



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



2018 ANNUAL REPORT





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CORPORATE INFORMATION

Executive Directors

Mr. Liu Luqiang (*Chairman*)
Mr. Cui Qi (*Chief Executive Officer*)
Mr. Zhu Jiangfeng
Mr. Xue Qingfu

Non-executive Director

Mr. Wang Xuejun

Independent Non-executive Directors

Mr. Cheung Chi Man Dennis
Mr. Wang Yaping
Mr. Cheng Xuezhao

Audit Committee

Mr. Cheung Chi Man Dennis (*Chairman*)
Mr. Wang Yaping
Mr. Cheng Xuezhao

Nomination Committee

Mr. Liu Luqiang (*Chairman*)
Mr. Zhu Jiangfeng
Mr. Cheung Chi Man Dennis
Mr. Wang Yaping
Mr. Cheng Xuezhao

Remuneration Committee

Mr. Wang Yaping (*Chairman*)
Mr. Cheung Chi Man Dennis
Mr. Cheng Xuezhao

Risk Management Committee

Mr. Cui Qi (*Chairman*)
Mr. Xue Qingfu
Mr. Cheung Chi Man Dennis
Mr. Wang Yaping
Mr. Cheng Xuezhao

Company Secretary

Mr. Lee Baldwin

Authorised Representatives

Mr. Cui Qi
Mr. Lee Baldwin

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 Branch 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

Auditor

PricewaterhouseCoopers

Principal Bankers

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

Stock code

6816

Company Website

www.prosperch.com

CHAIRMAN'S STATEMENT

On behalf of the board (the "Board") of directors (the "Directors") of Prosper Construction Holdings Limited (the "Company"), I am pleased to present the audited consolidated financial results of the Company and its subsidiaries (collectively, referred to as the "Group") for the year ended 31 December 2018 ("Year 2018"). The Group is a marine construction service provider founded in Hong Kong and listed on the main board of The Stock Exchange of Hong Kong Limited. The Group's operation largely follows the path of the "One Belt One Road" ("OBOR") strategy promulgated by the Chinese government, leveraging on the Group's comprehensive and specialised fleet of vessels and equipment to capture marine engineering business opportunities presented by the OBOR policy.

Up to the Year 2018, the Group has extended its marine engineering operations to Indonesia, Vietnam, Macao and Malaysia and built a reputable track record. During the Year 2018, the Group ventured further and established a business presence in Pakistan with encouraging results.

In August 2018, Qingdao West Coast Holdings (Internation) Limited became the controlling shareholder of the Company. The ultimate holding company Qingdao West Coast Development (Group) Limited ("QD West Coast Group") is a wholly state-owned company directly under the Qingdao municipal government and principally engaged in, amongst others, major infrastructure construction in Qingdao West Coast New Area, arrangement and development of tier 1 land reserve, property development and investment, construction and capital utilisation of modern industrial systems. QD West Coast Group has taken up the arrangement and development of land reserve with an area of more than 90 km², covering the Lingshan Bay Film and Cultural Industrial Zone* (靈山灣影視文化產業區) and Zangma Mountain Tourist Resort* (藏馬山旅遊度假區).

With strong support from its new controlling shareholder, the Group remains committed to develop its existing principal business of marine construction and related service in Hong Kong, Macao and along the OBOR region while it is also planning to actively participate in infrastructure development projects and modern service industry investment projects, such as cultural, tourism, health and science and technology, in the Qingdao area.

Meanwhile, the Board is conducting a detailed assessment of the Group's operations with a view to identify potential synergies among the Group and QD West Coast Group. Subject to the result of such assessment, the Board will formulate a sustainable business plan and strategy for the Group. It is envisaged that the Group will, by leveraging on the experience and resources of QD West Coast Group, be able to broaden the scope, scale and geographic coverage of its operations and bring about favourable growth and rewards to the Company and its shareholders in the medium and long term.

Looking forward, with strong support from the new controlling shareholder, the Group believes, it will continue to undertake infrastructure works projects and explore investment and development opportunities in the modern services industry.

Liu Luqiang

Chairman and executive director

26 March 2019

* For information purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Major projects

During the Year 2018, the Group derived the majority of its revenue from its projects in Pakistan, followed by Hong Kong and Macao. A breakdown of the Group's revenue by geographic location and major projects for the Year 2018 is set out in the table below.

	Revenue recognised in Year 2018 HK\$'million	Contribution to total revenue	Current status
Pakistan			
Leasing of vessels and engineering equipment and provision of auxiliary marine related services	225.8	58.7%	Ongoing and expecting completion in Q2/2019.
Macao			
Engineering, procurement and construction ("EPC") contract for electricity generation facility	47.8	12.4%	Ongoing and expecting completion in Q2/2022.
Others	6.8	1.8%	
Hong Kong			
Pier construction	31.5	8.2%	Substantially completed and expecting completion in Q1/2019.
Underground structure and excavation	30.1	7.8%	Ongoing and expecting completion in Q2/2019.
Others	31.1	8.1%	
Other locations	11.5	3.0%	
Total	384.6	100%	

During Year 2018, the Group achieved favourable results from its vessels and equipment leasing project and provision of auxiliary marine related services in Pakistan. Having established itself with reputable track record in the region, the Group successfully secured another vessels and equipment leasing contract with an electricity powering plant in Pakistan commencing from February 2019.

The Group's EPC contract for electricity generation facility in Macao progressed slowly during Year 2018, pending finalisation of change in design for the project by the owner. The Group entered into a supplemental agreement with the project owner of the EPC project in late 2017, which increased the scope of works and contract sum as a result of the change in project design. The project has since resumed and is expected to be in full swing in year 2019. Furthermore, the Group has been awarded two contracts for reclamation works in Macao commencing in the first half of year 2019 and it is expected that Macao will once again become the key geographic source of revenue to the Group in the coming two years.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Outlook and prospects

The status of the Group's key projects on hand is set out below.

	Location	Estimated remaining contract sum HK\$'million	Expected time of completion
Project(s) that have already commenced as at 31 December 2018			
Leasing of vessels and engineering equipment and provision of auxiliary marine related services	Pakistan	17.1	Q2/2019
EPC contract for an electricity generation facility	Macao	444.9	Q2/2022
Project(s) that will be commencing or are newly awarded in 2019			
Land reclamation	Macao	736.3	Q1/2021
Leasing of vessels and engineering equipment for transhipment	Pakistan	53.0	Q4/2019

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, including a vessel and equipment chartering project in Vietnam, a pier construction project in Indonesia and a dredging project in Hong Kong. The Group is confident in securing and undertaking more marine engineering projects with strong backing from our new controlling shareholder.

Review on Results

Revenue

The Group recorded revenue of HK\$384.6 million for the Year 2018, representing a decline of approximately 39.3% from the year ended 31 December 2017 ("Year 2017"), which is in part due to a portion of management time and resources being diverted to handle non-recurring matters relating to the change in the controlling shareholdings in the Company, leading to less resources available for deployment to business development during the Year 2018. A breakdown of the Group's revenue from major projects and by geographic location is set out in the section headed "Business Review" above and in note 5 to the consolidated financial statements.

The Group's revenue from marine construction works for the Year 2018 decreased by approximately 71.4% to HK\$134.5 million from that of HK\$469.5 million for the Year 2017; such was mainly attributable to the delay in progress in the Group's ongoing project in Macao owing to the change in construction design by the project owner, which is not within the control and the scope of responsibilities of the Group. Other than in Macao, the remaining marine construction revenue of approximately HK\$79.9 million was derived from a number of relatively smaller projects in Hong Kong and other countries.

On the other hand, the Group's revenue from leasing of vessels and equipment and provision of auxiliary marine related services in Pakistan increased by approximately 55.3% to HK\$225.8 million for the Year 2018, as the relevant lease(s) commenced in second half of the Year 2017 and continued in a material time during the Year 2018, with further revenue of HK\$24.3 million recorded from short-term leases in other locations.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Cost of sales and gross profit

The Group's cost of sales decreased by HK\$225.8 million or approximately 41.9% in the Year 2018, which is generally in line with the decline in revenue. Gross profit for the Year 2018 was HK\$71.3 million as compared to HK\$ 94.3 million for the Year 2017, whereas the gross profit margin increased to 18.5% from 14.9% for the Year 2017. The increase in gross profit margin was mainly because a higher proportion of the Group's revenue was generated from leasing of vessels and equipment and provision of auxiliary marine related services, which generally yields a higher profit margin as less direct costs are required as compared to marine construction works, in the Year 2018.

Impairment losses on financial assets

The provision for expected credit loss amounted to HK\$8.0 million made for the Year 2018 as compared to nil for Year 2017. The expected credit loss was based on the management's latest assessment of the risk of default in general on the Group's financial assets.

Other administrative expenses

Administrative expenses increased by HK\$2.1 million to HK\$28.4 million for the Year 2018, which was mainly attributable to additional professional fees incurred in relation to the takeover of the controlling shareholdings in the Company, which are non-recurring in nature.

Income tax expenses

The Group incurred relative low level of income tax expenses for both Year 2017 and Year 2018, which was attributable to the increase in leasing income sourced from overseas location where the applicable tax jurisdiction provided for favourable tax treatment or the Group's customer as lessee had agreed to take up the tax liability for the lessor.

Profit for the year

The Group's profit for the Year 2018 decreased by 52.9% to HK\$30.4 million as compared to HK\$64.5 million for the Year 2017 as a result of the combined effect of (i) the decline in revenue, (ii) the corresponding decline in cost of sales, and (iii) increase in impairment losses on financial assets and other administrative expenses due to reasons mentioned above.

Plant and equipment

As at 31 December 2018, the Group owned a total of 44 units of marine vessels and 57 units of machinery and equipment. The Group did not carry out material acquisition or disposal of plant and equipment during the Year 2018.

Trade and retention receivables

The Group's trade and retention receivables increased to HK\$349.1 million as at 31 December 2018, which mainly comprised of receivables for works on projects already completed and pending finalising of project account with customers and rentals in arrears for leasing of vessels and equipment and provision of auxiliary marine related services in Pakistan. During the Year 2018, the Group reached agreement on project final account with the customers of two of our projects in Indonesia and it is expected that payment will be received in year 2019. While there is currently no indication of possible default on any of the Group's receivable balances, the management acknowledges there is certain default risks associated with receivables balances in general and has adopted a systematic approach in assessing the overall risk of default and has made appropriate provision for expected credit loss on the Group's receivable balances as at 31 December 2018.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Contract assets/liabilities

Contract assets represent amounts due from customers for works performed which had not been billed as at end of the financial year, the majority of which was related to three previously completed projects in Hong Kong pending the finalisation of project account. According to the respective project work contract, where consensus cannot be reached between the employer and the subcontractor on interim certification of works performed, such discrepancy would be subject to assessment during the finalisation of project account, which is due to commence only when the main contract for the project as a whole (of which the Group's marine work contract forms part) is completed. Based on preliminary assessment by the Group's project legal consultant, the Group would be able to recover not less than the carrying value of the amounts due from contract customers as at 31 December 2018 for the aforesaid three completed projects.

Contract liabilities as at 31 December 2018 represent amounts due to contract customers for payment received in excess of revenue recognisable by the Group according to the progress achieved on the Group's electricity generation facility project in Macao.

Liquidity, Capital Structure and Gearing

The Group maintains a healthy liquidity position with net current asset balance and net debt position of approximately HK\$286.2 million (31 December 2017: HK\$286.8 million) and HK\$3.5 million (31 December 2017: net cash position of approximately HK\$59.9 million), respectively as at 31 December 2018. The Group's gearing ratio (calculated by dividing total debts by total equity) as at 31 December 2018 was 28.0% (31 December 2017: 34.3%). The decrease in gearing ratio during the Year 2018 was mainly due to the (i) repayment of bank loans from the Group's internal cash reserve; and (ii) less bank loans being drawn due to the slowdown in the Group's marine construction works business. The Group has no unutilized banking facilities as at 31 December 2018 (31 December 2017: HK\$5.0 million). The maturity and interest rate profile of the Group's borrowings are set out in note 22 to the consolidated financial statements.

Foreign Exchange

Operations of the Group was mainly conducted in Hong Kong dollars ("HK\$"), Macao Patacas ("MOP"), Chinese Renminbi ("RMB"), United States dollars ("US\$") (together, the "Major Currencies"), Malaysian Ringgit ("MYR") 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 (i) using the Major Currencies as principal currencies in the Group's contracts with customers; and (ii) paying its suppliers and operating expenses using the Major Currencies where possible. In the event that settlement from the Group's customer is received in MYR, 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. During the Year 2018, the Group invested approximately HK\$11.9 million in acquisition of vessels and approximately HK\$1.8 million in machinery and equipment, among others.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The Group's fleet of vessels for marine construction works reduced by 3 units during the Year 2018 to a total of 44 units as at 31 December 2018.

The Group's committed orders for capital equipment as at 31 December 2018 amounted to approximately HK\$12.1 million and it is intended that such purchases will be financed by bank borrowings.

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 2018.

Significant Investments Held

The Group did not hold any significant investments during the Year 2018.

Charges on Assets

As at 31 December 2018, plant and equipment with carrying value of (i) approximately HK\$17.5 million (2017: HK\$16.1 million) were pledged to secure for the Group's bank borrowings; and (ii) approximately HK\$21.9 million (2017: HK\$22.1 million) 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 2018, plant and equipment with carrying value of approximately HK\$21.9 million (2017: HK\$22.1 million) were pledged as security for provision of a performance bond and a prepayment surety bond totaling HK\$21.1 million for the Group's project in Macao.

As at 31 December 2018, 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\$21.1 million (2017: HK\$20.8 million). The performance bonds as at 31 December 2018 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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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 the 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 2018 and 2017 are as follows:

	As at 31 December	
	2018	2017
Management and administration	10	18
Accounting and finance	3	3
Human resources	1	1
Project management	8	5
Project execution	71	87
	93	114

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 2018 was approximately HK\$54.2 million (2017: HK\$52.7 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.

The remuneration paid/payable to each member of the Group's senior management, other than Directors, fell within the following band:

	Year ended 31 December	
	2018	2017
Nil to HK\$1,000,000 per annum	2	3

Customers and suppliers

The executive Directors and the Group's management team maintain 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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Dividend

The Board does not recommended the payment of a dividend for the Year 2018.

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 impacts 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 2018.

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.

Significant Events After the Financial Year

No significant event has occurred after 31 December 2018 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 maintaining 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 of Hong Kong Limited ("Stock Exchange") ("Listing Rules") and has complied with the code provisions throughout the Year 2018, except in relation to the followings.

Deviation from the CG Code	Remedial steps taken
Mr. Cui Qi acted as both the chairman of the Board and chief executive officer ("CEO") of the Group during the period from 1 January 2018 to 3 October 2018.	Mr. Liu Luqiang was appointed as chairman of Board in place of Mr. Cui Qi with effect from 4 October 2018.
The nomination committee of the Board was not chaired by either the chairman of the Board or an independent non-executive Director and did not comprise a majority of independent non-executive Directors during the period from 4 October 2018 to 13 December 2018, which did not comply with provision A.5.1 of the CG Code.	Mr. Liu Luqiang, Mr Zhu Jiangfeng, Mr. Wang Yaping and Mr. Cheng Xuezhao were appointed as members of the nomination committee, with Mr. Liu Luqiang acting chairman of the nomination committee, with effect from 14 December 2018.

Save as disclosed above, the Company has been in compliance with all the provisions of the CG Code since 14 December 2018.

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 throughout the Year 2018.

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 throughout the Year 2018.

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.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The composition of the Board during the year and the attendance record of each Director at board meetings and general meetings held during the Year 2018 are set out below.

	Attendance/ Board meetings	Attendance/ General meetings
Executive Directors		
Mr. Liu Luqiang (<i>Chairman</i>) (<i>Appointed on 4 October 2018</i>)	1/1	N/A
Mr. Cui Qi (<i>Chief Executive Officer</i>)	6/6	1/1
Mr. Zhu Jiangfeng (<i>Appointed on 4 October 2018</i>)	1/1	N/A
Mr. Xue Qingfu (<i>Appointed on 4 October 2018</i>)	1/1	N/A
Ms. Kui Ching Wah (<i>Resigned on 4 October 2018</i>)	5/5	1/1
Mr. Tao Yang (<i>Resigned on 4 October 2018</i>)	1/5	0/1
Mr. Yu Ming (<i>Resigned on 4 October 2018</i>)	5/5	1/1
Non-executive Director		
Mr. Wang Xuejun (<i>Appointed on 4 October 2018</i>)	1/1	N/A
Independent Non-executive Directors		
Mr. Cheung Chi Man Dennis	6/6	1/1
Mr. Wang Yaping (<i>Appointed on 4 October 2018</i>)	1/1	N/A
Mr. Cheng Xuezhan (<i>Appointed on 14 December 2018</i>)	N/A	N/A
Ms. Leung Sau Fan Sylvia (<i>Resigned on 4 October 2018</i>)	4/5	1/1
Mr. Leung Yee Tak (<i>Resigned on 4 October 2018</i>)	5/5	0/1

Two independent non-executive Directors, Ms. Leung Sau Fan Sylvia and Mr. Leung Yee Tak resigned with effect from 4 October 2018 (the "Effective Date"). As a result of such change, (i) the number of the independent non-executive Directors fell below the minimum number required under Rules 3.10(1) and 3.10A of the Listing Rules; (ii) the composition of the audit committee does not meet the requirements stipulated in Rule 3.21 of the Listing Rules; (c) the remuneration committee is not chaired by an independent non-executive Director and does not comprise a majority of independent non-executive Directors as required under Rule 3.25 of the Listing Rules, from the period between the Effective Date to 13 December 2018. With effect from 14 December 2018, Mr. Cheng Xuezhan has been appointed as independent non-executive Director to fill the said vacancy.

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 and the non-executive Director 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 one year except Mr. Cheung Chi Man Dennis, who 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 2018.

CORPORATE GOVERNANCE REPORT (CONTINUED)

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.

Board Committee

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. The summary of their work during the Year 2018 is as follows:

- developed and reviewed the Company's policies and practices on corporate governance and make recommendations;
- reviewed and monitored the training and continuous professional development of Directors and senior management of the Group;
- reviewed and monitored the Company's policies and practices on compliance with legal and regulatory requirements;
- developed, reviewed and monitored the code of conduct and compliance manual applicable to employees of the Group and the Directors; and
- reviewed the Company's compliance with CG Code and disclosure in the corporate governance report.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The composition of each committee and attendance of members at committee meeting held during the Year 2018 and up to the date of this report are as follows:

Composition of Board committees	Audit	Nomination	Remuneration	Risk
	Committee	Committee	Committee	Management Committee
	Attendance/Number of meetings held (C=Chairman; M=Member of the committee)			
Independent Non-executive Directors				
Mr. Cheung Chi Man Dennis	3/3 (C)	4/4 (M)	2/2 (M)	1/1 (M)
Mr. Wang Yaping <i>(appointed to the committees on 14 December 2018)</i>	1/1 (M)	1/1 (M)	1/1 (C)	1/1 (M)
Mr. Cheng Xuezhao <i>(appointed to the committees on 14 December 2018)</i>	1/1 (M)	1/1 (M)	1/1 (M)	1/1 (M)
Ms. Leung Sau Fan Sylvia <i>(resigned on 4 October 2018)</i>	2/2 (M)	2/3 (M)	0/1 (M)	N/A (M)
Mr. Leung Yee Tak <i>(resigned on 4 October 2018)</i>	2/2 (M)	3/3 (M)	1/1 (C)	N/A (M)
Executive Directors				
Mr. Liu Luqiang <i>(appointed to the committee on 14 December 2018)</i>	N/A	1/1 (C)	N/A	N/A
Mr. Cui Qi <i>(appointed to the risk management committee and resigned from the nomination committee on 14 December 2018)</i>	N/A	3/3 (C)	N/A	1/1 (C)
Mr. Zhu Jiangfeng <i>(appointed to the committee on 14 December 2018)</i>	N/A	1/1 (M)	N/A	N/A
Mr. Xue Qingfu <i>(appointed to the committee on 14 December 2018)</i>	N/A	N/A	N/A	1/1 (M)
Ms. Kui Ching Wah <i>(resigned on 4 October 2018)</i>	N/A	N/A	N/A	N/A
Mr. Yu Ming <i>(resigned on 4 October 2018)</i>	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 met with the Company's management to review its interim and final consolidated financial statements for the Year 2018 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 2018. 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 2018. 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.

CORPORATE GOVERNANCE REPORT (CONTINUED)

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 to ensure that the Board has the appropriate mix of expertise and experience, and collectively possesses the necessary core competence for informed decision-making and effective functioning. In determining the Board's composition and selection of candidates to the Board, the nomination committee will consider factors including but not limited to gender, age, cultural and education background, or professional experience. It will also ensure that the Board shall comprise members with the following attributes in order to achieve a sufficient balance of knowledge and perspectives in discharging the Board's duties:

- management skills and experience;
- industry specific knowledge and experience relevant to the Group;
- financial management skills and experience; and
- legal and compliance expertise.

The Company does not discriminate on the basis of gender, age and other personal backgrounds in assessing the suitability of candidates for appointment to the Board. Nonetheless, the Board acknowledges stakeholders' expectation and international best practices calling for gender and ethnicity parity, etc. The nomination committee shall take the opportunity to enhance gender balance of the Board over time in the selection of candidates amongst those who are equally competent and possess the desired attributes.

The procedures to nominate candidates for election as Directors are set out in the section headed "Shareholders' Rights and Investor Relations" below.

The nomination committee has reviewed the independence of independent non-executive Directors, considered the retirement and proposal for appointment of Directors at the Company's annual general meeting and considered the appointment of new executive, non-executive and independent non-executive Directors during the Year 2018. The nomination committee is of the view that the Board comprises members with 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. During the Year 2018, the remuneration committee has assessed the performance of the Directors, reviewed the remuneration of the Directors and made recommendations to the Board thereon.

CORPORATE GOVERNANCE REPORT (CONTINUED)

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 the Group's risk management system. 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 risk management committee has conducted an update risk assessment during the Year according to the Group's latest operation; 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 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.

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 2018 and to report their findings to the risk management committee and the Board. The review scope for the Year 2018 covered the construction works in progress, cash and treasury management, and plant and equipment management functions.

Based on the review 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 2018 is set out below.

	HK\$'000
Audit services provided to the Group	1,550
Non-audit services	—
	<hr/> 1,550

CORPORATE GOVERNANCE REPORT (CONTINUED)

Directors' Responsibility for the Consolidated Financial Statements

The Directors acknowledge their responsibility for the preparation of consolidated financial statements which give a true and fair view of the financial position of the Group. 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 company secretary is Mr. Lee Baldwin, who is an external service provider. Ms. Kui Ching Wah, deputy general manager of the Company, is the Company's primary contact person with Mr. Lee.

The company secretary is responsible for coordinating the supply of information about the Group to the Directors. All Directors have access to the company secretary to ensure that Board procedures, and all applicable law, rules and regulations, are followed.

During the Year 2018, Mr. Lee Baldwin has undertaken not less than 15 hours of relevant professional training.

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 during the Year 2018. 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.

Shareholders may send their enquiries and concerns in writing to the Board by addressing them to the Company at our principal place of business in Hong Kong at Units 504–5, 5th Floor, K. Wah Centre, 191 Java Road, North Point, Hong Kong.

DIRECTORS' REPORT

The Directors submit their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018.

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 2018 is set out in note 5 to the consolidated financial statements.

Business Review

A review on the Group's business for the year ended 31 December 2018 is set out under the section headed "Management Discussion and Analysis" of this annual report.

Results

The Group's results for the year ended 31 December 2018 are set out in the consolidated statement of comprehensive income on page 42 of this annual report.

Dividend Policy and Dividends

The Directors acknowledge the importance of stakeholders' engagement and would contemplate at least two times a year (prior to the announcement of annual and interim results) on the distribution of a dividend. While the Directors endeavour to share the Group's results with shareholders by way of a dividend, the portion and actual amount of distribution out of profits will be determined by the Directors having regard to a variety of factors, including but not limited to the Group's actual and expecting operating results and conditions, gearing level, general financial condition, availability of cash, future plans and funding needs for expansion.

The Directors do not recommended the payment of a dividend for the year ended 31 December 2018.

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.

Summary Financial Information

A summary of the results and of the assets and liabilities of the Group for the last five years is set out on page 114 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 2018 are set out in note 19(a) to the consolidated financial statements.

Reserves

Details of movement in the Group's and the Company's reserves during the year ended 31 December 2018 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\$223.4 million as at 31 December 2018.

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 the Group) to be granted under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 80,000,000 shares (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 a 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 option scheme of the Group must not exceed 10% of the shares in issue as at the date of approval of the refreshed limit.

DIRECTORS' REPORT (CONTINUED)

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 the 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 the 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 the 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 2018.

DIRECTORS' REPORT (CONTINUED)

Directors

The Directors of the Company during the year ended 31 December 2018 and up to the date of this report are as follows:

Executive Directors

Mr. Liu Luqiang (<i>Chairman</i>)	(Appointed on 4 October 2018)
Mr. Cui Qi (<i>Chief Executive Officer</i>)	
Mr. Zhu Jiangfeng	(Appointed on 4 October 2018)
Mr. Xue Qingfu	(Appointed on 4 October 2018)
Ms. Kui Ching Wah	(Resigned on 4 October 2018)
Mr. Tao Yang	(Resigned on 4 October 2018)
Mr. Yu Ming	(Resigned on 4 October 2018)

Non-executive Director

Mr. Wang Xuejun	(Appointed on 4 October 2018)
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Independent Non-executive Directors

Mr. Cheung Chi Man Dennis	
Mr. Wang Yaping	(Appointed on 4 October 2018)
Mr. Cheng Xuezhao	(Appointed on 14 December 2018)
Ms. Leung Sau Fan Sylvia	(Resigned on 4 October 2018)
Mr. Leung Yee Tak	(Resigned on 4 October 2018)

In accordance with the provisions of the Company's articles of association, Mr. Liu Luqiang, Mr. Zhu Jiangfeng, Mr. Xue Qingfu, Mr. Wang Xuejun, Mr. Cheung Chi Man Dennis, Mr. Wang Yaping and Mr. Cheng Xuezhao will retire and are eligible to 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

A non-competition undertaking (the "2016 Undertakings") dated 22 June 2016 was executed in favour of the Company (for itself and as trustee for each of its subsidiaries) by Sky Hero Global Limited, Solid Jewel Investments Limited and Mr. Cui Qi (collectively, the "Covenantors") regarding certain non-competition undertakings. The details of the 2016 Undertakings have been disclosed in the Company's prospectus dated 30 June 2016 under the section headed "Relationship with Controlling Shareholder".

The 2016 Undertakings was no longer valid since the Covenantors ceased to own 30% or more of the then issued share capital of the Company after the disposal of 408,000,000 shares in the Company on 16 August 2018. The Covenantors have confirmed full compliance with the terms of the 2016 Undertakings during the period from 1 January 2018 until 16 August 2018.

DIRECTORS' REPORT (CONTINUED)

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 2018.

Directors Interests in Transactions, Arrangements or Contracts

Save as disclosed in the paragraph headed "Change of Controlling Shareholder" below and elsewhere in this annual report, no other contracts of significance to which the Company or any of its subsidiaries 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, nor had there been any contracts or arrangements in which any of the Directors was materially interested and which was significant in relation to the Group's business as a whole.

Disclosure of Interests

As at 31 December 2018, 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	102,000,000 Long position	12.75%	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")	60.00% Long position	Beneficial owner
Mr. Cui Qi	Sky Hero Global Limited ("Sky Hero")	100.00% Long position	Interest of a controlled corporation ^(Note)

Note: These Shares were held by Sky Hero, which was wholly owned by Solid Jewel, which was in turn owned as to 60% by Mr. Cui Qi.

DIRECTORS' REPORT (CONTINUED)

So far as the Directors are aware, as at 31 December 2018, 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
Qingdao West Coast Holdings (Internation) Limited ^(Note 4)	676,735,000 Long position	84.59%	Beneficial owner
West Coast Investment (Hong Kong) Limited ^(Note 1)	676,735,000 Long position	84.59%	Interest of a controlled corporation
West Coast Holdings (Hong Kong) Limited ^(Note 1)	676,735,000 Long position	84.59%	Interest of a controlled corporation
Qingdao West Coast Holding Development Limited* 青島西海岸控股發展有限公司 ^(Note 1)	676,735,000 Long position	84.59%	Interest of a controlled corporation
Qingdao West Coast Development (Group) Limited* 青島西海岸發展(集團)有限公司 ^(Note 1)	676,735,000 Long position	84.59%	Interest of a controlled corporation
Qingdao State-owned Assets Supervision and Administration Commission of the State Council	676,735,000 Long position	84.59%	Interest of a controlled corporation
Sky Hero	102,000,000 Long position	12.75%	Beneficial owner
Solid Jewel ^(Note 2)	102,000,000 Long position	12.75%	Interest of a controlled corporation
Ms. Mu Zhen ^(Note 3)	102,000,000 Long position	12.75%	Interest of spouse

Note:

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

* For identification purpose only

DIRECTORS' REPORT (CONTINUED)

Major Customers and Suppliers

During the year ended 31 December 2018, the Group's five largest customers in aggregate and the single largest customer accounted for approximately 87.1% (2017: 85.3%) and 45.9% (2017: 26.0%) of the Group's total turnover, respectively.

During the year ended 31 December 2018, the Group's five largest suppliers in aggregate and the single largest supplier accounted for approximately 30.2% (2017: 10.6%) and 10.0% (2017: 3.5%) of the Group's total purchases, respectively.

To the best of the knowledge of the Directors, none of the Directors, their close 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.

Related Party Transactions

Related party transactions entered into by the Group during the year ended 31 December 2018 are disclosed in note 26 to the consolidated 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 2018, the Group had carried out the following non-exempt continuing connected transactions.

Vessel chartering framework agreement

The Group entered into a vessel chartering framework agreement ("2017 Framework Agreement") with Shenzhen Changsheng Marine Engineering Limited* (深圳長盛海事工程有限公司) ("Shenzhen Changsheng"), a connected party, on 18 July 2017 for chartering of vessels. Particulars of the 2017 Framework Agreement are set out below.

Date:

18 July 2017

Charter period:

18 July 2017 to 31 December 2019

Parties:

- (i) Prosper Construction Group Limited ("Prosper BVI") (as charterer for and on behalf of the Group)
- (ii) Shenzhen Changsheng (as owner)

DIRECTORS' REPORT (CONTINUED)

Connected relationship:

Prosper BVI is a wholly owned subsidiary of the Company.

Shenzhen Changsheng is owned as to 10% by executive Director Mr. Cui Qi ("Mr. Cui") and the remaining 90% 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 during the charter period. 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 2017 Framework Agreement, members of the Group may enter into individual agreements with Shenzhen Changsheng in respect of the chartering of vessels subject to terms and conditions in compliance with the 2017 Framework Agreement.

Reasons for the transaction:

The number of vessels currently owned by the Group that are available for imminent deployment outside of Hong Kong is inadequate to support the Group's demand for vessels under its upcoming projects, including but not limited to a new project in Macao secured by the Group during the year 2017. The 2017 Framework Agreement allows the Group to deploy vessels to its marine construction projects in an efficient and cost-effective manner, without needing to resort to chartering vessels from other third party owners.

The Directors consider that the chartering of vessels from Shenzhen Changsheng pursuant to the 2017 Framework Agreement is beneficial to the Group's expansion strategy and allows the Group to undertake new marine construction projects in future.

Annual cap:

Year ending 31 December 2017: HK\$15,660,000

Year ending 31 December 2018: HK\$22,300,000

Year ending 31 December 2019: HK\$22,300,000

Actual transaction amount:

Year ended 31 December 2017: HK\$8,120,000

Year ended 31 December 2018: HK\$8,965,000

DIRECTORS' REPORT (CONTINUED)

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.

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 ended 31 December 2018 amounted to approximately HK\$2.4 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 (collectively, the “PTIR Loan Agreements”), 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 (collectively, the “PTIR Pledge of Shares Agreements”), 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 Power of Attorney ("PoA") for Selling Shares

Johannes Wargo appointed HKR as his attorney on 5 October 2015 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 appointed HKR as his attorney on 5 May 2016 to (i) attend all general meetings 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 (collectively, the "PTIR Assignment of Dividends Agreements"), 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 (collectively, the "PTHKRE Loan Agreements"), 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 (collectively, the "PTHKRE Pledge of Shares Agreements"), 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 appointed HKR as his attorney on 16 November 2015 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.

9. PTHKRE PoA to Vote

Harris appointed HKR as his attorney on 5 May 2016 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.

DIRECTORS' REPORT (CONTINUED)

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 (collectively, the "PTHKRE Assignment of Dividends Agreements"), 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 2018, no new contract had been 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.

PTHKRE was voluntarily dissolved on 28 February 2018 and all the documents pursuant to the Contract Arrangements in relation to the shareholdings of PTHKRE have since ceased to be in effect.

Except in relation to PTHKRE as mentioned above, the Contractual Arrangements have remained unchanged 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 2018.

DIRECTORS' REPORT (CONTINUED)

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to 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 issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group on page pages 24 to 28 of this annual report in accordance with paragraph 14A. 56 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

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 throughout the year ended 31 December 2018 that provides appropriate insurance cover for the Directors.

Compliance with Laws and Regulations

The operations of the Group are primarily carried out by the Company's subsidiaries in Hong Kong, Macao, Indonesia and Malaysia. The Group's establishment and operations shall comply with relevant laws and regulations in each of the above jurisdictions. During the year ended 31 December 2018 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 respects.

Change of Controlling Shareholder

The Company was informed by Sky Hero Global Limited (the "Vendor") that, on 18 July 2018 after trading hours, the Vendor, Qingdao West Coast Holdings (Internation) Limited (the "Offeror"), Mr. Cui Qi and Mr. Yu Ming entered into a sale and purchase agreement pursuant to which the Vendor conditionally agreed to sell and the Offeror conditionally agreed to acquire a total of 408,000,000 shares (the "Sale Shares"), representing approximately 51.00% of the entire issued share capital of the Company as at the date of the joint announcement published by the Company and the Offeror dated 1 August 2018, for a consideration of HK\$537,540,000 (equivalent to HK\$1.3175 per Sale Share) (the "Share Purchase"). The consideration for the Sale Shares was determined after arm's length negotiations between the Vendor and the Offeror. The Share Purchase was completed on 16 August 2018.

Immediately following the completion of the Share Purchase, the Offeror, its ultimate beneficial owner and parties acting in concert with any of them were interested in 408,000,000 shares, representing approximately 51.00% of the total issued share capital of the Company.

Pursuant to Rule 26.1 of the Hong Kong Code on Takeovers and Mergers, the Offeror made a mandatory unconditional cash offer (the "Offer") for all the issued shares of the Company not already owned or agreed to be acquired by the Offeror and parties acting in concert with it. The Offer, as made, was unconditional in all respects and the principal terms were set out in the joint announcement published by the Offeror and the Company dated 1 August 2018.

DIRECTORS' REPORT (CONTINUED)

The Offer was closed at 4:00 p.m. on 3 October 2018 (the "Offer Date") and was not revised or extended by the Offeror. As at 4:00 p.m. on the Offer Date, being the latest time and date for acceptance of the Offer, the Offeror received valid acceptances in respect of the Offer for a total of 260,935,000 shares, representing approximately 32.62% of the entire issued share capital of the Company. After the completion of the Offer, the Offeror and the parties acting in concert with it was interested in 668,935,000 shares, representing approximately 83.62% of the entire issued share capital of the Company.

Details of, among others, the change of controlling shareholder of the Company and the Offeror were set out in the joint announcement issued by the Offeror and the Company dated 1 August 2018, the composite offer and response document jointly issued by the Offeror and the Company dated 12 September 2018 and the joint announcement issued by the Offeror and the Company dated 3 October 2018.

Sufficiency of Public Float

Following the close of the Offer on 3 October 2018, 29,065,000 shares were held by the public (within the meanings of the Listing Rules), representing approximately 3.63% of the total number of issued share capital of the Company. Accordingly, less than 25% of the total number of issued shares (being the minimum prescribed percentage applicable to the Company) were held by the public and the Company did not satisfy the minimum public float requirement as set out under Rule 8.08(1)(a) of the Listing Rules. Trading in Shares on the Stock Exchange had been suspended since 4 October 2018 as the percentage of public float of the Company fell below 15% pursuant to Rule 8.08(1)(b) of the Listing Rules. An application was made by the Company to the Stock Exchange for a temporary waiver from the strict compliance with Rules 8.08(1)(a) of the Listing Rules. On 12 October 2018, the Stock Exchange had granted the waiver to the Company for a period from 3 October 2018 (i.e. closing date of the Offer) to 31 December 2018 (the "Waiver"). The Company had been informed by the Offeror that on 19 December 2018, the Offeror had completed a placement of its 94,200,000 shares, representing approximately 11.78% of the entire issued share capital of the Company, to a third party independent of and not a core connected person (as defined under the Listing Rules) of the Company. Immediately completion of the aforementioned placement, a total of 123,265,000 shares, representing approximately 15.41% of the entire issued share capital of the Company, were held by the public. The Company was then informed by the Offeror that additional time was required to place down further Shares in order to restore the public float of the Company as required under Rule 8.08(1)(a) of the Listing Rules. Applications were made by the Company to the Stock Exchange for extension of the Waiver. On 27 December 2018, the Stock Exchange had granted the Company an extension of the Waiver for the period from 1 January 2019 to 1 February 2019. On 8 February 2019, the Stock Exchange had further granted the Company an extension of the Waiver for the period from 1 February 2019 to 30 April 2019.

Details of public float of the Company were set out in the joint announcement issued by the Offeror and the Company dated 3 October 2018, and announcements issued by the Company dated 12 October 2018, 31 December 2018, 30 January 2019 and 8 February 2019.

DIRECTORS' REPORT (CONTINUED)

Auditor

The consolidated financial statements for the year ended 31 December 2018 have been audited by PricewaterhouseCoopers, who will retire, and being eligible, offer themselves for re-appointment. A resolution to re-appoint PricewaterhouseCoopers will be proposed at the forthcoming annual general meeting of the Company.

By order of the Board of
Prosper Construction Holdings Limited

Liu Luqiang
Chairman and Executive Director

Hong Kong, 26 March 2019

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Liu Luqiang, aged 50, joined the Group in October 2018 and is an executive Director and the chairman of the Board. Mr. Liu has accumulated over 20 years of experience in municipal planning, design and management, government administration, and corporate operation and management. Mr. Liu holds a postgraduate degree in technology economics and business administration from Tianjin University and the professional title of senior engineer. He has been serving as (i) the chairman and the secretary of the party committee of Qingdao West Coast Development (Group) Limited* 青島西海岸發展(集團)有限公司, an indirect controlling shareholder of the Company, since August 2018 and July 2018, respectively; (ii) the general manager and director of Qingdao West Coast Development (Group) Limited* 青島西海岸發展(集團)有限公司 since March 2015; and (iii) the chairman of Qingdao West Coast Holding Development Limited* 青島西海岸控股發展有限公司, an indirect controlling shareholder of the Company, since November 2017.

Mr. Liu is also a director of two of the Group's subsidiaries and the chairman of the nomination committee of the Board. As chairman of the Board, Mr. Liu leads and coordinates the operation of the Board in formulating Company's goals and governance practices.

Mr. Cui Qi, aged 56, is an executive Director and CEO. Mr. Cui together with Mr. Yu Ming acquired Hong Kong River Engineering Company Limited and founded the Group in March 2001. He has over 30 years of experience in the marine construction industry. 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 key operating subsidiaries of the Group except PT. Indonesia River Engineering, of which he is the commissioner and the chairman of the risk management committee of the Board. He is primarily responsible for the business strategies and operation of the Group in Hong Kong, Macao and overseas locations. Mr. Cui held 60% of Solid Jewel Investments Limited which wholly owned Sky Hero Global Limited, which was beneficially interested in 102,000,000 Shares, representing 12.75% of the Company's issued shares.

Mr. Zhu Jiangfeng, aged 41, is an executive Director and joined the Group in October 2018. Mr. Zhu has over 15 years of experience in marketing and business management and holds a master's degree in management from Renmin University of China. He has been serving as the assistant to the general manager of Qingdao West Coast Development (Group) Limited* 青島西海岸發展(集團)有限公司 since June 2014, and the chairman and general manager of Qingdao Big Data Technology Development Co., Ltd* 青島大數據科技發展有限公司 since November 2017.

Mr. Zhu is also a director of all subsidiaries of the Group in Hong Kong, Macao and the British Virgin Islands and a member of the nomination committee of the Board. Mr. Zhu is primarily responsible for the overall business strategies of the Group.

Mr. Xue Qingfu, aged 47, is an executive Director and joined the Group in October 2018. Mr. Xue has accumulated over 10 years of experience in finance and internal control management and holds a master's degree (part-time) in software engineering from Beijing Jiaotong University. Since November 2014, he has been the head of finance department and project costing department of Qingdao West Coast Development (Group) Limited* 青島西海岸發展(集團)有限公司 and serving as director or supervisor of its several subsidiaries, such as supervisor of Qingdao West Coast Holding Development Limited* 青島西海岸控股發展有限公司.

Mr. Xue is also a director of all subsidiaries of the Group in Hong Kong, Macao and the British Virgin Islands and a member of the risk management committee of the Board. Mr. Xue is mainly responsible for the internal control of the Group.

DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Non-executive Director

Mr. Wang Xuejun (“XJ Wang”), aged 56, is a non-executive Director and joined the Group in October 2018. Mr. XJ Wang has more than 20 years of experience in government administration, transportation supervision, and enterprise management and holds a bachelor degree in Chinese from Shandong College of Education* 山東省教育學院. He has been serving as the general manager of Qingdao West Coast Holding Development Limited* 青島西海岸控股發展有限公司 since November 2015, and the deputy general manager of Qingdao West Coast Development (Group) Limited* 青島西海岸發展(集團)有限公司 since September 2012.

Independent Non-executive Director

Mr. Cheung Chi Man Dennis, aged 51, is an independent non-executive Director and joined the Group in August 2017. Mr. Cheung holds a master’s degree in commerce from the University of New South Wales, Australia and a bachelor’s degree in mechanical engineering from Imperial College, London, United Kingdom. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a certified tax adviser of The Taxation Institute of Hong Kong. Mr. Cheung has over 20 years experience in financial management, treasury and company secretarial matters and is an independent non-executive director of New Western Group Limited (formerly known as Megalogic Technology Holdings Limited), a company listed on the Stock Exchange (stock code: 8242) since 30 April 2015.

Mr. Cheung is the chairman of the audit committee and a member of the remuneration committee, nomination committee and risk management committee of the Board.

Mr. Wang Yaping (“YP Wang”), aged 55, is an independent non-executive Director and joined the Group in October 2018. Mr. YP Wang has over 20 years of experience in law and graduated from East China College of Political Science and Law* 華東政法學院 (now known as East China University of Political Science and Law* 華東政法大學) with a bachelor’s degree in law. He was admitted as a PRC lawyer in February 1989 and was accredited as a second-grade lawyer by the Department of Justice of Shandong Province* 山東省司法廳 in June 1998. Mr. YP Wang currently serves as an executive director and a senior partner of Shandong Qindao Law Office* 山東琴島律師事務所, a vice president of Shandong Lawyers Association, the president of Qingdao Lawyers Association* 青島市律師協會, an independent non-executive director of Qingdao Port International Co., Ltd. 青島港國際股份有限公司 (a company listed on the Stock Exchange with stock code 6198), a supervisor of Tsingtao Brewery Company Limited* 青島啤酒股份有限公司 (a company listed on the Stock Exchange and the Shanghai Stock Exchange, with stock code 00168 and 600600 respectively), and an independent director of Qingdao Tianneng Heavy Industries Co., Ltd.* 青島天能重工股份有限公司 (a company listed on the Shenzhen Stock Exchange, with stock code 300569), an independent director of Qingdao Conson Financial Holdings Co., Ltd.* 青島國信金融控股有限公司, and an independent director of Qingdao BAHEAL Pharmaceutical Co., Ltd* 青島百洋醫藥股份有限公司.

Mr. YP Wang is the chairman of the remuneration committee and a member of the audit committee, nomination committee and risk management committee of the Board.

DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Cheng Xuezhao, aged 50, is an independent non-executive Director and joined the Group in December 2018. Mr. Cheng has accumulated over 20 years of experience in financial and business management. Mr. Cheng holds a diploma majoring in English language and literature from Shandong Normal University (山東師範大學) in Jinan, a master's degree in English language and literature from Shandong University (山東大學) in Jinan and a master's degree in business administration from Wright State University in Dayton, Ohio, U.S. Mr. Cheng is currently an independent non-executive director of Qilu Expressway Company Limited, a company listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange") (stock code: 1576) and he also serves as an assistant general manager of Hualu Holdings Co., Ltd. (華魯控股集團有限公司) and vice chairman of the board of directors and general manager of China Shandong Group Limited (華魯集團有限公司), a director of Hualu International Financial Leasing Co., Ltd. (華魯國際融資租賃有限公司) and a director of Hualu Investment Development Co., Ltd. (華魯投資發展有限公司). During the past three years, Mr. Cheng also served as a director of Shandong Hualu-Hensheng Chemical Co., Ltd. (listed on the Shanghai Stock Exchange, stock code: 600426) from March 2015 to April 2018. Mr. Cheng is a member of each of the audit committee, remuneration committee, nomination committee and risk management committee of the Board.

Save as disclosed above, each of our Directors (i) did not hold other positions in our Company or other members of our 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.

34 Senior Management

Ms. Kui Ching Wah, aged 56, is the deputy general manager of the Company and was an executive director of the Company from June 2015 until October 2018. 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.

Mr. Yu Ming, aged 56, is the chief engineer of the Company and was an executive director of the Company from June 2015 until October 2018. Mr. Yu together with Mr. Cui Qi acquired Hong Kong River Engineering Company Limited and founded the Group in March 2001. Mr. Yu has over 30 years of experience in the marine construction industry and is in charge of 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.

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



羅兵咸永道

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 42 to 113, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- 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 2018, 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 (CONTINUED)

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 matters identified in our audit are summarised as follows:

- Accounting for construction contracts — estimated costs and profit recognition
- Impairment assessment of trade and retention receivables and contract assets

Key Audit Matters

How our audit addressed the Key Audit Matters

Accounting for construction contracts — estimated costs and profit recognition

Refer to Note 2.20 in the summary of significant accounting policies, Note 4(a), Note 5 and Note 16 to the consolidated financial statements.

For the year ended 31 December 2018, segment results from marine construction works amounted to HK\$52,000.

The Group applied the input method in recognising the revenue from construction contracts over time by reference to the Group's efforts or inputs to the satisfaction on a performance obligation relative to the total expected inputs to the satisfaction of the performance obligation.

Recognition of profit on construction 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, for which significant management judgement and estimates are involved.

Our procedures in relation to management's accounting for the progress towards complete satisfaction of the performance obligation, estimated costs and profit recognition of construction contracts included:

- Obtaining an understanding and tested the key controls over the budgetary process;
- Comparing the historical actual gross profit margin to those budgeted to assess the quality of management budgetary process;
- Inspecting material marine construction contracts of the Group for agreed contract amount and variations, if any;
- Checking the Group's efforts to the satisfaction on the Group's performance obligation by reference to the proportion of contract costs incurred for work performed to date to the estimated total construction costs of the selected contracts. We tested, on a sample basis, the revenue recognition based on the Group's efforts and the calculations of gross profits;

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key Audit Matters

How our audit addressed the Key Audit Matters

Profit and cost recognition from construction contracts, as stated above, requires significant time and resources to audit due to the magnitude as well as the significant judgement and estimates involved.

- Selecting, on a sample basis, contracts to examine management's budget of the cost components, such as costs of materials, subcontracting fees and labour costs. We compared the budgeted component cost to supporting documents including but not limited to invoices, price quotation and rate of labour costs. For each selected contract, we also compared cost component of the actual cost incurred up to year end to the budgeted cost and obtained explanation from management for any material variation; and
- Discussing the status of projects with the Group's quantity surveyors and project managers, 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. Where necessary, we obtained written opinion from the Group's external legal adviser and discussed with the adviser the basis in concluding the minimum amount which would be recovered from the project. We checked relevant evidence including agreements, correspondence with customers, for corroboration of their explanations.

Based on the above audit procedures performed, we found that the judgement and estimates adopted by management in determining the estimated contract costs and profit recognition of construction contracts were supported by the evidence we obtained.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key Audit Matters

How our audit addressed the Key Audit Matters

Impairment assessment of trade and retention receivables and contract assets

Refer to Note 2.11 in the summary of significant accounting policies, Note 4(d), Notes 15 and 16 to the consolidated financial statements.

As at 31 December 2018, the Group had gross trade and retention receivables and contract assets approximately HK\$356,863,000 and HK\$81,423,000 respectively and provision for impairment of approximately HK\$7,802,000 and HK\$3,280,000 respectively.

Management performed periodic assessment on the recoverability of the trade and retention receivables and contract assets and the sufficiency of provision for impairment based on information including credit profile of customers, ageing of the trade and retention receivables and contract assets, historical settlement records, subsequent settlement status, expected timing and amount of realisation of outstanding balances, and on-going business relationships with the relevant customers.

Expected credit losses are also estimated by grouping the trade and retention receivables and contract assets based on shared credit risk characteristics and collectively assessed for likelihood of recovery, taking into account the nature of the customer and its ageing category, and applying expected credit loss rates to the respective gross carrying amounts of the receivables.

Management also considered forward-looking information that may impact the customers' ability to repay the outstanding balances in order to estimate the expected credit losses for the impairment assessment.

We focused on this area due to the fact that the impairment assessment of trade and retention receivables and contract assets under the expected credit losses model involved the use of significant management judgement and estimates.

Our audit procedures in relation to management's impairment assessment of the trade and retention receivables and contract assets as at 31 December 2018 included:

- Understanding and evaluating the key controls that the Group has implemented to manage and monitor its credit risk, and validating the control effectiveness on a sample basis;
- Testing, on a sample basis, the accuracy of ageing profile on trade and retention receivables by checking to the underlying invoices;
- Inquiring of management for the status of each of the material trade and retention receivables past due as at year end and corroborating explanations from management with supporting evidence, such as performing public searches of credit profile of selected customers, understanding on-going business relationship with the customers based on trade records, checking historical and subsequent settlements records and other correspondence with the customers;
- Assessing the appropriateness of the expected credit loss provision methodology, examining the key inputs on a sample basis to assess their accuracy and completeness, and challenging the assumptions, including both historical and forward-looking information, used to determine the expected credit losses; and
- 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.

Based on the above audit procedures performed, we found that the management judgement and estimates used to access the recoverability of the trade and retention receivables and contract assets and determine the impairment provision were supported by the evidence we obtained.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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 HKSAAs 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 HKSAAs, we exercise professional judgement 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.
- 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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, 26 March 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	2018 HK\$'000	2017 HK\$'000
Revenue	5	384,576	633,347
Cost of sales	7	(313,276)	(539,040)
Gross profit		71,300	94,307
Other income and gains	6	3,071	3,599
Loss on disposal of a joint venture	18(a)	—	(294)
Impairment losses on financial assets	15, 16	(8,031)	—
Other administrative expenses	7	(28,381)	(26,320)
Operating profit		37,959	71,292
Finance income	8	2,189	718
Finance costs	8	(6,739)	(4,833)
Finance costs, net	8	(4,550)	(4,115)
Profit before income tax		33,409	67,177
Income tax expenses	9	(2,994)	(2,707)
Profit for the year		30,415	64,470
Other comprehensive loss <i>Item that may be subsequently reclassified to profit or loss</i>			
Currency translation differences		(8,858)	(177)
Profit and total comprehensive income attributable to equity holders of the Company		21,557	64,293
Basic and diluted earnings per share (HK cents)	11	3.80	8.06

The notes on pages 47 to 113 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2018

	Note	2018 HK\$'000	2017 HK\$'000
ASSETS			
Non-current assets			
Plant and equipment	14	217,620	230,185
Investment in a joint venture	18(a)	—	—
Deposits	15	8,279	8,387
		225,899	238,572
Current assets			
Trade and retention receivables	15	349,061	309,571
Deposits, prepayments and other receivables	15	26,280	8,830
Contract assets	16	78,143	—
Amounts due from contract customers		—	73,615
Amounts due from the other partner of a joint operation		129	50
Income tax recoverable		3,631	2,529
Time deposits with maturity over 3 months	17	16,353	15,103
Pledged bank deposits	17	13,200	24,251
Cash and cash equivalents	17	106,657	193,348
		593,454	627,297
Total assets		819,353	865,869
EQUITY			
Capital and reserves			
Share capital	19(a)	8,000	8,000
Reserves	19(b)	491,680	496,416
Total equity		499,680	504,416

CONSOLIDATED BALANCE SHEET (CONTINUED)

As at 31 December 2018

	Note	2018 HK\$'000	2017 HK\$'000
LIABILITIES			
Non-current liabilities			
Borrowings	22	788	12,500
Deferred income tax liabilities	20	11,655	8,473
		12,443	20,973
Current liabilities			
Trade and retention payables	21	42,055	61,551
Accruals and other payables	21	16,295	18,028
Contract liabilities	16	100,900	—
Amounts due to contract customers		—	96,724
Amount due to a related company	26(d)	6,507	—
Borrowings	22	138,958	160,266
Income tax payable		2,515	3,911
		307,230	340,480
Total liabilities		319,673	361,453
Total equity and liabilities		819,353	865,869

The consolidated financial statements on pages 42 to 113 were approved by the Board of Directors on 26 March 2019 and were signed on its behalf.

Mr. Cui Qi
Director

Mr. Zhu Jiangfeng
Director

The notes on pages 47 to 113 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As at 31 December 2018

	Share capital HK\$'000 (note 19(a))	Share premium HK\$'000 (note 19(b))	Other reserves HK\$'000 (note 19(b))	Exchange reserves HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2017	8,000	214,840	23,104	—	218,179	464,123
Comprehensive income						
Profit for the year	—	—	—	—	64,470	64,470
Exchange differences	—	—	—	(177)	—	(177)
Contribution by and distribution to owner						
Dividends paid	—	—	—	—	(24,000)	(24,000)
At 31 December 2017	8,000	214,840	23,104	(177)	258,649	504,416
At 31 December 2017 as originally presented	8,000	214,840	23,104	(177)	258,649	504,416
Change in accounting policy (note 2.1.1(a))	—	—	—	—	(10,293)	(10,293)
Total equity at 1 January 2018, as restated	8,000	214,840	23,104	(177)	248,356	494,123
Comprehensive income						
Profit for the year	—	—	—	—	30,415	30,415
Exchange differences	—	—	—	(8,858)	—	(8,858)
Contribution by and distribution to owner						
Dividends paid (note 10)	—	—	—	—	(16,000)	(16,000)
At 31 December 2018	8,000	214,840	23,104	(9,035)	262,771	499,680

The notes on pages 47 to 113 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 HK\$'000	2017 HK\$'000
Cash flows from operating activities			
Net cash used in operations	25(a)	(31,640)	(25,030)
Interest received		2,189	718
Interest paid		(6,739)	(4,833)
Income tax paid		(13)	(1,300)
Net cash used in operating activities		(36,203)	(30,445)
Cash flows from investing activities			
Payments of plant and equipment		(13,666)	(77,452)
Decrease in deposits for purchase of plant and equipment		108	8,889
Proceeds from disposal of plant and equipment	25(b)	1,937	—
Increase in time deposits with maturity over 3 months		(1,250)	(5,161)
Decrease/(increase) in pledged bank deposits		11,051	(3,220)
Net cash used in investing activities		(1,820)	(76,944)
Cash flows from financing activities			
Proceeds from borrowings		56,000	164,665
Repayments of borrowings		(89,020)	(60,085)
Dividend paid		(16,000)	(24,000)
Net cash (used in)/generated from financing activities		(49,020)	80,580
Net decrease in cash and cash equivalents			
Cash and cash equivalents at beginning of the year		193,348	220,157
Effect of foreign exchange rate changes		352	—
Cash and cash equivalents at end of the year	17	106,657	193,348

The notes on pages 47 to 113 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

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

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

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

2 Summary of significant accounting policies

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

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") and requirements of the Hong Kong Companies Ordinance (Cap. 622). The consolidated financial statements have been prepared under the historical cost convention.

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

2.1.1 Changes in accounting policy and disclosures

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

A number of new or amended standards became applicable for the current reporting period. Of these, the following are relevant to the Group's consolidated financial statements.

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

The other standards did not have material impact on the Group's accounting policies and did not require any adjustments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policy and disclosures (Continued)

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

The below explains the impact of adoption of HKFRS 9 Financial Instruments (“HKFRS 9”) and HKFRS 15 Revenue from Contracts with Customers (“HKFRS 15”) on the Group’s consolidated financial statements.

(i) **Adoption of HKFRS 9**

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

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

Classification and measurement of financial instruments

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

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

Impairment of financial assets

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

- trade and retention receivables
- contract assets relating to construction services
- other financial assets at amortised cost

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policy and disclosures (Continued)

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

(i) **Adoption of HKFRS 9 (Continued)**

Impairment of financial assets (Continued)

(i) Trade and retention receivables and contract assets

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected losses for all trade and retention receivables and contract assets. This resulted in an increase of the loss allowance on 1 January 2018 by HK\$2,428,000 for trade and retention receivables and HK\$623,000 for contract assets respectively. Note 3.1(b) provides for details about the calculation of the allowance.

The loss allowance increased by a further HK\$5,374,000 to HK\$7,802,000 for trade and retention receivables and by HK\$2,657,000 to HK\$3,280,000 for contract assets during the current reporting period.

(ii) Other financial asset at amortised cost

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policy and disclosures (Continued)

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

(ii) **Adoption of HKFRS 15**

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

(i) Construction services

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

(ii) Contract assets and contract liabilities

Upon entering into a contract with a customer, the Group obtains rights to receive consideration from the customer and assume performance obligations to transfer goods or services to the customer. The combination of those rights and performance obligations give rise to a net asset or net liability depending on the relationship between the remaining rights and the performance obligations. In the consolidated balance sheet, the contract assets mainly consist of unbilled revenue arising from the construction contracts and contract liabilities mainly consist of the Group's obligations to transfer the control of performance obligation to the customers for which the Group has received consideration from the customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policy and disclosures (Continued)

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

(iii) **Impact to the financial statements of adoption of HKFRS 9 and 15**

The following tables summarise the impacts of adopting HKFRS 9 and HKFRS 15 on the Group's consolidated financial statements for the year ended 31 December 2018.

Consolidated balance sheet

	As previously stated HK\$'000	Effects of the adoption of HKFRS 15 HK\$'000	Effects of the adoption of HKFRS 9 HK\$'000	As restated HK\$'000
As at 1 January 2018				
ASSETS				
Trade and retention receivables	309,571	—	(2,428)	307,143
Contract assets	—	75,431	(623)	74,808
Amounts due from contract customers	73,615	(73,615)	—	—
Income tax recoverable	2,529	895	—	3,424
Others	480,154	—	—	480,154
Total assets	865,869	2,711	(3,051)	865,529
LIABILITIES				
Contract liabilities	—	106,677	—	106,677
Amounts due to contract customers	96,724	(96,724)	—	—
Others	264,729	—	—	264,729
Total liabilities	361,453	9,953	—	371,406
EQUITY				
Retained earnings	258,649	(7,242)	(3,051)	248,356
Others	245,767	—	—	245,767
Total equity	504,416	(7,242)	(3,051)	494,123

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policy and disclosures (Continued)

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

(iii) **Impact to the financial statements of adoption of HKFRS 9 and 15 (Continued)**

Consolidated balance sheet (Continued)

	Without the adoption of HKFRS 9 and 15 HK\$'000	Effect of the adoption of HKFRS 15 HK\$'000	Effect of the adoption of HKFRS 9 HK\$'000	As reported HK\$'000
As at 31 December 2018				
ASSETS				
Trade and retention receivables	356,863	—	(7,802)	349,061
Contract assets	—	81,423	(3,280)	78,143
Amounts due from contract customers	79,963	(79,963)	—	—
Income tax recoverable	2,736	895	—	3,631
Others	388,518	—	—	388,518
Total assets	828,080	2,355	(11,082)	819,353
LIABILITIES				
Contract liabilities	—	100,900	—	100,900
Amounts due to contract customers	95,052	(95,052)	—	—
Income tax payable	2,591	(76)	—	2,515
Others	216,035	735	(512)	216,258
Total liabilities	313,678	6,507	(512)	319,673
EQUITY				
Retained earnings	277,493	(4,152)	(10,570)	262,771
Others	236,909	—	—	236,909
Total equity	514,402	(4,152)	(10,570)	499,680

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policy and disclosures (Continued)

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

(iii) **Impact to the financial statements of adoption of HKFRS 9 and 15 (Continued)**

Consolidated statement of comprehensive income

	Without the adoption of HKFRS 9 and 15 HK\$'000	Effect of the adoption of HKFRS 15 HK\$'000	Effect of the adoption of HKFRS 9 HK\$'000	As reported HK\$'000
For the year ended 31 December 2018				
Revenue	386,165	(1,589)	–	384,576
Cost of sales	(318,612)	5,338	–	(313,274)
Other administrative expenses	(28,381)	–	(8,031)	(36,412)
Others	(1,479)	–	–	(1,479)
Profit before income tax	37,693	3,749	(8,031)	33,411
Income tax expenses	(2,849)	(659)	512	(2,996)
Profit for the year	34,844	3,090	(7,519)	30,415
Earnings per share attributable to equity holders of the Company – Basic and diluted (HK cents)	4.36	0.38	(0.94)	3.80

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policy and disclosures (Continued)

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

(iii) **Impact to the financial statements of adoption of HKFRS 9 and 15 (Continued)**

Consolidated statement of cash flows

	Without the adoption of HKFRS 9 and 15 HK\$'000	Effect of the adoption of HKFRS 15 HK\$'000	Effect of the adoption of HKFRS 9 HK\$'000	As reported HK\$'000
For the year ended 31 December 2018				
Profit before income tax	37,693	3,747	(8,031)	33,409
Change in working capital:				
Contract assets – Amounts due from contract customers	(6,395)	(2,300)	2,657	(6,038)
Contract liabilities – Amounts due to contract customers	(1,672)	(4,105)	–	(5,777)
Trade and retention receivables	(62,269)	–	5,374	(56,895)
Others	(3,560)	2,658	–	(902)
Net cash used in operations	(36,203)	–	–	(36,203)
Net cash used in investing activities	(1,820)	–	–	(1,820)
Net cash used in financing activities	(49,020)	–	–	(49,020)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policy and disclosures (Continued)

(b) *Impact of standards issued but not yet applied by the Group*

HKFRS 16

The Group is a lessee of various properties which are currently classified as operating leases. The current accounting policy of such leases and the Group's future operating lease commitments are set out in note 2.22 and note 23(a) to the consolidated financial statements, respectively.

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

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

The Group does not expect that the adoption of HKFRS 16 will have significant impact on the Group's net profit in the future.

2.2 Principles of consolidation and equity accounting

(a) Subsidiaries

Subsidiaries are all 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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. The acquisition method of accounting is used to account for business combinations by the Group.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated balance sheet respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Summary of significant accounting policies (Continued)

2.2 Principles of consolidation and equity accounting (Continued)

(b) Joint arrangement

Under HKFRS 11 *Joint Arrangements* investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group has both joint operations and joint ventures.

Joint operations

The Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings. Details of the joint operation are set out in note 18(b).

Joint ventures

Interests in joint ventures are accounted for using the equity method (see (c) below), after initially being recognised at cost in the consolidated balance sheet.

(c) Equity accounting

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in the consolidated statement of comprehensive income, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividend received or receivable from associated companies are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

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

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in note 2.8.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Summary of significant accounting policies (Continued)

2.2 Principles of consolidation and equity accounting (Continued)

(d) Change in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Company.

When the Group ceases to consolidate or equity account for an investment because of a loss of control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in the consolidated statement of comprehensive income. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associated company, 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 consolidated statement of comprehensive income or transferred to another category of equity as specified/permitted by applicable HKFRSs.

If the ownership interest in an associated company is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to the consolidated statement of comprehensive income where appropriate.

2.3 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Summary of significant accounting policies (Continued)

2.3 Business combinations (Continued)

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in the consolidated statement of comprehensive income as a bargain purchase.

Contingent consideration payable is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in the consolidated statement of comprehensive income.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in the consolidated statement of comprehensive income.

2.4 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investments. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.5 Segment reporting

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Summary of significant accounting policies (Continued)

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 "other income and gains".

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Summary of significant accounting policies (Continued)

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Summary of significant accounting policies (Continued)

2.9 Investments and other financial assets

(a) Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

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

For assets measured at fair value, gains and losses will either be recorded in the profit and loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(b) Recognition and derecognition

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

(c) Measurement

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

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Summary of significant accounting policies (Continued)

2.9 Investments and other financial assets (Continued)

(c) Measurement (Continued)

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories to classify the debt instruments:

(1) Amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income, except for interest income generated from loan receivables which is included in revenue, using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in the consolidated statement of comprehensive income. Impairment losses are presented as separate line item in the consolidated statement of comprehensive income.

(2) Fair value through other comprehensive income

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in the consolidated statement of comprehensive income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in finance income using the effective interest rate method. Impairment expenses are presented as separate line item in the consolidated statement of comprehensive income.

(3) Fair value through profit or loss

Assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss is recognised in the consolidated statement of comprehensive income in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to the consolidated statement of comprehensive income following the derecognition of the investment. Dividends from such investments continue to be recognised in the consolidated statement of comprehensive income as "other (losses)/gains, net" when the Group's right to receive payments is established.

Changes in the fair value of FVPL are recognised in the consolidated statement of comprehensive income as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at fair value through other comprehensive income are not reported separately from other changes in fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Summary of significant accounting policies (Continued)

2.9 Investments and other financial assets (Continued)

(d) Impairment

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

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

(e) Accounting policies applied until 31 December 2017

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

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

(i) **Reclassification**

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

(ii) **Subsequent measurement**

The measurement at initial recognition did not change on adoption of HKFRS 9, see description above. FVPL and AFS are subsequently carried at fair values. Loans and receivables are subsequently carried at amortised cost using the effective interest method. Changes in the fair value of monetary and non-monetary securities classified as FVPL and AFS are recognised in profit and loss and other comprehensive income, respectively.

When securities classified as AFS are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Summary of significant accounting policies (Continued)

2.9 Investments and other financial assets (Continued)

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

(iii) *Impairment*

The Group assesses at each of the balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

Assets carried at amortised cost

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

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

Assets classified as available-for-sale

If there is objective evidence of impairment for AFS, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated statement of comprehensive income. — is removed from equity and recognised in the consolidated statement of comprehensive income. Impairment losses on equity instruments that were recognised in the consolidated statement of comprehensive income are not reversed through the consolidated statement of comprehensive income in a subsequent period.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Summary of significant accounting policies (Continued)

2.11 Trade and other receivables

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

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

2.12 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.

2.13 Share capital

Ordinary shares are classified as equity.

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

2.14 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.

2.15 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Summary of significant accounting policies (Continued)

2.16 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.

2.17 Current and deferred income tax

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

(a) Current income tax

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

(b) Deferred income tax

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Summary of significant accounting policies (Continued)

2.18 Employee benefits

(a) Employee leave entitlements

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

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

(b) Retirement benefits

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

(c) Termination benefits

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

2.19 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Summary of significant accounting policies (Continued)

2.20 Revenue recognition

- (i) **Construction services**

Revenue from the construction services is recognised over time as the Group's performance creates or enhances an asset or work in progress that the customer controls as the asset is created or enhanced. The Group has applied the input method in recognising the revenue from construction contracts over time by reference to the Group's efforts or inputs to the satisfaction on a performance obligation relative to the total expected inputs to the satisfaction of the performance obligation. The Group considers the input method better depicts the Group's performance in transferring control of goods or services to their customers.
- (ii) **Rental income from vessel chartering and auxiliary marine related services**

The Group provides leasing of vessels and auxiliary marine related services. Revenue is recognised over the period that services are rendered and the Group's performance provide all of the benefits received and consumed simultaneously by the customers.
- (iii) **Contract assets and contract liabilities**

Upon entering into a contract with a customer, the Group obtains rights to receive consideration from the customer and assume performance obligations to transfer goods or services to the customer. The combination of those rights and performance obligations give rise to a net asset or net liability depending on the relationship between the remaining rights and the performance obligations. The contract is an asset and recognised as contract assets if the measure of the remaining conditional rights to consideration exceeds the satisfied performance obligations. Conversely, the contract is a liability and recognised as contract liabilities if consideration received (or an amount of consideration is due) from the customer exceed the measure of the remaining unsatisfied performance obligations. In the interim condensed consolidated balance sheet, the contract assets mainly consist of unbilled revenue arising from the construction contracts and contract liabilities mainly consist of the Group's obligations to transfer the control of performance obligation to the customers for which the Group has received consideration from the customers.
- (iv) **Accounting policies applied until 31 December 2017**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the 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.

Construction services

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Summary of significant accounting policies (Continued)

2.20 Revenue recognition (Continued)

- (iv) Accounting policies applied until 31 December 2017 (Continued)

Construction services (Continued)

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.

Rental income from vessel chartering and auxiliary marine related services

Rental income from vessel chartering and auxiliary marine related services is recognised based on the straight-line basis over the lease terms.

2.21 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.

2.22 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.

2.23 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Summary of significant accounting policies (Continued)

2.24 Contingent liabilities

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

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

3 Financial risk management

3.1 Financial risk factors

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

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

(a) Market risk

(i) **Foreign exchange risk**

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

The Group's transactions are mainly denominated in HK\$, US\$, Indonesia Rupiah ("IDR"), Renminbi ("RMB"), Malaysian Ringgit ("MYR") and Macao Patacas ("MOP"). The majority of assets and liabilities are denominated in HK\$, US\$, IDR, RMB, MYR 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\$, RMB, MYR or MOP, which are the functional currencies of the major operating companies within the Group. The Group currently does not hedge its foreign currency exposure.

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

At 31 December 2018, 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\$5,608,000 (2017: HK\$1,181,000 higher/lower), lower/higher mainly as a result of the foreign exchange difference on translation of RMB denominated cash and cash equivalents, trade and retention receivables and trade and retention payables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) **Foreign exchange risk (Continued)**

At 31 December 2018, 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\$1,821,000 (2017: HK\$360,000) lower/higher, mainly as a result of the foreign exchange difference on translation of IDR denominated cash and cash equivalents and trade and retention receivables.

At 31 December 2018, if MYR had weakened/strengthened by 5% against the HK\$ with all other variables held constant, post-tax profit for the year would have been approximately HK\$18,000 (2017: HK\$232,000) lower/higher, mainly as a result of the foreign exchange difference on translation of IDR denominated cash and cash equivalents and trade and retention receivables.

(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 2018, if the interest rates on borrowings had been 100 basis-points higher/lower with all other variables held constant, pre-tax profit for the year would be HK\$1,367,000 (2017: HK\$1,714,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

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

(i) **Risk management**

For the year ended 31 December 2018, 87.2% (2017: 79.7%) of the Group's revenue was derived from its top five customers. As at 31 December 2018, the Group had concentration of credit risk as 87.1% (2017: 84.2%) of the total trade receivables due from the Group's five (2017: five) 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 is limited because deposits are in banks with sound credit ratings and good payment history. Management does not expect any loss from non-performance by related companies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) *Impairment of financial assets*

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

- trade and retention receivables
- contract assets relating to construction services
- other financial assets at amortised cost

Trade and retention receivables and contract assets

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime loss allowance for all trade and retention receivables and contract assets.

To measure the expected credit losses, trade and retention receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets related to unbilled work in progress and have substantially the same risk characteristics as the trade and retention receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the historical payment profiles of revenue from the contracts and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the default rate of countries in which the customers are based to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

As at 31 December 2018, the expected credit loss of these collectively assessed trade and retention receivables and contract assets was HK\$7,802,000 and HK\$3,280,000 respectively based on expected loss rates ranging from 3.99% to 4.28% applied on different age groupings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) *Impairment of financial assets (Continued)*

Trade and retention receivables and contract assets (Continued)

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

	Contract assets		Trade and retention receivables	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
31 December — calculated under HKAS 39				
Amounts restated through opening retained earnings	623	—	2,428	—
Opening loss allowance as at 1 January 2018 — calculated under HKFRS 9	623	—	2,428	—
Increase in loss allowance recognised in profit or loss during the year	2,657	—	5,374	—
As at 31 December 2018	3,280	—	7,802	—

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) *Impairment of financial assets (Continued)*

Previous accounting policy for impairment of trade and retention receivables

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

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

Cash and cash equivalents and other financial assets at amortised cost

There is no loss allowance for cash and cash equivalents, short-term bank deposits and other financial assets at amortised cost as at 31 December 2018 (2017: same).

(c) Liquidity risk

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 2018				
Trade and retention payables	8,563	33,040	452	42,055
Accruals and other payables	12,167	—	—	12,167
Long-term bank loans and interest payments	110,133	795	—	110,928
Short-term bank loans and interest payments	30,619	—	—	30,619
Amount due to a related company	6,507	—	—	6,507

	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 2017				
Trade and retention payables	57,480	3,406	665	61,551
Accruals and other payables	13,162	—	—	13,162
Long-term bank loans and interest payments	131,326	13,538	—	144,864
Short-term bank loans and interest payments	30,543	—	—	30,543

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3 Financial risk management (Continued)

3.2 Capital risk management (Continued)

The capital structure of the Group consists of equity 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 2018 and 2017 was resulted from the Group's operation. The debt to equity ratios as at 31 December 2018 and 2017 are as follows:

	2018 HK\$'000	2017 HK\$'000
Total borrowings (note 22)	139,746	172,766
Less: cash and cash equivalents, time deposits with maturity over 3 months and pledged bank deposits (note 17)	(136,210)	(232,702)
Net debt/(cash)	3,536	(59,936)
Total equity	499,680	504,416
Total capital	503,216	444,480
Debt to equity ratio	0.71%	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, amount due from the other partners of a joint operation, and trade and retention payables, other payables, amounts due to a related company 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 (CONTINUED)

3 Financial risk management (Continued)

3.4 Financial instruments by category

Assets as per consolidated balance sheet

	Loan and receivables	
	2018 HK\$'000	2017 HK\$'000
Trade and retention receivables, deposits and other receivables	367,329	314,361
Amounts due from the other partner of a joint operation	129	50
Time deposits with maturity over 3 months	16,353	15,103
Pledged bank deposits	13,200	24,251
Cash and cash equivalents	106,657	193,348
Total	503,668	547,113

Liabilities as per consolidated balance sheet

	Other financial liabilities at amortised cost	
	2018 HK\$'000	2017 HK\$'000
Trade and retention payables, accruals and other payables	54,222	70,642
Amounts due to a related company	6,507	—
Borrowings	139,746	172,766
Total	200,475	243,408

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

(b) Income taxes

The Group is subject to income taxes in Hong Kong, Macau and certain overseas tax. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4 Critical accounting estimates and judgements

(c) Impairment of plant and equipment

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

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

(d) Impairment of trade and retention receivables and contract assets

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

5 Revenue and segment information

(a) Revenue

	2018 HK\$'000	2017 HK\$'000
Rendering of services		
– Marine construction works	134,510	469,504
– Leasing of vessels and provision of auxiliary marine related services	250,066	163,843
	384,576	633,347

(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 comprising two operating segments, marine construction works and leasing of vessels and provision of auxiliary marine related services. They review financial information accordingly.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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, amounts due to related parties and certain corporate liabilities.

Profit or loss

	Marine construction works HK\$'000	Leasing of vessels and provision of auxiliary marine related services HK\$'000	Total HK\$'000
For the year ended 31 December 2018			
Segment revenue from external customers	134,510	250,066	384,576
Timing of revenue recognition: Recognised over time	134,510	250,066	384,576
Segment results	52	67,880	67,932
Unallocated expenses			(19,130)
Impairment losses on financial assets			(8,031)
Depreciation			(2,812)
Finance costs, net			(4,550)
Profit before income tax			33,409
Income tax expenses			(2,994)
Profit for the year			30,415
Included in segment results are:			
Depreciation	(8,515)	(6,566)	(15,081)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5 Revenue and segment information (Continued)

(b) Segment information (Continued)

Profit or loss (Continued)

	Marine construction works HK\$'000	Leasing of vessels and provision of auxiliary marine related services HK\$'000	Total HK\$'000
For the year ended 31 December 2017			
Segment revenue from external customers	469,504	163,843	633,347
Timing of revenue recognition:			
Recognised over time	469,504	163,843	633,347
Segment results	32,107	54,085	86,192
Unallocated expenses			(14,748)
Depreciation			(630)
Finance costs, net			(3,637)
Profit before income tax			67,177
Income tax expenses			(2,707)
Profit for the year			64,470
Included in segment results are:			
Depreciation	(8,762)	(5,591)	(14,353)
Finance costs	(478)	—	(478)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5 Revenue and segment information (Continued)

(b) Segment information (Continued)

Assets

	Marine construction works HK\$'000	Leasing of vessels and provision of auxiliary marine related services HK\$'000	Total HK\$'000
At 31 December 2018			
Segment assets	365,840	248,726	614,566
Unallocated assets			204,787
Total assets			819,353
Additions to non-current assets	13,586	—	13,586
At 31 December 2017			
Segment assets	436,416	176,399	612,815
Unallocated assets			253,054
Total assets			865,869
Additions to non-current assets	87,851	—	87,851

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 (CONTINUED)

5 Revenue and segment information (Continued)

(b) Segment information (Continued)

Liabilities

	Marine construction works HK\$'000	Leasing of vessels and provision of auxiliary marine related services HK\$'000	Total HK\$'000
At 31 December 2018			
Segment liabilities	158,412	—	158,412
Borrowings			139,746
Income tax payable			2,515
Deferred tax liabilities			11,655
Unallocated liabilities			7,345
Total liabilities			319,673
At 31 December 2017			
Segment liabilities	169,225	—	169,225
Borrowings			172,766
Income tax payable			3,911
Deferred tax liabilities			8,473
Unallocated liabilities			7,078
Total liabilities			361,453

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

	Year ended 31 December	
	2018 HK\$'000	2017 HK\$'000
Hong Kong	92,731	112,895
Indonesia	7,167	86,345
Macao	54,564	272,542
Malaysia	—	16,171
Pakistan	225,811	145,394
Philippines	4,303	—
	384,576	633,347

Non-current assets

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

	As at 31 December	
	2018 HK\$'000	2017 HK\$'000
Hong Kong	203,138	213,284
Indonesia	11,144	12,899
Macao	3,323	3,981
Malaysia	15	21
	217,620	230,185

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5 Revenue and segment information (Continued)

(b) Segment information (Continued)

Non-current assets (Continued)

(ii) Based on physical location of the assets:

	As at 31 December	
	2018 HK\$'000	2017 HK\$'000
Cambodia	6,905	—
Hong Kong	121,158	129,569
Indonesia	11,144	12,899
Macao	18,414	3,981
Mainland China	14,839	—
Malaysia	15	30,170
Pakistan	29,387	53,566
Philippines	15,758	—
	217,620	230,185

(c) Information about major customers

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

	2018 HK\$'000	2017 HK\$'000
Customer A	176,545	145,186
Customer B	49,265	—
Customer C	47,777	164,954

6 Other income and gains

	2018 HK\$'000	2017 HK\$'000
Gains on disposal of plant and equipment	702	3,409
Foreign exchange gains	1,389	174
Sales of scrap iron	980	—
Others	—	16
	3,071	3,599

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7 Expenses by nature

	2018 HK\$'000	2017 HK\$'000
Cost of providing services		
Consultancy and design fee	8,715	70,937
Depreciation	17,592	14,353
Insurance	2,560	1,861
Materials	54,956	198,973
Subcontracting charges	93,739	79,268
Staff costs (note)	44,026	40,335
Rental expenses for machineries and equipment	37,567	41,739
Repair and maintenances	15,542	19,350
Transportation	11,674	26,180
Site expenses	4,286	20,325
Customs duties	8	1,504
Others	22,611	24,215
	313,276	539,040
Other administrative expenses		
Staff costs, including directors' emoluments (note)	10,164	9,760
Auditors' remuneration	1,550	1,670
Depreciation	301	630
Operating lease rental in respect of office and staff quarters	3,076	2,781
Professional fee — others	8,866	3,966
Entertainment fee	551	1,437
Travelling expense	1,098	1,342
Bank charges	550	783
Others	2,225	3,951
	28,381	26,320
Total cost of sales and administrative expenses	341,657	565,360

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7 Expenses by nature (Continued)

Note:

	2018 HK\$'000	2017 HK\$'000
Wages and salaries	51,652	50,360
Pension costs — defined contribution plans (note a)	2,470	2,002
Other employment benefits	68	329
	54,190	52,691
Less: amounts charged to cost of sales	(44,026)	(40,335)
Less: amounts charged to administrative expenses	(10,164)	(9,760)
	—	2,596

- (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\$1,500 per month.

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

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

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

8 Finance costs, net

	2018 HK\$'000	2017 HK\$'000
Finance income		
— Interest income on bank balances	2,189	718
Finance costs		
— Interest expense on bank loans	(6,739)	(4,833)
Finance costs, net	(4,550)	(4,115)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9 Income tax expenses

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

	2018 HK\$'000	2017 HK\$'000
Hong Kong profits tax		
Current income tax	—	83
Over-provision in prior year	(176)	—
Deferred income tax (note 20)	3,182	(929)
Indonesia income tax		
Withholding income tax	14	2,590
Interest income tax	—	(47)
Macao complementary income tax		
Current income tax	—	822
Over-provision in prior year	(26)	—
Malaysia corporate income tax		
Current income tax	—	188
	2,994	2,707

- (a) Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profit for the year.
- (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 2018, income tax has been provided at the rate of 3% (2017: 3%) of the construction revenue and 20% (2017: 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9 Income tax expense (Continued)

(c) (Continued)

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\$578,000 as at 31 December 2018 (2017: HK\$1,113,000).

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.

- (d) Macao complementary income tax has been provided at the rate of 12% (2017: 12%) on the estimated assessable profit for the year.
- (e) Malaysia corporate income tax has been provided at the rate of 24% on the estimated assessable profit for 2017.

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:

	2018 HK\$’000	2017 HK\$’000
Profit before income tax	33,409	67,177
Calculated at tax rate of 16.5% (2017: 16.5%)	5,512	11,084
Tax effects of:		
Withholding tax	14	2,590
Effect of different tax rates in other countries	(116)	(274)
Income not subject to tax*	(13,774)	(20,569)
Expenses not deductible for tax purposes	9,423	9,993
Utilisation of previously unrecognised tax losses	—	(117)
Tax losses for which no deferred income tax asset was recognised	2,137	—
Over-provision in prior years	(202)	—
Income tax expenses	2,994	2,707

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10 Dividends

	Year ended 31 December	
	2018 HK\$'000	2017 HK\$'000
No dividend was proposed for the year ended 31 December 2018. Final dividend of HK\$0.02 per ordinary share was proposed for the year ended 31 December 2017	—	16,000

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.

	2018	2017
Profit attributable to equity holders of the Company (HK\$'000)	30,415	64,470
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share (thousands)	800,000	800,000
Basic earnings per share (HK cents)	3.80	8.06

(b) Diluted

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 2018

	Salaries HK\$'000	Employer's contribution to pension scheme HK\$'000	Fees HK\$'000
Executive directors			
Mr. Cui Qi (note i)	1,542	18	1,560
Mr. Yu Ming (note ii)	895	14	909
Ms. Kui Ching Wah (note ii)	895	14	909
Mr. Tao Yang (note ii)	202	—	202
Mr. Liu Luqiang (note vi)	—	—	—
Mr. Zhu Jiangfeng (note vi)	—	—	—
Mr. Xue Qingfu (note vi)	—	—	—
	3,534	46	3,580
Non-executive director			
Mr. Wang Xuejun (vii)	—	—	—
Independent non-executive directors			
Mr. Cheung Chi Man Dennis	224	—	224
Ms. Leung Sau Fan Sylvia (note iii)	182	—	182
Mr. Leung Yee Tak (note iii)	182	—	182
Mr. Wang Yaping (note iv)	52	—	52
Mr. Cheng Xuezhao (note v)	10	—	10
	650	—	650

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

(a) Directors' emoluments (Continued)

For the year ended 31 December 2017

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

Note:

- (i) Mr. Cui Qi has ceased to be the Chairman of the Board while Mr. Liu Luqiang has been appointed to be the Chairman of the Board on 3 October 2018.
- (ii) Mr. Yu Ming, Mr. Tao Yang and Ms. Kui Ching Wah resigned as the Company's director on 3 October 2018.
- (iii) Ms. Leung Sau Fan, Sylvia and Mr. Leung Yee Tak resigned as the Company's independent non-executive director on 3 October 2018.
- (iv) Mr. Wang Yaping was appointed as the independent non-executive director on 4 October 2018.
- (v) Mr. Cheng Xuezhao was appointed as the independent non-executive director on 14 December 2018.
- (vi) Mr. Liu Luqiang, Mr. Zhu Jiangfeng and Mr. Xue Qingfu were appointed as the Company's executive director on 4 October 2018.
- (vii) Mr. Wang Xuejun was appointed as the Company's non-executive director on 4 October 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

(a) Directors' emoluments (Continued)

The emoluments of the directors fell within the following bands:

	2018	2017
Nil – HK\$1,000,000	12	5
HK\$1,000,001 – HK\$2,500,000	1	3

During the year ended 31 December 2018, none of the directors of the Company (i) received or were paid any remuneration in respect of accepting office; and (ii) waived or has agreed to waive any emolument (2017: nil).

During the year ended 31 December 2018, 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 (2017: nil).

During the year ended 31 December 2018, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year, other than those disclosed in note 26 of the consolidated financial statements.

(b) Five highest paid individuals

For the year ended 31 December 2018, the five individuals whose emoluments were the highest in the Group include 3 (2017: 3) directors, whose emoluments were reflected in the analysis presented above. The emoluments paid to the remaining 2 (2017: 2) individuals are as follows:

	2018 HK\$'000	2017 HK\$'000
Salaries, bonus and other allowances	1,214	1,162
Pension costs — defined contribution plans	72	68
	1,286	1,230

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

	2018	2017
Nil – HK\$1,000,000	2	2

During the year ended 31 December 2018, 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 (2017: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13 Subsidiaries

The following is a list of subsidiaries at 31 December 2018:

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	
				2018	2017
Directly held by the Company:					
Prosper Construction Group Ltd.	British Virgin Islands, limited liability company	Investment holding company	HK\$2	100%	100%
West Coast Development (International) Limited*	British Virgin Islands, limited liability company	Investment holding company	US\$1,000,000	100%	NA
Indirectly held by the Company:					
Hong Kong River Engineering Company Limited	Hong Kong, limited liability company	Provision of engineering and construction works in Hong Kong	HK\$60,000,000	100%	100%
Creator Pacific Limited	Hong Kong, limited liability company	Letting of vessels for rental income, trading of vessels and provision of repairing services to the vessels	HK\$38,000,000	100%	100%
PT. Indonesia River Engineering	Indonesia, limited liability company	Provision of engineering and construction works in Indonesia	US\$400,000	100%	100%
Hong Kong River (Macao) Engineering Company Limited (香港瑞沃(澳門)工程有限公司)	Macao, limited liability company	Provision of engineering and construction works in Macao	MOP100,000	100%	100%
Creator Pacific (M) SDN. BHD	Malaysia, limited liability company	Provision of engineering and construction works in Malaysia	RM1	100%	100%

* The Company is incorporated on 18 December 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14 Plant and equipment

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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	Total HK\$'000
Year ended 31 December 2018						
Opening net book amount	—	233	49,942	179,184	826	230,185
Additions	64	16	1,710	11,876	—	13,666
Disposal	—	(46)	(46)	(7,503)	(4)	(7,599)
Depreciation	(4)	(97)	(6,566)	(10,834)	(392)	(17,893)
Exchange difference	—	—	(30)	(705)	(4)	(739)
Closing net book amount	60	106	45,010	172,018	426	217,620
At 31 December 2018						
Cost	222	368	64,535	229,915	2,104	297,144
Accumulated depreciation	(162)	(262)	(19,525)	(57,897)	(1,678)	(79,524)
Net book amount	60	106	45,010	172,018	426	217,620

- (a) As at 31 December 2018, vessels and machinery and equipment with carrying amounts of HK\$17,545,000 (2017: HK\$16,117,000) were pledged for the Group's bank borrowings (note 22(f)(ii)).
- (b) As at 31 December 2018, vessels with a carrying amount of HK\$21,906,000 (2017: HK\$22,126,000) were pledged for a performance bond in relation to a construction contract.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

	2018 HK\$'000	2017 HK\$'000
Trade receivables	299,421	254,487
Less: Provision for impairment	(7,802)	—
Trade receivables — net	291,619	254,487
Retention receivables	57,442	55,084
Trade and retention receivables	349,061	309,571
Deposits, prepayments and other receivables (note)	34,559	17,217
Less: non-current deposits	(8,279)	(8,387)
	26,280	8,830

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

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

	2018 HK\$'000	2017 HK\$'000
Current	39,848	60,664
Up to 1 year	110,285	86,013
1 to 2 years	53,237	67,132
Over 2 years	88,249	40,678
	291,619	254,487

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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:

	2018 HK\$'000	2017 HK\$'000
Within 1 year	2,358	3,734
Between 1 and 5 years	31,042	51,350
Over 5 years	24,042	—
	57,442	55,084

Movements on the Group's provision for impairment of trade receivables are as follows:

	2018 HK\$'000	2017 HK\$'000
At beginning of the year, as originally presented	—	—
Change in accounting policy (note 2.1.1(a))	2,428	—
At beginning of the year, as restated	2,428	—
Provision for impairment of trade receivables (note 3.1(b)(ii))	5,374	—
	7,802	—

The creation and release of provision for impaired receivables have been included in “administrative expenses” in the consolidated statement of comprehensive income.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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:

	2018 HK\$'000	2017 HK\$'000
HK\$	59,585	116,938
RMB	130,160	—
United States dollars ("US\$")	102,048	106,835
MOP	21,106	20,816
IDR	35,951	62,387
MYR	211	2,595
	349,061	309,571

16 Contract assets and contract liabilities

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

	31 December 2018 HK\$'000	1 January 2018 HK\$'000	31 December 2017 HK\$'000
Contract assets			
Provision of construction services	81,423	75,431	—
Less: Provision of impairment of contract assets	(3,280)	(623)	—
	78,143	74,808	—
Contract liabilities			
Provision of construction services	(100,900)	(106,677)	—

(a) Significant changes in contract assets and liabilities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Contract assets and contract liabilities (Continued)

(b) Revenue recognised in relation to contract liabilities

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

	2018 HK\$'000
Revenue recognised that was included in the contract liability balance at the beginning of the period	47,777

(c) Unsatisfied performance obligations

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

	2018 HK\$'000
Aggregate amount of the transaction price of long-term construction contracts that are partially or fully unsatisfied as at 31 December	1,097,274

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

17 Cash and cash equivalents

	2018 HK\$'000	2017 HK\$'000
Cash at bank	136,210	232,702
Less: Pledged bank deposits	(13,200)	(24,251)
Less: Time deposits with maturity over 3 months	(16,353)	(15,103)
Cash and cash equivalents	106,657	193,348
Maximum exposure to credit risk	136,210	232,702

As at 31 December 2018, the Group's bank deposits of HK\$13,200,000 (2017: HK\$24,251,000) were pledged to secure bank borrowings of the Group (note 22(f)(iii)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 Cash and cash equivalents (Continued)

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

	2018 HK\$'000	2017 HK\$'000
HK\$	37,440	98,235
RMB	1,966	955
US\$	55,172	4,255
MOP	41,020	115,216
IDR	471	7,209
MYR	141	6,832
	136,210	232,702

18 Joint arrangement

(a) Joint venture

- (i) The following is the joint venture indirectly held by the Company as at 31 December 2018.

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

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

- (ii) Investment in a joint venture

	2018 HK\$'000	2017 HK\$'000
As at 1 January	—	294
Share of loss	—	—
Loss on disposal of a joint venture	—	(294)
As at 31 December	—	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 Joint arrangement (Continued)

(b) Joint operations

- (i) The following sets out the joint operations indirectly undertaken by the Company as at 31 December 2018 and 2017:

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%
香港瑞沃(澳門)工程有限公司—中基基礎工程有限公司合作經營 ("MCJO")	Macao, unincorporated joint venture	Provision of construction services	95%

19 Share capital, share premium and reserves

(a) Share capital

	Number of shares	Share capital HK\$'000
Ordinary shares, authorised:		
At 31 December 2016, 2017 and 2018	4,000,000,000	40,000
Ordinary shares, issued and fully paid:		
At 31 December 2016, 2017 and 2018	800,000,000	8,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19 Share capital, share premium and reserves (Continued)

(b) Share premium and reserves

	Share premium HK\$'000	Other reserves HK\$'000 (note)	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2017	214,840	23,104	—	218,179	456,123
Comprehensive income					
Profit for the year	—	—	—	64,470	64,470
Exchange differences	—	—	(177)	—	(177)
Contribution by and distribution to owner					
Dividends paid	—	—	—	(24,000)	(24,000)
Balance at 31 December 2017 as originally presented	214,840	23,104	(177)	258,649	496,416
Change in accounting policy (note 2.1.1(a))	—	—	—	(10,293)	(10,293)
Total equity at 1 January 2018, as stated	214,840	23,104	(177)	248,356	486,123
Comprehensive income					
Profit for the year	—	—	—	30,415	30,415
Exchange differences	—	—	(8,858)	—	(8,858)
Contribution by and distribution to owner					
Dividends paid (note 10)	—	—	—	(16,000)	(16,000)
At 31 December 2018	214,840	23,104	(9,035)	262,771	491,680

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 (CONTINUED)

20 Deferred income tax liabilities

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

	2018 HK\$'000	2017 HK\$'000
Deferred income tax liabilities:		
Payable or to be settled in more than 12 months	11,655	8,473

The movements in deferred income tax liabilities during the year are as follows:

	Accelerated tax depreciation HK\$'000	Tax losses HK\$'000	Provision HK\$'000	Total HK\$'000
As at 1 January 2017	19,366	(9,964)	—	9,402
Recognised in the consolidated statement of comprehensive income (note 9)	6,586	(7,515)	—	(929)
As at 31 December 2017	25,952	(17,479)	—	8,473
Recognised in the consolidated statement of comprehensive income (note 9)	(646)	3,316	512	3,182
As at 31 December 2018	25,306	(14,163)	512	11,655

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 2018, the Group had unrecognised tax losses of approximately HK\$14,874,000 (2017: HK\$1,861,000) that can be carried forward to offset against future taxable income. These tax losses have no expiry date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21 Trade and retention payables, accruals and other payables

	2018 HK\$'000	2017 HK\$'000
Trade payables	37,816	56,653
Retention payables	4,239	4,898
Accruals and other payables	16,295	18,028
	58,350	79,579

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:

	2018 HK\$'000	2017 HK\$'000
Current	460	45,657
1 to 30 days	1,670	6,944
31 to 60 days	1,180	2,253
61 to 90 days	1,799	775
91 to 180 days	639	1,024
181 to 365 days	—	—
More than 365 days	32,068	—
	37,816	56,653

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:

	2018 HK\$'000	2017 HK\$'000
Within 1 year	2,815	827
Between 1 year and 2 years	972	3,406
Between 2 years and 5 years	452	665
	4,239	4,898

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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

	2018 HK\$'000	2017 HK\$'000
HK\$	5,550	4,725
US\$	14,438	21,198
RMB	19,958	24,570
Singapore dollars	—	3,269
MOP	2,109	5,591
MYR	—	2,198
	42,055	61,551

22 Borrowings

	2018 HK\$'000	2017 HK\$'000
Non-current:		
Long-term bank loans	788	12,500
Current:		
Long-term bank loans due for repayment within one year	15,543	13,883
Long-term bank loans due for repayment within one year which contain a repayment on demand clause	62,988	64,097
Long-term bank loans due for repayment after one year which contain a repayment on demand clause	30,427	52,286
Short-term bank borrowings	30,000	30,000
	138,958	160,266
Total borrowings	139,746	172,766

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22 Borrowings (Continued)

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

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

	2018 HK\$'000	2017 HK\$'000
Within 1 year	108,531	107,980
Between 1 and 2 years	27,687	48,191
Between 2 and 5 years	3,528	16,595
	139,746	172,766

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

	2018	2017
Short-term bank loans	3.7%	3.7%
Long-term bank loans	4.6%	4.5%

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

	2018 HK\$'000	2017 HK\$'000
Floating rate		
Expiring within 1 year	—	5,000

- (f) The Group's loan facilities are subject to annual review and secured or guaranteed by:
- (i) unlimited guarantees provided by the Company as at 31 December 2018 and 2017;
 - (ii) vessels and machinery and equipment with carrying amounts of HK\$17,545,000 (2017: HK\$16,117,000) as at 31 December 2018;
 - (iii) deposits of not less than HK\$13,200,000 (2017: HK\$24,251,000) as at 31 December 2018; and
 - (iv) guarantees of HK\$133,495,000 (2017: HK\$133,495,000) from a subsidiary for a bank facility which covers a loan of HK\$ 24,272,000 (2017: HK\$24,272,000) and performance bond facility of HK\$97,087,000 (2017: HK\$97,087,000) as at 31 December 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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.

	2018 HK\$'000	2017 HK\$'000
No later than 1 year	3,194	1,482
Later than 1 year and no later than 5 years	2,426	1,453
	5,620	2,935

(b) Capital commitment

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

	2018 HK\$'000	2017 HK\$'000
Plant and equipment	12,086	10,413

24 Contingent liabilities

As at 31 December 2018, plant and equipment with carrying value of approximately HK\$21,906,000 (2017: HK\$22,126,000) were pledged as security for provision of a performance bond and a prepayment surety bond totaling HK\$21,126,000 for the Group's project in Macao.

As at 31 December 2018, 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\$21,126,000 (2017: HK\$20,836,000). The performance bonds as at 31 December 2018 are expected to be released in accordance with the terms of the respective construction contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

25 Notes to the consolidated statement of cash flows

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

	2018 HK\$'000	2017 HK\$'000
Profit before income tax	33,409	67,177
Provision for impairment of trade and retention receivables	5,374	—
Provision for impairment of contract assets	2,657	—
Depreciation of plant and equipment	17,893	14,983
Loss on disposal of a joint venture	—	294
Gains on disposal of plant and equipment	(702)	(3,409)
Finance income	(2,189)	(718)
Finance costs	6,739	4,833
Operating profit before working capital change	63,181	83,160
Changes in working capital:		
Increase in trade and retention receivables	(56,895)	(126,077)
Increase in deposits, prepayments and other receivables	(11,086)	(1,548)
Increase in contract assets	(6,038)	—
Decrease in amounts due from customers for contract work	—	10,851
Changes in balances with related companies	6,507	(1,647)
(Decrease)/increase in trade and retention payables	(16,978)	18,070
(Decrease)/increase in accruals and other payables	(4,475)	188
Decrease in contract liabilities	(5,777)	—
Increase in amounts due to customers for contract work	—	2,078
Increase in amount due to a joint venture	—	(500)
Decrease in amounts due to the other partners of joint operations	(79)	(9,605)
Net cash used in operations	(31,640)	(25,030)

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

	2018 HK\$'000	2017 HK\$'000
Net book amount	7,599	160
Gain on disposal of plant and equipment (note 6)	702	3,409
Proceeds from disposal of plant and equipment (note)	8,301	3,569

Note: The proceeds from disposal of plant and equipment of HK\$6,364,000 (2017: HK\$3,569,000) during the year has yet to be received and has been included in other receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

(c) Reconciliation of liabilities arising from financing activities

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

	Borrowings HK\$'000
At 1 January 2017	68,186
Cash inflows	164,665
Cash outflows	(60,085)
<hr/>	
At 31 December 2017	172,766
<hr/>	
At 1 January 2018	172,766
Cash inflows	56,000
Cash outflows	(89,020)
<hr/>	
At 31 December 2018	139,746

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 2018 and 2017:

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
MCJO	A joint operation
Shenzhen Changsheng Marine Engineering Limited ("Shenzhen Changsheng")	A related company with 91% equity interest owned by Mr. Cui Qi

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

26 Related party transactions (Continued)

(b) Transactions

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

	2018 HK\$'000	2017 HK\$'000
<i>Continuing transaction</i>		
Paid to a related party:		
Rental expenses to Shenzhen Changsheng (note)	8,965	8,120

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

(c) Transactions with key management personnel

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

	2018 HK\$'000	2017 HK\$'000
Salaries, bonus, other allowances and benefits in kind	4,184	4,448
Pension costs — defined contribution plans	46	54
	4,230	4,502

(d) Balances

	2018 HK\$'000	2017 HK\$'000	Nature
Amount due to a related party — Shenzhen Changsheng	6,507	—	Trade

The amounts due to a related party was unsecured, interest free and repayable on demand.

27 Ultimate holding company

On 16 August 2018, Qingdao West Coast Holdings (Internation) Limited, which is controlled by the State-owned Asset Supervision and Administration Commission of Qingdao purchased 408,000,000 shares of the Company from Solid Jewel Investments Limited, representing 51% of the issued share capital of the Company at a price of HK\$1.3175 per ordinary shares. The ultimate holding company of the Company changed from Solid Jewel Investments Limited to Qingdao West Coast Development (Group) Limited, which is the ultimate holding company of Qingdao West Coast Holdings (Internation) Limited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

28 Balance sheet and reserve movement of the Company

Balance sheet of the Company

	Note	2018 HK\$'000	2017 HK\$'000
ASSETS			
Non-current asset			
Investments in subsidiaries		105,800	98,000
Current assets			
Prepayments		66	160
Amount due from subsidiaries		126,332	161,896
Cash and cash equivalents		849	1,664
		127,247	163,720
Total assets		233,047	261,720
EQUITY			
Capital and reserves			
Share capital		8,000	8,000
Reserves	(a)	223,357	252,349
Total equity		231,357	260,349
LIABILITY			
Current liability			
Accruals and other payables		1,690	1,371
Total equity and liabilities		233,047	261,720

The balance sheet of the Company was approved by the Board of Directors on 26 March 2019 and was signed on its behalf.

Mr. Cui Qi
Director

Mr. Zhu Jiangfeng
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

Note (a):

Reserve movement of the Company

	Share premium HK\$'000	Other reserve HK\$'000	Retained earnings/ (Accumulated losses) HK\$'000	Total HK\$'000
At 1 January 2017	214,840	20,000	25,141	259,981
Profit for the year	—	—	16,368	16,368
Dividends paid	—	—	(24,000)	(24,000)
At 31 December 2017	214,840	20,000	17,509	252,349
At 1 January 2018	214,840	20,000	17,509	252,349
Loss for the year	—	—	(12,992)	(12,992)
Dividends paid (note 10)	—	—	(16,000)	(16,000)
At 31 December 2018	214,840	20,000	(11,483)	223,357

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.

FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and of the assets, liabilities and equity of the Group for the last five 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

	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000
Revenue	384,576	633,347	658,860	572,928	272,760
Gross profit	71,300	94,307	124,626	114,941	52,922
Profit before income tax	33,409	67,177	82,085	110,828	45,243
Income tax expense	(2,994)	(2,707)	(12,636)	(14,830)	(8,183)
Profit for the year	30,415	64,470	69,449	95,998	37,060

As at 31 December

	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000
Non-current assets	225,899	238,572	174,497	97,875	74,917
Current assets	593,454	627,297	524,454	277,437	178,952
Total assets	819,353	865,869	698,951	375,312	253,869
Non-current liabilities	12,443	20,973	26,354	12,935	14,834
Current liabilities	307,230	340,480	208,474	190,543	103,199
Total liabilities	319,673	361,453	234,828	203,478	118,033
Total equity	499,680	504,416	464,123	171,834	135,836