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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6816)

2016
Annual Report

CONTENT

CORPORATE INFORMATION

Executive Directors

Mr. Cui Qi *(Chairman and Chief Executive Officer)*
Ms. Kui Ching Wah
Mr. Tao Yang
Mr. Yu Ming

Independent Non-executive Directors

Mr. Ge Zhenming
Ms. Leung Sau Fan Sylvia
Mr. Leung Yee Tak

Audit Committee

Ms. Leung Sau Fan Sylvia *(Chairman)*
Mr. Ge Zhenming
Mr. Leung Yee Tak

Nomination Committee

Mr. Cui Qi *(Chairman)*
Mr. Ge Zhenming
Ms. Leung Sau Fan Sylvia
Mr. Leung Yee Tak

Remuneration Committee

Mr. Leung Yee Tak *(Chairman)*
Mr. Ge Zhenming
Ms. Leung Sau Fan Sylvia

Risk Management Committee

Mr. Yu Ming *(Chairman)*
Ms. Kui Ching Wah
Mr. Ge Zhenming
Ms. Leung Sau Fan Sylvia
Mr. Leung Yee Tak

Joint Company Secretaries

Ms. Kui Ching Wah
Mr. Lee Baldwin

Authorised Representatives

Mr. Cui Qi
Ms. Kui Ching Wah

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

Hong Kong Share Registrar and Transfer Office

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Principal Share Registrar and Transfer Office

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Compliance Adviser

Investec Capital Asia Limited

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Bank of Communications Co., Ltd. (Hong Kong Branch)

Auditor

PricewaterhouseCoopers

Stock code

6816

Company Website

www.prosperch.com

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of the Company, I am pleased to present the annual report of Prosper Construction Holdings Limited (the "Company") together with its subsidiaries (the "Group") for the year ended 31 December 2016 (the "Year 2016").

Looking back at the year just passed, the shares of the Company ("Shares") were successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 20 July 2016 (the "Listing") and I am most grateful for the contributions from our business partners, staff members, management team and particularly, the guidance by our professional advisers, which made the Listing possible.

The Listing has brought the Group to a new level of recognition and reputation in the industry and financial strength to capture business development opportunities. In particular, the Group has in December 2016 secured its second project since it entered the Macao market in 2014, an EPC (i.e. engineering, procurement and construction) main contract for an electricity generation facility in Macao with a contract sum of over Macao Patacas 500 million, which is the Group's largest EPC project yet in terms of contract sum and its first main contract with relatively high proportion electrical and mechanical engineering contents. The Group has solidified its local presence with the new contract, providing a platform to compete for other Macao projects in the pipeline and other integrated engineering solution projects.

The Chinese government introduced the One Belt One Road policy ("OBOR") in 2014 for the promotion of economic cooperation with countries along the Silk Road through Central Asia to Europe through the Middle East, as well as a maritime route linking China's port facilities with the African coast. However, since the Group has been undertaking projects in the OBOR region since 10 years ago, and accumulated valuable operating experience and access to local resources in the region therefore, the engagement of projects overseas is not a new venture to the Group.

While continuing to strengthen its existing Southeast Asia market, the Group strives to develop in the marine construction market in Malaysia and is in the final stage of negotiating for a dredging project in Penang, Malaysia; a fleet of work vessels has already been deployed to the area awaiting commencement instruction.

The Group's management has also carried out site visits in the Philippines and even as far as in Africa to explore opportunities in the local marine infrastructure market. It is hopeful that the Group can achieve successful results in the new and promising markets along the OBOR in the near future.

Looking forward, the Group will continue to strengthen its base in Hong Kong and Macao, while striving to exploit potential infrastructure projects in the OBOR region, which undoubtedly is where the limelight of the financial market and real economy will focus. In addition to construction operations, the Group will be vigilant to broaden and integrate our business to "design, build and operate" projects in order to enhance participation in and capture the wide range of opportunities brought about by the OBOR policy.

The Board is pleased to share the Group's performance with its shareholders and recommends the payment of a final dividend of HK$0.03 per share for the Year 2016 and expresses the most sincere appreciation to the Group's business partners and shareholders for their utmost support.

Cui Qi
Chairman

28 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Major projects

The Group derived the majority of its revenue from its contracted projects in Indonesia carried over from the year ended 31 December 2015 ("Year 2015"), while revenue from Macao remained steady for the Year 2015 and Year 2016. Majority of projects in Hong Kong had already progressed to the later stage since the end of the Year 2015 and did not contribute substantial revenue to the Group for the Year 2016.

A breakdown of the Group's revenue by geographic location and major projects for the Year 2016 is set out in the table below.

	Revenue recognised in Year 2016 HK$ millions	**Contribution to total revenue**	**Current status**
Indonesia			
Wharf construction and engineering for a cement grinding project	232.0	35.2%	Ongoing and expecting completion in May 2017.
Port construction for a cement production plant	115.1	17.5%	Site works completed in December 2016 and in preparation of final certification account
Others	94.9	14.4%	
	442.0	67.1%	
Macao			
Land reclamation	151.1	22.9%	Ongoing and expecting completion in August 2017.
Hong Kong	65.8	10.0%	
Total	658.9		

MANAGEMENT DISCUSSION AND ANALYSIS

Outlook and prospects

The status of the Group's key projects on hand as at 31 December 2016 is as below.

	Location	Estimated remaining contract sum HK$'million	Expected time of completion
Project(s) already commenced as at 31 December 2016			
Wharf construction and engineering for a cement grinding project	Indonesia	65.3	Q2 2017
Land reclamation	Macao	95.1	Q3 2017
Kai Tak development – underground structure and excavation	Hong Kong	46.4	Q3 2018
Project(s) commencing or newly awarded in 2017			
EPC contract for an electricity generation facility	Macao	494.7	Q1 2019
Lam Tin-TKO bypass	Hong Kong	35.5	Q4 2018

In addition to the above key projects on hand, the Group is negotiating and/or in the process of bidding for a number of sizeable potential projects as set out below.

Project nature	Location	Estimated project scale HK$ million
Reclamation for highway access	Hong Kong	200
Dredging	Malaysia	100
Reclamation and pier construction	Southeast Asia	800
Underwater pipelines, water intake and outfall	West Asia	600

Review on results

Revenue

The Group recorded revenue of approximately HK$658.9 million for the Year 2016, representing a growth of approximately 15.0% from the Year 2015. A breakdown of the Group's revenue from major projects and by geographical location is set out in the section headed "Business Review" above. The growth in revenue is mainly attributable to the wharf construction and engineering for a cement grinding project in Indonesia which achieved substantial progress and work done certified by the customer during the Year 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Cost of sales and gross profit

The increase in cost of sales generally synchronised with the revenue growth, while the gross profit margin decreased slightly to approximately 18.9% for the Year 2016 from approximately 20.1% for Year 2015. The gross profit margin for Year 2015 was relatively higher as the Group received a claims settlement from a previously completed project for which no cost was incurred in Year 2015.

Other administrative expenses

Administrative expenses increased by approximately HK$14.2 million, which mainly comprised (i) an approximately HK$3.5 million increase in staff cost and Directors' emolument resulting from the increase in headcount to cope with business expansion, the appointment of additional Directors and the increment in Directors' salaries to prepare for the Listing; (ii) an increase in auditor's remuneration by approximately HK$1.1 million following the Listing; (iii) increase in professional fees by approximately HK$5.1 million for purpose of general advisory, compliance, investor relations and corporate communication matters; and (iv) general increase in other expenditure items by approximately HK$4.5 million.

Income tax expense

The Group's effective tax rate, after excluding the effect of (i) professional fees incurred for the Listing which are not tax deductible; and (ii) gain on disposal of investment in an associate in Year 2015 which is not taxable, for the Year 2016 and Year 2015 was 13.0% and 14.9% respectively.

Profit for the year

The Group's profit for the year from core operation is analysed below.

	2016 **HK$'000**	2015 HK$'000
Profit before income tax	**82,085**	110,828
Effects of non-recurring items:		
– professional fees incurred for the Listing	**14,896**	8,417
– gain on disposal of investment in an associate	**–**	(19,494)
Profit before income tax on normalised basis	**96,981**	99,751
Income tax expense	**(12,636)**	(14,830)
Profit for the year on normalised basis	**84,345**	84,921
Net profit margin	**12.8%**	14.8%

The Group's profit for the Year 2016 on a normalised basis was largely stable as compared to the Year 2015.

Liquidity, capital structure and gearing

The Group's liquidity position improved notably with the net proceeds of approximately HK$163.5 million from the placing of shares in connection with the Listing. The Group had a net cash balance of approximately HK$182.9 million as at 31 December 2016 (2015: approximately HK$70.8 million) and its gearing ratio (calculated by dividing total debts by total equity) as at 31 December 2016 was approximately 15% (2015: approximately 14%).

The Group generally meets its working capital requirement by cash flows generated from its operation and short term bank borrowings. The Group also utilises performance bonds facilities provided by banks as required. The maturity and interest rate profile of the Group's borrowings are set out in note 22 to the consolidated financial statements. The Group has unutilised banking facilities amounting to approximately HK$5.0 million as at 31 December 2016 (2015: approximately HK$1.8 million).

Foreign exchange

Operations of the Group are mainly conducted in Hong Kong dollars ("HK$"), United States dollars ("US$"), Macao Patacas ("MOP") (together, the "Major Currencies"), and Indonesian Rupiahs ("IDR"). The Group did not adopt any hedging policy and the Directors consider that the exposure to foreign exchange risks can be mitigated by using the Major Currencies (i) as principal currencies in the Group's contracts with customers; and (ii) to settle payments with its suppliers and operating expenses where possible. In the event that settlement from the Group's customer is received in IDR or a currency other than the Major Currencies, such currency will be retained for payment of operating expenditures only as required and the remaining foreign currency will be converted to HK$ or US$ promptly.

Capital expenditures and commitments

The Group generally finances its capital expenditures by cash flows generated from its operation and long-term bank borrowings. The net proceeds from the Listing provided an addition source of funds to meet the Group's capital expenditure plan, out of which a sum of approximately HK$147.2 was allocated for use in acquisition of vessels and equipment.

During the year ended 31 December 2016, the Group invested approximately HK$68.4 million in the acquisition of plant and equipment, which comprised approximately HK$45.5 million in vessels and approximately HK$22.2 in machinery and equipment.

The Group's fleet of vessels for marine construction works grew by 8 units during the Year 2016 to a total of 37 units as at 31 December 2016, with orders placed for a further 7 units of vessels which are yet to be delivered.

The Group's committed orders for capital equipment as at 31 December 2016 amounted to approximately HK$7.5 million and it is intended that such purchases will be financed by the remaining net proceeds from the Listing.

MANAGEMENT DISCUSSION AND ANALYSIS

Use of proceeds

The net proceeds from the Listing was approximately HK$163.5 million, which was different from the estimated net proceeds of HK$190.0 million as disclosed in the prospectus of the Company dated 30 June 2016 ("Prospectus"). The difference of HK$26.5 million has been adjusted in the same manner and in the same proportion to the use of proceeds as shown in the Prospectus. The utilisation of net proceeds raised by the Group from the Listing up to 31 December 2016 is as below.

	Estimated use of proceeds	**Adjusted use of proceeds**	**Utilised up to 31 December 2016**	**Unutilised as of 31 December 2016**
	HK$ millions	HK$ millions	HK$ millions	HK$ millions
Acquisition of vessels and equipment	171.0	147.2	80.7	66.5
General working capital	19.0	16.3	16.3	–
	190.0	163.5	97.0	66.5

As at 31 December 2016, approximately HK$80.7 million of net proceeds from the Listing have been utilised to acquire 8 units of vessels for a total of HK$42.4 million, various machinery and equipment of HK$21.0 million and for payment of deposits amounting to HK$17.3 million for purchase of further 7 units of vessels and other equipment.

The unutilised net proceeds from the Listing have been placed with licensed banks in Hong Kong and will be applied in the manner consistent with the proposed allocations as set out in the Prospectus.

Material acquisitions and disposals of subsidiaries, associates and joint ventures

The Group had no material acquisitions or disposals of subsidiaries, associates and joint ventures during the year ended 31 December 2016.

Significant investments held

The Group had not held any significant investments during the year ended 31 December 2016.

Charges on assets

As at 31 December 2016, plant and equipment with carrying value of (i) approximately HK$15,179,000 were pledged to secure for the Group's bank borrowings; and (ii) approximately HK$23,840,000 were pledged as security for provision of a performance bond and a prepayment surety bond for the Group's project in Macao.

Contingent liabilities

As at 31 December 2016, 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 HK$67,889,000 (2015: HK$127,666,000). As at 31 December 2016, the Group has given guarantees of HK$10,680,000 (2015: nil) on performance bonds of HK$38,835,000 (2015: nil) in relation to a construction contract of the Group in the ordinary course of business. The performance bonds as at 31 December 2016 are expected to be released in accordance with the terms of the respective construction contracts. Save for the guarantee given on these performance bonds, the Group has no material contingent liabilities.

Relationships with employees, customers and suppliers

The Directors recognise that employees, customers and business partners are the keys to the sustainable development of the Group. The Group is committed to building a close and caring relationship with its employees and business partners and improving the quality of services to the customers.

Employees and remuneration policies

Employees are regarded as the most important and valuable assets of the Group. The Group ensures all staff is reasonably remunerated and its workers are provided with regular training courses on operation of different types of machinery, as well as work safety. The Group strives to motivate its employees with a clear career path and opportunities for advancement and improvement of their skills.

The number of staff of the Group by functions as at 31 December 2016 and 2015 are as follows:

	As at 31 December	
	2016	2015
Management and administration	**12**	5
Accounting and finance	**3**	3
Human resources	**1**	2
Project management	**6**	6
Project execution	**92**	70
	114	86

MANAGEMENT DISCUSSION AND ANALYSIS

The total staff costs of the Group (including Directors' emoluments, salaries to staff, direct wages and other staff benefits included provident fund contributions and other staff benefits) for the year ended 31 December 2016 was approximately HK$42.3 million (2015: HK$46.7 million). The Group determines the salary of its employees mainly based on each employee's qualifications, relevant experience, position and seniority. The Group monitors the performance of individual employee on a continuous basis and rewards outstanding performance of the employees by salary revision, bonus and promotion where suitable. The Group maintains a good relationship with its employees and has not experienced any significant problems with its employees due to labour disputes nor any difficulty in the recruitment and retention of experienced staff.

Customers and suppliers

The executive Directors and the Group's management team maintains frequent contact with both public and private sector participants in the construction industry in Hong Kong, Macao and overseas to keep abreast of market developments and potential business opportunities. Having been in operation in Hong Kong since 2001, and with the prior experience of the Group's senior management members in managing similar projects overseas, the Group has developed a good reputation in the construction industry. With the Group's experience in working with PRC state-owned construction enterprises and their branch offices in Hong Kong and overseas, the Group has up-to-date information regarding new business opportunities in infrastructure projects to be undertaken or tendered by such construction enterprises in Hong Kong, Macao and Southeast Asia. The Directors believe that the Group has maintained and will be able to continue to maintain good relationships with customers, potential customers, suppliers, subcontractors and other parties involved in the business. The Group also stays connected with its customers and suppliers and has ongoing communication with the customers and suppliers through various channels such as telephone, electronic mails and physical meetings to obtain their feedback and suggestions.

Environmental policies

The Group is committed to environment conservation when undertaking its operation and has implemented various systems and measures to minimise the possibility of pollution and to preserve the marine ecological environment, which include but are not limited to the following:

(i) identifying environmental protection requirements in project tender documents and assessing whether the Group has the capability to meet such requirements;

(ii) taking into consideration the environmental impact in project planning and the design of work method statements;

(iii) equipping all of the Group's vessels with fuel leakage defence equipment for suppressing the spread of floating fuel spills in case of leakage;

(iv) installing facilities as required to prevent contamination, such as silt curtains to prevent sediment pollution when carrying out land reclamation works and underwater bubble curtains to act as a noise barriers to reduce noise level from marine piling works; and

(v) sorting excavated materials from dredging and excavation works for recycling use or disposal, and in case of contaminated sediment, disposing of the excavated materials at designated dumping area according to the relevant regulations.

The Group is accredited with ISO14001 and follows the procedures and requirements of the environmental management system in its operation. There had been no sanctions or penalties imposed on the Group for violation of any environmental laws or regulations during the Year 2016.

Compliance with laws and regulations

The operations of the Group are primarily carried out by the Company's subsidiaries in Hong Kong, Macao and Indonesia. The Group's establishment and operations accordingly shall comply with relevant laws and regulations in each of the above jurisdictions. During the year ended 31 December 2016 and up to the date of this report, the Group's operations have complied with all the relevant laws and regulations in each of the above jurisdictions in all material respect.

Principal risk and uncertainty

The Group's operation is subject to general economic and market risks which may affect the competition and profitability of marine construction projects. Furthermore, the Group's ability to successfully bid for or execute projects is dependent on its ability to devise effective and efficient work methods and the availability of vessels and equipment. The Group's operation at overseas locations is susceptible to potential political unrests, changes in business, foreign investment, taxation and currency control regulations at such jurisdictions.

Events after the financial year

No event has occurred after 31 December 2016 and up to the date of this report which would have a material effect on the Group.

CORPORATE GOVERNANCE REPORT

Corporate governance practices

The Company is committed to maintain a high standard of corporate governance and considers that conducting business in an ethical and responsible manner will generate the highest level of benefits to its shareholders and the Group in the long term. The Board will continuously review and improve the Group's corporate governance practices in order to uphold a transparent and effective corporate governance function for the Group.

The Company has adopted the code provisions of the Corporate Governance Code ("CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") upon Listing and has complied with the code provisions since then and up to 31 December 2016, except in relation to provision A.2.1 of the CG Code where the roles of the Group's chairman and chief executive officer ("CEO") are both performed by Mr. Cui Qi. Provision A.2.1 of the CG Code requires that the roles of chairman and CEO should be separate and should not be performed by the same individual. Mr. Cui Qi has been responsible for overall strategic planning and management of the Group since the Group was founded in 2001. The Directors meet regularly to consider major matters affecting the operations of the Group. As such, the Directors consider that this structure will not impair the balance of power and authority between the Directors and the management of the Group and believe that this structure will enable the Group to make and implement decisions promptly and efficiently.

Directors' securities transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code") and all the Directors confirmed, upon specific enquiry made, that they complied with the Model Code since the Listing and up to the date of this report.

The Company has also established guidelines no less exacting than the Model Code for securities transactions by employees who are likely to be in possession of inside information of the Company and there is no incident of non-compliance with such guidelines by the relevant employees since the Listing and up to the date of this report.

Board of directors

The Board is responsible for leading and directing the Group's business through formulation of overall strategies and policies, evaluation of performance and overseeing the management function. In discharging its duties, the Board acts in good faith with due diligence and care, and makes decisions objectively in the best interests of the Company and its shareholders. The execution of strategies and implementation of policies in the Group's daily operations are delegated to the management team.

The composition of the Board during the year and the attendance record of each Director at board meetings held since the Listing and up to 31 December 2016 are as below. The Company has not held a members' general meeting since the Listing.

	Appointed on	Attendance/ Meetings held
Executive Directors		
Mr. Cui Qi		
(Chairman and Chief Executive Officer)	6 October 2015	2/2
Ms. Kui Ching Wah	6 October 2015	2/2
Mr. Yu Ming	6 October 2015	2/2
Mr. Tao Yang	2 March 2016	2/2
Independent Non-executive Directors		
Mr. Ge Zhenming	22 June 2016	2/2
Ms. Leung Sau Fan Sylvia	22 June 2016	2/2
Mr. Leung Yee Tak	22 June 2016	2/2

Biographic details of and the relationship amongst the Directors are presented in the "Directors and Senior Management" section of this annual report. Each of the executive Directors has entered into a service contract with the Company for an initial term of three years, while each of the independent non-executive Directors has been appointed for an initial term of two years. Notwithstanding the specific term of appointment, provisions of the Company's articles of associations require that every Director is subject to retirement by rotation at least once every three years and any new Director appointed by the Board to fill a casual vacancy or as an addition to the Board shall hold office only until the next following general meeting of the Company.

Each of the Directors has participated in continuous professional development seminar organised by the Company to develop their knowledge and skills during the year ended 31 December 2016.

The Company has received from each of the independent non-executive Director an annual confirmation of independence and considers that each of them to be independent by reference to the Rule 3.13 of the Listing Rules.

The composition of the Board provides sufficient balance of skills, experience and diversity of perspectives in leading the Company to achieve its goal and the independent non-executive Directors provide independent judgment in the Board's overall decision making process.

CORPORATE GOVERNANCE REPORT

Board committees

As an integral part of good corporate governance, the Board has established four committees for overseeing the performance of specific functions which are set out in written terms of reference for each committee as follow.

Composition of Board committees	Audit Committee	Nomination Committee	Remuneration Committee	Risk Management Committee
Independent Non-executive Directors				
Mr. Ge Zhenming	Member	Member	Member	Member
Ms. Leung Sau Fan Sylvia	Chairman	Member	Member	Member
Mr. Leung Yee Tak	Member	Member	Chairman	Member
Executive Directors				
Mr. Cui Qi	N/A	Chairman	N/A	N/A
Ms. Kui Ching Wah	N/A	N/A	N/A	Member
Mr. Yu Ming	N/A	N/A	N/A	Chairman
Mr. Tao Yang	N/A	N/A	N/A	N/A

Audit Committee

The audit committee is primarily responsible for the engagement of the auditor, review of financial information, overseeing the financial reporting system, risk management and internal control systems. The audit committee has held two meetings, which were attended by all its members, since the Listing and up to the date of the report. The audit committee has met with the Company's management to review its interim and final financial statements for the year 2016 and met the Company's auditor to discuss auditor's independence, audit approach, key audit matters, results of audit and review on continuing connected transactions for the year ended 31 December 2016. The audit committee has met with the chairman of the Board and the auditor, separately and without the presence of management, for discussion of matters which may be of sensitive nature. The audit committee has also met with and reviewed the report of the Company's internal control adviser for their review on selected areas of the Group's internal control system for the year 2016. Further information on the Group's risk management and internal control is set out in the section headed "Risk Management and Internal Control" of this report.

Nomination Committee

The nomination committee is responsible for reviewing the structure, size and composition of the Board, identifying suitably qualified individuals to become Board members, assessing the independence of independent non-executive Directors, making recommendations to the board on the appointment or reappointment of Directors and assessing the diversity of Directors. The Company has a policy on diversity of Directors which requires that gender, age, educational background, professional experience, industrial and commercial skills and knowledge be considered in assessing the appointment of Directors to ensure a sufficiently diverse Board composition. The nomination committee has held one meeting since the Listing and up to the date of this report, which was attended by all committee members, to review the independence of independent non-executive Directors and consider the retirement and proposal for appointment of Directors at the forthcoming general meeting. The nomination committee is of the view that the Board comprised the suitable qualifications and diversity for leading and governing the Group.

Remuneration Committee

The responsibilities of the remuneration committee are to make recommendations to the Board on policy and structure for Directors' and senior management's remuneration, to make recommendations to the Board on the remuneration of executive and non-executive Directors, and to ensure that no Director is involved in deciding his own remuneration. The remuneration committee has held one meeting since the Listing and up to the date of this report, which was attended by all committee members, to assess the performance of executive Directors, review the remuneration of Directors for the year ended 31 December 2016 and make recommendations to the Board thereon.

Risk Management Committee

The primary duties of the risk management committee are to oversee the Group's risk management and internal control systems, to review risk reports and any material breaches of risk limits, and to review the effectiveness of our Company's risk management system. The risk management committee has held one meeting, which was attended by all its members. Further information on the Group's risk management and internal control is set out in the section headed "Risk Management and Internal Control" of this report.

Risk management and internal control

The Board is responsible for evaluating and determining the nature and extent of the risks to take in achieving the Company's strategic objectives.

The risk management committee supports the Board in ensuring the effectiveness of the risk management and internal control of the Group and reports to the Board on any material issues identified.

The Group adopted a manual of policies and procedures to provide guidance on compliance with internal control and risk management in various operational and management functions, including but not limited to project tendering, procurement, financial reporting, treasury and risk management etc. Key risks identified are recorded in a risk register and assigned to a risk owner who shall ensure such risks are continuously monitored and properly controlled according to the prescribed procedures.

The Company has not established a separate internal audit department; however, procedures are in place to provide adequate resources and qualified personnel to carry out the duties of the internal audit function, including annual review of the effectiveness of risk management and internal control. The Company has engaged an external independent consultant to conduct a review on the internal control system of the Group during the year ended 31 December 2016 and to report their findings to the risk management committee and the Board. The review scope for the year 2016 covered overall management control, risk assessment and management, control procedures for revenue and tendering and human resource management.

Based on review and procedures conducted, the Board considers that the Group's risk management and internal control systems are effective and adequate. However, the risk management and internal control systems of the Group are designed to manage rather than to eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

Auditor's remuneration

The remuneration paid to the Company's auditor for the year ended 31 December 2016 is as below.

	HK$'000
Audit services provided to the Group	1,480
Non-audit services	80
	1,560

Directors' and auditor's responsibilities for the financial statements

The Directors acknowledge their responsibility for the preparation of financial statements which give a true and fair view of the financial position of the Group. The responsibilities of the Company's auditor on the consolidated financial statements of the Group are set out in the independent auditor's report on pages 33 to 38 of this annual report. The Directors are not aware of any material uncertainties relating to events of conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

Company secretary

The Company's joint company secretaries are Ms. Kui Ching Wah and Mr. Lee Baldwin. Ms. Kui is an executive Director and an employee of the Company, while Mr. Lee is an external service provider. Ms. Kui is the primary contact person at the Company with Mr. Lee.

The joint company secretaries coordinate the supply of information about the Group to the Directors. All Directors have access to the joint company secretaries to ensure that Board procedures, and all applicable law, rules and regulations, are followed.

Shareholders' rights and investor relations

One or more shareholders holding not less than 10% of the paid up capital of the Company may convene an extraordinary general meeting by making a requisition in writing, specifying any business for transaction at such meeting, to the Directors or the company secretary.

To propose a candidate for election as a Director at a general meeting, a shareholder should deposit a written proposal, together with a written notice by the candidate indicating his willingness to be elected, to the Company either at its principal place of business in Hong Kong (at Units 504-5, 5/F, K. Wah Centre, 191 Java Road, North Point, Hong Kong) or its branch share registrar and transfer office in Hong Kong (Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong) at least seven clear days before the date of the general meeting.

The Company believes that effective communication with its shareholders is essential for enhancing investors' understanding of the Group's business and performance. The Company maintains a corporate website at www.prosperch.com to disseminate latest information about the Group. The Company's constitution document and terms of reference of board committees are also available for download at Company's website. There has been no change to the Company's constitution document since Listing. The chairman of the Board will attend, and endeavour to ensure the chairmen of various board committees to attend, general meetings to answer questions from shareholders.

DIRECTORS' REPORT

The directors of the Company submit their report together with the audited financial statements of the Group for the year ended 31 December 2016.

Principal Activities

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 principal activities of the subsidiaries of the Company are set out in note 13 to the consolidated financial statements. The segment information of the operations of the Group for the year ended 31 December 2016 is set out in note 5 to the financial statements.

Business Review

A review on the Group's business for the year ended 31 December 2016 is set out under the section headed "Management Discussion and Analysis" of this annual report.

Results and Dividends

The Group's results for the year ended 31 December 2016 are set out in the consolidated statement of comprehensive income on page 39 of this annual report.

The Directors recommended the payment of a final dividend of HK3.0 cents per share, amounting to a total of HK$24.0 million for the year ended 31 December 2016, representing a dividend ratio of approximately 35%. The proposed final dividend is subject to the approval of shareholders at the forthcoming annual general meeting of the Company to be held on Friday, 16 June 2017 (the "AGM") and is expected to be paid on or about 30 June 2017.

As at the date of this annual report, the Board is not aware of any shareholders who have waived or agreed to waive any dividends.

Closure of Register of Members

The register of members of the Company will be closed from Tuesday, 13 June 2017 to Friday, 16 June 2017 (both days inclusive), during which period no transfer of shares will be registered, for purpose of determining the right to attend and vote at the AGM. All transfer of the Company's shares together with the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong no later than 4:30 p.m. on Monday, 12 June 2017 in order for the holders of the shares to qualify to attend and vote at the AGM or any adjournment thereof.

To ascertain entitlement to the proposed final dividend, the register of members of the Company will also be closed on Friday, 23 June 2017. In order to qualify for the proposed final dividend, which is subject to approval of shareholders at the AGM, holders of shares of the Company must ensure that all transfers of shares be lodged with the Company's branch share registrar and transfer office in Hong Kong for registration no later than 4:30 p.m. on Thursday, 22 June 2017.

Summary Financial Information

A summary of the results and of the assets and liabilities of the Group for the last four years is set out on page 108 of this annual report. Such summary does not form part of the audited consolidated financial statements.

Share Capital

Details of movement in the Company's share capital during the year ended 31 December 2016 are set out in note 19(a) to the consolidated financial statements.

Distributable Reserves

Details of movement in the Group's and the Company's reserves during the year ended 31 December 2016 are set out in note 19(b) and note 28(a) to the consolidated financial statements, respectively.

The Company's distributable reserves amounted to approximately HK$260.0 million as at 31 December 2016.

Share Option Scheme

The Company adopted a share option scheme (the "Share Option Scheme") on 22 June 2016 and no options have been granted, exercised or cancelled since then and up to the date of this annual report.

The purpose of the Share Option Scheme is to enable the Company to grant options to selected participants as incentives or rewards for their contribution to the Group. It is expected that grantees of an option will make an effort to contribute to the Group's development so as to bring about an increased market price of the Company's shares in order to capitalise on the benefits of the options granted. The Board may, at its absolute discretion, grant options pursuant to the Share Option Scheme to any directors or employees of the Company or its subsidiaries and any other persons (including customer, supplier, adviser or consultant of the Group) on the basis of the Board's opinion as to the grantee's contribution to the development and growth of the Group.

The total number of shares which may be allotted and issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of our Group) to be granted under the Share Option Scheme and any other share option scheme of our Group must not in aggregate exceed 80,000,000 (being 10% of the shares in issue on 20 July 2016 when the shares of the Company first commenced dealing on the Stock Exchange) (the "General Scheme Limit"). The Company may seek approval of the shareholders in general meeting to refresh the General Scheme Limit provided that the total number of shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share options scheme of our Group must not exceed 10% of the Shares in issue as at the date of approval of the refreshed limit.

DIRECTORS' REPORT

The maximum number of shares which may be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme adopted by the Group must not in aggregate exceed 30% of the issued share capital of the Company from time to time.

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of our Group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of our Company for the time being.

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option and may be exercised at any time during a period to be determined and notified by our Directors to each grantee, but such period shall end in any event not later than 10 years from the date of grant of the option. A nominal consideration of HK$1 is payable on acceptance of the grant of an option.

The subscription price for shares under the Share Option Scheme will be a price determined by the Board, but shall not be less than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares.

The Share Option Scheme will remain in force for a period of 10 years from the date of adoption.

Pre-emptive Rights

There is no provision for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company, nor any of its subsidiaries, had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2016.

DIRECTORS' REPORT

Directors

The Directors of the Company during the year ended 31 December 2016 and up to the date of this report are as follow.

	Appointed on
Executive Directors	
Mr. Cui Qi	6 October 2015
(Chairman and Chief Executive Officer)	
Ms. Kui Ching Wah	6 October 2015
Mr. Yu Ming	6 October 2015
Mr. Tao Yang	2 March 2016
Independent Non-executive Directors	
Mr. Ge Zhenming	22 June 2016
Ms. Leung Sau Fan Sylvia	22 June 2016
Mr. Leung Yee Tak	22 June 2016

In accordance with the provisions of the Company's articles of association, Mr. Tao Yang, Mr. Cui Qi and Mr. Yu Ming will retire and, being eligible, will offer themselves for re-election at the Company's forthcoming annual general meeting.

Directors' Service Contracts

No Director proposed for re-election at the forthcoming annual meeting has a service contract with the Company or any member of the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Deed of Non-Competition

Each of the controlling shareholders of the Company has given an unconditional and irrevocable non-competition undertaking in favour of our Company and its subsidiaries on 22 June 2016 to protect the Group from any potential competition with the controlling shareholders. The controlling shareholders have confirmed full compliance with the terms of the non-competition undertaking during the year ended 31 December 2016. Furthermore, the Directors, including independent non-executive Directors, have carried out certain review procedures and nothing has come to their attention that there has been non-compliance with the terms of the non-competition undertaking during the year ended 31 December 2016.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2016.

Directors'/Controlling Shareholders' Interests in Transactions, Arrangements or Contracts

Except as disclosed elsewhere in this annual report, none of the Directors or controlling shareholders, nor a connect party of any Directors or controlling shareholders, had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party during the year ended 31 December 2016.

Disclosure of Interests

As at 31 December 2016, the interests and short positions of Directors in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO, or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules, are as follows:

Directors' interests in the Company

Director	Number of shares/Position	Percentage of shareholding	Capacity
Mr. Cui Qi	510,000,000 Long position	63.75%	Interest of a controlled corporation *(Note)*

Directors' interests in associated corporations of the Company

Director	Associated corporations	Percentage of shareholding/ Position	Capacity
Mr. Cui Qi	Solid Jewel Investments Limited ("Solid Jewel")	87.00% Long position	Beneficial owner
Mr. Cui Qi	Sky Hero Global Limited ("Sky Hero")	100% Long position	Interest of a controlled corporation *(Note)*
Mr. Yu Ming	Solid Jewel	13.00% Long position	Beneficial owner

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

So far as the directors are aware, as at 31 December 2016, the interest and short positions of the persons, other than a director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO are as follows:

Substantial shareholders' interests in the Company

Shareholder	**Number of shares/ Position**	**Percentage of shareholding**	**Capacity**
Sky Hero	510,000,000 Long position	63.75%	Beneficial owner
Solid Jewel *(Note 1)*	510,000,000 Long position	63.75%	Interest of a controlled corporation
Ms. Mu Zhen *(Note 2)*	510,000,000 Long position	63.75%	Interest of spouse
CITICC International Investment Limited	90,000,000 Long position	11.25%	Beneficial owner

Note:

1. *Solid Jewel is deemed or taken to be interested in all the Shares which are beneficially owned by Sky Hero under the SFO. Sky Hero is wholly-owned by Solid Jewel.*

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

Major Customers and Suppliers

During the year ended 31 December 2016, the Group's five largest customers in aggregate and the single largest customer accounted for approximately 88.7% (2015: 82.0%) and 35.2% (2015: 39.5%) of the Group's total turnover respectively.

During the year ended 31 December 2016, the Group's five largest suppliers in aggregate and the single largest supplier accounted for approximately 27.4% (2015: 43.1%) and 9.3% (2015: 16.0%) of the Group's total purchases respectively.

To the best of the knowledge of the Directors, none of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had an interest in these major customers or suppliers.

DIRECTORS' REPORT

Related Party Transactions

Related party transactions entered into by the Group during the year ended 31 December 2016 are disclosed in note 26 to the financial statements, which included certain transactions in the section headed "Continuing Connected Transactions" below that constituted continuing connected transactions for which the disclosure requirements under Chapter 14A of the Listing Rules have been complied with.

Continuing Connected Transactions

During the year ended 31 December 2016, the Group had carried out the following non-exempt continuing connected transactions.

Vessel chartering framework agreement ("Framework Agreement")

Date:	18 March 2016	
Parties:	Prosper Construction Group Limited ("Prosper BVI")	(as charterer for and on behalf of the Group)
	Shenzhen Changsheng Marine Engineering Limited* (深圳長盛海事工程有限公司) ("Shenzhen Changsheng")	(as owner)

Connected relationship: Prosper BVI is a wholly-owned subsidiary of the Company.

Shenzhen Changsheng is owned as to 20% by executive Director Mr. Cui Qi ("Mr. Cui") and the remaining 80% by a company which is owned as to 90% by Mr. Cui and 10% by the spouse of Mr. Cui.

Transaction: The Group will charter vessels from Shenzhen Changsheng commencing from 18 March 2016 and ending on 31 December 2017. Prosper BVI has an option to renew the Framework Agreement for a further period of three years, and for each exercise of a renewal option by Prosper BVI, Shenzhen Changsheng will be deemed to have granted a new option to Prosper BVI for a further extension of three years on terms to be negotiated between the parties on a fair and reasonable basis and subject to the requirements under the Listing Rules.

During the term of the Framework Agreement, members of our Group may enter into individual agreements with Shenzhen Changsheng in respect of the chartering of vessels subject to terms and conditions in compliance with those of the Framework Agreement.

Reasons for the transaction:	The number of vessels owned by our Group is inadequate to support the Group's project in Macao, and the Framework Agreement allows our Group to deploy vessels owned by Shenzhen Changsheng to our marine construction projects in Macao in an efficient and cost-effective manner. Given that it is our Group's strategy to expand our business in Macao, the chartering of vessels from Shenzhen Changsheng is beneficial to our Group and allows us to undertake an increasing number of marine construction projects in Macao in future.
Annual cap:	For the year ending 31 December 2016: HK$15,360,000 For the year ending 31 December 2017: HK$3,960,000
Actual transaction amount:	For the year ended 31 December 2016: HK$8,009,129

Contractual arrangements ("Contractual Arrangements")

Background and reasons for the Contractual Arrangements:	Pursuant to Indonesia law, the maximum foreign ownership in a company engaging in the construction of harbour/port is limited to 67%. The Group has 67% shareholding interest in each of the two subsidiaries in Indonesia, namely PT. Indonesia River Engineering ("PTIR") and PT. Hongkong River Engineering Indonesia ("PTHKRE"). The remaining 33% of the shareholding interest in PTIR and PTHKRE are held by Johannes Wargo and Harris respectively, both of them are Indonesian citizens and independent third party of the Group except for their involvement in the Contractual Arrangements. To consolidate control over and derive the economic benefits from the remaining 33% of the shareholding interest in each of PTIR and PTHKRE, the Group has, through its subsidiary Hong Kong River Engineering Company Limited ("HKR"), entered into the Contractual Arrangements with Johannes Wargo and Harris.
Risks associated with the Contractual Arrangements:	In the event of change in relevant laws and regulations in Indonesia in the future, there is no assurance that the Contractual Arrangements will be considered to be in compliance with the then prevailing laws and regulations; in which case, the Contractual Arrangements may become unenforceable and the Group may be subject to potential losses.

DIRECTORS' REPORT

To mitigate such risks, each of the Johannes Wargo and Harris has irrevocably appointed HKR to act as his attorney to exercise his rights in connection with the matters concerning his rights as a shareholder of PTIR and PTHKRE respectively, including the rights to vote in a shareholders' meeting, sign minutes and to sell his shares. The Group also closely monitors the amount of assets being retained in Indonesia to limit the exposure to potential losses. The amount of revenue derived by the Group through the Contractual Arrangements for the Year 2016 amounted to approximately HK$145.9 million.

The Contractual Arrangements comprised the following documents.

1. PTIR Loan Agreements

HKR, as lender, and Johannes Wargo, as borrower, entered into a loan agreement on 5 October 2015 and an amendment and restatement of loan agreement on 5 May 2016, pursuant to which HKR agreed to provide a loan ("PTIR Loan") in the sum of IDR1,211,496,000 to Johannes Wargo to acquire 1,320 shares in PTIR ("Johannes Shares"). The PTIR Loan was secured by the Johannes Shares pursuant to the PTIR Pledge of Shares Agreements (as defined below). The PTIR Loan has a term of 10 years and will be automatically renewed upon expiration and shall be due and payable only on demand made at any time by HKR at its sole discretion. No prepayment of the PTIR Loan in whole or in part is permitted at any time during the term of the PTIR Loan Agreements.

2. PTIR Pledge of Shares Agreements

HKR, as pledgee, and Johannes Wargo, as pledgor, entered into a pledge of shares agreement on 5 October 2015 and an amendment and restatement of pledge of shares agreement on 5 May 2016, pursuant to which Johannes Wargo pledged the Johannes Shares in favour of HKR in order to secure the due and proper repayment of the PTIR Loan and the full performance by Johannes Wargo. Johannes Wargo also undertook not to do any act or sign any documents which may limit the rights of HKR under the PTIR Pledge of Shares Agreements or diminish the value of the Johannes Shares.

3. PTIR PoA for Selling Shares

Johannes Wargo on 5 October 2015 appointed HKR as his attorney to (i) sell, assign, transfer or otherwise deal with the Johannes Shares; (ii) receive the proceeds of the sale of Johannes Shares; and (iii) represent Johannes Wargo in all matters pertaining to the sale or transfer of the Johannes Shares.

4. PTIR PoA to Vote

Johannes Wargo on 5 May 2016 ("PTIR PoA to Vote") appointed HKR as his attorney to (i) attend all general meetings of shareholders of PTIR; (ii) exercise all voting rights with respect to the Johannes Shares; (iii) sign any shareholders resolutions; and (iv) generally exercise all rights and privileges and perform all duties which may be necessary in relation to the Johannes Shares.

5. PTIR Assignment of Dividends Agreements

Johannes Wargo, as assignor, and HKR, as assignee, entered into an assignment of rights to dividends agreement on 5 October 2015 and an amendment and restatement of assignment of rights to dividends agreement on 5 May 2016, pursuant to which Johannes Wargo assigned and transferred all his rights and interests in all dividends or other income paid or payable by PTIR with respect to the Johannes Shares to HKR during the term of the PTIR Loan.

6. PTHKRE Loan Agreements

HKR, as lender, and Harris, as borrower, entered into a loan agreement on 16 November 2015 and an amendment and restatement of loan agreement on 5 May 2016, pursuant to which HKR agreed to provide a loan ("PTHKRE Loan") in the sum of IDR1,584,000,000 to Harris to acquire 132,000 shares in PTHKRE ("Harris Shares"). The PTHKRE Loan was secured by the Harris Shares pursuant to the PTHKRE Pledge of Shares Agreements (as defined below). The PTHKRE Loan has a term of 10 years and will be automatically renewed upon expiration and shall be due and payable only on demand made at any time by HKR at its sole discretion. No prepayment of the PTHKRE Loan in whole or in part is permitted at any time during the term of the PTHKRE Loan Agreements.

7. PTHKRE Pledge of Shares Agreements

HKR, as pledgee, and Harris, as pledgor, entered into a pledge of shares agreement on 16 November 2015 and an amendment and restatement of pledge of shares agreement on 5 May 2016, pursuant to which Harris pledged the Harris Shares in favour of HKR in order to secure the due and proper repayment of the PTHKRE Loan and the full performance by Harris. Harris also undertook not to do any act or sign any documents which may limit the rights of HKR under the PTHKRE Pledge of Shares Agreements or diminish the value of the Harris Shares.

8. PTHKRE PoA for Selling Shares

Harris on 16 November 2015 appointed HKR as his attorney to (i) sell, assign, transfer or otherwise deal with the Harris Shares; (ii) receive the proceeds of the sale of Harris Shares; and (iii) represent Harris in all matters pertaining to the sale or transfer of the Harris Shares.

DIRECTORS' REPORT

9. PTHKRE PoA to Vote

   Harris on 5 May 2016 appointed HKR as his attorney to (i) attend all general meetings of shareholders of PTHKRE; (ii) exercise all voting rights with respect to the Harris Shares; (iii) sign any shareholders resolutions; and (iv) generally exercise all rights and privileges and perform all duties which may be necessary in relation to the Harris Shares.

10. PTHKRE Assignment of Dividends Agreements

    Harris, as assignor, and HKR, as assignee, entered into an assignment of rights to dividends agreement on 16 November 2015 and an amendment and restatement of assignment of rights to dividends agreement on 5 May 2016, pursuant to which Harris assigned and transferred all his rights and interests in all dividends or other income paid or payable by PTHKRE with respect to the Harris Shares to HKR during the term of the PTHKRE Loan.

11. Spouse Undertakings

    The spouse of Harris, Mrs. Christina, signed an irrevocable undertaking on each of 16 November 2015 and 5 May 2016, pursuant to which she undertook that (i) she has confirmed her approval for Harris to enter into the PTHKRE Loan Agreements, PTHKRE Pledge of Shares Agreements, PTHKRE Assignment of Dividends Agreements, PTHKRE PoA for Selling Shares and PTHKRE PoA to Vote; (ii). she will refuse and will not claim the inheritance of Harris specifically related to the Harris Shares and all rights attached to them; and (iii) she will agree to waive any rights to claim the Harris Shares. Johannes Wargo has confirmed on 5 October 2015 that he did not have any legal spouse, accordingly, no spouse consent and undertaking was required for him for his entering into the documents in relation to the Contractual Arrangements.

During the year ended 31 December 2016, there was no new contract entered into, renewed or reproduced in relation to the Contractual Arrangements under cloned arrangement as set out in the Company's prospectus ("Prospectus") dated 30 June 2016. The Contractual Arrangements have remained unchanged since the Listing and consistent with the disclosure as set out in the Prospectus.

Review of Continuing Connected Transactions

The independent non-executive Directors have reviewed the continuing connected transactions disclosed above and confirmed that the transactions have been entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) according to the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

Furthermore, in relation to the Contractual Arrangements, the independent non-executive Directors have reviewed and confirmed that:

(i) the transactions have been entered into in accordance with the relevant terms and conditions of the Contractual Arrangements;

(ii) no dividends or other distributions have been made by each of PTIR and PTHKRE to the holders of its remaining shareholding which are not otherwise subsequently assigned or transferred to the Group; and

(iii) no new contracts were entered into, renewed or reproduced under any cloned arrangement as defined in the Prospectus during the year ended 31 December 2016.

The Company has engaged its auditor to report on the continuing connected transactions in accordance with Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has provided an unqualified letter to the Board containing their conclusion in relation to the continuing connected transactions for the year ended 31 December 2016 in accordance with rule 14A.56 of the Listing Rules.

Permitted Indemnity Provision

Pursuant to the articles of association of the Company, the Directors are indemnified and secured harmless out of the assets of the Company against all losses and liabilities which may incur or sustain in execution of their duty, except such which they shall incur or sustain through their own fraud or dishonesty.

The Company has taken out directors' liability insurance since the Listing that provides the appropriate cover for the Directors.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the minimum public float required under the Listing Rules since the Listing and up to the date of this report.

Auditor

The consolidated financial statements for the year ended 31 December 2016 have been audited by PricewaterhouseCoopers, who will retire, and being eligible, offer themselves for appointment at the forthcoming annual general meeting of the Company.

There was no change in auditor of the Company since the Listing.

By order of the Board of
Prosper Construction Holdings Limited
Cui Qi
Chairman and Executive Director

Hong Kong, 28 March 2017

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Cui Qi, aged 54, is a founder of the Group, an executive Director and also the chairman and CEO. Mr. Cui and Mr. Yu acquired Hong Kong River Engineering Company Limited in March 2001. He has over 30 years of experience in the marine construction industry and is primarily responsible for the overall business strategies and operation of the Group. Mr. Cui holds a bachelor's degree in naval port engineering from Hohai University and a master's degree in construction economics and management from Tongji University and is a member of both the Hong Kong Institute of Construction Managers and The Chartered Institute of Building and a fellow member of the Chartered Institute of Civil Engineering Surveyors. Mr. Cui is also a director of all the subsidiaries of the Group except PT. Indonesia River Engineering, of which he is the commissioner.

Mr. Yu Ming, aged 54, is a founder of the Group and an executive Director. Mr. Cui and Mr. Yu acquired Hong Kong River Engineering Company Limited in March 2001. Mr. Yu has over 30 years of experience in the marine construction industry and is in charge of overall business operation of the Group. Mr. Yu holds a bachelor's degree in harbour and waterway engineering from Chongqing Jiaotong University and master's degree in harbour and waterway engineering from Hohai University, and is a member of both the Hong Kong Institution of Engineers and The Chartered Institute of Building and a Registered Professional Engineer (Civil) with the Engineers Registration Board in Hong Kong. Mr. Yu is also a director of two of the Group's subsidiaries, Prosper Construction Group Limited and Hong Kong River Engineering Company Limited.

Ms. Kui Ching Wah, aged 54, is an executive Director. Ms. Kui joined the Group in October 2001 and has been primarily responsible for the administration and finance of the Group and has over 20 years of experience in the accounting field. Ms. Kui holds a bachelor's degree and a master's degree in accounting from Dongbei University of Finance and Economics* (東北財經大學), and is a tax accountant with the Chinese Association of Chief Accountant. Ms. Kui is also one of the joint company secretaries of the Company.

Mr. Tao Yang, aged 53, is an executive Director and joined the Group in March 2016, responsible for monitoring and advising on corporate governance matters. Mr. Tao has over 25 years of experience in the management and finance industry. Mr. Tao graduated with a bachelor's degree in economics from the Central University of Finance and Economics and further obtained an executive master of business management from Renmin University of China and was qualified as a senior accountant from China National Machinery Industry Corporation of the PRC in December 2003. Mr. Tao is currently the General Manager, Chief Accountant and investment department's General Manager of CITIC Construction Co., Ltd., which is the intermediate holding company of CITICC International Investment Limited, one of the Group's substantial shareholders.

Independent Non-executive Directors

Mr. Ge Zhenming, aged 78, is an independent non-executive Director and joined the Group in June 2016. He graduated from Tongji University, majoring in construction industry economics and organisation and was a visiting scholar in the University of Leuven, Belgium from September 1992 to March 1993 and was elected a Fellow of The Royal Institution of Chartered Surveyors in December 2001. Since September 1962, Mr. Ge has taught at Tongji University where he was a Professor from January 1994 to July 2003. He then became the President in Shsun Training College* (學爾森專修學院) for construction professionals in Shanghai from January 2003 to December 2008. He was appointed as an honorary professor in the Department of Real Estate and Construction of the University of Hong Kong between July 2003 and June 2005 and an adjunct professor in the same department from September 2008 to August 2011. He was appointed as a member of the International Referee Panel of The Hong Kong Institute of Surveyors from 2005 to 2006. He has also been a consultant for China Harbour Engineering Company Limited (Hong Kong) from January 2011 to January 2012.

Ms Leung Sau Fan, Sylvia, aged 53, is an independent non-executive Director and joined the Group in June 2016. Ms Leung holds a bachelor's degree of arts in accountancy from City University of Hong Kong and had studied as an external student and passed the approved examinations and obtained a bachelor of laws degree from the University of London. She is an associate of The Hong Kong Institute of Chartered Secretaries. Ms Leung is currently an independent non-executive director of both Poly Property Group Co., Limited (stock code: 119) and China Aerospace International Holdings Limited (stock code: 31), shares of both are listed on The Stock Exchange of Hong Kong Limited, and is also a director of VC Capital Limited, a company licensed to conduct type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance. She has over 20 years of experience in company secretarial and corporate finance advisory.

Mr. Leung Yee Tak, aged 68, is an independent non-executive Director and joined the Group in June 2016. He obtained a master's degree in science, a doctoral degree in philosophy and a higher doctoral degree in science from The University of Aston in Birmingham. He was elected as a Member and a Fellow of The Royal Aeronautical Society in October 1979 and August 1990, respectively. Mr. Leung is currently a Fellow of The Hong Kong Institution of Engineers, a Member of The Institution of Structural Engineers, a Fellow of The Royal Institution of Chartered Surveyors and a Fellow of The Chartered Institute of Building. Mr. Leung has been appointed to various professor positions at a number of universities in the PRC during the period from July 1998 to March 2013.

Save as disclosed above, each of the Directors (i) did not hold other positions in the Company or other members of the Group as at the date of this report; (ii) had no other relationship with any Directors, senior management or substantial or Controlling Shareholders as at the date of this report; and (iii) did not hold any other directorships in listed public companies in the three years prior to the date of this report.

DIRECTORS AND SENIOR MANAGEMENT

Senior Management

Mr. Che Hoi Io, aged 41, is the chief engineer of the Group. Mr. Che joined the Group in November 2015 and is primarily responsible for technical operation and management of the Group's projects in Macao. Mr. Che holds a bachelor's degree in civil engineering from the National Central University in Taiwan and is a registered engineer in Macao. Mr. Che has over 15 years of experience in the engineering industry in a wide range of marine construction projects in Macao.

Mr. Fan Tao, aged 43, is the project manager of the Group. Mr. Fan joined the Group in September 2000 and is primarily responsible for the management and administration of different projects of the Group and is a director of the Company's subsidiary, PT. Indonesia River Engineering. Mr. Fan holds a bachelor's degree in Engineering Management from the Huazhong University of Science and Technology in the PRC. He was admitted as an assistant engineer from the Ministry of Transport of the PRC in August 1998. He was then admitted as a registered marine engineer by Zhanjiang Municipal Human Resources and Social Security Bureau in March 2004. He was admitted as a registered qualification certificate constructor (specialised in harbour and shipping lane engineering) by Guangdong Human Resources and Social Security Bureau in the PRC in January 2010. Mr. Fan has over 20 years of experience in the marine construction industry.

Mr. Nie Zuhan, aged 41, is the plant manager of the Group. Mr. Nie joined the Group in September 2006 and is responsible for vessel maintenance and vessel licence and registration management. He holds a bachelor's degree in naval and marine engineering from Shanghai Jiao Tong University in the PRC and obtained the qualification of naval assistant engineer from the transportation committee of Jiangmen city, Guangdong Province, the PRC in June 1999. Mr. Nie is a member of The Royal Institution of Naval Architects and has over 15 years of experience in the marine and naval architecture industry.

Mr. Wong Ting Pan Ronald, aged 38, is the finance manager of the Group. Mr. Wong joined the Group in November 2015 and is responsible for financial management and compliance assurance of the Group. He holds a bachelor's degree in commerce, information systems and electronic commerce and a master's degree in accounting, both from Curtin University of Technology in Australia and is a certified public accountant with Certified Practising Accountants Australia. Mr. Wong has over eight years of experience in the accounting industry.

Save as disclosed above, each of the senior management (i) did not hold other positions in the Company or other members of the Group; and (ii) had no other relationship with any Directors, senior management members or substantial or controlling shareholders.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF
PROSPER CONSTRUCTION HOLDINGS LIMITED
(incorporated in Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of Prosper Construction Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 39 to 107, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the Key Audit Matter
Accounting for construction contracts – estimated costs and profit recognition Refer to Note 2.14 in the summary of significant accounting policies, Note 5 and Note 16 to the consolidated financial statements. For the year ended 31 December 2016, segment results from marine construction works amounted to HK$116,742,000. The recognition of revenue on construction contracts is based on the stage of completion of contract activity by reference to work performed at balance sheet date as a percentage of the total contract value. Recognition of profit on contracts is based on the recognised revenue and estimates of budgeted gross profit as well as the expected recovery of costs arising from additional work performed throughout the contracts. Profit recognition requires significant time and resources to audit due to the magnitude as well as the judgement and estimates involved.	Our procedures in relation to management's accounting for percentage of completion of construction work, estimated costs and profit recognition of construction contracts included: – We obtained an understanding and tested the key controls over the budgetary process. – We compared the historical actual gross profit margin to those budgeted to assess the quality of management budgetary process. – We inspected material marine construction contracts of the Group for agreed contract sum and variations, if any. – We checked the stage of completion to the payment certificates or invoices to customers, where applicable; and tested, on a sample basis, the revenue recognition based on percentage of completion and the calculations of contract costs and gross profits. – We selected, on a sample basis, contracts to examine management's budget of the cost components, such as costs of materials, subcontracting fees and labour costs, etc. We compared the budgeted component cost to supporting documents including but not limited to invoices, price quotation and rate of labour costs.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
	– For each selected contract, we compared by cost component of the actual cost incurred up to year end to the budgeted cost and obtained explanation from management for any material variation. – We discussed with the Group's quantity surveyors and project managers about the status of the projects, to identify any variations of contracts and claims, and to obtain explanations for fluctuations in margins and changes in budget as well as the expected recovery of variations. We also inspected the correspondence with customers and sub-contractors and the minutes of management's internal meetings, on a sample basis, for corroboration of their explanations. – For projects with potential dispute with customers, we obtained written opinion from the Group's external legal adviser. We enquired their work performed and discussed with them the basis in concluding the minimum amount the Group is able to realise from the projects. We tested and checked relevant evidence including agreements and correspondence with customers and sub-contractors. We found no material issue in relation to the application of judgement and estimates adopted by management in determining the estimated costs and profit recognition of construction contracts.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

INDEPENDENT AUDITOR'S REPORT

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ng Hiu Tung.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
Revenue	5	**658,860**	572,928
Cost of sales	7	**(534,234)**	(457,987)
Gross profit		**124,626**	114,941
Other income and gain, net	6	**25**	(2,566)
Gain on disposal of investment in an associate		**–**	19,494
Professional fees incurred for initial public offering	7	**(14,896)**	(8,417)
Other administrative expenses	7	**(25,712)**	(11,548)
Operating profit		**84,043**	111,904
Finance income	8	**1,139**	385
Finance costs	8	**(3,097)**	(1,456)
Finance costs, net	8	**(1,958)**	(1,071)
Share of losses of a joint venture	18(a)	**–**	(5)
Profit before income tax		**82,085**	110,828
Income tax expense	9	**(12,636)**	(14,830)
Profit for the year		**69,449**	95,998
Other comprehensive income		**–**	–
Profit and total comprehensive income attributable to equity holders of the Company		**69,449**	95,998
Basic and diluted earnings per share (HK cents)	11	**10.13**	17.30

The notes on pages 44 to 107 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
ASSETS			
Non-current assets			
Plant and equipment	14	156,927	97,581
Investment in a joint venture	18(a)	294	294
Deposits	15	17,276	–
		174,497	97,875
Current assets			
Trade and retention receivables	15	183,494	102,464
Deposits, prepayments and other receivables	15	3,712	4,533
Amounts due from customers for contract work	16	84,466	72,923
Amount due from a director	26(d)	–	298
Income tax recoverable		1,652	2,949
Time deposits with maturity over 3 months	17	9,942	8,299
Pledged bank deposits	17	21,031	3,137
Cash and cash equivalents	17	220,157	82,834
		524,454	277,437
Total assets		698,951	375,312
EQUITY			
Capital and reserves			
Share capital	19(a)	8,000	–
Reserves	19(b)	456,123	171,834
Total equity		464,123	171,834

CONSOLIDATED BALANCE SHEET

As at 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
LIABILITIES			
Non-current liabilities			
Borrowings	22	**16,952**	3,467
Deferred income tax liabilities	20	**9,402**	9,468
		26,354	12,935
Current liabilities			
Trade and retention payables	21	**43,481**	28,870
Accruals and other payables	21	**6,713**	20,244
Receipt in advance	21	**84,592**	–
Amounts due to customers for contract work	16	**10,054**	45,473
Amount due to a joint venture	18(a), 26(d)	**500**	500
Amounts due to the other partners of joint operations	18(b)	**9,555**	8,159
Amount due to a director	26(d)	**–**	2,000
Amounts due to related companies	26(d)	**1,647**	1,626
Dividend payable	10	**–**	61,477
Borrowings	22	**51,234**	19,991
Income tax payable		**698**	2,203
		208,474	190,543
Total liabilities		**234,828**	203,478
Total equity and liabilities		**698,951**	375,312

The consolidated financial statements on pages 39 to 107 were approved by the Board of Directors on 28 March 2017 and were signed on its behalf.

Cui Qi	**Kui Ching Wah**
Director	*Director*

The notes on pages 44 to 107 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As at 31 December 2016

	Share capital HK$'000 (note 19(a))	Share premium HK$'000 (note 19(b))	Other reserves HK$'000 (note 19(b))	Retained earnings HK$'000	Total HK$'000
At 1 January 2015	–	–	23,104	112,732	135,836
Comprehensive income					
Profit for the year	–	–	–	95,998	95,998
Contribution by and distribution to owner					
Dividends relating to the year ended 31 December 2015 paid to the then shareholders *(note 10)*	–	–	–	(60,000)	(60,000)
At 31 December 2015	–	–	23,104	148,730	171,834
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**

The notes on pages 44 to 107 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
Cash flows from operating activities			
Net cash generated from operations	25(a)	51,185	116,637
Interest received		1,139	385
Interest paid		(3,097)	(1,456)
Income tax paid		(12,910)	(21,852)
Net cash generated from operating activities		36,317	93,714
Cash flows from investing activities			
Purchase of plant and equipment		(68,434)	(34,522)
Deposits for purchase of plant and equipment		(17,276)	–
Proceeds from disposal of plant and equipment	25(b)	162	624
Proceeds from disposal of interest in an associate		–	19,494
Increase in time deposits with maturity over 3 months		(1,643)	(5,354)
Increase in pledged bank deposits		(17,894)	(900)
Net cash used in investing activities		(105,085)	(20,658)
Cash flows from financing activities			
Proceeds from borrowings		85,660	13,894
Repayments of borrowings		(40,932)	(15,615)
Repayment to a director		–	(5,313)
Dividend paid		(61,477)	(6,600)
Proceeds from issuance of ordinary shares		236,000	–
Share issuance costs		(13,160)	–
Net cash generated/(used in) from financing activities		206,091	(13,634)
Net increase in cash and cash equivalents		137,323	59,422
Cash and cash equivalents at beginning of the year		82,834	23,412
Cash and cash equivalents at end of the year	17	220,157	82,834

The notes on pages 44 to 107 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information, reorganisation 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.

Pursuant to the group reorganisation as set out in the section headed "History and Development" in the Company's listing prospectus dated 30 June 2016 (the "Prospectus"), which was completed on 22 January 2016 (the "Reorganisation"), the Company became the holding company of its subsidiaries now comprising the Group. The shares of the Company were listed on the Main Board of the Stock Exchange on 20 July 2016. The consolidated financial statements of the Group has been prepared as if the Group had always been in existence throughout both years presented, or since the respective dates of incorporation or establishment of the group companies, rather than from the date when the Company became the holding company pursuant to the Reorganisation.

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 the 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 ("HKFRSs") issued by the HKICPA. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4 below.

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

(a) New and amended standards adopted by the Group

The following new amendments to existing standards and interpretations are mandatory for the Group's accounting period beginning on 1 January 2016 and have been adopted by the Group:

HKAS 1 (Amendment)	Disclosure Initiative
HKAS 16 and HKAS 38 (Amendment)	Clarification of Acceptable Methods of Depreciation and Amortisation
HKAS 16 and HKAS 41 (Amendment)	Agriculture: Bearer Plants
HKAS 27 (Amendment)	Equity Method in Separate Financial Statements
HKFRS 10, HKFRS 12 and HKAS 28 (Amendment)	Investment Entities: Applying the Consolidation Exception
HKFRS 11 (Amendment)	Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operation
HKFRS 14	Regulatory Deferral Accounts
HKFRSs (Amendment)	Annual improvements to HKFRSs 2012 – 2014 cycle

The adoption of the above amendments to existing standards did not have material impact on the consolidated financial statements or result in any significant changes to the Group's accounting policies.

(b) New standards and interpretations not yet adopted

The following are standards and amendments to existing standards that have been published and are relevant and mandatory for the Group's accounting periods beginning on or after 1 January 2016 or later periods, but have not been early adopted by the Group.

HKAS 7 (Amendment)	Statement of Cash Flows (1)
HKAS 12 (Amendment)	Income taxes (1)
HKFRS 9	Financial Instruments (2)
HKFRS 10 and HKAS 28 (Amendment)	Sale or Contribution of Assets between an Investor and its Associate and Joint Venture (4)
HKFRS 15	Revenue from Contracts with Customers (2)
HKFRS 16	Leases (3)

1 *Effective for the Group for annual period beginning on 1 January 2017.*

2 *Effective for the Group for annual period beginning on 1 January 2018.*

3 *Effective for the Group for annual period beginning on 1 January 2019.*

4 *Effective date to be determined.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

(b) New standards and interpretations not yet adopted (Continued)

Management is in the process of making an assessment on the impact of these new and revised standards, amendments or interpretations but is not yet in a position to determine whether they will have a significant impact on the Group's results of operations and financial position.

2.2 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit of investments accounted for using equity method' in the consolidated statement of comprehensive income.

2.3 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.

2 Summary of significant accounting policies (Continued)

2.3 Subsidiaries (Continued)

Consolidation (Continued)

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.

2.4 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.

2 Summary of significant accounting policies (Continued)

2.4 Joint arrangements (Continued)

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

2 Summary of significant accounting policies (Continued)

2.4 Joint arrangements (Continued)

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.

2.5 Segment reporting

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

2.6 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'.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.6 Foreign currency translation (Continued)

(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.

2.7 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.7 Plant and equipment (Continued)

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.

2.8 Impairment of non-financial assets

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

2.9 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.10 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.

2.11 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 Summary of significant accounting policies (Continued)

2.12 Leased assets

The Group leases certain machinery and equipment. Leases of machinery and equipment where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased machinery and equipment and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other short-term and other long-term payables. The interest element of the finance cost is charged to the consolidated statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The machinery and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

2.13 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 Summary of significant accounting policies (Continued)

2.14 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.

2.15 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.

2.16 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.17 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.

2.18 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.

2.19 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.

2.20 Current and deferred income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in the 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.20 Current and deferred income tax (Continued)

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, 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, the deferred income tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is 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 substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax is provided on taxable temporary differences arising on investments in subsidiaries and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries and joint arrangements, only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

2 Summary of significant accounting policies (Continued)

2.20 Current and deferred income tax (Continued)

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.21 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.22 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.

2.23 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 2.14 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.

2.24 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 Summary of significant accounting policies (Continued)

2.25 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.

2.26 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.

2.27 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(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") 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$, US$ 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 2016, 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$353,000 (2015: HK$358,000) lower/higher, mainly as a result of the foreign exchange difference on translation of RMB denominated current account with group companies.

At 31 December 2016, 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$1,274,000 (2015: HK$615,000) lower/higher, mainly as a result of the foreign exchange difference on translation of IDR denominated current account with a group company.

(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 2016, if the interest rates on borrowings had been 100 basis-points higher/lower with all other variables held constant, post-tax profit for the year would be HK$569,000 (2015: HK$196,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(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 2016, 88.7% (2015: 82.0%) of the Group's revenue was derived from its top five customers. As at 31 December 2016, the Group had concentration of credit risk as 96.2% (2015: 88.3%) of the total trade receivables due from the Group's three (2015: four) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

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 HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Total HK$'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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

	On demand and less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Total HK$'000
As at 31 December 2015				
Trade and retention payables	28,022	848	–	28,870
Accruals and other payables	16,587	–	–	16,587
Term loan subject to repayment on demand clause	2,578	–	–	2,578
Long-term bank loans and interest payments	9,702	3,243	297	13,242
Short-term bank loans and interest payments	8,297	–	–	8,297
Amount due to a joint venture	500	–	–	500
Amounts due to the other partners of joint operations	8,159	–	–	8,159
Amounts due to related companies	1,626	–	–	1,626
Amount due to a director	2,000	–	–	2,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Financial risk management (Continued)

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 2016 and 2015 was resulted from the Group's operation. The debt to equity ratios as at 31 December 2016 and 2015 are as follows:

	2016 **HK$'000**	2015 HK$'000
Total borrowings *(note 22)*	**(68,186)**	(23,458)
Less: cash and cash equivalents, time deposits with maturity over 3 months and pledged bank deposits *(note 17)*	**251,130**	94,270
Net cash	**182,944**	70,812
Total equity	**464,123**	171,834
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 related companies, amount due from a director, and trade and retention payables, other payables, amount due to a joint venture, amount due to a joint operation and borrowings approximate their fair values, which either due to their short-term maturities, or that they are subject to floating rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Financial risk management (Continued)

3.4 Financial instruments by category

Assets as per consolidated balance sheet

Loan and receivables

	2016 HK$'000	2015 HK$'000
Trade and retention receivables, deposits and other receivables	**185,132**	106,997
Amount due from a director	**–**	298
Time deposits with maturity over 3 months	**9,942**	8,299
Pledged bank deposits	**21,031**	3,137
Cash and cash equivalents	**220,157**	82,834
Total	**436,262**	201,565

Liabilities as per consolidated balance sheet

Other financial liabilities at amortised cost

	2016 HK$'000	2015 HK$'000
Trade and retention payables, accruals and other payables	**46,178**	45,457
Amount due a joint venture	**500**	500
Amounts due to the other partners of joint operations	**9,555**	8,159
Amount due to a director	**–**	2,000
Amounts due to related companies	**1,647**	1,626
Borrowings	**68,186**	23,458
Total	**126,066**	81,200

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.

4 Critical accounting estimates and judgements (Continued)

(b) Income taxes

The Group is subject to income taxes in Hong Kong, Macao and Indonesia. 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) Estimated useful lives and 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.

Useful lives of vessels acquired before 2015 were depreciated over estimated useful lives of 10 years while those acquired in or after 2015 were depreciated over 20 years. With a view to align the practice within the Group, management has revisited the useful lives of the vessels and determined that that it is more appropriate and comparable to other industry players that vessels are depreciated over estimated useful lives of 20 years.

This change in accounting estimate has resulted in a decrease in depreciation charge of HK$3,287,000 in the current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Critical accounting estimates and judgements (Continued)

(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

	2016 HK$'000	2015 HK$'000
Rendering of services		
– Marine construction works	636,019	553,130
– Leasing of vessels	22,841	2,048
Sales of goods		
– Trading of vessels	–	17,750
	658,860	572,928

(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, amount due from a director and certain amounts due from related parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 Revenue and segment information (Continued)

(b) Segment information (Continued)

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, dividend payable and certain amounts due to related parties.

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 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)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 Revenue and segment information (Continued)

(b) Segment information (Continued)

Profit or loss (Continued)

	Marine construction works HK$'000	Leasing of vessels HK$'000	Trading of vessels HK$'000	Total HK$'000
For the year ended 31 December 2015				
Revenue	553,130	2,048	17,750	572,928
Segment results	101,922	1,962	3,327	107,211
Unallocated expenses				(14,344)
Gain on disposal of investment in an associate				19,494
Depreciation				(210)
Finance costs, net				(1,323)
Profit before income tax				110,828
Income tax expense				(14,830)
Profit for the year				95,998
Included in segment results are:				
Depreciation	(8,761)	–	–	(8,761)
Finance income, net	252	–	–	252
Share of losses of a joint venture	(5)	–	–	(5)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 Revenue and segment information (Continued)

(b) Segment information (Continued)

Assets

	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

	Marine construction works HK$'000	Leasing of vessels HK$'000	Trading of vessels HK$'000	Total HK$'000
At 31 December 2015				
Segment assets	272,402	2,823	–	275,225
Unallocated assets				100,087
Total assets				375,312
Investments in a joint venture	294	–	–	294
Additions to non-current assets	33,537	–	–	33,537

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 Revenue and segment information (Continued)

(b) Segment information (Continued)

Liabilities

	Marine construction works HK$'000	Leasing of vessels HK$'000	Trading of vessels HK$'000	Total HK$'000
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**
At 31 December 2015				
Segment liabilities	103,780	–	–	103,780
Dividend payable				61,477
Borrowings				23,458
Income tax payable				2,203
Deferred tax liabilities				9,468
Unallocated liabilities				3,092
Total liabilities				203,478

5 Revenue and segment information (Continued)

(b) Segment information (Continued)

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

	2016 HK$'000	2015 HK$'000
Hong Kong	**65,760**	100,280
Indonesia	**442,009**	321,727
Macao	**151,091**	150,921
	658,860	572,928

Non-current assets

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

	2016 HK$'000	2015 HK$'000
Hong Kong	**152,815**	94,222
Indonesia	**973**	357
Macao	**3,433**	3,296
	157,221	97,875

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 Revenue and segment information (Continued)

(b) Segment information (Continued)

Non-current assets (Continued)

(ii) Based on physical location of the assets:

	2016 HK$'000	2015 HK$'000
Hong Kong	**147,386**	76,416
Indonesia	**973**	357
Macao	**8,862**	21,102
	157,221	97,875

(c) Information about major customers

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

	2016 HK$'000	2015 HK$'000
Marine Construction Works		
Customer A	**231,989**	–
Customer B	**151,091**	150,921
Customer C	**115,112**	226,356

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

	2016 HK$'000	2015 HK$'000
Gain/(loss) on disposal of plant and equipment	**162**	(1,964)
Foreign exchange loss	**(137)**	(602)
	25	(2,566)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 Expenses by nature

	2016	2015
	HK$'000	HK$'000
Cost of sales		
Consultancy fee	**12,627**	15,215
Depreciation	**6,944**	8,761
Insurance	**361**	2,733
Materials	**228,001**	198,888
Subcontracting charges	**120,990**	29,050
Staff costs *(note)*	**32,104**	45,938
Rental expenses for machineries and equipment	**46,116**	61,433
Repair and maintenances	**8,298**	4,681
Transportation	**13,847**	26,196
Site expenses	**23,649**	19,452
Customs duties	**30,369**	22,256
Cost of vessel sales	**–**	14,423
Others	**10,928**	8,961
	534,234	457,987
Professional fees incurred for initial public offerings	**14,896**	8,417
Other administrative expenses		
Staff costs, including directors' emoluments *(note)*	**8,011**	4,557
Auditors' remuneration	**1,614**	533
Depreciation	**2,144**	210
Operating lease rental in respect of office and staff quarters	**2,487**	1,968
Professional fee – others	**6,382**	1,277
Entertainment fee	**1,119**	858
Travelling expense	**1,044**	577
Bank charges	**439**	95
Others	**2,472**	1,473
	25,712	11,548
Total cost of sales and administrative expenses	**574,842**	477,952

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 Expenses by nature (Continued)

Note:

	2016 HK$'000	2015 HK$'000
Wages and salaries	40,791	45,242
Pension costs – defined contribution plans (note a)	1,096	1,145
Other employment benefits	437	356
	42,324	46,743
Less: amounts charged to cost of sales	(32,104)	(45,938)
Less: amounts charged to administrative expenses	(8,011)	(4,557)
Amounts capitalised in/(transferred out from) contracting work-in-progress	2,209	(3,752)

(a) *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$1,250 per month commencing on 1 June 2012 until 31 May 2014 and HK$1,500 per month commencing on or after 1 June 2014 to the MPF Scheme.*

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 Finance costs, net

	2016 HK$'000	2015 HK$'000
Finance income		
– Interest income on bank balances	**1,139**	385
Finance costs		
– Interest expense on bank loans	**(3,097)**	(1,300)
– Interest expense on director's loan	**–**	(156)
Finance costs, net	**(1,958)**	(1,071)

9 Income tax expense

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

	2016 HK$'000	2015 HK$'000
Hong Kong profits tax		
Current income tax	**655**	81
Deferred income tax *(note 20)*	**(66)**	3,713
Indonesia income tax		
Withholding income tax	**12,055**	9,733
Interest income tax	**30**	6
Macao complementary income tax		
Current income tax	**–**	1,297
Over-provision in prior year	**(38)**	–
	12,636	14,830

(a) Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profit for the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 Income tax expense (Continued)

(b) 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 2016, income tax has been provided at the rate of 3% (2015: 3% or 4%) of the construction revenue and 20% (2015: 20%) of the interest income from bank deposits.

(c) 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 HK River 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 HK River will be approximately HK$1,320,000 as at 31 December 2016 (2015: HK$1,700,000).

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.

(d) Macao complementary income tax has been provided at the rate of 12% (2015: 12%) on the estimated assessable profit for year.

9 Income tax expense (Continued)

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:

	2016 HK$'000	2015 HK$'000
Profit before income tax	82,085	110,828
Calculated at tax rate of 16.5% (2015: 16.5%)	13,544	18,287
Tax effects of:		
Withholding tax	12,055	9,733
Effect of different tax rates in other countries	(107)	(599)
Income not subject to tax*	(24,650)	(18,024)
Expenses not deductible for tax purposes	11,408	5,433
Over-provision in prior year	(38)	–
Tax losses for which no deferred income tax asset was recognised	424	–
Income tax expense	12,636	14,830

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10 Dividends

	Year ended 31 December	
	2016	2015
	HK$'000	HK$'000
Final dividends declared and paid by a subsidiary of the Group prior to the Reorganisation *(note (a))*	**–**	60,000
Proposed final dividend of HK$0.03 (2015: Nil) per ordinary share *(note (b))*	**24,000**	–
	24,000	60,000

Note:

(a) For the year ended 31 December 2015, dividends of HK$60,000,000 were declared and paid by the companies now comprising the Group to the then shareholders of the subsidiaries.

(b) A dividend in respect of the year ended 31 December 2016 of HK$0.03 per share, amounting to a total dividend of HK$24,000,000, 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 (as defined in the Prospectus) of ordinary shares which took place on 20 July 2016.

	2016	2015
Profit attributable to equity holders of the Company (HK$'000)	**69,449**	95,998
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share (thousands)	**685,861**	555,000
Basic earnings per share (HK cents)	**10.13**	17.30

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 Earnings per share (Continued)

(b) Diluted

Diluted earnings per share is of 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 2016

	Salaries HK$'000	Employer's contribution to pension scheme HK$'000	Fees 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 Emoluments for directors and five highest paid individuals (Continued)

(a) Directors' emoluments (Continued)

For the year ended 31 December 2015

	Salaries HK$'000	Employer's contribution to pension scheme HK$'000	Fees HK$'000
Executive directors			
Mr. Cui Qi*	668	18	686
Mr. Yu Ming	465	18	483
Ms. Kui Ching Wah	447	18	465
Mr. Tao Yang	–	–	–
	1,580	54	1,634
Independent non-executive directors			
Mr. Ge Zhenming	–	–	–
Ms. Leung Sau Fan Sylvia	–	–	–
Mr. Leung Yee Tak	–	–	–
	–	–	–

* *Chairman and Chief Executive officer*

Note:

(i) Mr. Tao Yang was appointed as the Company's executive director on 2 March 2016.

(ii) Mr. Ge Zhenming, Ms. Leung Sau Fan Sylvia, and Mr. Leung Yee Tak were appointed as the Company's independent non-executive directors on 22 June 2016.

12 Emoluments for directors and five highest paid individuals (Continued)

(a) Directors' emoluments (Continued)

The emoluments of the directors fell within the following bands:

	2016	2015
Nil – HK$1,000,000	6	3
HK$1,000,001 – HK$2,500,000	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 2016, none of the directors of the Company (i) received or were paid any remuneration in respect of accepting office; (ii) received or were paid emoluments in respect of services in connection with the management of the affairs of the Company or its subsidiary undertaking; and (iii) waived or has agreed to waive any emolument (2015: nil).

During the year ended 31 December 2016, 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 (2015: nil).

During the year ended 31 December 2016, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 Emoluments for directors and five highest paid individuals (Continued)

(b) Five highest paid individuals

For the year ended 31 December 2016, the five individuals whose emoluments were the highest in the Group include 3 (2015: 1) directors, whose emoluments were reflected in the analysis presented above. The emoluments paid to the remaining 2 (2015: 4) individuals are as follows:

	2016 HK$'000	2015 HK$'000
Salaries, bonus and other allowances	1,500	2,138
Pension costs – defined contribution plans	36	72
	1,536	2,210

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

	2016	2015
Nil – HK$1,000,000	2	4

During the year ended 31 December 2016, 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 (2015: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 Subsidiaries

The following is a list of subsidiaries at 31 December 2016:

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 2016	Effective interest held as at 2015
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$20,000,000	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$2	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%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 Plant and equipment

	Furniture and fixtures HK$'000	Office equipment HK$'000	Machinery and equipment HK$'000	Vessels HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
At 1 January 2015							
Cost	158	156	33,792	90,341	789	4,466	129,702
Accumulated depreciation	(103)	(134)	(24,759)	(29,479)	(609)	–	(55,084)
Net book amount	55	22	9,033	60,862	180	4,466	74,618
Year ended 31 December 2015							
Opening net book amount	55	22	9,033	60,862	180	4,466	74,618
Additions	–	348	8,388	25,149	637	–	34,522
Disposals	–	(1)	–	(2,587)	–	–	(2,588)
Depreciation	(28)	(64)	(1,556)	(7,059)	(264)	–	(8,971)
Transfer from construction in progress	–	–	–	4,466	–	(4,466)	–
Closing net book amount	27	305	15,865	80,831	553	–	97,581
At 31 December 2015							
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 Plant and equipment (Continued)

	Furniture and fixtures HK$'000	Office equipment HK$'000	Machinery and equipment HK$'000	Vessels HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
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

(a) As at 31 December 2016, vessels and machinery and equipment with carrying amounts of HK$15,179,000 (2015: HK$7,840,000) were secured for the Group's bank borrowings (note 22(f)(ii)).

(b) As at 31 December 2016, vessels with a carrying amount of HK$23,840,000 (2015: HK$25,564,000) were pledged for a performance bond in relation to a construction contract.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 Trade and retention receivables, and deposits, prepayments and other receivables

	2016 HK$'000	2015 HK$'000
Trade receivables	**132,134**	61,088
Retention receivables	**51,360**	41,376
Trade and retention receivables	**183,494**	102,464
Deposits, prepayments and other receivables *(note)*	**20,988**	4,533
Less: non-current deposits	**(17,276)**	–
	3,712	4,533

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:

	2016 HK$'000	2015 HK$'000
Current	**111,840**	41,630
1 to 30 days	**10,990**	14,686
31 to 60 days	**1,221**	1,290
61 to 90 days	**–**	2,838
91 to 180 days	**–**	–
181 to 365 days	**4,723**	–
More than 1 year	**3,360**	644
	132,134	61,088

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 Trade and retention receivables, and deposits, prepayments and other receivables (Continued)

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:

	2016 HK$'000	2015 HK$'000
Within 1 year	15,741	4,548
Between 1 and 5 years	35,619	36,828
	51,360	41,376

As at 31 December 2016, trade and retention receivables of HK$9,304,000 (2015: HK$4,772,000) were past due but not impaired. The ageing analysis of these trade and retention receivables was as follows:

	2016 HK$'000	2015 HK$'000
Past due by:		
1 to 30 days	1,221	1,290
31 to 60 days	–	2,838
61 to 90 days	–	–
91 to 180 days	–	–
181 to 365 days	4,723	–
More than 365 days	3,360	644
	9,304	4,772

As at 31 December 2016, there was no impairment in trade and retention receivables (2015: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 Trade and retention receivables, and deposits, prepayments and other receivables (Continued)

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

	2016 **HK$'000**	2015 HK$'000
HK$	**43,532**	53,020
United States dollars ("US$")	**125,361**	46,846
MOP	**14,601**	2,598
	183,494	102,464

16 Contracting work-in-progress

	2016 **HK$'000**	2015 HK$'000
Contract costs incurred plus attributable profits less foreseeable losses to date	**1,022,113**	1,279,658
Progress billings to date	**(947,701)**	(1,252,208)
	74,412	27,450
Included in current assets/(liabilities) are the following:		
Due from customers for contract work	**84,466**	72,923
Due to customers for contract work	**(10,054)**	(45,473)
	74,412	27,450

17 Cash and cash equivalents

	2016 HK$'000	2015 HK$'000
Cash at bank	**251,130**	94,270
Less: Pledged bank deposits	**(21,031)**	(3,137)
Less: Time deposits with maturity over 3 months	**(9,942)**	(8,299)
Cash and cash equivalents	**220,157**	82,834
Maximum exposure to credit risk	**251,130**	94,270

As at 31 December 2016, the Group's bank deposits of HK$21,031,000 (2015: HK$3,137,000) 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:

	2016 HK$'000	2015 HK$'000
HK$	**78,692**	27,754
Renminbi ("RMB")	**6,994**	7,133
US$	**26,779**	4,708
MOP	**112,735**	43,190
Rupiah ("Rp")	**25,930**	11,485
	251,130	94,270

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 Joint arrangement

(a) Joint venture

(i) The following is the joint venture indirectly held by the Company as at 31 December 2016 and 2015:

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	50%	Equity

(ii) Investment in a joint venture

	2016 HK$'000	2015 HK$'000
As at 1 January	294	299
Share of loss	–	(5)
As at 31 December	294	294

(iii) Obligation in respect of a joint venture

	2016 HK$'000	2015 HK$'000
Amount due to a joint venture (note)	500	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 2016 (2015: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 Joint arrangement (Continued)

(b) Joint operations

(i) The following is the joint operations indirectly undertaken by the Company as at 31 December 2016 and 2015:

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	Provision of construction services	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%

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

	2016 HK$'000	2015 HK$'000
Amounts due to the other partners of joint operations *(note)*	**9,555**	8,159

Note: The amounts due 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 Sky Hero Global Limited ("Sky Hero"), 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 Sky Hero, credited as fully paid, as part of the Reorganisation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 Share capital, share premium and reserves (Continued)

(a) Share capital (Continued)

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, Sky Hero and Mr. Cui Qi, the controlling shareholder and an executive director of the Company, pursuant to which Sky Hero 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 Sky Hero and the Pre-IPO Investor, respectively, based on their respective number of shares.

On 20 July 2016, pursuant to the Share Offer (as defined in the Prospectus), 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 6 October 2015 (date of incorporation), 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	**4,000,000,000**	**40,000**

	Number of shares	Share capital HK$'000
Ordinary shares, issued and fully paid:		
At 6 October 2015 (date of incorporation), 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	800,000,000	8,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 Share capital, share premium and reserves (Continued)

(b) Share premium and reserves

	Share premium HK$'000	Other reserves HK$'000 (note)	Retained earnings HK$'000	Total HK$'000
At 1 January 2015	–	23,104	112,732	135,836
Comprehensive income				
Profit for the year	–	–	95,998	95,998
Contribution by and distribution to owner				
Dividends relating to the year ended 31 December 2015 paid to the then shareholders	–	–	(60,000)	(60,000)
At 31 December 2015	**–**	**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**

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 Deferred income tax liabilities

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

	2016 **HK$'000**	2015 HK$'000
Deferred income tax liabilities:		
Payable or to be settled more than 12 months	**9,402**	9,468

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

	Accelerated tax depreciation HK$'000	**Tax losses** HK$'000	**Total** HK$'000
At 1 January 2015	8,450	(2,695)	5,755
Recognised in the consolidated statement of comprehensive income *(note 9)*	4,085	(372)	3,713
As at 31 December 2015	**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**

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 2016, the Group had unrecognised tax losses of approximately HK$2,569,000 (2015: nil) that can be carried forward to offset against future taxable income. These tax losses have no expiry date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 Trade and retention payables, accruals and other payables

	2016 HK$'000	2015 HK$'000
Trade payables	**38,564**	28,205
Retention payables	**4,917**	665
Accruals and other payables *(note (i))*	**6,713**	20,244
Receipt in advance *(note (ii))*	**84,592**	–
	134,786	49,114

note i: The amounts mainly represent accruals and other payables for wages, legal and professional fees and transportation costs.

note ii: The Group received a receipt in advance from a customer in relation to a project which commences 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:

	2016 HK$'000	2015 HK$'000
Current	**32,042**	17,147
1 to 30 days	**6,522**	2,059
31 to 60 days	**–**	252
61 to 90 days	**–**	3,229
91 to 180 days	**–**	3,052
181 to 365 days	**–**	1,618
More than 365 days	**–**	848
	38,564	28,205

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 Trade and retention payables, accruals and other payables (Continued)

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:

	2016 HK$'000	2015 HK$'000
Within 1 year	4,252	665
Between 1 year and 2 years	665	–
	4,917	665

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

	2016 HK$'000	2015 HK$'000
HK$	2,961	5,609
US$	29,095	202
RMB	2,426	3,105
Singapore dollars	–	3,115
MOP	6,373	15,112
IDR	2,626	1,727
	43,481	28,870

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 Borrowings

	2016 HK$'000	2015 HK$'000
Non-current:		
Long-term bank loans	**16,952**	3,467
Current:		
Long-term bank loans due for repayment within one year	**30,788**	9,291
Long-term bank loans due for repayment within one year which contain a repayment on demand clause	**–**	2,537
Short-term bank borrowings	**20,446**	8,163
	51,234	19,991
Total borrowings	**68,186**	23,458

(a) The maturity of borrowings is as follows:

	2016 HK$'000	2015 HK$'000
Within 1 year	**51,234**	19,991
Between 1 and 2 years	**13,606**	3,171
Between 2 and 5 years	**3,346**	296
	68,186	23,458

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

	2016	2015
Short-term bank loans	**4.9%**	3.3%
Long-term bank loans	**4.1%**	3.4%

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 Borrowings (Continued)

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

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

	2016 HK$'000	2015 HK$'000
Floating rate		
Expiring within 1 year	5,000	1,800

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

(i) unlimited personal guarantees provided by directors as at 31 December 2015 which had been released and replaced by guarantees of the Company during the year ended 31 December 2016;

(ii) vessels and machinery and equipment with carrying amounts of HK$15,179,000 (2015: HK$7,480,000) as at 31 December 2016;

(iii) deposits of not less than HK$21,031,000 (2015: HK$3,137,000) as at 31 December 2016;

(iv) guarantees of HK$4,000,000 from Hong Kong Mortgage Corporation Limited as at 31 December 2015 which had been released during the year ended 31 December 2016; and

(v) guarantees of HK$85,437,000 from a subsidiary for a bank facility which covers a loan of HK$14,563,000 and performance bond facility of HK$63,107,000 as at 31 December 2016 (2015: nil).

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.

	2016 **HK$'000**	2015 HK$'000
No later than 1 year	**1,533**	2,510
Later than 1 year and no later than 5 years	**–**	1,511
	1,533	4,021

(b) Operating lease commitments – as lessor

As at 31 December 2016, the Group did not have any operating lease commitments as a lessor (2015: nil).

(c) Capital commitment

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

	2016 **HK$'000**	2015 HK$'000
Plant and equipment	**7,532**	–

24 Contingent liabilities

As at 31 December 2016, 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$67,889,000 (2015: HK$127,666,000). The performance bonds as at 31 December 2016 are expected to be released in accordance with the terms of the respective construction contracts.

As at 31 December 2016, the Group has given guarantees of HK$10,680,000 (2015: nil) on performance bonds of HK$38,835,000 (2015: nil) in respect of a construction contract of the Group in the ordinary course of business. The performance bond is expected to be released in accordance with the terms of the respective construction contract.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 Notes to the consolidated statement of cash flows

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

	2016 HK$'000	2015 HK$'000
Profit before income tax	82,085	110,828
Depreciation of plant and equipment	9,088	8,971
Share of loss of a joint venture	–	5
Gain on disposal of investment in an associate	–	(19,494)
(Gain)/loss on disposal of plant and equipment	(162)	1,964
Finance income	(1,139)	(385)
Finance costs	3,097	1,456
Operating profit before working capital change	92,969	103,345
Changes in working capital:		
Increase in trade and retention receivables	(81,030)	(41,130)
Decrease/(increase) in deposits and other receivables	821	(3,035)
(Increase)/decrease in amounts due from customers for contract work	(11,543)	230
Changes in balances with related companies	21	2,854
Decrease in amount due from a director	298	254
Increase in trade and retention payables	14,611	11,501
(Decrease)/increase in accruals and other payables	(13,531)	932
Increase in receipt in advance	84,592	–
(Decrease)/increase in amounts due to customers for contract work	(35,419)	39,864
(Decrease)/increase in amount due to a director	(2,000)	2,000
Increase in amount due to a joint venture	–	205
Increase/(decrease) in amounts due to the other partners of joint operations	1,396	(383)
Net cash generated from operations	51,185	116,637

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 Notes to the consolidated statement of cash flows (Continued)

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

	2016 HK$'000	2015 HK$'000
Net book amount	–	2,588
Gain/(loss) on disposal of plant and equipment *(note 6)*	162	(1,964)
Proceeds from disposal of plant and equipment	162	624

(c) Non-cash transaction

During the year ended 31 December 2015, dividend of HK$11,923,000 declared by a subsidiary had been settled through a decrease in amounts due from related companies owned by the then shareholder.

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 2016 and 2015:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 Related party transactions (Continued)

(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:

	2016	2015
	HK$'000	HK$'000
Continuing transactions		
Paid to a related party:		
Rental expenses to Shenzhen Changsheng *(note i)*	**11,518**	6,326
Discontinued transactions		
Paid to a director:		
Interest expense *(note ii)*	**–**	156
Paid to a related party:		
Consultancy and maintenance services to Shenzhen Changsheng *(note iii)*	**–**	1,952

note i: *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.*

note ii: *Loan from a director was interest bearing at 2.25% per annum below Hong Kong Dollar Best Lending Rate of Industrial and Commercial Bank of China. The loan was fully settled during the year ended 31 December 2015.*

note iii: *Consultancy and maintenance services in relation to leasing of vessels are charged at a monthly service fee of RMB200,000 from May 2015 to May 2017. However, the service had been terminated on 1 January 2016.*

26 Related party transactions (Continued)

(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:

	2016 HK$'000	2015 HK$'000
Salaries, bonus, other allowances and benefits in kind	3,081	1,580
Pension costs – defined contribution plans	54	54
	3,135	1,634

(d) Balances

	2016 HK$'000	2015 HK$'000	Nature
Amount due from a director			
– Mr. Cui Qi	–	298	Non-trade

The amount due from a director was unsecured, interest free, and repayable on demand.

	2016 HK$'000	2015 HK$'000	Nature
Amount due to a related party			
– Shenzhen Changsheng	1,647	1,626	Trade
Amount due to a joint venture			
– HKR – ASL	500	500	Non-trade

	2016 HK$'000	2015 HK$'000	Nature
Amount due to a director			
– Mr. Yu Ming	–	2,000	Non-trade

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

28 Balance sheet and reserve movement of the Company

Balance sheet of the Company

	Note	2016 HK$'000	2015 HK$'000
ASSETS			
Non-current assets			
Investments in subsidiaries		20,000	–
Current assets			
Prepayments		459	–
Amount due from subsidiaries		213,674	–
Cash and cash equivalents		35,061	–
		249,194	–
Total assets		269,194	–
EQUITY			
Capital and reserves			
Share capital		8,000	–
Reserves	(a)	259,981	–
Total equity		267,981	–
LIABILITIES			
Current liabilities			
Accruals and other payables		1,213	–
Total equity and liabilities		269,194	–

The balance sheet of the Company was approved by the Board of Directors on 28 March 2017 and was signed on its behalf:

CUI Qi
Director

KUI Ching Wah
Director

28 Balance sheet and reserve movement of the Company (Continued)

Balance sheet of the Company (Continued)

Note (a)

Reserve movement of the Company

	Share premium HK$'000	Other reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 6 October 2015 (date of incorporation) and 31 December 2015	–	–	–	–
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

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.

FOUR YEAR FINANCIAL SUMMARY

A summary of the published results and of the assets, liabilities and equity of the Group for the last four financial years, as extracted from this annual report and the accountant's report as contained in the Prospectus, is set out below.

	Year ended 31 December			
	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**658,860**	572,928	272,760	396,168
Gross profit	**124,626**	114,941	52,922	49,814
Profit before income tax	**82,085**	110,828	45,243	42,731
Income tax expense	**(12,636)**	(14,830)	8,183	8,824
Profit for the year	**69,449**	95,998	37,060	33,907

	As at 31 December			
	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	**174,497**	97,875	74,917	80,927
Current assets	**524,454**	277,437	178,952	177,292
Total assets	**698,951**	375,312	253,869	258,219
Non-current liabilities	**26,354**	12,935	14,834	14,536
Current liabilities	**208,474**	190,543	103,199	124,907
Total liabilities	**234,828**	203,478	118,033	139,443
Total equity	**464,123**	171,834	135,836	118,776