

瑞港建設控股有限公司

Prosper Construction Holdings Limited

Incorporated in the Cayman Islands with limited liability

Stock code: 6816

2016

Interim Report



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MANAGEMENT DISCUSSION AND ANALYSIS

The board of directors (the “Board”) of Prosper Construction Holdings Limited (the “Company”) is pleased to present the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2016 (the “Period”), together with the comparative figures for the corresponding period in 2015 (the “Previous Period”). These information should be read in conjunction with the prospectus of the Company dated 30 June 2016 (the “Prospectus”).

Financial review

The Group’s revenue for the Period was HK\$334.5 million, representing a growth of 73.6% as compared that of HK\$192.7 million for the Previous Period. The revenue growth was mainly driven by (i) income of HK\$92.1 million recognised for the Period from the project in Macao, which did not contribute any revenue to the Previous Period as the project was only awarded in March 2015 and with revenue recognised commencing in August 2015; (ii) increase in revenue from Indonesia attributable to substantial portion of works on a cement production facility project certified in the Period; and (iii) partly offset by a decrease in revenue in Hong Kong as majority of the local projects were at the final stage with relatively less works certified during the Period.

Gross profit for the Period rose by HK\$10.6 million to HK\$57.6 million (Previous Period: HK\$47.0 million), whereas the gross profit margin dropped to 17.2% (Previous Period: 24.4%). The decrease in the gross profit margin was due to (i) the Group received a final account and claims settlement for a completed project in the Previous Period, for which no additional cost was recognised as the project had already been completed in prior year; and (ii) the profit margin for the project contributing the highest revenue for the Period was relatively lower than the Group’s average as we intended to enhance business relationship with the recurring project owner.

Professional fees incurred for the listing of the shares of the Company (“Listing”) on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) on 20 July 2016 were recognised as expense, where appropriate, over the period which services were performed. Works associated with the Listing commenced in July 2015 and the Group was listed in July 2016; accordingly, no professional fees for the Listing were recorded for the Previous Period.

The increase in administrative expenses for the Period was due to rise in administrative headcount, leasing of additional office premises and general corporate consultancy service to cope with business expansion, which resulted in the rise in administrative salary, rental expenses, office overhead and professional fees.

The Group’s revenue generated from Indonesia is subject to Indonesia corporate income tax, which is charged as a percentage of income earned; whereas revenue generated from Hong Kong and Macao is subject to Hong Kong profits tax and Macao complementary income tax, respectively, on assessable profits, which are determined based on income earned net of deductible expenditures incurred for generation of income. The increase in effective tax rate for the Period was due to (i) the rise in revenue from Indonesia; (ii) the relatively lower than average profit margin for an Indonesia project, which was the highest revenue project for the Period, as we intended to enhance business relationship with the recurring project owner and; (iii) professional fees incurred for the Listing not deductible for tax purposes.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's receivable turnover days as at 30 June 2016 increased to 65.6 days as compared to 38.9 days as at 31 December 2015, which is due to the relatively longer time required for works certification for the project in Macao and one of the Group's project in Indonesia; nonetheless, the Group received advance payment for mobilisation of resources to undertake the Macao project and thus the longer certification lead time in Macao did not severely compromise the Group's liquidity position. The Group did not observe any signs of default on any of its trade receivables balances as at 30 June 2016.

The amounts due from customers for contract work as at 30 June 2016 remained stable as compared to 31 December 2015, while the amounts due to customers for contract work as at 30 June 2016 increased by HK\$44.6 million from 31 December 2015, which was mainly attributable to additional advance payment from customer for the Macao project.

The Group's total borrowings as at 30 June 2016 were HK\$72.3 million, representing an increase of HK\$48.8 million from 31 December 2015. Additional borrowings were drawn to (i) finance for the Group's expanding operation; (ii) settle balances due to our major shareholder and related parties in preparation for the Listing; and (iii) replenish our cash resources to take on suitable business opportunities. Details of the Group's gearing and capital structure were presented further below.

Prospects

The Group's projects on hand as at 30 June 2016 can be summarized as follow.

Projects	Location	Expected completion	Estimated remaining contract value (HK\$'millions)
Central Wanchai Bypass projects	Hong Kong	1st quarter 2017	50.1
Hong Kong-Zhuhai-Macao bridge projects	Hong Kong	1st quarter 2017	36.8
MTR Shatin-Central link	Hong Kong	3rd quarter 2016	27.8
Kai Tak Development Stage 3	Hong Kong	3rd quarter 2018	50.3
Macao Reclamation E1	Macao	2nd quarter 2017	154.1
Port facilities projects	Indonesia	4th quarter 2016	68.9
Cement grinding facility project	Indonesia	1st quarter 2017	155.0
		Total	543.0

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is currently in the process of tendering for a number of sizeable marine construction projects, including the land reclamation project for the proposed expansion of the Hong Kong International Airport into a Three-runway System, a land reclamation project in Macao, and a number of projects in Indonesia for commercial facilities. There are additional large scale infrastructure projects in the pipeline in order to address the increasing population and limited land supply both in Hong Kong and Macao in which the Group is capable to partake. In particular, Macao was granted control and jurisdiction of coastal waters covering an area of 85 sq. km. in December 2015, which will expand the sea area available to be reclaimed for Macao. Furthermore, the PRC government's One Belt, One Road ("OBOR") policy aims to improve economic and trade connectivity along the sea routes between the country and Southeast Asia. With the Group's established operating presence in Southeast Asia, it stands to benefit from the accelerated outbound investment by PRC entities into and the domestic development in the OBOR region. Overall, the prospects of the construction sector in which the Group participate remain promising; however, the Group's performance are dependent on various factors, including but not limited to the timing of project availability, progress on individual work project, mode of certification by our customer and price fluctuations. The Group shall be vigilant for suitable business opportunities while remain watchful for competition and pricing on project bidding.

Recent development

The Company successfully listed its shares on the Main Board of the Stock Exchange on 20 July 2016 and issued a total of 200,000,000 shares by way of public offer and placing at a price of HK\$1.00 each on Listing. The net proceeds from the share offer in association with the Listing amounted to HK\$165.0 million, which was different from the estimated net proceeds of HK\$190.0 million as disclosed in the Prospectus. The Group will adjust the difference of HK\$25.0 million in the same manner and in the same proportion to the use of proceeds as shown in the Prospectus; the adjusted use of proceeds will comprise HK\$148.5 million for acquisition of vessels and equipment and the remaining \$16.5 million for general working capital. The unused net proceeds since the Listing have been deposited with licensed banks in Hong Kong.

Liquidity, financial resources and capital structure

The Group's gearing ratio, calculated by dividing total debts by total equity, as at 30 June 2016 was 0.31 times (31 December 2015: 0.14 times). Additional borrowings were drawn to finance the Group's expanding operation and settle balances due to our major shareholder and related parties in preparation for the Listing.

The Group's cash and cash equivalents balances as at 30 June 2016 amounted to HK\$60.9 million, representing a decrease of HK\$21.9 million as compared to HK\$82.8 million as at 31 December 2015, which was attributable to certain bank deposits being pledged to secure for new banking facilities granted to the Group. The Group considered its level of cash balances was reasonable and would enable it to take on suitable business opportunities in a competitive and efficient manner.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's cash and cash equivalents balances as at 30 June 2016 were predominantly denominated in the major functional currencies for the Group's operation, including Hong Kong dollars, United States dollars and Macao Patacas ("Major Currencies"). The Group closely monitors the level of foreign currency cash flows and would promptly convert cash denominated in foreign currencies into the Major Currencies, except for maintaining the required level of foreign currencies to meet foreseeable operation needs.

The Group's borrowings as at 30 June 2016 were all denominated in the Major Currencies, out of which HK\$9.1 million were subject to fixed interest rates ranging from 2.95% to 3.55% per annum and HK\$63.2 million were subject to floating interest rates, which presently ranged from 3.25% to 4.5% per annum.

The Group considers that it has effective control over foreign currencies and has no substantial exposure to foreign currency fluctuations during the Period, and therefore has not undertaken any foreign exchange hedging activities.

The Group's equity balance increased to HK\$235.4 million as at 30 June 2016 from that of HK\$171.8 million as at 31 December 2015, which was attributable to the profits recorded for the Period and the issuance of shares to a strategic investor prior to the Listing.

Employees and remuneration policies

The Group had 92 staff as at 30 June 2016 (31 December 2015: 86) and the total employee benefit expenses for the Period amounted to HK\$16.7 million. The Group determines the remuneration of its employees based on each employee's qualifications, experience and past performance. The Board has approved on 22 June 2016 to establish a remuneration committee which will make recommendations to the Board on the overall remuneration policy and structure for our Directors and senior management. The Group maintains a good relationship with its employees and has not experienced any major labour disputes nor any difficulty in recruiting suitable staff.

Directors' interests and short position in shares

The shares of the Company were listed on the Stock Exchange on 20 July 2016 and the Company was not required to keep any register under Part XV of the Securities and Futures Ordinance ("SFO") as at 30 June 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Immediately after the Listing, 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) 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’ interest in the Company

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

Directors’ interest in associated corporations of the Company

Director	Associated corporations	Percentage of shareholding/Position	Capacity
Mr. CUI Qi	Solid Jewel Investments Limited (“ Solid Jewel ”)	87.00% Long position	Beneficial owner
Mr. CUI Qi	Sky Hero Global Limited (“ Sky Hero ”)	87.00% Long position	Interest of a controlled corporation (<i>Note</i>)
Mr. YU Ming	Solid Jewel	13.00% Long position	Beneficial owner

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

Share option scheme

On 22 June 2016, the then shareholders of the Company approved and conditionally adopted a share option scheme (the “Share Option Scheme”) to enable the Company to grant options to eligible participants as incentives and rewards for their contribution to the Group. No option has been granted up to the date of this report.

Substantial shareholders

Immediately following the Listing, so far as the directors are aware, 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:

MANAGEMENT DISCUSSION AND ANALYSIS

Substantial shareholders' interest in the Company

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

Note

1. Solid Jewel is deemed or taken to be interested in all the Shares which are beneficially owned by Sky Hero under the SFO. Sky Hero is wholly-owned by Solid Jewel.
2. Ms. MU Zhen is the spouse of Mr. CUI Qi and she is deemed or taken to be interested in all the Shares which are beneficially owned by Mr. CUI Qi under the SFO.

Pledge of assets

The net book value of plant and equipment pledged for long term bank loans as at 30 June 2016 amounted to HK\$10.0 million (31 December 2015: HK\$7.5 million). Certain banking facilities of the Group were secured by the Group's bank deposits of HK\$26.7 million (31 December 2015: HK\$3.1 million).

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 six months ended 30 June 2016.

Purchase, sale or redemption of listed shares

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Period as the shares of the Company were not yet listed on the Stock Exchange as at 30 June 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Corporate governance

The code provisions of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules was not applicable to the Company for the Period as the shares of the Company were not yet listed on the Stock Exchange as at 30 June 2016. The Company has adopted and complied with the code provisions, where applicable, upon Listing.

Model code for securities transactions by directors

The Model Code was not applicable to the Company during the Period as the shares of the Company were not yet listed on the Stock Exchange as at 30 June 2016. The Company has adopted the Model Code as code of conduct regarding Directors' securities transactions upon Listing and all Directors have confirmed, upon specific enquiry made, that they complied with the Model Code from the date of Listing up to the date of this report.

Dividend

The Board takes into account the Group's overall results of operation, financial position and capital requirements, among other factors, in considering the declaration of dividends. The Board does not recommend the payment of a dividend for the Period.

Audit Committee

The audit committee, comprising three independent non-executive directors, namely Mr. Ge Zhenming, Ms. Leung Sau Fan Sylvia and Mr. Leung Yee Tak, has reviewed the accounting standards and policies adopted by the Group and the unaudited condensed consolidated financial information of the Group for the Period.

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

Hong Kong, 26 August 2016

As at the date of this report, the Board comprises Mr. CUI Qi, Mr. YU Ming, Ms. KUI Ching Wah and Mr. TAO Yang as executive Directors; Mr. GE Zhenming, Ms. LEUNG Sau Fan Sylvia and Mr. LEUNG Yee Tak as independent non-executive Directors.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	Note	Unaudited	
		Six months ended 30 June	
		2016	2015
		HK\$'000	HK\$'000
Revenue	5	334,483	192,710
Cost of sales		(276,916)	(145,742)
Gross profit		57,567	46,968
Other loss, net		(34)	(2,252)
Professional fees incurred for initial public offering		(9,984)	–
Other administrative expenses		(9,768)	(4,174)
Operating profit		37,781	40,542
Finance costs, net		(1,036)	(739)
Share of losses of a joint venture		–	(5)
Profit before income tax		36,745	39,798
Income tax expense	6	(9,177)	(4,777)
Profit for the period		27,568	35,021
Other comprehensive income		–	–
Profit and total comprehensive income attributable to equity holders of the Company		27,568	35,021
Basic and diluted earnings per share (HK cents)	8	4.66	6.31

The notes on pages 14 to 36 are an integral part of this condensed consolidated interim financial information.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2016

	Note	Unaudited 30 June 2016 HK\$'000	Audited 31 December 2015 HK\$'000
ASSETS			
Non-current assets			
Plant and equipment	9	94,965	97,581
Investment in a joint venture		294	294
		95,259	97,875
Current assets			
Trade and retention receivables	10	172,613	102,464
Deposits and other receivables	10	6,333	4,533
Amounts due from customers for contract work	11	73,789	72,923
Amount due from a director		–	298
Income tax recoverable		2,949	2,949
Time deposits with maturity over 3 months		1,681	8,299
Pledged bank deposits		26,733	3,137
Cash and cash equivalents		60,871	82,834
		344,969	277,437
Total assets		440,228	375,312
EQUITY			
Capital and reserves			
Share capital	12	–	–
Reserves		235,402	171,834
Total equity		235,402	171,834

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET*As at 30 June 2016*

	Note	Unaudited 30 June 2016 HK\$'000	Audited 31 December 2015 HK\$'000
LIABILITIES			
Non-current liabilities			
Borrowings	14	7,655	3,467
Deferred income tax liabilities		9,468	9,468
		17,123	12,935
Current liabilities			
Trade and retention payables	13	7,309	28,870
Accruals and other payables	13	7,532	20,244
Amounts due to customers for contract work	11	90,069	45,473
Amount due to a joint venture	17(d)	500	500
Amounts due to the other partners of joint operations		8,989	8,159
Amount due to a director	17(d)	–	2,000
Amount due to a related company	17(d)	3,715	1,626
Dividend payable		–	61,477
Borrowings	14	64,667	19,991
Income tax payable		4,922	2,203
		187,703	190,543
Total liabilities		204,826	203,478
Total equity and liabilities		440,228	375,312

The notes on pages 14 to 36 are an integral part of this condensed consolidated interim financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	Share capital HK\$'000 (Note 12(a))	Share premium HK\$'000 (Note 12(a))	Other reserves HK\$'000 (Note 12(b))	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2015	–	–	23,104	112,732	135,836
Comprehensive income					
Profit for the period	–	–	–	35,021	35,021
At 30 June 2015 (unaudited)	–	–	23,104	147,753	170,857
At 1 January 2016	–	–	23,104	148,730	171,834
Comprehensive income					
Profit for the period	–	–	–	27,568	27,568
Issuance of shares	–	36,000	–	–	36,000
At 30 June 2016 (unaudited)	–	36,000	23,104	176,298	235,402

The notes on pages 14 to 36 are an integral part of this condensed consolidated interim financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	Unaudited	
	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Cash flows from operating activities		
Net cash (used in)/generated from operations	(19,855)	47,148
Interest received	215	103
Interest paid	(1,036)	(739)
Income tax paid	(6,458)	(7,596)
Net cash (used in)/generated from operating activities	(27,134)	38,916
Cash flows from investing activities		
Purchase of plant and equipment	(1,238)	(5,961)
Proceeds from disposal of plant and equipment	–	623
Decrease in time deposits with maturity over 3 months	6,618	2,009
(Increase)/decrease in pledged bank deposits	(23,596)	490
Net cash used in investing activities	(18,216)	(2,839)
Cash flows from financing activities		
Proceeds from borrowings	66,431	5,000
Repayments of borrowings	(17,567)	(7,784)
Repayment to a director	–	(5,313)
Proceeds from issuance of shares	36,000	–
Dividend paid	(61,477)	(5,219)
Net cash generated from/(used in) financing activities	23,387	(13,316)
Net (decrease)/increase in cash and cash equivalents	(21,963)	22,761
Cash and cash equivalents at beginning of the period	82,834	23,412
Cash and cash equivalents at end of the period	60,871	46,173

The notes on pages 14 to 36 are an integral part of this condensed consolidated interim financial information.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. General information, reorganisation and basis of presentation

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

The Company is an investment holding company and its subsidiaries provide marine construction services, lease and trade of vessels.

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

The condensed consolidated interim financial information is presented in Hong Kong dollars ("HK\$") unless otherwise stated.

The condensed consolidated interim financial information of the Group for the six months ended 30 June 2016 has not been audited.

2. Basis of preparation and summary of significant accounting policies

Except as described below, the accounting policies applied are consistent with those described in the Accountant's Report set out in Appendix I to the Prospectus.

2.1 Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2016 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The condensed consolidated interim financial information should be read in conjunction with the Accountant's Report set out in Appendix I to the Prospectus, which has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

2 Basis of preparation and summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

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

2.2 Summary of significant accounting policies

(a) Adoption of new or revised HKFRSs effective on 1 January 2016

The following amendments to HKFRSs that are first effective for the current accounting period and relevant to the Group:

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

The adoption of these new standards and amendments to existing standards does not have any significant impact to the results and financial position of the Group's condensed consolidated interim financial information.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

2 Basis of preparation and summary of significant accounting policies (Continued)

2.2 Summary of significant accounting policies (Continued)

(b) New or revised HKFRSs that have been issued but are not yet effective

The following are standards and amendments to existing standards that have been published and are relevant, but have not been early adopted by the Group.

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

(1) Effective for the Group for annual period beginning on 1 January 2018.

(2) Effective for the Group for annual period beginning on 1 January 2019.

(3) Effective date to be determined.

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

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 interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Accountant's Report set out in Appendix I to the Prospectus.

There have been no changes in the risk management or any risk management policies since the year end.

3.2 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 a director, and trade and retention payables, accruals and other payables, amount due to a joint venture, amounts due to the other partners of joint operations, amount due to a director, amount 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 CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

4 Critical accounting estimates and judgements

The preparation of the condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing this condensed consolidated interim financial information, the critical accounting estimates and judgements applied were consistent with those described in the Accountant's Report set out in Appendix I to the Prospectus.

5 Revenue and segment information

(a) Revenue

	Unaudited	
	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Rendering of services		
– Marine construction works	327,709	192,119
– Leasing of vessels	6,774	591
	334,483	192,710

(b) Segment information

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

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

Segment assets mainly consist of current assets and non-current assets as disclosed in the interim condensed consolidated balance sheet except for unallocated cash and bank balances, income tax recoverable and amount due from a director.

Segment liabilities mainly consist of current liabilities and non-current liabilities as disclosed in the interim condensed consolidated balance sheet except for income tax payable, deferred tax liabilities, borrowings, dividend payable and certain other payables.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5 Revenue and segment information (Continued)

(b) Segment information (Continued)

Profit or loss

	Marine construction works	Leasing of vessels	Trading of vessels	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
For the six months ended 30 June 2016 (unaudited)				
Segment results	52,065	5,502	–	57,567
Unallocated expenses				(19,627)
Depreciation				(159)
Finance costs, net				(1,036)
Profit before income tax				36,745
Income tax expense				(9,177)
Profit for the period				27,568

Included in segment results are:

Depreciation	(3,695)	–	–	(3,695)
Finance income	215	–	–	215

**For the six months ended 30 June 2015
(unaudited)**

Segment results	46,916	52	–	46,968
Unallocated expenses				(6,235)
Depreciation				(196)
Finance cost, net				(739)
Profit before income tax				39,798
Income tax expense				(4,777)
Profit for the period				35,021

Included in segment results are:

Depreciation	(4,097)	–	–	(4,097)
Finance income	103	–	–	103
Share of losses of a joint venture	(5)	–	–	(5)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5 Revenue and segment information (Continued)

(b) Segment information (Continued)

Assets

	Marine construction works	Leasing of vessels	Trading of vessels	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 30 June 2016 (unaudited)				
Segment assets	389,062	4,094	–	393,156
Unallocated assets				47,072
Total assets				440,228
Investment in a joint venture	294	–	–	294
Additions to non-current assets	1,137	–	–	1,137
At 31 December 2015 (audited)				
Segment assets	272,402	2,823	–	275,225
Unallocated assets				100,087
Total assets				375,312
Investment in a joint venture	294	–	–	294
Additions to non-current assets	33,537	–	–	33,537

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5 Revenue and segment information (Continued)

(b) Segment information (Continued)

Liabilities

	Marine construction works	Leasing of vessels	Trading of vessels	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 30 June 2016 (unaudited)				
Segment liabilities	116,556	–	–	116,556
Borrowings				72,322
Income tax payable				4,922
Deferred tax liabilities				9,468
Unallocated liabilities				1,558
Total liabilities				204,826
At 31 December 2015 (audited)				
Segment liabilities	103,780	–	–	103,780
Dividend payable				61,477
Borrowings				23,458
Income tax payable				2,203
Deferred tax liabilities				9,468
Unallocated liabilities				3,092
Total liabilities				203,478

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 deferred income tax assets, located in the country of domicile are detailed below:

Revenue from external customers

	Unaudited Six months ended 30 June	
	2016 HK\$'000	2015 HK\$'000
Hong Kong	33,259	47,546
Indonesia	209,118	145,164
Macao	92,106	–
	334,483	192,710

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5 Revenue and segment information (Continued)

(b) Segment information (Continued)

Non-current assets

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

	Unaudited 30 June 2016 HK\$'000	Audited 31 December 2015 HK\$'000
Hong Kong	90,811	94,222
Indonesia	1,145	357
Macao	3,303	3,296
	95,259	97,875

During the six months ended 30 June 2016 and 2015, the machinery, equipment and vessels of the Group were owned by Hong Kong River Engineering Company Limited, Creator Pacific Limited, PT. Indonesia River Engineering and Hong Kong River (Macao) Engineering Company Limited. The countries of domicile of the companies holding the assets are Hong Kong, Indonesia and Macao, respectively.

- (ii) Based on physical location of the assets:

	Unaudited 30 June 2016 HK\$'000	Audited 31 December 2015 HK\$'000
Hong Kong	73,578	76,416
Indonesia	1,145	357
Macao	20,536	21,102
	95,259	97,875

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6 Income tax expense

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

	Unaudited	
	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Hong Kong profits tax		
Current income tax	944	421
Indonesia income tax		
Withholding income tax	6,458	4,355
Interest income tax	1	1
Macao complementary income tax		
Current income tax	1,774	–
	9,177	4,777

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for the six months ended 30 June 2016 and 2015.

Macao complementary income tax has been provided at the rate of 12% on the estimated assessable profit for the six months ended 30 June 2016. No provision for Macao complementary income tax had been made for the six months ended 30 June 2015 as the Group had no estimated profit arising in Macao during this period.

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. The income tax has been provided at the rate of 3% or 4% of the construction income and 20% of the interest income from bank deposits for the six months ended 30 June 2016 and 2015.

7 Dividends

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2016 and 2015.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

8 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 periods. The weighted average number of ordinary shares used for such purpose has been retrospectively adjusted for the effects of the issue of shares in connection with the Reorganisation completed on 22 January 2016 and the Capitalisation Issue of ordinary shares which took place on 20 July 2016. It does not take into account of shares pursuant to the Share Offer (as mentioned in the Prospectus) which took place after 30 June 2016.

	Unaudited	
	Six months ended 30 June	
	2016	2015
Profit attributable to equity holders of the Company (HK\$'000)	27,568	35,021
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share (thousands)	591,346	555,000
Basic earnings per share (HK cents)	4.66	6.31

(b) Diluted

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

9 Plant and equipment

	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Machinery and equipment HK\$'000	Vessels HK\$'000	Motor vehicles HK\$'000	Construction in progress ("CIP") HK\$'000	Total HK\$'000
Six months ended 30 June 2016 (unaudited)							
Opening net book amount	27	305	15,865	80,831	553	–	97,581
Additions	–	18	1,137	–	83	–	1,238
Depreciation	(14)	(78)	(1,160)	(2,471)	(131)	–	(3,854)
Closing net book amount	13	245	15,842	78,360	505	–	94,965
Six months ended 30 June 2015 (unaudited)							
Opening net book amount	55	22	9,033	60,862	180	4,466	74,618
Additions	–	83	4,571	656	651	–	5,961
Disposals	–	–	–	(2,587)	–	–	(2,587)
Depreciation	(14)	(15)	(654)	(3,445)	(165)	–	(4,293)
Transfer from CIP	–	–	–	4,466	–	(4,466)	–
Closing net book amount	41	90	12,950	59,952	666	–	73,699

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

10 Trade and retention receivables, deposits and other receivables

	Unaudited	Audited
	30 June	31 December
	2016	2015
	HK\$'000	HK\$'000
Trade receivables	120,485	61,088
Retention receivables	52,128	41,376
Trade and retention receivables	172,613	102,464
Deposits and other receivables (<i>note</i>)	6,333	4,533

Note: The balance mainly represents receivables for leasing of machinery and equipment, rental deposit and other miscellaneous receivables.

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

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

	Unaudited	Audited
	30 June	31 December
	2016	2015
	HK\$'000	HK\$'000
Current	21,076	41,630
1 to 30 days	55,250	14,686
31 to 60 days	26,786	1,290
61 to 90 days	3,997	2,838
91 to 180 days	11,337	–
180 to 365 days	1,395	–
More than 1 year	644	644
	120,485	61,088

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

10 Trade and retention receivables, deposits and other receivables (Continued)

Retention receivables were classified as current assets. The ageing of the retention receivables based on invoice date was as follows:

	Unaudited 30 June 2016 HK\$'000	Audited 31 December 2015 HK\$'000
Within 1 year	13,964	4,548
Between 1 and 5 years	36,921	36,828
More than 5 years	1,243	–
	52,128	41,376

11 Contracting work-in-progress

	Unaudited 30 June 2016 HK\$'000	Audited 31 December 2015 HK\$'000
Contract costs incurred plus attributable profits less foreseeable losses to date	1,181,885	1,279,658
Progress billings to date	(1,198,165)	(1,252,208)
	(16,280)	27,450
Included in current assets/(liabilities) are the following:		
Due from customers for contract work	73,789	72,923
Due to customers for contract work	(90,069)	(45,473)
	(16,280)	27,450

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

12 Share capital, share premium and other reserves

(a) Share capital and share premium

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

On 5 February 2016, CITICC International Investment Limited (the “Pre-IPO Investor”), a pre-IPO investor, entered into a sale and purchase agreement with Sky Hero pursuant to which Sky Hero transferred 750 shares in the Company to the Pre-IPO Investor, at a consideration of HK\$36,000,000. In addition, the Pre-IPO Investor also subscribed for 750 shares of the Company at a subscription price of HK\$36,000,000, resulting in a share premium of approximately HK\$36,000,000.

The Company’s share capital as at 30 June 2016 was as follows:

	Number of shares	HK\$
Ordinary shares of HK\$0.01 each		
Authorised	4,000,000,000	40,000,000
Issued and fully paid	10,000	100

(b) Other reserves

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 CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

13 Trade and retention payables, accruals and other payables

	Unaudited 30 June 2016 HK\$'000	Audited 31 December 2015 HK\$'000
Trade payables	5,917	28,205
Retention payables	1,392	665
Accruals and other payables (<i>note</i>)	7,532	20,244
	14,841	49,114

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

The credit period granted from trade payables, accruals and other payables was within 30 to 90 days.

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

	Unaudited 30 June 2016 HK\$'000	Audited 31 December 2015 HK\$'000
Current	759	17,147
1 to 30 days	568	2,059
31 to 60 days	12	252
61 to 90 days	–	3,229
91 to 180 days	2,955	3,052
181 to 365 days	1,611	1,618
More than 365 days	12	848
	5,917	28,205

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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

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

	Unaudited 30 June 2016 HK\$'000	Audited 31 December 2015 HK\$'000
Within 1 year	1,392	665

14 Borrowings

	Unaudited 30 June 2016 HK\$'000	Audited 31 December 2015 HK\$'000
Non-current:		
Long-term bank loans	7,655	3,467
Current:		
Long-term bank loans due for repayment within one year	6,538	9,291
Long-term bank loans due for repayment within one year which contain a repayment on demand clause	19,698	2,537
Long-term bank loans due for payment after one year which contain a repayment on demand clause	17,104	–
Short-term bank borrowings	21,327	8,163
	64,667	19,991
Total borrowings	72,322	23,458

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

14 Borrowings (Continued)

(a) The maturity of borrowings is as follows:

In the interim condensed consolidated balance sheet, bank loans 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 bank loans would be as follows:

	Unaudited 30 June 2016 HK\$'000	Audited 31 December 2015 HK\$'000
Within 1 year	47,562	19,991
Between 1 and 2 years	23,137	3,171
Between 2 and 5 years	1,623	296
	72,322	23,458

(b) The carrying amounts of the Group's borrowings were denominated in Hong Kong dollar and Macao Patacas.

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

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

- (i) unlimited personal guarantees provided by directors as at 31 December 2015;
- (ii) equipment and vessels with carrying amounts of HK\$10,001,000 of subsidiaries as at 30 June 2016 (31 December 2015: HK\$7,480,000);
- (iii) deposits of not less than HK\$26,733,000 as at 30 June 2016 (31 December 2015: HK\$3,137,000);
- (iv) guarantees from Hong Kong Mortgage Corporation Limited amounting HK\$4,000,000 as at 31 December 2015;

The guarantees and securities given by directors as at 31 December 2015 (see (i) above) had been released and replaced by guarantees of the Company upon Listing.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

15 Commitments

(a) Operating lease commitments – as lessee

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

	Unaudited 30 June 2016 HK\$'000	Audited 31 December 2015 HK\$'000
No later than 1 year	2,188	2,510
Later than 1 year and no later than 5 years	537	1,511
	2,725	4,021

(b) Operating lease commitments – as lessor

As at 30 June 2016, the Group did not have any operating lease commitments as a lessor (31 December 2015: Nil).

16 Contingent liabilities

As at 30 June 2016, the joint operations held by the Group have given guarantees on performance bonds in respect of construction contracts in the ordinary course of business, and the amounts shared by the Group were of HK\$126,446,000 (31 December 2015: HK\$127,666,000). The performance bonds as at 30 June 2016 are expected to be released in accordance with the terms of the respective construction contracts.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

17 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 six months ended 30 June 2016:

Name of the related party	Relationship with the Group
Star Harvest Enterprise Limited	A related company wholly owned by Mr. Cui Qi
HKR – ASL Joint Venture Limited (“HKR-ASL”)	A joint venture
Concentric – Hong Kong River Joint Venture (“CHKRJV”)	A joint operation
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”)	A joint operation
Shenzhen Changsheng Marine Engineering Limited (“Shenzhen Changsheng”)	A related company with 92% equity interest owned by Mr. Cui Qi

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

17 Related party transactions (Continued)

(b) Transactions

Saved as disclosed elsewhere in the condensed consolidated interim financial information, during the six months ended 30 June 2016 and 2015, the following transactions were carried out with related parties at terms mutually agreed by both parties:

	Unaudited Six months ended 30 June	
	2016 HK\$'000	2015 HK\$'000
Continuing transactions		
Paid to a related party:		
Rental expenses to Shenzhen Changsheng (<i>note i</i>)	7,846	–
Discontinued transactions		
Paid to a director:		
Interest expense	–	79
Paid to a related party:		
Consultancy and maintenance services to Shenzhen Changsheng (<i>note ii</i>)	–	490

note i: Rental expenses in relation to leasing of vessels are charged at rates as stipulated in the relevant agreement.

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

17 Related party transactions (Continued)

(c) Transactions with key management personnel

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

	Unaudited	
	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Salaries, bonus, other allowances and benefits in kind	2,122	1,039
Pension costs – defined contribution plans	54	39
	2,176	1,078

(d) Balances

	Unaudited	Audited	Nature
	30 June	31 December	
	2016	2015	
	HK\$'000	HK\$'000	
Amount due from a director – Mr. Cui Qi	–	298	Non-trade

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

17 Related party transactions (Continued)

(d) Balances (Continued)

	Unaudited 30 June 2016 HK\$'000	Audited 31 December 2015 HK\$'000	Nature
Amount due to a related party – Shenzhen Changsheng	3,715	1,626	Trade
Amount due to a joint venture – HKR – ASL	500	500	Non-trade
Amount due to a director – Mr. Yu Ming	–	2,000	Non-trade

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

The non-trade amount due to a director as at 31 December 2015 had been settled on 11 March 2016.

18 Ultimate holding company

Management consider that Solid Jewel Investments Limited as the ultimate holding company of the Group, which is a company incorporated in the British Virgin Islands and owned by Mr. Cui Qi as to 87% and Mr. Yu Ming as to 13%.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

19 Subsequent event

Saved as disclosed in other parts of this report, the following significant event took place subsequent to 30 June 2016:

On 20 July 2016, the Company issued a total of 200,000,000 shares by way of public offer and placing at a price of HK\$1.00 each and successfully listed its shares on Main Board of The Stock Exchange of Hong Kong Limited. The net proceeds after deducting underwriting fees and related expenses were approximately HK\$165,000,000.