessels to deliver goods in the seas and commercial transportation. Port infrastructure generally includes wharf construction, port earth work, port and offshore work, and shipyard construction. Waterway engineering generally includes waterway dredging and land reclamation. Marine engineering generally includes coastal engineering, offshore engineering, and ocean energy exploitation. Marine construction and marine transportation industry are closely related because the demand for port infrastructure mainly derived from marine transportation industry and port infrastructure in turn provide support to marine transportation industry.

As disclosed in the 2017 Annual Report, for the year ended 31 December 2017, the major projects of the Group included land reclamation in Macau, hiring of vessels and engineering equipment in Pakistan, wharf construction engineering for a cement grinding project in Indonesia, dredging works in Malaysia, reclamation works in Hong Kong, and other civil engineering works. As disclosed in the 2018 Interim Report, for the six months ended 30 June 2018, contracts undertaken by the Group included renting out vessels and engineering equipment in Pakistan, pier construction in Hong Kong and other civil construction works.

Taken into consideration that (i) most of the projects of the Group is in relation to the maritime industry as described above; (ii) the Group's revenue for the year ended 31 December 2017 and the six months ended 30 June 2018 were derived from its marine construction works and leasing of vessels, which was primarily driven by the level of activities in the maritime industry as advised by the Management; and (iii) the majority of the Group's plant and equipment comprised of vessels as at 31 December 2017 and as at 30 June 2018, respectively, we have conducted background research on the overview of the macro-economy and the maritime industry.

2.1 ***Overview of macro-economy and risks***

As set out in the 2017 Annual Report and the 2018 Interim Report, the customers of the Group for the year ended 31 December 2017 and for the six months ended 30 June 2018 were located in Hong Kong, Indonesia, Macau, Malaysia and Pakistan.

Given the growth of these economies rely on exports to other countries to a various degree, and imports/exports are driven by the level of demand for international trade, which to an extent, is affected by the well-being of the macro-economy and consumer demand. In addition, other factors, such as tariffs imposed/export on imports (if any), would also affect the import level. The above factors may have an effect on the business of the Group's customers as well as the level of activities in the maritime industry, thereby affecting the demand for the Group's services. For further details, please refer to the paragraph headed "2.2 Overview of the maritime industry" in this letter below.

Furthermore, we set out below information on exports and gross domestic products ("**GDP**") of each of Hong Kong, Indonesia, Macau, Malaysia and Pakistan, as evidenced below, save for Macau, in 2017, exports of these economies in monetary terms represented a significant portion of their respective GDPs.

Country/region	**Export in 2017** *(US$' billion)*	**GDP in 2017** *(US$' billion)*
Hong Kong	641.9	1,015.5
Indonesia	206.9	341.4
Macau	40.0	314.5
Malaysia	224.8	305.0
Pakistan	25.1	50.4

Source: World bank website (https://www.worldbank.org/)

In view of the above, we set out herein a high-level overview of the macro-economy.

Both the United States of America (the "**U.S.**") and Hong Kong have experienced low interest rate environment in the recent years, but there have been interest rate hikes by the Federal Reserve in 2018 as well as ongoing speculation of further interest rate hikes by the Federal Reserve, which may affect global financial markets. Given Hong Kong's currency is pegged to the U.S. dollar and its position as one of the leading international trading and financial centres, any such changes could have significant knock on effects to Hong Kong.

In addition, the global economy is facing uncertainties arising from increased trade protectionism, outcome of the ongoing trade negotiations between the U.S. and the PRC governments and the effects of the related tariffs imposed, the anticipated withdrawal of the United Kingdom from the European Union, the recent Turkish currency and debt crisis and the geopolitical situation in the Korean peninsula. Some of which may continue to affect the general macro-economy.

Furthermore, as set out in the World Economic Outlook Update (July 2018) published by the International Monetary Fund, one of the ongoing downside risks is that the escalation of trade tensions could undermine business and financial market sentiment, denting investment and trade. Beyond its immediate impact on market sentiment, the proliferation of trade measures could increase uncertainty, thus hindering investment, while higher trade barriers would make tradable goods less affordable, disrupt global supply chains.

According to the report titled "Global Economic Prospects: The Turning of the Tide?" published by the World Bank Group in June 2018, global growth is estimated to be approximately 3.1% in 2018 (2017: 3.1%) and it is expected to decelerate over the next two years attributable to global slack dissipates, moderating trade and investment, and tightening of financing conditions.

2.2 *Overview of the maritime industry*

Based on our understanding from the Management as well as information set out in the 2017 Annual Report and the 2018 Interim Report, the Group's customers were located in Hong Kong, Indonesia, Macau, Malaysia and Pakistan. As the customers of the Group was located in different countries/regions, and the majority of assets was related to vessels, we have conducted research on the maritime industry in general.

According to a publication titled "避開礁石？縱覽船運與海洋工程重組市場 Keeping off the rocks? Navigating restructuring in shipping & offshore" in 2017 (https://www.pwccn.com/en/industries/transportation-and-logistics/publications/navigating-restructuring-in-shipping-and-offshore.html), by an international recognised accounting firm which offers, among others, advisory, audit and assurance services, the capital expenditure in relation to the marine construction in the world increase by less than 5% in 2017 compared to the same capital expenditure in 2016 (2016: a decrease of approximately 30% compared to 2015). This was mainly due to the decreasing oil price would affect the profitability of extracting oil in the seas, which in turn affect the capital expenditure in marine for oil extracting activities. This will in turn affect the demand for vessels.

As set out in the 2018 Interim Report, in addition to the Group's operations in Hong Kong, the physical locations of the Group's non-current assets were primarily in Hong Kong as at 31 December 2017 and 30 June 2018, respectively, on this basis, we have conducted further research on the maritime industry in Hong Kong. According to the World Bank's Logistics Performance Index, Hong Kong ranked twelfth in the world and third in Asia. According to the report "Maritime Services Industry in Hong Kong" published by the Hong Kong Trade Development Council in July 2018, Hong Kong is the world's fourth largest shipping register following Panama, Liberia and Marshall Islands in 2017.

Marine construction is an important component of the Hong Kong construction industry. Due to limited land supply, land reclamation has been one of the sources for increasing usable land. As per the record of a Legislative Council question-and-answer session in July 2018, while Hong Kong's Chief Executive has reiterated support for potential solutions to Hong Kong's land supply problem, for adequate long term land supply in Hong Kong, land reclamation is considered to be unavoidable. In general, land reclamation projects have been government policy driven, although five potential sites, located in Lung Kwu Tan, Ma Liu Shui, Siu Ho Wan, Sunny Bay and Tsing Yi Southwest, respectively, have been mentioned during the aforesaid Legislative Council question-and-answer session, there is currently no clear indication of a detailed long term land reclamation programme announced by the Hong Kong government. The Management expects that such projects, if consummated, shall create more opportunity for the Group's dredging, non-dredging treatment works and/or reclamation works.

Having considered (i) the Group's principal business segments, namely marine construction works and leasing of vessels, forms part of the maritime industry; (ii) the Group's major customers were located in Hong Kong, Indonesia, Macau, Malaysia and Pakistan, the development of these economies would be affected by the macro-economy; and (iii) how the Group's business may be affected by the outlook of the macro-economy and maritime industry as set out above, there are certain risks and uncertainties related to the macro-economy and the maritime industry which could have an effect towards the performance and outlook of the business of the Group.

3. Information of the Offeror

As set out in the "Letter from Guotai Junan Capital", the Offeror is an investment holding company incorporated in the BVI with limited liability in 2014 and is principally engaged in investment holding business in the PRC. The directors of the Offeror are Mr. Wang Zhijun, Mr. Zhang Hao, Mr. Wang Xuejun, Mr. Zhu Jiangfeng and Mr. Yu Zhan.

The Offeror is indirectly wholly-owned by the Qingdao West Coast Development (Group) Limited* 青島西海岸發展(集團)有限公司 which is the ultimate parent company of the Offeror and a state-owned enterprise wholly-owned by the State-owned Asset Supervision and Administration Commission of Qingdao. Qingdao West Coast Development (Group) Limited* 青島西海岸發展(集團)有限公司 is principally engaged in infrastructure construction, land development, real estate development and other industrial investment and operations (including cultural, tourism and financial services).

The Offeror and parties acting in concert with it did not own, control or have direction over any Shares or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company immediately prior to Share Transfer Completion, and had not dealt for value in the Shares or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the 6-month period preceding the date of the Joint Announcement.

4. Intention of the Offeror regarding the Group and proposed change of Board composition

The following information of the intention of the Offeror regarding the Group has been extracted from the "Letter from Guotai Junan Capital".

4.1 *Business of the Group*

Following the completion of the Offer, the Offeror intends to continue the existing principal activities of the Group. The Offeror will conduct a detailed review of the business operations and financial position of the Group for the purpose of developing a sustainable business plan or strategy for the Group. Subject to the result of the review, the Offeror plans to leverage its experience and network to explore further investment opportunities for the Group. However, as at the date of the Composite Document, no such investment or business opportunities have been identified nor has the Offeror entered into any agreement, arrangements, understandings, intention or negotiation in relation to the injection of any assets or business into the Group. If any possible investment materializes, the Company will make further announcement(s) as and when required under the Listing Rules.

Save as required for the implementation of the Offeror's intention regarding the Group as aforementioned, the Offeror has no intention to terminate the employment of any key employees of the Group except for the proposed changes to the members of the Board as detailed in the section headed "Proposed change of the board composition" in the Letter from Guotai Junan Capital or to dispose of or re-allocate the Group's assets which are not in the ordinary and usual course of business of the Group. As at the date of the Composite Document, the Offeror has no plans to restructure the Group's existing structure.

The Offeror intends to change the name of the Company after the close of the Offer to reflect the change in control of the Company.

4.2 ***Proposed change of the board composition of the Company***

As at the Latest Practicable Date, the Board comprises Mr. Cui Qi (Chairman of the Board), Mr. Yu Ming, Ms. Kui Ching Wah and Mr. Tao Yang as executive Directors; Mr. Cheung Chi Man Dennis, Ms. Leung Sau Fan Sylvia and Mr. Leung Yee Tak as independent non-executive Directors.

As set out in the Letter from Guotai Junan Capital, save for Mr. Cui Qi and Mr. Tao Yang, all of the existing Directors intend to resign from the Board with effect from the earliest time permitted under the Takeovers Code, being the date subsequent to the Closing Date. Such resignation will be made in compliance with the Takeovers Code and the Listing Rules.

The Offeror intends to nominate seven new Directors to the Board including three executive Directors, namely Mr. Liu Luqiang, Mr. Zhu Jiangfeng and Mr. Xue Qingfu, one non-executive Director, namely Wang Xuejun and three independent non-executive Directors with effect from the date subsequent to the Closing Date. Any such appointment will be made in compliance with the Takeovers Code and the Listing Rules.

The proposed nomination of new independent non-executive Directors has not yet been finalised as at the date of this Composite Document. Further announcement(s) will be made upon any changes to the composition of the Board in accordance with the requirements of the Listing Rules and the Takeovers Code as appropriate.

The biographies of the proposed Directors are set out below:

Mr. Liu Luqiang

Mr. Liu Luqiang ("**Mr. Liu**"), aged 49, will be appointed as the chairman of the Board and an executive Director. Mr. Liu obtained a postgraduate degree in technology economics and business administration from Tianjin University in December 1993 and the professional title of senior engineer in December 2001. He has been serving as the chairman and the secretary of the party committee of Qingdao West Coast Development (Group) Limited* 青島西海岸發展(集團)有限公司 since August 2018 and July 2018, respectively. Qingdao West Coast Development (Group) Limited* 青島西海岸發展(集團)有限公司 is principally engaged in reclamation, construction and management of fishing ports and marine ranches, construction of bridges, coastline management and island reef development. He was the vice chairman of Qingdao West Coast Holding Development Limited* 青島西海岸控股發展有限公司 from November 2015 to November 2017 and has been serving as the chairman of Qingdao West Coast Holding Development Limited* 青島西海岸控股發展有限公司 since November 2017. Qingdao West Coast Holding Development Limited* 青島西海岸控股發展有限公司, the subsidiary of Qingdao West Coast Development (Group) Limited* 青島西海岸發展(集團)有限公司, is principally engaged in the investment in services industries such as property management industry and the overseas investments. He has also been serving as the general manager and director of Qingdao West Coast Development (Group) Limited* 青島西海岸發展(集團)有限公司 since March 2015. He has accumulated over 20 years of experience in municipal planning, design and management, government administration, and corporate operation and management. He served as, among others, office manager of Huangdao District Party Committee of Qingdao* 青島市黃島區委 from November 2012 to April 2015, member of the working committee of Qingdao West Coast New Area under Qingdao Municipal Party Committee* 青島市委青島西海岸新區工作委員會 from March 2012 to June 2014, standing member of Working Committee of Qingdao Economic & Technology Development Area* 青島經濟技術開發區工作委員會 from December 2011 to June 2014, standing member of Huangdao District Party Committee of Qingdao* 青島市黃島區委 from December 2011 to March 2015, deputy director of Management Committee of Qingdao Economic & Technology Development Area* 青島經濟技術開發區管理委員會 from July 2009 to December 2011; and the head of Rural Planning Division (Building Management) of the Qingdao Urban Planning Bureau* 青島市規劃局村鎮規劃(建築管理)處 from December 2006 to July 2009.

Mr. Zhu Jiangfeng

Mr. Zhu Jiangfeng ("**Mr. Zhu**"), aged 40, will be appointed as an executive Director. Mr. Zhu obtained a master's degree in management from Renmin University of China in January 2015. He has been serving as assistant to the general manager of Qingdao West Coast Development (Group) Limited* 青島西海岸發展(集團)有限公司 since June 2014, and the chairman and general manager of Qingdao Big Data Technology Development Co., Ltd* 青島大數據科技發展有限公司 since November 2017. He has over 10 years of experience in business management. From April 2016 to November 2017, he served as the chairman and general manager of Qingdao West Coast Finance Development Co., Ltd* 青島西海岸金融發展有限公司. From June 2014 to October 2016, he served as the head of the asset management department of Qingdao West Coast Development (Group) Limited* 青島西海岸發展(集團)有限公司. From July 2013 to November 2016, he served as the officer of the tender department of Qingdao West Coast Development (Group) Limited* 青島西海岸發展(集團)有限公司. From

December 2007 to June 2009, he worked in Qingdao Haier Co., Ltd. 青島海爾股份有限公司, and his last position was the chief product officer of the refrigerator segment. From July 2000 to August 2007, he worked in AUCMA Group Limited 澳柯瑪集團有限公司, where he held a number of positions including the head of market development and marketing planning department.

Mr. Xue Qingfu

Mr. Xue Qingfu ("**Mr. Xue**"), aged 47, will be appointed as an executive Director. Mr. Xue obtained a master's degree (part-time) in software engineering from Beijing Jiaotong University in June 2016. Since November 2014, he has been the head of risk control department of Qingdao West Coast Development (Group) Limited* 青島西海岸發展(集團)有限公司 and serving as director or supervisor of its several subsidiaries, such as supervisor of Qingdao West Coast Holding Development Limited* 青島西海岸控股發展有限公司. He accumulated many years of experience in finance and internal control management. He served as, among others, deputy general manager of Qingdao West Coast Industrial Development Co., Ltd.* 青島西海岸實業發展有限公司from February 2013 to November 2014, general financial manager of Qingdao Sino-German Ecopark Joint Development Co., Ltd.* 青島中德生態園聯合發展有限公司 from February 2012 to January 2013; and manager of the financial audit department of Qingdao Development Zone Urban Development Investment Co., Ltd.* 青島市開發區城市發展投資有限公司 from January 2007 to December 2011.

Mr. Wang Xuejun

Mr. Wang Xuejun ("**Mr Wang**"), aged 55, will be appointed as a non-executive Director. Mr. Wang obtained a bachelor degree in Chinese from Shandong College of Education* 山東省教育學院 in June 1989. He has been serving as the general manager of Qingdao West Coast Holding Development Limited* 青島西海岸控股發展有限公司 since November 2015, and the deputy general manager of Qingdao West Coast Development (Group) Limited* 青島西海岸發展(集團)有限公司 since September 2012. Mr. Wang has more than 20 years of experience in government administration, transportation supervision, and enterprise management. From September 2010 to September 2012, he was appointed as director general* 局長 and secretary of the party committee* 黨委書記 of Jiaonan Communications and Transportation Bureau* 膠南市交通運輸局. From January 2007 to September 2010, he was appointed as director general* 局長 and secretary of the party committee* 黨委書記 of Jiaonan Transportation Bureau* 膠南市交通局. From August 2002 to January 2007, he was appointed as secretary of the working committee* 工委書記 of Jiaonan Zhuhai Street* 膠南市委珠海街道. From August 1999 to September 2001, he worked in Jiaonan Yitong Thermal Power Co., Ltd.* 膠南市易通熱電有限責任公司 (formerly "Jiaonan Thermal Power Plant* 膠南市熱電廠"), where he held a number of positions including director and chairman.

4.3 *Public float and maintaining the listing status of the Company*

The Stock Exchange has stated that if, at the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25%, of the issued Shares are held by the public, or if the Stock Exchange believes that:

(i) a false market exists or may exist in the trading of the Shares; or

(ii) there are insufficient Shares in public hands to maintain an orderly market,

it will consider exercising its discretion to suspend dealings in the Shares.

As disclosed in the letter from Guotai Junan Capital contained in the Composite Document, the Offeror intends the Company to remain listed on the Stock Exchange. Mr. Cui Qi, Mr. Tao Yang and the directors of the Offeror have jointly and severally undertaken and the new directors to be appointed to the Board will jointly and severally undertake, to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares.

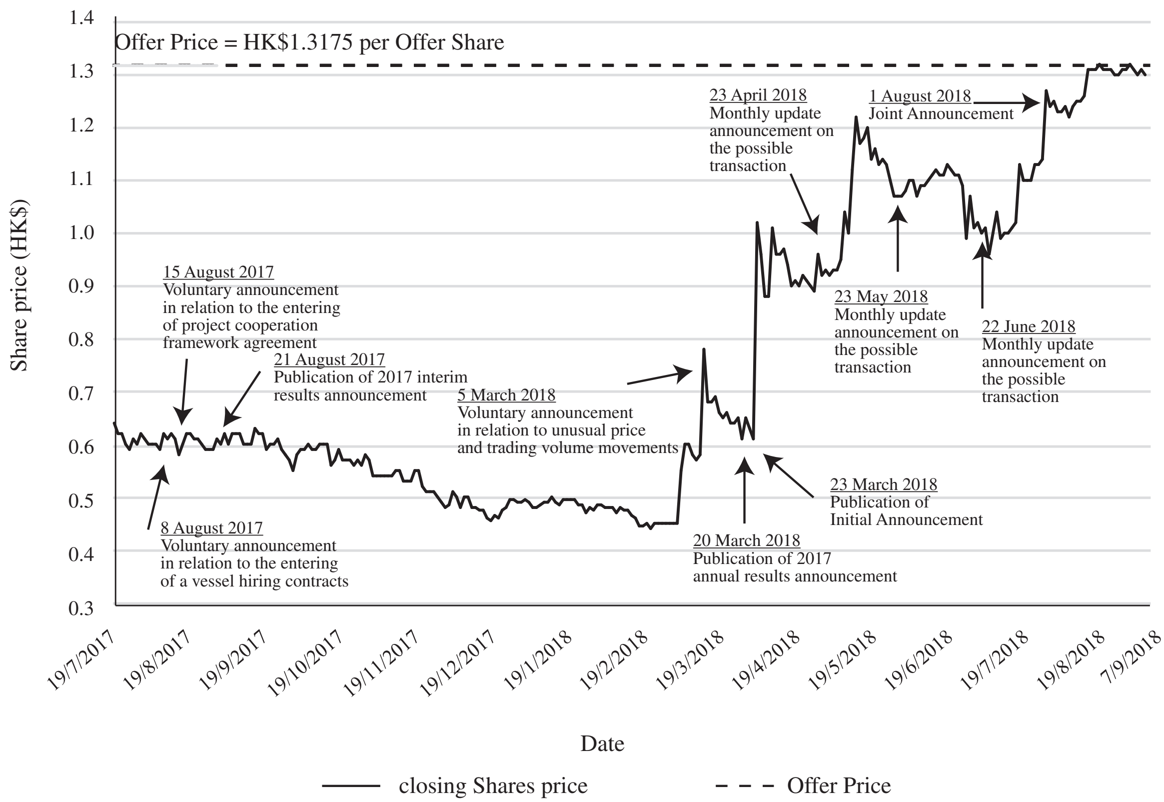
As the Company and the Offeror are unable to ascertain at this stage the level of acceptances by Independent Shareholders under the Offer, they have not decided the exact steps/actions that will be taken by them after the close of the Offer to restore the public float of the Shares, if required. Notwithstanding this, the Company and the Offeror consider that the appropriate actions to be taken shall include placing down of sufficient number of accepted Shares by the Offeror and/or issue of new Shares by the Company for this purpose. The Company and the Offeror will issue a separate announcement as and when necessary in this regard.

5. Analysis on Offer Price

5.1 *Historical price performance of the Shares*

We have reviewed and analysed the closing prices of the Shares over the twelve months period immediately prior to the Last Trading Day, being 19 July 2017, and up to the Latest Practicable Date (the "**Review Period**"). The Review Period is further divided into two periods, (i) the first period commenced from 19 July 2017 and ended on 23 March 2018 (inclusive of both dates), being the date of the initial announcement (the "**Initial Announcement**") issued by the Company in relation to the possible offer (the "**First Review Period**"); and (ii) the second period commenced from 26 March 2018, being the trading day immediately after the date of the Initial Announcement and ended on the Latest Practicable Date (inclusive of both dates) (the "**Second Review Period**"). Details of our analysis are set out below:

Chart A: closing Share price during the Review Period



Source: the website of the Stock Exchange

First Review Period

After the commencement of the First Review Period and before the publication of the interim results announcement for the six months ended 30 June 2017 dated 21 August 2017 (the "**2017 Interim Results Announcement**"), the closing price per Share fluctuated between HK$0.58 and HK$0.64. The closing price per Share on the trading day immediately after the publication of the 2017 Interim Results Announcement was HK$0.59, over the subsequent six months up to 20 February 2018, the closing price per Share declined to HK$0.45 before notable increase to the closing price per Share of HK$0.78 on 5 March 2018, being the date on which the Company issued a voluntary announcement on unusual price and trading volume movements. Subsequently on 20 March 2018, the Company issued the annual results announcement for the year ended 31 December 2017 (the "**2017 Annual Results Announcement**"), which included, among other information, the Group recorded a profit after taxation of approximately HK$64.5 million for the year ended 31 December 2017 (2016: approximately HK$69.5 million). The closing price per Share on 21 March 2018, being the trading day immediately after the publication of the 2017 Annual Results Announcement, was HK$0.63.

On 23 March 2018, the Company published the Initial Announcement pursuant to, among others, Rule 13.09 of the Listing Rules and Rule 3.7 of the Takeovers Code, the Company was informed by its controlling shareholder, Sky Hero Global Limited ("**Sky Hero**"), that Sky Hero had entered into a letter of intent ("**LOI**") with Qingdao West Coast Holdings (Internation) Limited ("**Qingdao West Coast**"), an independent third party as the offeror, in respect of a possible disposal of no less than 30% of the entire issued share capital of the Company from the 408,000,000 Shares held by Sky Hero (representing 51.00% of the total issued share capital of the Company as at the date of the Initial Announcement) (the "**Possible Disposal**"), which, if materialised, may lead to a change in control of the Company and a mandatory conditional general offer under Rule 26.1 of the Takeovers Code for all the issued Shares of the Company by the offeror. Pursuant to the LOI, there is an exclusivity period of three months from the date of the LOI during which Sky Hero can only discuss the Possible Disposal with Qingdao West Coast. The closing price per Share on (i) the last trading day immediately prior to the publication of the Initial Announcement was HK$0.61; and (ii) the trading day immediately after the publication of the Initial Announcement was HK$1.02.

During the First Review Period, the closing price of the Shares fluctuated between the range from HK$0.44 (February 2018) to HK$0.78 (March 2018). The average closing price of the Shares during the First Review Period was approximately HK$0.55 (the "**First Review Period Average Closing Price**").

Second Review Period

As set out in the announcements of the Company dated 23 April 2018, 23 May 2018 and 22 June 2018 (together the "**Subsequent Announcements**"), the Company announced that, among others, the discussion and negotiation between Sky Hero and Qingdao West Coast in respect of the Possible Disposal remained ongoing. The closing price per Share was HK$0.92, HK$1.07, and HK$1.02 on 23 April 2018, 23 May 2018 and 22 June 2018, respectively. Save for the information as set out in the Initial Announcement, the Subsequent Announcements as well as other published information at the relevant time, the Management advised that they were not aware of any matters which may have a material impact on the Share price. On this basis, the aforesaid notable movement in the price of the Shares may be attributable to market reaction to the Initial Announcement and the Subsequent Announcements as well as the Possible Disposal.

As set out in the Joint Announcement dated 1 August 2018, the Company, the Vendor, and the Guarantors entered into the Share Transfer Agreement on 18 July 2018, pursuant to which, the Vendor conditionally agreed to sell and the Offeror conditionally agreed to acquire the Sale Shares, being 408,000,000 Shares legally and beneficially owned by the Vendor and representing 51.00% of the entire issued share capital of the Company as at the date of the Joint Announcement, free from all Encumbrances and together with all rights attached to the Sale Shares including, without limitation, the right to receive all dividends and distributions which may be recommended, declared, made or paid, the record date of which is on or after the Share Transfer Completion Date.

The consideration for the Sale Shares is HK$537,540,000, equivalent to approximately HK$1.3175 per Sale Share which was determined after arm's length negotiations between the Vendor and the Offeror, after taking into consideration, among others, (i) the prevailing market prices of the Shares as described in the sub-section headed "Comparisons of value" under the section headed "Possible Unconditional Mandatory Cash Offer" of the Joint Announcement; (ii) the financial position of the Group; and (iii) the fact that the Offeror can obtain a controlling interest in the Company upon the Share Transfer Completion.

The closing price per Share on (i) the Last Trading Day was HK$1.14; and (ii) the trading day immediately after the publication of the Joint Announcement was HK$1.27.

During the Second Review Period, the closing price per Share ranged from HK$0.88 to HK$1.32. The closing price per Share as at the Latest Practicable Date was HK$1.30. The average closing price per Share during the Second Review Period was approximately HK$1.10 (the "**Second Review Period Average Closing Price**"). In this connection, the Offer Price of HK$1.3175 per Offer Share represents (i) a premium of approximately 19.8% over the Second Review Period Average Closing Price; and (ii) a premium of approximately 1.35% over the closing price as at the Latest Practicable Date.

The Second Review Period Average Closing Price of approximately HK$1.10 is higher than that of the First Review Period Average Closing Price of approximately HK$0.55, representing an increase of approximately 100.0%. Such notable increase may be attributable to the market reaction to the publication of the Initial Announcement and the Joint Announcement and therefore, the sustainability of the current price level of the Shares is subject to uncertainties. As shown in the Chart A above, the closing prices of the Shares during the First Review Period had always been notably below the Offer Price of HK$1.3175.

The Offer Price represents:

(i) a premium of approximately 1.35% over the closing price of the Share price of HK$1.30 as at the Latest Practicable Date;

(ii) a premium of approximately 68.9% over the highest closing price of the Shares of HK$0.78 during the First Review Period and a discount of approximately 0.2% to the highest closing price of the Shares of HK$1.32 during the Second Review Period, respectively;

(iii) a premium of approximately 199.4% over the lowest closing price of the Shares of HK$0.44 during the First Review Period and a premium of approximately 49.7% over the lowest closing price of the Shares of HK$0.88 during the Second Review Period, respectively; and

(iv) a premium of approximately 139.5% over the First Review Period Average Closing Price of approximately HK$0.55 and a premium of approximately 19.8% over the Second Review Period Average Closing Price of approximately HK$1.10, respectively.

Based on the aforesaid analysis, in particular, the Offer Price represents (i) a notable premium over the closing Share price throughout the First Review Period; and (ii) a premium over the Second Review Period Average Closing Price.

Shareholders should note that the information set out above is not an indicator of the future performance of the Shares and that the price of the Shares may increase or decrease from its closing price as at the Latest Practicable Date.

5.2 *Historical liquidity of the Shares*

The following table sets out the number of trading days in each month, the average daily trading volume, as well as the percentage of average daily trading volume of the Shares as compared to (i) the total number of the Shares in issue at the relevant time; and (ii) total number of Shares held by the public as at the Latest Practicable Date, during the Review Period:

Month	**Number of trading days**	**Total trading volume** *(number of Shares)*	**Average daily trading volume** *(number of Shares)*	**Approximate percentage of average daily trading volume to total number of Shares in issue** *(Note 1)*	**Approximate percentage of average daily trading volume to total number of Shares held by the public as at the Latest Practicable Date** *(Note 2)*
2017					
July *(Note 3)*	9	3,340,000	371,111	0.05%	0.19%
August	22	5,476,000	248,909	0.03%	0.12%
September	21	3,552,000	169,143	0.02%	0.08%
October	20	5,440,000	272,000	0.03%	0.14%
November	22	9,294,000	422,455	0.05%	0.21%
December	19	2,683,000	141,211	0.02%	0.07%
2018					
January	22	2,950,000	134,091	0.02%	0.07%
February	18	16,820,000	934,444	0.12%	0.47%
March *(Note 4)*	16	59,830,300	3,739,394	0.47%	1.87%
March *(Note 5 and 6)*	4	199,612,700	49,903,175	6.24%	24.95%
April	19	60,534,000	3,186,000	0.40%	1.59%
May	21	119,672,000	5,698,667	0.71%	2.85%
June	20	33,232,000	1,661,600	0.21%	0.83%
July	12	21,930,000	1,827,500	0.23%	0.91%
August	22	136,268,000	6,194,000	0.77%	3.10%
September	5	2,562,000	512,400	0.06%	0.26%
Average of					
— First Review Period	169	109,385,300	714,751	0.09%	0.36%
— Second Review Period *(Note 6)*	99 *(Note 6)*	374,198,000 *(Note 6)*	3,180,028 *(Note 6)*	0.40% *(Note 6)*	1.59% *(Note 6)*

Source: the website of the Stock Exchange

Notes:

(1) Based on issued Shares as disclosed in the monthly return of movements in securities of the Group.

(2) Shares held by the public Shareholders are based on information as set out under paragraph headed "Shareholding structure of the Company" in the Letter from the Board of the Composite Document.

(3) Commencing on 19 July 2017.

(4) Up to and including 23 March 2018, being the end of the First Review Period.

(5) Commencing from 26 March 2018, being the commencement of the Second Review Period,

(6) Given the unusually high trading volume after the publication of the Initial Announcement which may be attributable to market reaction to the contents of the Initial Announcement, such had been removed from the calculation of the relevant analysis in this table and in this letter, unless otherwise specified.

During the First Review Period, (i) the average daily trading volume of the Shares as a percentage of the total number of the Shares in issue ranged from approximately 0.02% (September 2017, December 2017 and January 2018) to 0.47% (March 2018, up to and including 23 March 2018) with an average of approximately 0.09%; and (ii) the average daily trading volume of the Shares as a percentage of the total number of Shares held by the public ranged from approximately 0.07% (December 2017 and January 2018) to 1.87% (March 2018 up to and including 23 March 2018) with an average of approximately 0.36%.

During the Second Review Period, (i) the average daily trading volume of the Shares by month as a percentage of the total number of the Shares in issue ranged from approximately 0.06% (September 2018) to 0.77% (August 2018), with an average of approximately 0.40%; and (ii) the average daily trading volume of the Shares as a percentage of the total number of Shares held by the public ranged from approximately 0.26% (September 2018) to 3.10% (August 2018), with an average of approximately 1.59%.

The above statistics revealed that trading volume of the Shares was generally thin during the First Review Period. For the Second Review Period, excluding the four trading days in March 2018 following the publication of the Initial Announcement given its unusually high trading volume, although the trading volume of the Shares has improved, it has remained to be relatively thin. From 26 March 2018 to 31 March 2018, the average daily trading volume of the Shares in issue as a percentage of the total number of the Shares in issue and total number of Shares held by the public was approximately 6.24% and 24.95%, respectively. Such notable increase may be attributable to the market reactions to the publication of the Initial Announcement and therefore, the sustainability of the daily trading volume of the Shares is subject to uncertainties as evidenced by the comparatively lower trading volume from April 2018 onwards (up to the Latest Practicable Date). As shown in the table above, the average daily trading volume of the Shares in issue as a percentage of the total number of the Shares in issue and total number of Shares held by the public decreased to approximately 0.40% and 1.59%, respectively, in April 2018.

Given the thin historical average daily trading volume of the Shares of the First Review Period, it is uncertain that the overall trading volume of the Shares could be maintained. Therefore, the Offer presents an opportunity for those Independent Shareholders who consider disposing their significant number of Shares in the open market, as they can dispose their Shares without exerting the downward pressure on the market price of the Shares as a result of the disposal.

5.3 *Comparison with comparable companies*

With a view to assess the fairness and reasonableness of the Offer Price and having taken into consideration the principal activities of the Group, we have set out below our analysis on the price-to-earnings ratio (the "**P/E ratio(s)**") and the price-to-book ratios (the "**P/B ratio(s)**") of companies which are listed on the Main Board of the Stock Exchange and derived most of their revenues from marine construction business for its most recent completed financial year.

Given over 70% of revenue of the Group for the year ended 31 December 2017 was derived from marine construction and related works, we have based on our initial criteria (the "**Initial Criteria**") for selecting comparable companies as (i) the shares of which are listed on the Main Board of the Stock Exchange; and (ii) companies with marine construction related business segment contributing over 50% of their respective revenue based on their respective latest published annual reports/results announcements available as at the Last Trading Day. Based on our research, only one company was identified which satisfied the Initial Criteria, namely, China Dredging Environment Protection Holdings Limited. Given the limited number of comparable company identified, with a view to include a larger sample of comparable companies, we have amended the Initial Criteria to the following:(i) the shares of which are listed on the Main Board of the Stock Exchange; (ii) principal activities of the company include marine construction, marine engineering and/or port works, as set out in their company profile in the website of the Stock Exchange (www.hkex.com.hk) and/or based on their respective latest published annual reports/results announcements as at the Last Trading Day; and (iii) a market capitalisation not more than HK$1,200 million as at the Last Trading Day, (together, the "**Revised Criteria**"). Based on the Revised Criteria, we identified three comparable companies (the "**Comparable Companies**"), details of which are set out below:

Company name (Stock code)	**Principal business(es)**	**Share price** *(Note 1)* *HK$*	**Market Capitalisation** *(Note 1)* *HK$ million*	**P/B ratio (approximately)** *(Note 2)* *times*	**P/E ratio (approximately)** *(Note 3)* *times*
Build King Holdings Limited ("**Build King**") (240)	Engaging civil engineering work including marine construction	0.56	695.5	1.0	3.8
China Dredging Environment Protection Holdings Limited ("**China Dredging**") (871)	Engaging civil engineering work including other marine business mainly comprises marine hoisting, installation, salvaging, vessel chartering and other engineering services	0.175	258.7	0.1 *(Note 4)*	3.0 *(Note 4)*

Company name (Stock code)	Principal business(es)	Share price *(Note 1)* *HK$*	Market Capitalisation *(Note 1)* *HK$ million*	P/B ratio (approximately) *(Note 2)* *times*	P/E ratio (approximately) *(Note 3)* *times*
Man King Holdings Limited ("**Man King**") (2193)	Providing civil engineering services in Hong Kong as a main contractor	0.72	302.3	1.1	43.1
			Minimum	0.1	3.0
			Maximum	1.1	43.1
			Average	0.7	16.6
The Company (6816)		1.3175 *(Note 5)*	1,054 *(Note 6)*	2.1	16.3

Source: the website of the Stock Exchange and the respective interim/annual report of the subject listed company (where applicable)

Notes:

(1) The closing share price and market capitalisation of the Comparable Companies as at the Last Trading Day (i.e. 18 July 2018) are based on information extracted from the website of Stock Exchange. The market capitalisation of the Comparable Companies is calculated based on their respective closing share prices and number of issued shares as per the website of the Stock Exchange.

(2) The P/B ratios of the Comparable Companies are calculated based on their market capitalisation as at the Last Trading Day and their latest published consolidated net asset value attributable to equity holders.

(3) The P/E ratios of the Comparable Companies are calculated based on their market capitalisation as at the Last Trading Day and their latest published net profit attributable to equity holders for its completed financial year.

(4) The function currency of China Dredging is Renminbi (the lawful currency of the PRC) ("**RMB**") and the net profit attributable to owners of China Dredging and equity attributable to owners of China Dredging was converted into Hong Kong dollars at a rate of RMB1 to HK$1.1976, which is for illustrative purposes only.

(5) The Offer Price of HK$1.3175 per Share.

(6) For the purpose of determining the implied market capitalisation of the Group, the Offer Price and the issued share capital of the Group of 800,000,000 Shares as at the Latest Practicable Date were applied.

As shown in the above table, the historical P/B ratio of the Comparable Companies ranged from approximately 0.1 times to 1.1 times, with an average of approximately 0.7 times. The implied P/B ratio under the Offer of approximately 2.1 times is above the maximum P/B ratios of the Comparable Companies. The Group's net asset attributable to its equity owners of approximately HK$504.4 million as at 31 December 2017 is closest to that of Build King's net asset attributable to its equity owners of approximately HK$709.6 million out of the Comparable Companies. The Group's implied P/B ratio of approximately 2.1 times is higher than that of Build King's P/B ratio of approximately 1.0 time.

Given the size of the net asset value of the Comparable Companies may fluctuate and be influenced by their respective business models and corporate strategies, the size of their assets related to the scale of its operations and/or adopted capital structure, such may lead to possible fluctuations to the results of a P/B ratio analysis. In this connection, we have also conducted P/E ratio analysis, being another commonly used approach for comparison purposes.

As shown in the above table, the historical P/E ratio of the Comparable Companies ranged from approximately 3.0 times to 43.1 times, with an average of approximately 16.6 times. The implied P/E ratio under the Offer of approximately 16.3 times which is within the range of the P/E ratios and slightly lower than the average P/E ratios of the Comparable Companies.

Given the P/E ratio of Man King was approximately 43.1 times which was significantly higher than that of the P/E ratio of other Comparable Companies, Man King was considered to be an outlier and the inclusion of its P/E ratio in arriving the average P/E ratio of the Comparable Companies may distort our analysis. In view of this, we have excluded the P/E ratio of Man King from our analysis on the P/E ratio of the Comparable Companies, which ranged from approximately 3.0 times to 3.8 times with an average of approximately 3.4 times. The implied P/E ratio of the Company under the Offer was higher than the maximum P/E ratio of the Comparable Companies, excluding Man King, as it is considered to be an outlier for the purpose of our P/E ratio analysis.

Furthermore, we have also considered that the Group's net profit attributable to its equity owners of approximately HK$64.5 million is closest to that of China Dredging's net profit attributable to its equity owners of approximately HK$85.1 million out of the Comparable Companies. China Dredging's P/E ratio is approximately 3.0 times which is lower than the implied P/E ratio of approximately 16.3 times under the Offer.

Having considered the above, in particular, the implied P/E ratio under the Offer is above the maximum of the Comparable Companies (excluding the outlier identified) and that the implied P/B ratio under the Offer is above the maximum P/B ratio of the Comparable Companies, we are of the view that the Offer is fair and reasonable.

RECOMMENDATION

Having considered the factors and reasons set out in this letter, in particular,

(i) the information related to the macro-economy and the maritime industry as well as the associated risks and uncertainties arising from increased trade protectionism, outcome of the ongoing trade negotiations between the U.S. and the PRC governments and the effects of the related tariffs imposed, the anticipated withdrawal of the United Kingdom from the European Union, the recent Turkish currency and debt crisis and the geopolitical situation in the Korean peninsula, some of which may continue to affect the general macro-economy, the business of the Group's customers as well as the level of activities in the maritime industry, thereby affecting the demand for of the Group's services. Further details of which are set out under section headed "2. Overview of macro-economy and the maritime industry";

(ii) the Offer Price represents a notable premium over the First Review Period Average Closing Price and a premium over the Second Review Period Average Closing Price;

(iii) in general, the trading volume of the Shares has been thin historically as evidenced by the average daily trading volume of the Shares during the Review Period as analysed under paragraph headed "5.2 Historical liquidity of the Shares" above; and

(iv) the Offer Price represents an implied P/E ratio of approximately 16.3 times and an implied P/B ratio of approximately 2.1 times. Based on the analysis as set out under paragraph headed "5.3 Comparison with comparable companies" above, the implied P/B ratio under the Offer is above the maximum of the Comparable Companies and the implied P/E ratio under the Offer is also above the maximum of the Comparable Companies (excluding the outlier identified),

we consider the terms of the Offer to be fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to accept the Offer.

Independent Shareholders, in particular those who intend to accept the Offer, are reminded that there is no guarantee that the Share price will or will not sustain and will or will not be higher than the Offer Price during and after the period for the acceptance of the Offer. The Independent Shareholders who intend to accept the Offer are also reminded to closely monitor the market price and the liquidity of the Shares during the period for the acceptance of the Offer and shall, having regard to their own circumstances, investment objectives and risk preference, consider selling their Shares in the open market, instead of accepting the Offer, if the net proceeds from the sale of such Shares would be higher than that receivable under the Offer.

The Independent Shareholders should read carefully the procedures for accepting the Offer as detailed in the Composite Document, the appendices to the Composite Document and the Form of Acceptance and Transfer, if they wish to accept the Offer.

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

Mr. Lewis Lai is a Responsible Officer of Red Sun Capital Limited to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and permitted to undertake work as sponsor. He has been active in the field of corporate finance advisory for over 10 years, and has been involved in and completed various corporate finance advisory transactions.

* *for identification purpose only*

1. GENERAL PROCEDURES FOR ACCEPTANCE OF THE OFFER

The Offer

To accept the Offer, you should complete and sign the accompanying Form of Acceptance and Transfer in accordance with the instructions printed thereon, which instructions form part of the terms of the Offer.

(a) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Share(s) is/are in your name, and you wish to accept the Offer, you must send the duly completed and signed Form of Acceptance and Transfer together with the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof), by post or by hand, to the Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong in an envelope marked "PROSPER CONSTRUCTION HOLDINGS LIMITED — General Offer" to be received by the Registrar no later than 4:00 p.m. on the Closing Date or such later time and/or date as the Offeror may determine and the Offeror and the Company may jointly announce with the consent of the Executive in accordance with the Takeovers Code.

(b) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in the name of a nominee company or a name other than your own, and you wish to accept the Offer in respect of your Shares, you must either:

(i) lodge your share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, with instructions authorising it to accept the Offer on your behalf and requesting it to deliver the duly completed Form of Acceptance and Transfer together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or

(ii) arrange for the Shares to be registered in your name by the Company through the Registrar, and send the duly completed Form of Acceptance and Transfer together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or

(iii) if your Shares have been lodged with your licensed securities dealer/registered institution in securities/custodian bank through CCASS, instruct your licensed securities dealer/registered institution in securities/custodian bank to authorise HKSCC Nominees Limited to accept the Offer on your behalf on or before the deadline set by HKSCC Nominees Limited (which is normally one Business Day before the latest date on which acceptances of the Offer must be received by the Registrar). In order to meet the deadline set by HKSCC Nominees Limited, you should check with your licensed securities dealer/registered institution in securities/custodian bank for the timing on processing of your instruction, and submit your instruction to your licensed securities dealer/registered institution in securities/custodian bank as required by them; or

(iv) if your Shares have been lodged with your investor participant's account maintained with CCASS, give your instruction via the CCASS Phone System or CCASS Internet System on or before the deadline set by HKSCC Nominees Limited (which is normally one Business Day before the latest date on which acceptances of the Offer must be received by the Registrar).

(c) If the share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are not readily available and/or is/are lost and you wish to accept the Offer in respect of your Shares, the Form of Acceptance and Transfer should nevertheless be completed and delivered to the Registrar together with a letter stating that you have lost one or more of your share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) should be forwarded to the Registrar as soon as possible thereafter. If you have lost your share certificate(s), you should also write to the Registrar for a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar.

(d) If you have lodged transfer(s) of any of your Shares for registration in your name and have not yet received your share certificate(s), and you wish to accept the Offer in respect of your Shares, you should nevertheless complete the Form of Acceptance and Transfer and deliver it to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will be deemed to be an irrevocable authority to Guotai Junan Securities and/or the Offeror or their respective agent(s) to collect from the Registrar on your behalf the relevant share certificate(s) when issued and to deliver such certificate(s) to the Registrar as if it was/they were delivered to the Registrar with the Form of Acceptance and Transfer.

(e) Acceptance of the Offer will be treated as valid only if the completed Form of Acceptance and Transfer is received by the Registrar no later than 4:00 p.m. on the Closing Date or such later time and/or date as the Offeror may determine and announce with the consent of the Executive in accordance to the Takeovers Code and the Registrar has recorded that the acceptance and the relevant documents as required under this paragraph have been so received, and is:

(i) accompanied by the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and, if the share certificate(s) is/are not in your name, such other documents in order to establish your right to become the registered holder of the relevant Shares; or

(ii) from a registered Shareholder or his/her/its personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to Shares which are not taken into account under another sub-paragraph of this paragraph (e)); or

(iii) certified by the Registrar or the Stock Exchange.

(f) If the Form of Acceptance and Transfer is executed by a person other than the registered Shareholder, appropriate documentary evidence of authority to the satisfaction of the Registrar must be produced.

(g) Seller's *ad valorem* stamp duty for transfer of Shares registered in the seller's name through the Registrar arising in connection with acceptance of the Offer will be payable by the relevant Independent Shareholders at a rate of 0.1% of (i) the market value of the Offer Shares; or (ii) the consideration payable by the Offeror in respect of the relevant acceptances of the Offer, whichever is higher, and will be deducted from the cash amount payable by the Offeror to such Independent Shareholder on acceptance of the Offer. The Offeror will arrange for payment of the seller's *ad valorem* stamp duty on behalf of the relevant Independent Shareholders accepting the Offer and will pay the buyer's *ad valorem* stamp duty in connection with the acceptances of the Offer and the transfer of the Offer Shares in accordance with the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong).

Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting or rejecting the Offer. None of the Offeror and parties acting in concert with it, the Company, Guotai Junan Capital, Guotai Junan Securities, VMS Securities, Red Sun Capital and the Registrar or any of their respective ultimate beneficial owners, directors, officers, agents or associates or any other person involved in the Offer accepts any responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Offer.

(h) No acknowledgement of receipt of any Form of Acceptance and Transfer, share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

2. ACCEPTANCE PERIOD AND REVISIONS

(a) Unless the Offer has previously been revised or extended, with the consent of the Executive, in accordance with the Takeovers Code, the Form of Acceptance and Transfer must be received by 4:00 p.m. on the Closing Date in accordance with the instructions printed on the relevant Form of Acceptance and Transfer, and the Offer will be closed on the Closing Date.

(b) The Offeror and the Company will jointly issue an announcement in accordance with the Listing Rules through the websites of the Stock Exchange and the Company no later than 7:00 p.m. on the Closing Date stating whether the Offer has been extended, revised or has expired.

(c) In the event that the Offeror decides to extend the Offer, at least fourteen (14) days' notice by way of announcement will be given, before the latest time and date for acceptance of the Offer, to those Independent Shareholders who have not accepted the Offer.

(d) If the Offeror revises the terms of the Offer, all Independent Shareholders, whether or not they have already accepted the Offer will be entitled to the revised terms. The revised Offer must be kept open for at least fourteen (14) days following the date on which the revised offer document is posted.

(e) If the Closing Date of the Offer is extended, any reference in this Composite Document and in the Form of Acceptance and Transfer to the Closing Date shall, except where the context otherwise requires, be deemed to refer to the Closing Date of the Offer so extended.

3. ANNOUNCEMENT

(a) As required under Rule 19 of the Takeovers Code, by 6:00 p.m. on the Closing Date (or such later time and/or date as the Executive may in exceptional circumstances permit), the Offeror must inform the Executive and the Stock Exchange of its decision in relation to the revision or extension of the Offer. The Offeror must publish an announcement in accordance with the requirements of the Listing Rules and/or the Takeovers Code by 7:00 p.m. on the Closing Date stating whether the Offer has been extended or revised.

Such announcement must state the following:

(i) the total number of Shares for which acceptances of the Offer have been received;

(ii) the total number of Shares held, controlled or directed by the Offeror and parties acting in concert with it before the Offer Period;

(iii) the total number of Shares acquired or agreed to be acquired by the Offeror and parties acting in concert with it during the Offer Period;

(iv) details of any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which the Offeror and parties acting in concert with it has borrowed or lent, save for any borrowed securities which have been either on-lent or sold; and

(v) the percentages of the relevant classes of issued share capital of the Company and the percentages of voting rights of the Company represented by these numbers.

(b) In computing the total number of Shares represented by acceptances, only valid acceptances which have been duly completed and satisfy the acceptance conditions set out in this Appendix and which have been received by the Registrar no later than 4:00 p.m. on the Closing Date, being the latest time and date for acceptance of the Offer, shall be included.

(c) As required under the Takeovers Code and the Listing Rules, any announcement in relation to the Offer will be published on the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (www.prosperch.com).

4. NOMINEE REGISTRATION

To ensure equality of treatment to all Independent Shareholders, those registered Independent Shareholders who hold the Shares as nominees for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. It is essential for the beneficial owners of the Shares whose investments are registered in the names of nominees to provide instructions to their nominees of their intentions with regard to the Offer.

5. RIGHT OF WITHDRAWAL

(a) Acceptance of the Offer tendered by the Independent Shareholders shall be irrevocable and cannot be withdrawn, except in the circumstances set out in subparagraph (b) below.

(b) If the Offeror is unable to comply with the requirements set out in the paragraph headed "3. Announcement" in this Appendix I, the Executive may require pursuant to Rule 19.2 of the Takeovers Code that the Independent Shareholders who have tendered acceptance to the Offer, be granted a right of withdrawal on terms that are acceptable to the Executive until the requirement of Rule 19 of the Takeovers Code can be met.

In such case, when the Independent Shareholders withdraw their acceptance(s), the Offeror shall, as soon as possible but in any event within ten (10) days thereof, return by ordinary post at his/her/its own risk the share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) lodged with the Form(s) of Acceptance and Transfer to the relevant Independent Shareholder(s).

6. SETTLEMENT OF THE OFFER

Provided that the accompanying Form of Acceptance and Transfer for the Shares, together with the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are valid, have been duly completed, satisfy the acceptance conditions set out in this Appendix and have been received by the Registrar no later than 4:00 p.m. on the Closing Date or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code, a cheque for the amount due to each of the accepting Independent Shareholder in respect of the Shares tendered under the Offer (less seller's *ad valorem* stamp duty payable by him/her/it) will be despatched to the accepting Independent Shareholder by ordinary post at his/her/its own risk as soon as possible but in any event within seven (7) Business Days from the date of receipt of all relevant documents to render such acceptance complete and valid by the Registrar in accordance with the Takeovers Code.

Settlement of the consideration to which any accepting Independent Shareholder is entitled under the Offer will be paid by the Offeror in full in accordance with the terms of the Offer (save with respect of the payment of seller's *ad valorem* stamp duty, as the case may be) set out in this Composite Document (including this Appendix I) and the accompanying Form of Acceptance and Transfer, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Independent Shareholder.

No fraction of a cent will be payable and the amount of consideration payable to an Independent Shareholder who accepts the Offer will be rounded up to the nearest cent.

7. OVERSEAS SHAREHOLDERS

The availability of the Offer to persons who are not resident in Hong Kong may be affected by the laws of the relevant overseas jurisdictions. The making of the Offer to the Independent Shareholders whose registered addresses are in jurisdictions outside Hong Kong may be prohibited or affected by the laws or regulations of the relevant jurisdictions. Such Independent Shareholders who are citizens, residents or nationals of a jurisdiction outside Hong Kong should observe relevant applicable legal or regulatory requirements and, where necessary, seek legal advice. It is the responsibility of the individual Independent Shareholders who wish to accept the Offer to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdictions in connection with the acceptance of the Offer (including the obtaining of any regulatory or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due in respect of such jurisdictions).

Any acceptance by any Independent Shareholder who is not resident in Hong Kong will be deemed to constitute a representation and warranty from such Independent Shareholder to the Offeror that the local laws and requirements have been complied with. All such Independent Shareholders should consult their professional advisers if in doubt.

8. GENERAL

(a) All communications, notices, Form of Acceptance and Transfer, certificates, transfer receipts and other documents of title and/or of indemnity and/or of any other nature to be delivered by or sent to or from the Independent Shareholders will be delivered by or sent to or from them, or their designated agents, by ordinary post at their own risk, and none of the Offeror and parties acting in concert with it, the Company, VMS Securities Limited, Guotai Junan Capital, Guotai Junan Securities, Red Sun Capital and the Registrar or any of their respective ultimate beneficial owners, directors, officers, agents or associates or any other person involved in the Offer accepts any liability for any loss or any other liabilities whatsoever which may arise as a result thereof.

(b) Acceptance of the Offer by any person or persons will be deemed to constitute a warranty by such person or persons to the Offeror and Guotai Junan Securities that the Shares tendered under the Offer (together with all rights attaching to them as at the date of this Composite Document or subsequently becoming attached to them, including the right to receive in full all dividends and other distributions, if any, declared, made or paid by the Company on or after the date of this Composite Document), are sold by such person or persons free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature.

(c) Acceptance of the Offer by any nominee will be deemed to constitute a warranty by such nominee to the Offeror that the number of Shares in respect of which it is indicated in the Form of Acceptance and Transfer is the aggregate number of Shares held by such nominee for such beneficial owners who accept the Offer.

(d) The provisions set out in the accompanying Form of Acceptance and Transfer form part of the terms of the Offer.

(e) The accidental omission to despatch this Composite Document and/or the accompanying Form of Acceptance and Transfer or either of them to any person to whom the Offer is made shall not invalidate the Offer in any way.

(f) The Offer and all acceptances will be governed by and construed in accordance with the laws of Hong Kong.

(g) Due execution of Form of Acceptance and Transfer will constitute an authority to the Offeror and/or Guotai Junan Securities and/or such person or persons as any of them may direct to complete and execute on behalf of the person accepting the Offer, and to do any other act that may be necessary or expedient for the purpose of vesting in the Offeror, or such person or persons as it may direct the Shares in respect of which such person has accepted the Offer.

(h) The Offer is made in accordance with the Takeovers Code.

(i) References to the Offer in this Composite Document and in the Form of Acceptance and Transfer shall include any extension and/or revision thereof.

(j) The English text of this Composite Document and of the accompanying Form of Acceptance and Transfer shall prevail over the Chinese text.

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

The following is a summary of the audited financial results of the Group for each of the three years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2018 as extracted from the annual reports of the Group for the years ended 31 December 2015, 2016 and 2017 and the interim report for the six months ended 30 June 2018.

	Six months ended	**Year ended 31 December**		
	30 June 2018	**2017**	**2016**	**2015**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	*(Audited)*	*(Audited)*	*(Audited)*
Revenue	257,683	633,347	658,860	572,928
Profit before income tax	30,719	67,177	82,085	110,828
Income tax expense	(24)	(2,707)	(12,636)	(14,830)
Profit for the period/year	30,695	64,470	69,449	95,998
Other comprehensive income				
Items that may be subsequently reclassified to profit or loss				
Currency translation differences	(6,840)	(177)	—	—
Profit and total comprehensive income attributable to equity holders of the Company	23,855	64,293	69,449	95,998
Basic and diluted earnings per share (HK cents)	3.84	8.06	10.13	17.30
Dividend	—	16,000	24,000	—
Dividend per share	—	2.0	3.0	—

For each of the three years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2018, there were no exceptional items because of size, nature or incidence in respect of the consolidated financial statements of the Group during each of the three years ended 31 December 2015, 2016 and 2017 and the interim report for the six months ended 30 June 2018.

The consolidated financial statements of the Group for the three years ended 31 December 2015, 2016 and 2017 were audited by PricewaterhouseCoopers Hong Kong, Certified Public Accountants. The auditor of the Company has not issued any qualified opinion on the Group's financial statements for each of the three years ended 31 December 2015, 2016 and 2017.

2. AUDITED CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2017

Set out below is the full text of the audited consolidated financial statements of the Group for the year ended 31 December 2017 as extracted from the annual report of the Company for the year ended 31 December 2017:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

		2017	2016
	Note	*HK$'000*	*HK$'000*
Revenue	*5*	633,347	658,860
Cost of sales	*7*	(539,040)	(534,234)
Gross profit		94,307	124,626
Other income and gain, net	*6*	3,599	25
Loss on disposal of a joint venture	*18(a)*	(294)	—
Professional fees incurred for initial public offering	*7*	—	(14,896)
Other administrative expenses	*7*	(26,320)	(25,712)
Operating profit		71,292	84,043
Finance income	*8*	718	1,139
Finance costs	*8*	(4,833)	(3,097)
Finance costs, net	*8*	(4,115)	(1,958)
Share of losses of a joint venture	*18(a)*	—	—
Profit before income tax		67,177	82,085
Income tax expense	*9*	(2,707)	(12,636)
Profit for the year		64,470	69,449
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Currency translation differences		(177)	—
Profit and total comprehensive income attributable to equity holders of the Company		64,293	69,449
Basic and diluted earnings per share (HK cents)	*11*	8.06	10.13

CONSOLIDATED BALANCE SHEET

As at 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
ASSETS			
Non-current assets			
Plant and equipment	14	230,185	156,927
Investment in a joint venture	18(a)	—	294
Deposits	15	8,387	17,276
		238,572	174,497
Current assets			
Trade and retention receivables	15	309,571	183,494
Deposits, prepayments and other receivables	15	8,830	3,712
Amounts due from customers for contract work	16	73,615	84,466
Amounts due from the other partner of a joint operation	18(b)	50	—
Income tax recoverable		2,529	1,652
Time deposits with maturity over 3 months	17	15,103	9,942
Pledged bank deposits	17	24,251	21,031
Cash and cash equivalents	17	193,348	220,157
		627,297	524,454
Total assets		865,869	698,951
EQUITY			
Capital and reserves			
Share capital	19(a)	8,000	8,000
Reserves	19(b)	496,416	456,123
Total equity		504,416	464,123

	Note	2017 HK$'000	2016 HK$'000
LIABILITIES			
Non-current liabilities			
Borrowings	*22*	12,500	16,952
Deferred income tax liabilities	*20*	8,473	9,402
		20,973	26,354
Current liabilities			
Trade and retention payables	*21*	61,551	43,481
Accruals and other payables	*21*	18,028	6,713
Receipt in advance	*21*	—	84,592
Amounts due to customers for contract work	*16*	96,724	10,054
Amount due to a joint venture	*18(a), 26(d)*	—	500
Amounts due to the other partners of joint operations	*18(b)*	—	9,555
Amounts due to related companies	*26(d)*	—	1,647
Borrowings	*22*	160,266	51,234
Income tax payable		3,911	698
		340,480	208,474
Total liabilities		361,453	234,828
Total equity and liabilities		865,869	698,951

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Share capital	Share premium	Other reserves	Exchange reserves	retained earnings	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(note 19(a))	*(note 19(b))*	*(note 19(b))*			
At 1 January 2016	—	—	23,104	—	148,730	171,834
Comprehensive income						
Profit for the year	—	—	—	—	69,449	69,449
Contribution by and distribution to owner						
Issuance of shares	8,000	214,840	—	—	—	222,840
At 31 December 2016	8,000	214,840	23,104	—	218,179	464,123
At 1 January 2017	8,000	214,840	23,104	—	218,179	464,123
Comprehensive income						
Profit for the year	—	—	—	—	64,470	64,470
Exchange differences	—	—	—	(177)	—	(177)
Contribution by and distribution to owner						
Dividends paid *(Note 10)*	—	—	—	—	(24,000)	(24,000)
At 31 December 2017	8,000	214,840	23,104	(177)	258,649	504,416

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Cash flows from operating activities			
Net cash (used in)/generated from operations	25(a)	(25,030)	51,185
Interest received		718	1,139
Interest paid		(4,833)	(3,097)
Income tax paid		(1,300)	(12,910)
Net cash (used in)/generated from operating activities		(30,445)	36,317
Cash flows from investing activities			
Purchase of plant and equipment		(77,452)	(68,434)
Decease/(increase) deposits for purchase of plant and equipment		8,889	(17,276)
Proceeds from disposal of plant and equipment	25(b)	—	162
Increase in time deposits with maturity over 3 months		(5,161)	(1,643)
Increase in pledged bank deposits		(3,220)	(17,894)
Net cash used in investing activities		(76,944)	(105,085)
Cash flows from financing activities			
Proceeds from borrowings		164,665	85,660
Repayments of borrowings		(60,085)	(40,932)
Dividend paid		(24,000)	(61,477)
Proceeds from issuance of ordinary shares		—	236,000
Share issuance costs		—	(13,160)
Net cash generated from financing activities		80,580	206,091
Net (decrease)/increase in cash and cash equivalents		(26,809)	137,323
Cash and cash equivalents at beginning of the year		220,157	82,834
Cash and cash equivalents at end of the year	17	193,348	220,157

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION AND BASIS OF PRESENTATION

The Company was incorporated in the Cayman Islands on 6 October 2015 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company and its subsidiaries provide marine construction services, leasing and trading of vessels. The Company's shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The consolidated financial statements are presented in Hong Kong dollars ("HK$") unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied during the year, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") and requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have 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 Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(a) ***Adoption of amendments to standards***

The Group has adopted the following amendments to standards which are relevant to the Group's operations and are mandatory for the financial year beginning on or after 1 January 2017:

HKAS 7 (Amendment)	Disclosure Initiative
HKAS 12 (Amendment)	Recognition of Deferred Tax Assets for Unrealised Losses
HKFRS 12 (Amendment)	Disclosure of Interests in Other Entities

The adoption of the above amendments to standards did not have any significant financial impact on these consolidated financial statements.

(b) ***New standards, interpretations and amendments to standards which are not yet effective***

The following are new standards, interpretations and amendments to standards that have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2018 or later periods, but have not been early adopted by the Group.

HKAS 28 (Amendment)	Investments in Associates and Joint Ventures[1]
HKAS 40 (Amendment)	Transfers of Investment Property[1]
HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards[1]
HKFRS 2 (Amendment)	Classification and Measurement of Share based Payment Transactions[1]
HKFRS 4 (Amendment)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
HKFRS 9	Financial Instruments[1]
HKFRS 9 (Amendment)	Prepayment Features with Negative compensation[2]
HKFRS 10 and HKAS 28 (Amendment)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
HKFRS 15	Revenue from Contracts with Customers[1]
HKFRS 15 (Amendment)	Clarifications to HKFRS 15[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC) — Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) — Int 23	Uncertainty over Income Tax Treatments[2]

1. Effective for the accounting period beginning on 1 January 2018
2. Effective for the accounting period beginning on 1 January 2019
3. Effective for the accounting period beginning on 1 January 2021
4. Effective date to be determined

The Group will apply the above new standards, interpretations and amendments to standards when they become effective. The Group is in the process of making an assessment of the impact of the above new standards, interpretations and amendments to standards.

HKFRS 9

HKFRS 9 "Financial instrument" addresses the classification, measurement and recognition of financial assets and liabilities. The complete version of HKFRS 9 was issued in September 2014. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments.

HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39.

It is not practicable to provide a reasonable estimate of the effect until the Group performs a detailed review. Other than the adoption of an expected credit losses impairment model and disclosure changes, adoption of HKFRS 9 is currently not expected to have a material impact on the consolidated financial statements of the Group.

HKFRS 15

HKFRS 15 "Revenue from contracts with customers" replaces the previous revenue standards HKAS 18 "Revenue" and HKAS 11 "Construction Contracts" and the related interpretations on revenue recognition. HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach: (i) identify the contract(s) with customer; (ii) identify separate performance obligations in a contract; (iii) determine the transaction price; (iv) allocate transaction price to performance obligations; and (v) recognise revenue when performance obligation is satisfied. HKFRS 15 provides specific guidance on capitalisation of contract cost and license arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. HKFRS 15 identifies three situations in which control of the promised good or service is regarded as being transferred over time:

(i) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(ii) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

(iii) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

The Group has assessed that its contracts with customers fulfil the criteria for recognising revenue over time under HKFRS 15. The adoption of HKFRS 15 may have an impact on the amount of revenue and contract cost recognised and the Group is not yet in the position to provide quantified information. The new standard is not expected to apply until the financial year ended 31 December 2018.

HKFRS 16

The Group is a lessee of various properties which are currently classified as operating leases. The current accounting policy of such leases and the Group's future operating lease commitments are set out in note 2.23 and note 23(a) to the consolidated financial statements, respectively.

HKFRS 16 "Leases" addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. HKFRS 16 provides new provisions for the accounting treatment of leases and will no longer allow lessees to recognise certain leases outside the consolidated balance sheet in the future. Instead, when the Group is the lessee, almost all leases must be recognised in the form of an asset (for the right-of-use) and a financial liability (for the payment obligation). The new standard will therefore result in an increase in assets and financial liabilities in the consolidated balance sheet to the Group upon initial adoption. As for the financial impact in the consolidated income statement, rental expenses will be replaced with straight-line depreciation expense on the right-of-use asset and interest expenses on the lease liability. The combination of the straight-line depreciation of the right-of-use asset and the effective interest rate method applied to the lease liability will result in a higher total charge to the consolidated income statement in the initial years of the lease, and a lower total charge during the latter part of the lease term.

The new standard is not expected to be applied until the financial year beginning on or after 1 January 2019.

2.2 Subsidiaries

Consolidation

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

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit or loss.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated when necessary, amounts reported by subsidiaries have been adjusted to confirm with the Group's accounting policies.

Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the profit or loss.

2.3 Joint arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures, depending on the contractual rights and obligations each investor has rather than the legal structure of the joint arrangement. For the joint arrangements that specify that the parties to the joint arrangements have rights to the assets and obligations to the liabilities relating to the joint arrangements, they are classified as joint operations. For the remaining joint arrangements, they are classified as joint ventures.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Joint ventures are accounted for using the equity basis of accounting.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

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

When a group entity undertakes its activities under joint operations, the Group as a joint operator recognises in relation to its interest in a joint operation:

— its assets, including share of any assets held jointly;

— its liabilities, including its share of any liabilities incurred jointly;

— its revenue from the sale of its share of the output arising from the joint operation;

— its share of the revenue from the sale of the output by the joint operation; and

— its expenses, including its share of any expenses incurred jointly.

The assets that the Group has the rights and liabilities that the Group has the obligations for, in relation to the joint operations, are recognised in the consolidated balance sheets on an accrual basis and classified according to the nature of the item. The share of expenses that the Group incurs and its share of income that it earns from the joint operations are included in the consolidated statement of comprehensive income.

2.4 Segment reporting

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

2.5 Foreign currency translation

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

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

(b) *Transactions and balances*

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

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of comprehensive income within 'finance income or expenses'. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within 'administrative expenses'.

(c) *Group companies*

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

— assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;

— income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

— all resulting exchange differences are recognised as in other comprehensive income.

2.6 Plant and equipment

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

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

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

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

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

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

2.7 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.

2.8 Financial assets

The Group classifies its financial assets as 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.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets.

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Loans and receivables are initially recognised at fair value plus transaction costs. They are derecognised when the rights to receive cash flows have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2.9 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 Company or the counterparty.

2.10 Impairment of financial assets

The Group assesses at the end of each reporting period 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.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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

2.11 Trade and other receivables

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

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtors, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. 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 consolidated statement of comprehensive income within "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 "administrative expenses" in the consolidated statement of comprehensive income.

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

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

2.13 Cash and cash equivalents

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

2.14 Share capital

Ordinary shares are classified as equity.

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

2.15 Trade and other payables

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

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

2.16 Borrowings

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

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

2.17 Borrowing costs

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

All other borrowing costs are recognised in the consolidated statement of comprehensive income in the period in which they are incurred.

2.18 Current and deferred income tax

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

(a) ***Current income tax***

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

(b) *Deferred income tax*

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

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

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

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

Current and deferred tax is recognised in consolidated statement 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.

Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets or in relation to qualifying expenditure. The Group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits that are carried forward as deferred tax assets.

2.19 Employee benefits

(a) *Employee leave entitlements*

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

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

(b) *Retirement benefits*

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

(c) *Termination benefits*

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

2.20 Provisions

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

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax 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.

2.21 Revenue recognition

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

Revenue from construction contracts is recognised based on the stage of completion of the contracts as detailed in note 2.12 above.

Rental income from vessel chartering is recognised based on the straight-line basis over the lease terms.

Trading of vessels is recognised when the goods are delivered and the risks and rewards of ownership have been passed to the customers.

2.22 Interest income

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

2.23 Operating leases

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

2.24 Dividend distribution

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

2.25 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 Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

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

(a) *Market risk*

(i) *Foreign exchange risk*

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

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

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

At 31 December 2017, if RMB had weakened/strengthened by 5% against the HK$ with all other variables held constant, post-tax profit for the year would have been approximately HK$1,181,000 (2016: HK$353,000 lower/higher) higher/lower, mainly as a result of the foreign exchange difference on translation of RMB denominated cash and cash equivalents, trade and retention payables and accruals and other payables.

At 31 December 2017, if IDR had weakened/strengthened by 5% against the HK$ with all other variables held constant, post-tax profit for the year would have been approximately HK$360,000 (2016: HK$1,274,000) lower/higher, mainly as a result of the foreign exchange difference on translation of IDR denominated cash and cash equivalents, trade and retention payables and accruals and other payables.

At 31 December 2017, if MYR had weakened/strengthened by 5% against the HK$ with all other variables held constant, post-tax profit for the year would have been approximately HK$232,000 (2016: HK$nil) higher/lower, mainly as a result of the foreign exchange difference on translation of MYR dominated cash and cash equivalents, trade and retention payables and accruals and other payables.

(ii) *Cash flow interest rate risk*

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

As at 31 December 2017, if the interest rates on borrowings had been 100 basis-points higher/lower with all other variables held constant, pre-tax profit for the year would be HK$1,714,000 (2016: HK$682,000) higher/lower, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) *Credit risk*

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

For the year ended 31 December 2017, 79.7% (2016: 88.7%) of the Group's revenue was derived from its top five customers. As at 31 December 2017, the Group had concentration of credit risk as 84.2% (2016: 96.2%) of the total trade receivables were due from the Group's five (2016: three) customers.

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

The credit risk on deposits with bank and amounts due from related companies are 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.

(c) *Liquidity risk*

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

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

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

	On demand and less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2017				
Trade and retention payables	57,480	3,406	665	61,551
Accruals and other payables	13,162	—	—	13,162
Long-term bank loans and interest payments	131,326	13,538	—	144,864
Short-term bank loans and interest payments	30,543	—	—	30,543

	On demand and less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2016				
Trade and retention payables	42,816	665	—	43,481
Accruals and other payables	2,697	—	—	2,697
Long-term bank loans and interest payments	32,363	13,969	3,408	49,740
Short-term bank loans and interest payments	20,576	—	—	20,576
Amount due to a joint venture	500	—	—	500
Amounts due to the other partners of joint operations	9,555	—	—	9,555
Amounts due to related companies	1,647	—	—	1,647

3.2 Capital risk management

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

The capital structure of the Group consists of equity, amount due to a director and borrowings. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce borrowings. The Group monitors capital on the basis of debt to equity ratio. The debt to equity ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings less cash and cash equivalents, time deposits and pledged bank deposits. The net cash position as at 31 December 2017 and 2016 was resulted from the Group's operation. The debt to equity ratios as at 31 December 2017 and 2016 are as follows:

	2017	**2016**
	HK$'000	*HK$'000*
Total borrowings *(note 22)*	(172,766)	(68,186)
Less: cash and cash equivalents, time deposits with maturity over 3 months and pledged bank deposits *(note 17)*	232,702	251,130
Net cash	59,936	182,944
Total equity	504,416	464,123
Debt to equity ratio	N/A	N/A

3.3 Fair value estimation

The carrying amount of the Group's financial assets and liabilities, including cash and cash equivalents, pledged bank deposits, time deposits, trade and retention receivables, deposits and other receivables, amounts due from the other partner of a joint operation, and trade and retention payables, other payables, amount due to a joint venture, amount due to the other partners of joint operations, amounts due to related companies and borrowings approximate their fair values, which either due to their short-term maturities, or that they are subject to floating rates.

3.4 Financial instruments by category

Assets as per consolidated balance sheet

	Loan and receivables	
	2017	**2016**
	HK$'000	*HK$'000*
Trade and retention receivables, deposits and other receivables	314,361	185,132
Amounts due from the other partner of a joint operation	50	—
Time deposits with maturity over 3 months	15,103	9,942
Pledged bank deposits	24,251	21,031
Cash and cash equivalents	193,348	220,157
Total	547,113	436,262

Liabilities as per consolidated balance sheet

	Other financial liabilities at amortised cost	
	2017	**2016**
	HK$'000	*HK$'000*
Trade and retention payables, accruals and other payables	70,642	46,178
Amount due a joint venture	—	500
Amounts due to the other partners of joint operations	—	9,555
Amounts due to related companies	—	1,647
Borrowings	172,766	68,186
Total	243,408	126,066

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Construction contracts

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

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

The Group recognised its contract revenue according to the percentage of work performed to date of the individual contract of construction works as a percentage of total contract value. Because of the nature of the activity undertaken in construction contracts, the date at which the contract activity is entered into and the date when the activity is completed usually fall into different accounting period. The Group reviews and revised the estimates of contract revenue, contract costs, variation orders and contract claims prepared for each construction contract as the contract in progress. Management regularly reviews the progress of the contracts and the corresponding costs of the contract revenue.

(b) Income taxes

The Group is subject to income taxes in Hong Kong and certain overseas taxes. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

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

(c) Impairment of plant and equipment

The Group's major operating assets represent machinery and equipment. Management performs review for impairment of the plant and equipment whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be recoverable.

Management considered there was no impairment indicator of machinery and equipment during the year as these assets were used for profitable construction projects, and there is a strong demand of these plant and equipment in the second hand market.

(d) Impairment of trade and retention receivables

Management determines the provision for impairment of trade and retention receivables based on the credit history of customers and the current market condition by business segment. Significant judgment is exercised on the assessment of the collectability of receivables from each customer. In making the judgment, management considers a wide range of factors such as results of follow-up procedures, customer payment trends including subsequent payments and customers' financial positions. If the financial conditions of the customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The final outcome of the recoverability of these receivables will impact the amount of impairment required.

5 REVENUE AND SEGMENT INFORMATION

(a) Revenue

	2017	**2016**
	HK$'000	*HK$'000*
Rendering of services		
— Marine construction works	469,504	636,019
— Leasing of vessels	163,843	22,841
	633,347	658,860

(b) Segment information

The chief operating decision-maker has been identified as the executive directors of the Company. The executive directors regard the Group's business as three operating segments of marine construction works, leasing of vessels and trading of vessels. They review financial information accordingly.

Segment revenue is measured in a manner consistent with that in the consolidated statement of comprehensive income.

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

Segment liabilities mainly consist of current liabilities and non-current liabilities as disclosed in the consolidated balance sheet except for income tax payable, deferred tax liabilities, borrowings, amounts due to related parties and certain corporate liabilities.

Profit or loss

	Marine construction works HK$'000	Leasing of vessels HK$'000	Trading of vessels HK$'000	Total HK$'000
For the year ended 31 December 2017				
Revenue	469,504	163,843	—	633,347
Segment results	32,107	54,085	—	86,192
Unallocated expenses				(14,748)
Depreciation				(630)
Finance costs, net				(3,637)
Profit before income tax				67,177
Income tax expense				(2,707)
Profit for the year				64,470
Included in segment results are:				
Depreciation	(8,762)	(5,591)	—	(14,353)
Finance costs, net	(478)	—	—	(478)

	Marine construction works HK$'000	Leasing of vessels HK$'000	Trading of vessels HK$'000	Total HK$'000
For the year ended 31 December 2016				
Revenue	636,019	22,841	—	658,860
Segment results	116,742	5,956	—	122,698
Unallocated expenses				(36,957)
Depreciation				(2,144)
Finance costs, net				(1,512)
Profit before income tax				82,085
Income tax expense				(12,636)
Profit for the year				69,449
Included in segment results are:				
Depreciation	(5,668)	(1,276)	—	(6,944)
Finance costs, net	(446)	—	—	(446)

	Marine construction works *HK$'000*	Leasing of vessels *HK$'000*	Trading of vessels *HK$'000*	Total *HK$'000*
At 31 December 2017				
Segment assets	436,416	176,399	—	612,815
Unallocated assets				253,054
Total assets				865,869
Additions to non-current assets	87,851	—	—	87,851

	Marine construction works *HK$'000*	Leasing of vessels *HK$'000*	Trading of vessels *HK$'000*	Total *HK$'000*
At 31 December 2016				
Segment assets	429,020	12,271	—	441,291
Unallocated assets				257,660
Total assets				698,951
Investments in a joint venture	294	—	—	294
Additions to non-current assets	67,673	—	—	67,673

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

Liabilities

	Marine construction works	**Leasing of vessels**	**Trading of vessels**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2017				
Segment liabilities	169,225	—	—	169,225
Borrowings				172,766
Income tax payable				3,911
Deferred tax liabilities				8,473
Unallocated liabilities				7,078
Total liabilities				361,453
At 31 December 2016				
Segment liabilities	150,242	—	—	150,242
Borrowings				68,186
Income tax payable				698
Deferred tax liabilities				9,402
Unallocated liabilities				6,300
Total liabilities				234,828

The Group's revenue from external customers attributable to the countries from which the Group derives revenue and information about its non-current assets excluding financial instruments and deferred income tax assets, located in the country of domicile are detailed below:

Revenue from external customers

	2017	**2016**
	HK$'000	*HK$'000*
Hong Kong	112,895	65,760
Indonesia	86,345	442,009
Macao	272,542	151,091
Malaysia	16,171	—
Pakistan	145,394	—
	633,347	658,860

Non-current assets

(i) Based on countries of domicile of companies holding the assets:

	2017	2016
	HK$'000	*HK$'000*
Hong Kong	213,284	152,815
Indonesia	12,899	973
Macao	3,981	3,433
Malaysia	21	—
	230,185	157,221

(ii) Based on physical location of the assets:

	2017	2016
	HK$'000	*HK$'000*
Hong Kong	129,569	147,386
Indonesia	12,899	973
Macao	3,981	8,862
Malaysia	30,170	—
Pakistan	53,566	—
	230,185	157,221

(c) Information about major customers

Revenue from customers contributing over 10% of the total revenue of the Group is as follows:

	2017	2016
	HK$'000	*HK$'000*
Customer A	164,954	—
Customer B	107,589	151,091
Customer C	65,276	23,989
Customer D	145,394	—

No other revenue from transaction with a single external customer amounted to 10% or more of the Group's revenue during the year.

6 OTHER INCOME AND GAIN, NET

	2017	2016
	HK$'000	*HK$'000*
Gain on disposal of plant and equipment	3,409	162
Foreign exchange gain/(loss)	174	(137)
Others	16	—
	3,599	25

7 EXPENSES BY NATURE

	2017	2016
	HK$'000	*HK$'000*
Cost of sales		
Consultancy and design fee	70,937	12,627
Depreciation	14,353	6,944
Insurance	1,861	361
Materials	198,973	228,001
Subcontracting charges	79,268	120,990
Staff costs *(note)*	40,335	32,104
Rental expenses for machineries and equipment	41,739	46,116
Repair and maintenances	19,350	8,298
Transportation	26,180	13,847
Site expenses	20,325	23,649
Customs duties	1,504	30,369
Others	24,215	10,928
	539,040	534,234
Professional fees incurred for initial public offerings	—	14,896
Other administrative expenses		
Staff costs, including directors' emoluments *(note)*	9,760	8,011
Auditors' remuneration	1,670	1,614
Depreciation	630	2,144
Operating lease rental in respect of office and staff quarters	2,781	2,487
Professional fee — others	3,966	6,382
Entertainment fee	1,437	1,119
Travelling expense	1,342	1,044
Bank charges	783	439
Others	3,951	2,472
	26,320	25,712
Total cost of sales and administrative expenses	565,360	574,842

Note:

	2017	2016
	HK$'000	*HK$'000*
Wages and salaries	50,360	40,791
Pension costs — defined contribution plans *(note a)*	2,002	1,096
Other employment benefits	329	437
	52,691	42,324
Less: amounts charged to cost of sales	(40,335)	(32,104)
Less: amounts charged to administrative expenses	(9,760)	(8,011)
Amounts capitalised in contracting work-in-progress	2,596	2,209

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

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

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

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

8 FINANCE COSTS, NET

	2017	2016
	HK$'000	*HK$'000*
Finance income		
— Interest income on bank balances	718	1,139
Finance costs		
— Interest expense on bank loans	(4,833)	(3,097)
Finance costs, net	(4,115)	(1,958)

9 Income tax expense

The amount of income tax charged to the consolidated statement of comprehensive income represents:

	2017	**2016**
	HK$'000	*HK$'000*
Hong Kong profits tax		
Current income tax	83	655
Deferred income tax *(note 20)*	(929)	(66)
Indonesia income tax		
Withholding income tax	2,590	12,055
Interest income tax	(47)	30
Macao complementary income tax		
Current income tax	822	—
Over-provision in prior year	—	(38)
Malaysia corporate income tax		
Current income tax	188	—
	2,707	12,636

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profit for the year.

(i) Indonesia income tax is charged through a system of withholding taxes. Companies are required to withhold final income tax for construction works performance and interest income from bank deposits. For the year ended 31 December 2017, income tax has been provided at the rate of 3% (2016: 3%) of the construction revenue and 20% (2016: 20%) of the interest income from bank deposits.

(ii) In performing the works of a certain project in Indonesia, Hong Kong River Engineering Company Limited ("HKR"), a wholly owned subsidiary of the Company, was exposed to branch profits tax ("BPT") in Indonesia on the basis that HKR was a non-resident carrying out business through a permanent establishment in Indonesia. According to Article 5 of the double taxation agreement between Indonesia and Hong Kong ("DTA"), HKR was regarded as having a permanent establishment in Indonesia since the project involved provision of construction services in Indonesia by HKR exceeding 183 days. During the course of that project between 2011 and 2015, HKR failed to pay branch profit tax in accordance with the Income Tax Law in Indonesia and the DTA, and the aggregate amount of branch profits tax was approximately HK$1,200,000.

The directors has sought for legal advice and the Indonesia legal advisor of the Group was of the opinion that the Indonesia regulation does not provide for and HKR is not in a position to rectify the violation to the Construction Licences Requirement by applying for the required registration retrospectively. Consequently, in the absence of business registration, a non-resident in Indonesia cannot proceed with the application of tax registration and will not have a tax identity to perform tax reporting. As such, HKR has not performed BPT reporting and is not in a position to perform BPT reporting retrospectively.

Notwithstanding that HKR cannot voluntarily perform business registration and tax registration retrospectively, the Directorate General of Taxes of Indonesia ("DGT") can send HKR an official assessment if the DGT has sufficient information to determine that the Indonesia BPT liability exists. The statutory time bar for DGT to issue a tax assessment is five years from the last date of the relevant tax year and the maximum tax penalties on late reporting is 48%. The maximum amount of the Indonesia BPT including penalty payable by HKR will be approximately HK$1,113,000 as at 31 December 2017 (2016: HK$1,320,000).

No provision has been made in the consolidated financial statements. The directors are of the view that the risk that the DGT has sufficient information to issue an official assessment notice and levy maximum penalty thereon is minimal. Furthermore, the controlling shareholders have agreed to indemnify the Group for any liability arising from the official assessment and penalty notice issued by the DGT.

Macao complementary income tax has been provided at the rate of 12% (2016: 12%) on the estimated assessable profit for the year.

Malaysia corporate income tax has been provided at the rate of 24% (2016: N/A) on the estimated assessable profit for the year.

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

	2017	**2016**
	HK$'000	*HK$'000*
Profit before income tax	67,177	82,085
Calculated at tax rate of 16.5% (2016: 16.5%)	11,084	13,544
Tax effects of:		
Withholding tax	2,590	12,055
Effect of different tax rates in other countries	(274)	(107)
Income not subject to tax*	(20,569)	(24,650)
Expenses not deductible for tax purposes	9,993	11,408
Over-provision in prior year	—	(38)
Utilisation of previously unrecognised tax losses	(117)	—
Tax losses for which no deferred income tax asset was recognised	—	424
Income tax expense	2,707	12,636

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

10 DIVIDENDS

	Year ended 31 December	
	2017	**2016**
	HK$'000	*HK$'000*
Proposed final dividend of HK$0.02 (2016: HK$0.03) per ordinary share *(note)*	16,000	24,000

Note: A dividend in respect of the year ended 31 December 2017 of HK$0.02 per share, amounting to a total dividend of HK$16,000,000, will be proposed at the forthcoming annual general meeting. These consolidated financial statements do not reflect this dividend payable.

11 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the respective years. The weighted average number of ordinary shares used for such purpose has been retrospectively adjusted for the effects of the issue of shares in connection with the reorganisation completed on 22 January 2016 and the capitalisation issue of ordinary shares which took place on 20 July 2016.

	2017	**2016**
Profit attributable to equity holders of the Company (HK$'000)	64,470	69,449
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share (thousands)	800,000	685,861
Basic earnings per share (HK cents)	8.06	10.13

(b) Diluted

Diluted earnings per share is the same amount as the basic earnings per share as there were no potential dilutive ordinary shares outstanding as at year end.

12 EMOLUMENTS FOR DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

The emoluments of individual directors of the Company during the year which were included in the staff costs as disclosed in note 7 are set out below:

For the year ended 31 December 2017

	Salaries	**Employer's contribution to pension scheme**	**Fees**
	HK$'000	*HK$'000*	*HK$'000*
Executive directors			
Mr. Cui Qi*	1,422	18	1,440
Mr. Yu Ming	1,062	18	1,080
Ms. Kui Ching Wah	1,062	18	1,080
Mr. Tao Yang	240	—	240
	3,786	54	3,840
Independent non-executive directors			
Mr. Ge Zhenming	144	—	144
Ms. Leung Sau Fan Sylvia	216	—	216
Mr. Cheung Chi Man Dennis	86	—	86
Mr. Leung Yee Tak	216	—	216
	662	—	662

For the year ended 31 December 2016

	Salaries	Employer's contribution to pension scheme	Fees
	HK$'000	*HK$'000*	*HK$'000*
Executive directors			
Mr. Cui Qi*	1,203	18	1,221
Mr. Yu Ming	843	18	861
Ms. Kui Ching Wah	839	18	857
Mr. Tao Yang	127	—	127
	3,012	54	3,066
Independent non-executive directors			
Mr. Ge Zhenming	114	—	114
Ms. Leung Sau Fan Sylvia	114	—	114
Mr. Leung Yee Tak	114	—	114
	342	—	342

* Chairman and Chief Executive officer

Notes:

(a) Mr. Cheung Chi Man, Dennis was appointed as the Company's independent non-executive director on 8 August 2017.

(b) Mr. Ge Zhenming resigned as the Company's independent non-executive director on 1 September 2017.

The emoluments of the directors fell within the following bands:

	2017	2016
Nil – HK$1,000,000	5	6
HK$1,000,001 – HK$2,500,000	3	1

The remuneration shown above represents remuneration received from the Group by these directors in their capacity as employees to the Group and/or in their capacity as directors of the companies now comprising the Group.

During the year ended 31 December 2017, none of the directors of the Company (i) received or were paid any remuneration in respect of accepting office; and (ii) waived or has agreed to waive any emolument (2016: nil).

During the year ended 31 December 2017, no retirement benefits, payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor are any payable. No consideration was provided to or receivable by third parties for making available directors' services (2016: nil).

During the year ended 31 December 2017, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year, other than those disclosed in note 26 of the consolidated financial statements.

(b) Five highest paid individuals

For the year ended 31 December 2017, the five individuals whose emoluments were the highest in the Group include 3 (2016: 3) directors, whose emoluments were reflected in the analysis presented above. The emoluments paid to the remaining 2 (2016: 2) individuals are as follows:

	2017	**2016**
	HK$'000	*HK$'000*
Salaries, bonus and other allowances	1,162	1,500
Pension costs — defined contribution plans	68	36
	1,230	1,536

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

	2017	**2016**
Nil – HK$1,000,000	2	2

During the year ended 31 December 2017, no emolument was paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for the loss of office (2016: nil).

13 SUBSIDIARIES

The following is a list of subsidiaries at 31 December 2017:

Name	Place of incorporation and type of legal entity	Principal activities and place of operation	Issued share and fully paid share capital	Effective interest held as at 2017	2016
Directly held by the Company:					
Prosper Construction Group Ltd.	British Virgin Islands, limited liability company	Investment holding company	HK$2	100%	100%
Indirectly held by the Company:					
Hong Kong River Engineering Company Limited	Hong Kong, limited liability company	Provision of engineering and construction works in Hong Kong	HK$60,000,000	100%	100%
Creator Pacific Limited	Hong Kong, limited liability company	Letting of vessels for rental income, trading of vessels and provision of repairing services to the vessels	HK$38,000,000	100%	100%
PT. Indonesia River Engineering	Indonesia, limited liability company	Provision of engineering and construction works in Indonesia	US$400,000	100%	100%
Hong Kong River (Macao) Engineering Company Limited (香港瑞沃(澳門)工程有限公司)	Macao, limited liability company	Provision of engineering and construction works in Macao	MOP100,000	100%	100%
PT. Hong Kong River Engineering Indonesia	Indonesia, limited liability company	Provision of engineering and construction works in Indonesia	US$400,000	100%	100%
Creator Pacific (M) SDN. BHD	Malaysia, limited liability company	Provision of engineering and construction works in Malaysia	RM1	100%	—

14 PLANT AND EQUIPMENT

	Furniture and fixtures *HK$'000*	Office equipment *HK$'000*	Machinery and equipment *HK$'000*	Vessels *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
At 1 January 2016						
Cost	158	486	42,180	115,456	1,426	159,706
Accumulated depreciation	(131)	(181)	(26,315)	(34,625)	(873)	(62,125)
Net book amount	27	305	15,865	80,831	553	97,581
Year ended 31 December 2016						
Opening net book amount	27	305	15,865	80,831	553	97,581
Additions	—	93	22,219	45,454	668	68,434
Depreciation	(27)	(161)	(3,122)	(5,486)	(292)	(9,088)
Closing net book amount	—	237	34,962	120,799	929	156,927
At 31 December 2016						
Cost	158	486	62,929	160,910	1,755	226,238
Accumulated depreciation	(158)	(249)	(27,967)	(40,111)	(826)	(69,311)
Net book amount	—	237	34,962	120,799	929	156,927

	Furniture and fixtures *HK$'000*	Office equipment *HK$'000*	Machinery and equipment *HK$'000*	Vessels *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
Year ended 31 December 2017						
Opening net book amount	—	237	34,962	120,799	929	156,927
Additions	—	169	20,615	67,236	382	88,402
Disposal	—	—	(160)	—	—	(160)
Depreciation	—	(173)	(5,502)	(8,851)	(457)	(14,983)
Exchange difference	—	—	27	—	(28)	(1)
Closing net book amount	—	233	49,942	179,184	826	230,185
At 31 December 2017						
Cost	158	655	62,986	228,146	2,148	294,093
Accumulated depreciation	(158)	(422)	(13,044)	(48,962)	(1,322)	(63,908)
Net book amount	—	233	49,942	179,184	826	230,185

(a) As at 31 December 2017, vessels and machinery and equipment with carrying amounts of HK$16,117,000 (2016: HK$15,179,000) were pledged for the Group's bank borrowings (note 22(f)(ii)).

(b) As at 31 December 2017, vessels with a carrying amount of HK$22,126,000 (2016: HK$23,840,000) were pledged for a performance bond in relation to a construction contract.

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

	2017	2016
	HK$'000	*HK$'000*
Trade receivables	254,487	132,134
Retention receivables	55,084	51,360
Trade and retention receivables	309,571	183,494
Deposits, prepayments and other receivables *(note)*	17,217	20,988
Less: non-current deposits	(8,387)	(17,276)
	8,830	3,712

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

The credit period granted to trade customers other than for retention receivables was within 30 days. The terms and conditions in relation to the release of retention vary from contract to contract, which may be subject to practical completion, the expiry of the defect liability period or a pre-agreed time period. The Group does not hold any collateral as security.

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

	2017	2016
	HK$'000	*HK$'000*
Current	60,664	111,840
1 to 30 days	27,698	10,990
31 to 60 days	542	1,221
61 to 90 days	—	—
91 to 180 days	—	—
181 to 365 days	57,774	4,723
More than 1 year	107,809	3,360
	254,487	132,134

In the consolidated balance sheet, retention receivables were classified as current assets. The ageing of the retention receivables based on invoice date was as follows:

	2017	2016
	HK$'000	*HK$'000*
Within 1 year	3,734	15,741
Between 1 and 5 years	51,350	35,619
	55,084	51,360

As at 31 December 2017, trade and retention receivables of HK$166,125,000 (2016: HK$9,304,000) were past due but not impaired. The ageing analysis of these trade and retention receivables was as follows:

	2017	**2016**
	HK$'000	*HK$'000*
Past due by:		
1 to 30 days	542	1,221
31 to 60 days	—	—
61 to 90 days	—	—
91 to 180 days	—	—
181 to 365 days	57,774	4,723
More than 365 days	107,809	3,360
	166,125	9,304

As at 31 December 2017, there was no impairment in trade and retention receivables (2016: nil).

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

	2017	**2016**
	HK$'000	*HK$'000*
HK$	116,938	43,532
United States dollars ("US$")	106,835	125,361
MOP	20,816	14,601
IDR	62,387	—
MYR	2,595	—
	309,571	183,494

16 CONTRACTING WORK-IN-PROGRESS

	2017	**2016**
	HK$'000	*HK$'000*
Contract costs incurred plus attributable profits less foreseeable losses to date	943,090	1,022,113
Progress billings to date	(966,199)	(947,701)
	(23,109)	74,412
Included in current assets/(liabilities) are the following:		
Due from customers for contract work	73,615	84,466
Due to customers for contract work	(96,724)	(10,054)
	(23,109)	74,412

17 CASH AND CASH EQUIVALENTS

	2017	2016
	HK$'000	*HK$'000*
Cash at bank	232,702	251,130
Less: Pledged bank deposits	(24,251)	(21,031)
Less: Time deposits with maturity over 3 months	(15,103)	(9,942)
Cash and cash equivalents	193,348	220,157
Maximum exposure to credit risk	232,702	251,130

As at 31 December 2017, the Group's bank deposits of HK$24,251,000 (2016: HK$21,031,000) were pledged to secure bank borrowings of the Group (note 22(f)(iii)).

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

	2017	2016
	HK$'000	*HK$'000*
HK$	98,235	78,692
RMB	955	6,994
US$	4,255	26,779
MOP	115,216	112,735
Rupiah ("Rp")	7,209	25,930
MYR	6,832	—
	232,702	251,130

18 JOINT ARRANGEMENT

(a) Joint venture

(i) The following is the joint venture indirectly held by the Company as at 31 December 2016.

Name	Place of establishment/ Incorporation and kind of legal entity	Principal activities	Percentage of ownership interest	Measurement method
HKR-ASL Joint Venture Ltd ("HKR-ASL")	Hong Kong, limited liability company	Provision of marine engineering service	Note	Equity

The project held by HKR-ASL was completed in prior years. Accordingly, HKR-ASL was deregistered in June 2017 and the disposal loss of HK$294,000 was recognised in the consolidated statement of comprehensive income during the year ended 31 December 2017.

(ii) ***Investment in a joint venture***

	2017	**2016**
	HK$'000	*HK$'000*
As at 1 January	294	294
Share of loss	—	—
Loss on disposal of a joint venture	(294)	—
As at 31 December	—	294

(iii) ***Obligation in respect of a joint venture***

	2017	**2016**
	HK$'000	*HK$'000*
Amount due to a joint venture *(note)*	—	500

Note: The amount due to a joint venture is unsecured, interest free and repayable on demand.

There are no contingent liabilities relating to the Group's interest in the joint venture as at 31 December 2017.

(b) **Joint operations**

(i) The following is the joint operations indirectly undertaken by the Company as at 31 December 2017 and 2016:

Name	**Place of establishment/ Incorporation and kind of legal entity**	**Principal activities**	**Percentage of ownership interest**
Concentric — Hong Kong River Joint Venture ("CHKRJV")	Hong Kong, unincorporated joint venture services	Provision of construction	49%
中國土木工程（澳門）有限公司— 香港瑞沃工程有限公司合作經營 ("MCRJV")	Macao, unincorporated joint venture	Provision of construction services	30%
香港瑞沃(澳門)工程有限公司— 中基基礎工程有限公司合作經營 ("MCJO")	Macao, unincorporated joint venture	Provision of construction services	95%

(ii) ***Obligations in respect of the other partners of joint operations***

	2017	**2016**
	HK$'000	*HK$'000*
Amounts due (from)/to the other partners of joint operations *(note)*	(50)	9,555

Note: The amounts due (from)/to the other partners of joint operations mainly represent the difference between share of net assets of the joint operations and the net amount receivable from/payable to the joint operations.

19 SHARE CAPITAL, SHARE PREMIUM AND RESERVES

(a) Share capital

On 6 October 2015, the Company was incorporated with an authorised share capital of HK$390,000 divided into 39,000,000 shares with par value of HK$0.01 each. On the same day, the Company allotted and issued one nil-paid share to an initial subscriber who is an independent third party, which was transferred to the Vendor, a company incorporated in the British Virgin Islands at nil consideration. On 22 January 2016, the said one nil-paid share was credited as fully paid and the Company further issued and allotted 9,249 shares to the Vendor, credited as fully paid, as part of the reorganisation.

On 5 February 2016, CITICC International Investment Limited (the "Pre-IPO Investor"), a pre-IPO investor, entered into a sale and purchase agreement with the Company, the Vendor and Mr. Cui Qi, the controlling shareholder and an executive Director of the Company, pursuant to which the Vendor transferred 750 shares in the Company to the Pre-IPO Investor, at a consideration of HK$36,000,000. In addition, the Pre-IPO Investor also subscribed for 750 shares of the Company at a subscription price of HK$36,000,000, resulting in a share premium of approximately HK$36,000,000.

On 20 July 2016, pursuant to the capitalisation issue, the Company issued a total number of additional 599,990,000 shares, credited as fully paid, to the Vendor and the Pre-IPO Investor, respectively, based on their respective number of shares.

On 20 July 2016, pursuant to the share offer, the Company issued a total 200,000,000 shares at a price of HK$1.00 per share.

	Number of shares	**Share capital**
		HK$'000
Ordinary shares, authorised:		
At 31 December 2015 and 1 January 2016	39,000,000	390
Increase in authorised share capital	3,961,000,000	39,610
At 31 December 2016 and 2017	4,000,000,000	40,000

	Number of shares	Share capital
		HK$'000
Ordinary shares, issued and fully paid:		
At 31 December 2015 and 1 January 2016	1	—
Shares issued pursuant to the reorganisation	9,249	—
Shares issued to the Pre-IPO Investor	750	—
Shares issued pursuant to the capitalisation issue	599,990,000	6,000
Shares issued under the share offer	200,000,000	2,000
At 31 December 2016 and 2017	800,000,000	8,000

(b) Share premium and reserves

	Share premium	Other reserves	Exchange reserve	Retained earnings	Total
	HK$'000	*HK$'000* *(note)*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2016	—	23,104	—	148,730	171,834
Comprehensive income					
Profit for the year	—	—	—	69,449	69,449
Contribution by and distribution to owner					
Shares issued to the Pre-IPO Investor	36,000	—	—	—	36,000
Shares issued pursuant to the capitalisation issue	(6,000)	—	—	—	(6,000)
Shares issued under the share offer	198,000	—	—	—	198,000
Share issuance costs	(13,160)	—	—	—	(13,160)
At 31 December 2016	214,840	23,104	—	218,179	456,123
Comprehensive income					
Profit for the year	—	—	—	64,470	64,470
Exchange difference	—	—	(177)	—	(177)
Contribution by and distribution to owner					
Dividends paid *(note 10)*	—	—	—	(24,000)	(24,000)
At 31 December 2017	214,840	23,104	(177)	258,649	496,416

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

20 DEFERRED INCOME TAX LIABILITIES

Deferred tax liabilities are expected to be payable in the following periods:

	2017	**2016**
	HK$'000	*HK$'000*
Deferred income tax liabilities:		
Payable or to be settled more than 12 months	8,473	9,402

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

	Accelerated tax depreciation	**Tax losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
As at 1 January 2016	12,535	(3,067)	9,468
Recognised in the consolidated statement of comprehensive income *(note 9)*	6,831	(6,897)	(66)
As at 31 December 2016	19,366	(9,964)	9,402
Recognised in the consolidated statement of comprehensive income *(note 9)*	6,586	(7,515)	(929)
As at 31 December 2017	25,952	(17,479)	8,473

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. As at 31 December 2017, the Group had unrecognised tax losses of approximately HK$1,861,000 (2016: HK$2,569,000) that can be carried forward to offset against future taxable income. These tax losses have no expiry date.

21 TRADE AND RETENTION PAYABLES, ACCRUALS AND OTHER PAYABLES

	2017	**2016**
	HK$'000	*HK$'000*
Trade payables	56,653	38,564
Retention payables	4,898	4,917
Accruals and other payables	18,028	6,713
Receipt in advance *(note (i))*	—	84,592
	79,579	134,786

Note (i): The Group received a receipt in advance from a customer in relation to a project which commenced in 2017.

The credit period granted for trade payables and other payables was within 30 to 90 days.

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

	2017	**2016**
	HK$'000	*HK$'000*
Current	45,657	32,042
1 to 30 days	6,944	6,522
31 to 60 days	2,253	—
61 to 90 days	775	—
91 to 180 days	1,024	—
	56,653	38,564

In the consolidated balance sheet, retention payables were classified as current liabilities. The ageing of the retention payables based on invoice date was as follows:

	2017	**2016**
	HK$'000	*HK$'000*
Within 1 year	827	4,252
Between 1 year and 2 years	3,406	665
Between 2 years and 5 years	665	—
	4,898	4,917

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

	2017	**2016**
	HK$'000	*HK$'000*
HK$	4,725	2,961
US$	21,198	29,095
RMB	24,570	2,426
Singapore dollars	3,269	—
MOP	5,591	6,373
IDR	—	2,626
MYR	2,198	—
	61,551	43,481

22 BORROWINGS

	2017	2016
	HK$'000	*HK$'000*
Non-current:		
Long-term bank loans	12,500	16,952
Current:		
Long-term bank loans due for repayment within one year	13,883	30,788
Long-term bank loans due for repayment within one year which contain a repayment on demand clause	64,097	—
Long-term bank loans due for repayment after one year which contain a repayment on demand clause	52,286	—
Short-term bank borrowings	30,000	20,446
	160,266	51,234
Total borrowings	172,766	68,186

(a) Borrowings due for repayment after one year which contain repayment on demand clause were classified as current liabilities.

Based on the scheduled repayment terms set out in the loan agreement and ignoring the effect of any repayment on demand clause, the maturity of borrowings would be as follows:

	2017	2016
	HK$'000	*HK$'000*
Within 1 year	107,980	51,234
Between 1 and 2 years	48,191	13,606
Between 2 and 5 years	16,595	3,346
	172,766	68,186

(b) The weighted average interest rate during the year were as follows:

	2017	2016
Short-term bank loans	3.7%	4.9%
Long-term bank loans	4.5%	4.1%

(a) The carrying amounts of the Group's borrowings were denominated in Hong Kong dollar.

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

(c) The Group has the following undrawn borrowing facilities:

	2017	2016
	HK$'000	*HK$'000*
Floating rate		
Expiring within 1 year	5,000	5,000

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

- unlimited guarantees provided by the Company as at 31 December 2017 and 2016; vessels and machinery and equipment with carrying amounts of HK$16,117,000 (2016: HK$15,179,000) as at 31 December 2017;
- deposits of not less than HK$24,251,000 (2016: HK$21,031,000) as at 31 December 2017; and
- guarantees of HK$133,495,000 (2016: HK$85,437,000) from a subsidiary for a bank facility which covers a loan of HK$24,272,000 (2016: HK$14,563,000) and performance bond facility of HK$97,087,000 (2016: HK$63,107,000) as at 31 December 2017.

23 COMMITMENTS

(a) Operating lease commitments — as lessee

The future aggregate minimum lease rental expenses in respect of hiring equipment, office and storage premises, and quarters for workers and directors under non-cancellable operating leases are payable during the year.

	2017	2016
	HK$'000	*HK$'000*
No later than 1 year	1,482	1,533
Later than 1 year and no later than 5 years	1,453	—
	2,935	1,533

(b) Capital commitment

Capital expenditure contracted for at the end of the year but not yet incurred is as follows:

	2017	2016
	HK$'000	*HK$'000*
Plant and equipment	10,413	7,532

24 CONTINGENT LIABILITIES

As at 31 December 2017, the joint operations held by the Group have given guarantees on performance bonds in respect of construction contracts in the ordinary course of business, and the amounts shared by the Group were of HK$20,836,000 (2016: HK$67,889,000). The performance bonds as at 31 December 2017 are expected to be released in accordance with the terms of the respective construction contracts.

As at 31 December 2017, the Group has not given any guarantees (2016: HK$10,680,000) on performance bonds in respect of a construction contract of the Group in the ordinary course of business.

25 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

	2017	**2016**
	HK$'000	*HK$'000*
Profit before income tax	67,177	82,085
Depreciation of plant and equipment	14,983	9,088
Loss on disposal of a joint venture	294	—
Gain on disposal of plant and equipment	(3,409)	(162)
Finance income	(718)	(1,139)
Finance costs	4,833	3,097
Operating profit before working capital change	83,160	92,969
Changes in working capital:		
Increase in trade and retention receivables	(126,077)	(81,030)
(Increase)/decrease in deposits, prepayments and other receivables	(1,548)	821
Decrease/(increase) in amounts due from customers for contract work	10,851	(11,543)
Changes in balances with related companies	(1,647)	21
Decrease in amount due from a director	—	298
Increase in trade and retention payables	18,070	14,611
Increase/(decrease) in accruals and other payables	188	(13,531)
Increase in receipt in advance	—	84,592
Increase/(decrease) in amounts due to customers for contract work	2,078	(35,419)
Decrease in amount due to a director	—	(2,000)
Increase in amount due to a joint venture	(500)	—
(Decrease)/increase in amounts due to the other partners of joint operations	(9,605)	1,396
Net cash (used in)/generated from operations	(25,030)	51,185

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

	2017	**2016**
	HK$'000	*HK$'000*
Net book amount	160	—
Gain on disposal of plant and equipment *(note 6)*	3,409	162
Proceeds from disposal of plant and equipment *(note)*	3,569	162

Note: The proceeds from disposal of plant and equipment of HK$3,569,000 during the year has yet to be received and has been included in other receivables as at 31 December 2017.

(c) Reconciliation of liabilities arising from financing activities

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

	Borrowings
	HK$'000
At 1 January 2017	68,186
Cash inflows	164,665
Cash outflows	(60,085)
At 31 December 2017	172,766

26 RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control, jointly control or exert significant influence over the other party in holding power over the investee; exposure, or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect the amount of the investor's returns. Parties are also considered to be related if they are subject to common control or joint control. Related parties may be individuals or other entities.

(a) The directors of the Company are of the view that the following companies were related parties that had transactions or balances with the Group during the years ended 31 December 2017 and 2016:

Name of the related party	**Relationship with the Group**
Star Harvest Enterprise Limited	A related company wholly owned by Mr. Cui Qi
HKR-ASL	A joint venture
CHKRJV	A joint operation
MCRJV	A joint operation
Shenzhen Changsheng Marine Engineering Limited ("Shenzhen Changsheng")	A related company with 92% equity interest owned by Mr. Cui Qi

(b) Transactions

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

	2017	**2016**
	HK$'000	*HK$'000*
Continuing transactions		
Paid to a related party:		
Rental expenses to Shenzhen Changsheng *(note)*	8,120	11,518

Note: Rental expenses in relation to leasing of vessels are charged at terms pursuant to the agreement as entered into between the Group and the respective related party.

(c) Transactions with key management personnel

Key management includes directors (executive and non-executive) and senior management. The compensation paid or payable to key management for employee services is shown below:

	2017	2016
	HK$'000	*HK$'000*
Salaries, bonus, other allowances and benefits in kind	4,448	3,081
Pension costs — defined contribution plans	54	54
	4,502	3,135

(d) Balances

	2017	2016	Nature
	HK$'000	*HK$'000*	
Amount due to a related party			
— Shenzhen Changsheng	—	1,647	Trade
Amount due to a joint venture			
— HKR-ASL	—	500	Non-trade

The amounts due to a related party, a joint venture and a director were unsecured, interest free and repayable on demand.

27 ULTIMATE HOLDING COMPANY

Management consider that Solid Jewel Investments Limited as the ultimate holding company of the Group, which is a company incorporated in the British Virgin Islands and owned by Mr. Cui Qi.

(a) Balance sheet and reserve movement of the Company

Balance sheet of the Company

	Note	**2017** *HK$'000*	**2016** *HK$'000*
ASSETS			
Non-current assets			
Investments in subsidiaries		98,000	20,000
Current assets			
Prepayments		160	459
Amount due from subsidiaries		161,896	213,674
Cash and cash equivalents		1,664	35,061
		163,720	249,194
Total assets		261,720	269,194
EQUITY			
Capital and reserves			
Share capital		8,000	8,000
Reserves	*(a)*	252,349	259,981
Total equity		260,349	267,981
LIABILITIES			
Current liabilities			
Accruals and other payables		1,371	1,213
Total equity and liabilities		261,720	269,194

The balance sheet of the Company was approved by the Board of Directors on 20 March 2018 and was signed on its behalf.

Note (a):

Reserve movement of the Company

	Share premium *HK$'000*	**Other reserve** *HK$'000*	**Retained earnings** *HK$'000*	**Total** *HK$'000*
At 1 January 2016	—	—	—	—
Profit for the year	—	—	25,141	25,141
Surplus arising on issue of shares in exchange for shares in subsidiaries	—	20,000	—	20,000
Shares issued to the Pre-IPO Investor	36,000	—	—	36,000
Shares issued pursuant to the capitalisation issue	(6,000)	—	—	(6,000)
Shares issued under the share offer	198,000	—	—	198,000
Share issuance costs	(13,160)	—	—	(13,160)
At 31 December 2016	214,840	20,000	25,141	259,981
At 1 January 2017	214,840	20,000	25,141	259,981
Profit for the year	—	—	16,368	16,368
Dividends paid *(note 10)*	—	—	(24,000)	(24,000)
At 31 December 2017	214,840	20,000	17,509	252,349

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

3. INDEBTEDNESS

The table below sets out the indebtedness of our Group as at 30 June 2018:

	As at 30 June 2018 *HK$'000*
Indebtedness	
Non-current:	
Long-term bank loans	8,186
Current:	
Long-term bank loans due for repayment within one year	15,852
Long-term bank loans due for repayment within one year which contain a repayment on demand clause	63,661
Long-term bank loans due for repayment after one year which contain a repayment on demand clause	49,384
Short-term bank borrowings	30,000
	158,897
Total borrowings	167,083

As at 30 June 2018, the latest practicable date for the purpose of the indebtedness statement, we have outstanding borrowings of approximately HK$167.1 million, which were denominated in HK$ and MOP and do not have unutilised banking facilities.

As at 30 June 2018, we have no material covenants relating to our outstanding debts, save for finance facilities which cover loans of HK$11.2 million. These agreements in respect of such facilities provided by financial institutions have been entered into in April and October 2016 and set out therein are the relevant financial covenants including the tangible net worth (based on the net asset value) of HKR shall be maintained at no less than HK$150 million.

Based on the scheduled repayment terms set out in the loan agreements and ignoring the effect of any repayment on demand clause, the maturity of borrowings would be as follows:

	As at 30 June 2018
	HK$'000
On demand or less than 1 year	109,513
Between 1 and 2 years	42,775
Between 2 and 5 years	14,795
	167,083

The Group's loan facilities are secured or guaranteed by (i) unlimited guarantees provided by the Company as at 30 June 2018; (ii) vessels and machinery and equipment with carrying amounts of HK$18.5 million as at 30 June 2018; (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$17.0 million as at 30 June 2018.

As at 30 June 2018, 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$17.0 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.

Save as disclosed above or as otherwise mentioned herein, and apart from intra-group liabilities, the 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 30 June 2018.

4. MATERIAL CHANGE

As at the Latest Practicable Date, the Directors confirm that, save as disclosed below, there have been no material changes in the financial or trading position or outlook of the Group since 31 December 2017, being the date to which the latest published audited consolidated financial statements of the Company were made up, and up to and including the Latest Practicable Date.

As disclosed in the unaudited interim report of the Group for the six months ended 30 June 2018,

(i) the revenue generated from the marine construction works segment for the six months ended 30 June 2018 decreased by approximately 74.4% or approximately HK$267.8 million as compared to the six months ended 30 June 2017. Such decrease was mainly due to the completion of a majority of the Groups projects in Indonesia and the land reclamation project in Macau during the six months ended 30 June 2018; and

(ii) the revenue generated from the leasing of vessels segment for the six months ended 30 June 2018 increased by approximately 2,682.8% or approximately HK$159.7 million as compared to the six months ended 30 June 2017. Such increase was mainly attributable to the leasing of vessels and associated equipment to the contractor of a marine engineering project in Pakistan.

1. RESPONSIBILITY STATEMENTS

The directors of the Offeror jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than the information relating to the Group and the Vendor or their respective director(s)), and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than the opinion expressed by the Directors) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement contained in this Composite Document misleading.

2. MARKET PRICES

The table below sets out the closing prices of the Shares on the Stock Exchange on (i) the last Business Day of each of the calendar months during the Relevant Period; (ii) the Last Trading Day; and (iii) the Latest Practicable Date:

	Closing price *(HK$)*
25 September 2017	0.55
29 September 2017	0.6
31 October 2017	0.54
30 November 2017	0.5
29 December 2017	0.485
31 January 2018	0.475
28 February 2018	0.58
29 March 2018	0.88
30 April 2018	0.95
31 May 2018	1.09
29 June 2018	1.04
18 July 2018 (being the Last Trading Day)	1.14
31 July 2018	1.14
31 August 2018	1.31
7 September 2018 (being the Latest Practicable Date)	1.30

During the Relevant Period:

(i) the highest closing price of the Shares as quoted on the Stock Exchange was HK$1.32 per share on 22 August 2018 and 3 September 2018; and

(ii) the lowest closing price of the Share as quoted on the Stock Exchange was HK$0.44 per Share on 9 February 2018.

3. DISCLOSURE OF INTERESTS

Interests of the Offeror and parties acting in concert with it in the Shares

As at the Latest Practicable Date, details of interests in the Shares, underlying Shares, debentures or other relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company held or controlled by the Offeror and parties acting in concert with it were as follows:

Name	Capacity	Number of Shares held/interested	Percentage of total issued share capital of the Company (%)
The Offeror	Beneficial owner	408,000,000 (L)	51.00
State-owned Asset Supervision and Administration Commission of Qingdao	Interest in controlled corporation	408,000,000 (L)	51.00
Qingdao West Coast Development (Group) Limited* 青島西海岸發展(集團)有限公司	Interest in controlled corporation	408,000,000 (L)	51.00
Qingdao West Coast Holding Development Limited* 青島西海岸控股發展有限公司	Interest in controlled corporation	408,000,000 (L)	51.00
West Coast Holdings (Hong Kong) Limited	Interest in controlled corporation	408,000,000 (L)	51.00
West Coast Investment (Hong Kong) Limited	Interest in controlled corporation	408,000,000 (L)	51.00

Notes:

1. The letter "L" denotes long position in the Shares.

2. The Offeror is wholly-owned by West Coast Investment (Hong Kong) Limited, which is in turn, wholly owned by West Coast Holdings (Hong Kong) Limited. West Coast Holdings (Hong Kong) Limited is wholly owned by Qingdao West Coast Holding Development Limited* 青島西海岸控股發展有限公司, which is wholly owned by Qingdao West Coast Development (Group) Limited* 青島西海岸發展(集團)有限公司, a state-owned enterprise wholly-owned by the State-owned Asset Supervision and Administration Commission of Qingdao.

Save as disclosed above, as at the Latest Practicable Date, none of Offeror, its directors and parties acting in concert with it had any interest in the relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company.

4. ADDITIONAL DISCLOSURE OF INTERESTS AND DEALINGS

Save for the Sales Shares, none of the Offeror, its directors or parties acting in concert with it has dealt in any Shares or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the Relevant Period.

As at the Latest Practicable Date, save for the Sale Shares held by the Offeror:

(a) none of the Offeror, its directors or parties acting in concert with it owns or has control or direction over any voting rights or rights over the Shares, options, derivatives, warrants or other securities convertible into Shares;

(b) save for the irrevocable undertaking from the Vendor not to accept the Offer, none of the Offeror or parties acting in concert with it has received any irrevocable commitment to accept or reject the Offer;

(c) save for the Share Transfer Agreement, there is no arrangement (whether by way of option, indemnity or otherwise) of any kind referred to in Note 8 to Rule 22 of the Takeovers Code which existed between the Offeror or any person acting in concert with it or any other associates (as defined under the Takeovers Code) of the Offeror and any other person;

(d) there is no agreement or arrangement to which the Offeror is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Offer;

(e) none of the Offeror or parties acting in concert with it has entered into any arrangements or contracts in relation to any outstanding derivative in respect of the securities in the Company;

(f) none of the Offeror or parties acting in concert with it has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company;

(g) save as the possible placing down of Shares to restore the public float of the Company after the close of the Offer as disclosed in the paragraph headed "Public float and maintaining the listing status of the Company" under the section headed "Letter from Guotai Junan Capital" in this Composite Document, the Offeror had no intention, nor had it enter into any agreement, arrangement or understanding to transfer, charge or pledge the Shares acquired in pursuance with the Offer to any other persons;

(h) save for the Share Transfer Agreement, no agreement, arrangement or understanding (including any compensation arrangement) existed between the Offeror, its directors or any persons acting in concert with it and any Directors, recent Directors, Shareholders or recent Shareholders having any connection with or was dependent upon the Offer; and

(i) no benefit (other than statutory compensation) had been and would be given to any Director as compensation for loss of office or otherwise in connection with the Offer.

5. CONSENT AND QUALIFICATION

The following is the name and qualification of the professional adviser whose letter, opinions or advice are contained or referred to in this Composite Document:

Name	Qualification
Guotai Junan Capital	a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

Guotai Junan Capital has given and have not withdrawn its written consent to the issue of this Composite Document with the inclusion of the text of its letter and/or report and the references to its name in the form and context in which they appear herein.

6. MISCELLANEOUS

(a) As at the Latest Practicable Date, the directors of the Offeror were Mr. WANG Zhijun, Mr. ZHANG Hao, Mr. WANG Xuejun, Mr. ZHU Jiangfeng and Mr. YU Zhan. The Offeror was indirectly wholly-owned by Qingdao West Coast Development (Group) Limited* (青島西海岸發展(集團)有限公司).

The registered office of the Offeror is situated at Intershore Chambers, P.O. Box 4342, Road Town, Tortola, British Virgin Islands.

The director of the ultimate parent company is Mr. LIU Luqiang.

(b) The registered office of Guotai Junan Capital and Guotai Junan Securities is situated at 26/F – 28/F, Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong.

(c) The principal members of the Offeror's concert group include (i) Qingdao West Coast Development (Group) Limited* 青島西海岸發展(集團)有限公司, a state-owned enterprise wholly owned by the State-owned Asset Supervision and Administration Commission of Qingdao* 青島市國有資產監督管理委員會, which is the ultimate parent company of the entire issued share capital of the Offeror; (ii) Qingdao West Coast Holding Development Limited* 青島西海岸控股發展有限公司, the wholly owned subsidiary of Qingdao West Coast Development (Group) Limited* 青島西海岸發展(集團)有限公司; (iii) West Coast Holdings (Hong Kong) Limited (西海岸控股(香港)有限公司), the wholly owned subsidiary of Qingdao West Coast Holding Development Limited* 青島西海岸控股發展有限公司; and (iv) West Coast Investment (Hong Kong)

Limited (西海岸投資(香港)有限公司), the direct holding company of the entire issued share capital of the Offeror. Details of the principal members of the Offeror's concert group are as follows:

Name of the principal member	Address	Director(s)
Qingdao West Coast Development (Group) Limited* 青島西海岸發展(集團)有限公司	Room 3306, Building A, No. 230 Changjiang Middle Road, Huangdao District, Qingdao, PRC	Mr. LIU Luqiang
Qingdao West Coast Holding Development Limited* 青島西海岸控股發展有限公司	Room 3315, Building A, No. 230 Changjiang Middle Road, Economic and Technology Development Zone, Qingdao, PRC	Mr. LIU Luqiang Mr. WANG Xuejun Mr. WANG Duo Mr. ZHANG Hao
West Coast Holdings (Hong Kong) Limited (西海岸控股(香港)有限公司)	Room 2103, Tung Chiu Commercial Centre, 193 Lockhart Road, Wan Chai, Hong Kong	Mr. WANG Zhijun Mr. ZHANG Hao Mr. WANG Xuejun Mr. ZHU Jiangfeng Mr. YU Zhan
West Coast Investment (Hong Kong) Limited (西海岸投資(香港)有限公司)	Room 2103, Tung Chiu Commercial Centre, 193 Lockhart Road, Wan Chai, Hong Kong	Mr. WANG Zhijun Mr. ZHANG Hao Mr. WANG Xuejun Mr. ZHU Jiangfeng Mr. YU Zhan

(d) The English text of this Composite Document shall prevail over the Chinese text.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection (i) during normal business hours from 9:00 a.m. to 5:00 p.m. (other than Saturdays, Sundays and public holidays) at the head office and principal place of business of the Company in Hong Kong at Units Nos. 04–05 on the 5th Floor, K. Wah Centre, No. 191 Java Road, North Point, Hong Kong; (ii) on the website of the SFC (www.sfc.hk); and (iii) on the website of the Company (www.prosperch.com) during the period from the date of this Composite Document onwards for as long as the Offer remains open for acceptance:

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

(b) the letter from Guotai Junan Capital as set out on pages 8 to 19 of this Composite Document;

(c) the irrevocable undertaking given by the Vendor to the Offeror that, in respect of the Remaining Shares, (i) it will not accept the Offer; and (ii) it will not dispose of the Remaining Shares after the Share Transfer Completion up to and including the Closing Date; and

(d) the written consent from the professional adviser as referred to under the paragraph headed "5. Consent and Qualification" in this Appendix.

1. RESPONSIBILITY STATEMENT

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than that relating to the Offeror and parties acting in concert with it), and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than opinions expressed by the directors of the Offeror) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

2. SHARE CAPITAL OF THE COMPANY

The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows:

Authorised share capital:		*HK$*
4,000,000,000	Ordinary shares with nominal value of HK$0.01 each	40,000,000
Issued and fully paid share capital:		
800,000,000	Ordinary shares with nominal value of HK$0.01 each	8,000,000

The total number of issued Shares as at 31 December 2017 (being the date on which the latest audited consolidated financial statements of the Company were made up to) and as at the Latest Practicable Date was 800,000,000 Shares.

All of the Shares currently in issue are fully paid up and rank *pari passu* in all respects with each other, including, in particular, as to dividends, voting and capital.

The Company did not have any outstanding securities, options, derivatives, warrants or other convertible securities or rights affecting the Shares as at the Latest Practicable Date.

3. DISCLOSURE OF INTERESTS

Directors' and chief executive's interests and short positions in the Shares, underlying Shares and debentures of the Company and its associated corporations

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares or 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 or 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 referred to therein; or (iii) required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules; or (iv) required to be disclosed under the Takeovers Code were as follows:

Directors' interests and short positions in the Company

Name of Director	Capacity	Number of Shares/Position	Percentage of the Company's issued shares capital (approximately)
Mr. Cui Qi	Interest of a controlled corporation *(Note)*	102,000,000 Long position	12.75%

Directors' interests and short positions in associated corporations of the Company

Name of Director	Associated corporations	Percentage of shareholding/ Position	Capacity
Mr. Cui Qi	Solid Jewel Investments Limited	87.00% Long position	Beneficial owner
Mr. Cui Qi	Sky Hero Global Limited	100.00% Long position	Interest of a controlled corporation *(Note)*
Mr. Yu Ming	Solid Jewel Investments Limited	13.00% Long position	Beneficial owner

Note: These Shares were held by Sky Hero Global Limited, which was wholly owned by Solid Jewel Investments Limited, which was owned as to 87% by Mr. Cui Qi and 13% by Mr. Yu Ming respectively.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning in Part XV of the SFO) which were (i) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was deemed to have under such provisions of SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules; or (iv) required to be disclosed under the Takeovers Code.

4. SHAREHOLDINGS AND DEALINGS IN THE OFFEROR

As at the Latest Practicable Date, none of the Company nor any of its Directors have any interest in the relevant securities (as defined in note 4 to Rule 22 of the Takeovers Code) (the "**Relevant Securities**") of the Offeror, and no such person (including the Company) had dealt for value in the Relevant Securities of the Offeror during the Relevant Period.

5. SHAREHOLDINGS AND DEALINGS IN SECURITIES OF THE COMPANY

As at the Latest Practicable Date,

(a) no subsidiaries of the Company, pension funds of any member of the Group or any person who is presumed to be acting in concert with the Company by virtue of class (5) of the definition of acting in concert or who is an associate of the Company by virtue of class (2) of the definition of associate under the Takeovers Code (but excluding exempt principal traders and exempt fund managers) had any dealings in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company;

(b) no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company was managed on a discretionary basis by fund managers connected with the Company;

(c) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) and (5) of the definition of acting in concert or who is an associate of the Company by virtue of classes (2), (3) and (4) of the definition of associate under the Takeovers Code;

(d) save for Ms. Mu Zhen's deemed interest in the Shares held by her spouse, namely Mr. Cui Qi, as disclosed in the paragraph headed "3. Disclosure of Interests" in this Appendix, none of the Directors held any beneficial shareholdings in the Company which would otherwise entitle them to accept or reject the Offer; and

(e) neither the Company nor the Directors had borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company.

6. ARRANGEMENTS AFFECTING AND RELATING TO DIRECTORS

As at the Latest Practicable Date,

(a) no benefit (other than statutory compensation) had been or would be given to any Director as compensation for loss of office or otherwise in connection with the Offer;

(b) Save for the Share Transfer Agreement and the deed of indemnity entered into among the Offeror, the Vendor, Mr. Cui and Mr. Yu in relation to the Company pursuant to the Share Transfer Agreement, no material contracts had been entered into by the Offeror in which any Director has a material personal interest; and

(c) there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Offer or otherwise connected with the Offer.

7. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

8. DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

As at the Latest Practicable Date, none of the Directors had entered into a service contract with the Company or any of its subsidiaries or associated companies in force which (i) (including both continuous and fixed term contracts) has been entered into or amended within six months before the commencement of the Offer Period, (ii) is a continuous contract with a notice period of 12 months or more, or (iii) is a fixed term contract with more than 12 months to run irrespective of the notice period.

9. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business carried on or intended to be carried on by the Group) have been entered into by members of the Group within the 2 years immediately preceding 23 March 2018, the commencement date of the Offer Period, and up to the Latest Practicable Date which are or may be material:

(i) 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;

(ii) the deed of non-competition dated 16 August 2018 given by Mr. Yu in favour of the Company (for itself and as representative of its subsidiaries) pursuant to which Mr. Yu 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's non-competition obligations towards the Company under the service contract entered into between the Mr. Yu and the Company, subject to certain exceptions;

(iii) the deed of non-competition dated 16 August 2018 given by Ms. Kui Ching Wah ("**Ms. Kui**") in favour of the Company (for itself and representative of its subsidiaries) pursuant to which Ms. Kui 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's non-competition obligations towards the Company under the service contract entered into between the Ms. Kui and the Company, subject to certain exceptions;

(iv) the public offer underwriting agreement dated 29 June 2016 and entered into by the Company, Mr. Cui, Solid Jewel, Sky Hero, the then controlling shareholder of the Company, the executive Directors, Investec Capital Asia Limited as the sole sponsor, and the underwriters of the public offer made by the Company;

(v) the deed of indemnity dated 22 June 2016 executed by Sky Hero, Solid Jewel and Mr. Cui in favour of the Company (for itself and as trustee for the Group's subsidiaries) containing the indemnities in relation to estate duty, tax and other indemnities; and

(vi) the power of attorney to vote dated 5 May 2016 and executed by Mr. Johannes Wargo and Hong Kong River Engineering Company Limited (香港瑞沃工程有限公司) ("**HKR**"), an indirect wholly-owned subsidiary of the Company, pursuant to which Johannes Wargo appointed HKR as his attorney to, among other things, attend and vote in the shareholders meetings of PT. Indonesia River Engineering, an indirect non-wholly-owned subsidiary of the Company.

10. CONSENT AND QUALIFICATION

In addition to the Offeror's professional advisers listed in the paragraph headed "5. Consent and qualification" in Appendix III to this Composite Document, the following is the qualification of the professional adviser who has given an opinion or advice contained in this Composite Document:

Name	Qualification
Red Sun Capital	Licensed corporation to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

Red Sun Capital has given and has not withdrawn its written consent to the issue of this Composite Document with the inclusion of its letter and references to its name in the form and context in which they appear.

As at the Latest Practicable Date, Red Sun Capital did not have any interests, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2017, the date to which the latest published audited consolidated financial statements of the Group were made up.

As at the Latest Practicable Date, Red Sun Capital did not have any shareholding in the Company or any of its subsidiaries or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group and no holdings or borrowings of the Shares or options or derivatives in respect of the Shares was held by or entered into by other parts of the group (within the meaning of class (5) of the definition of acting in concert under the Takeovers Code) of which Red Sun Capital is a member.

11. MISCELLANEOUS

(a) The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

(b) The head office and principal place of business of the Company in Hong Kong is Units Nos. 04–05 on the 5th Floor, K. Wah Centre, No. 191 Java Road, North Point, Hong Kong.

(c) The Company's Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(d) The English text of this Composite Document shall prevail over the Chinese text.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection (i) during normal business hours from 9:00 a.m. to 5:00 p.m. (other than Saturdays, Sundays and public holidays) at the head office and principal place of business of the Company in Hong Kong at Suites Units Nos. 04–05 on the 5th Floor, K. Wah Centre, No. 191 Java Road, North Point, Hong Kong; (ii) on the website of the SFC (www.sfc.hk); and (iii) on the website of the Company (www.prosperch.com) during the period from the date of this Composite Document onwards for as long as the Offer remains open for acceptance:

(a) the memorandum of association and the bye-laws of the Company;

(b) the annual reports of the Company for the year ended 31 December 2016 and 2017;

(c) the interim report of the Company for the six months ended 30 June 2018;

(d) the letter from the Board as set out in the section headed "Letter from the Board" of this Composite Document;

(e) the letter from the Independent Board Committee to the Independent Shareholders as set out in the section headed "Letter from the Independent Board Committee" of this Composite Document;

(f) the letter from Red Sun Capital to the Independent Board Committee as set out in the section headed "Letter from Red Sun Capital" of this Composite Document;

(g) the written consent referred to in the paragraph headed "10. Consent and qualification" in this Appendix;

(h) the material contracts referred to in the paragraph headed "9. Material contracts" in this Appendix; and

(i) a copy of this Composite Document and the accompanying Form of Acceptance and Transfer.