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华滋国际海洋工程有限公司

Watts International Maritime Engineering Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 2258)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019

Financial Summary

	Six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
	RMB'000	*RMB'000*
Revenue	**469,319**	447,793
Gross profit	**62,273**	62,786
Profit before income tax	**37,669**	40,459
Profit for the period	**35,209**	32,834
Total comprehensive income for the period attributable to the Shareholders of the Company	**37,048**	32,584
Earnings per share for profit attributable to the Shareholders of the Company (expressed in RMB cents per share):		
— Basic earnings per share	**4.27**	5.30
— Diluted earnings per share	**4.27**	5.30
	As at 30 June 2019	As at 31 December 2018
	Unaudited	Audited
	RMB'000	*RMB'000*
Total assets	**2,148,203**	2,089,680
Total equity	**569,263**	532,215

Interim Results for the six months ended 30 June 2019

The board (the "**Board**") of directors (the "**Directors**") of Watts International Maritime Engineering Limited (the "**Company**", together with its subsidiaries, the "**Group**") is pleased to announce the unaudited consolidated interim results (the "**Interim Results**") of the Group for the six months ended 30 June 2019 (the "**Reporting Period**"). These interim results have been reviewed by the Company's audit committee (the "**Audit Committee**").

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

		Six months ended 30 June	
		2019	2018
		Unaudited	Unaudited
	Note	***RMB'000***	*RMB'000*
Revenue	*4*	**469,319**	447,793
Cost of sales	*4*	**(407,046)**	(385,007)
Gross profit		**62,273**	62,786
Selling and distribution expenses		**(1,403)**	(1,346)
Administrative expenses		**(17,117)**	(21,469)
Net impairment losses on financial assets		**(9,308)**	(4,306)
Other operating expenses		**(76)**	(290)
Other income		**3,118**	2,364
Other gains — net		**765**	2,542
Operating profit		**38,252**	40,281
Finance income		**25**	343
Finance costs		**(608)**	(165)
Finance (costs)/income — net		**(583)**	178
Profit before income tax		**37,669**	40,459
Income tax expense	*5*	**(2,460)**	(7,625)
Profit for the period and attributable to the Shareholders		**35,209**	32,834
Other comprehensive income			
Items that may be reclassified to profit or loss			
Currency translation differences		**1,839**	(250)
Other comprehensive income for the period net of tax		**1,839**	(250)
Total comprehensive income for the period attributable to the Shareholders of the Company		**37,048**	32,584
Earnings per share for profit attributable to the Shareholders of the Company (expressed in RMB cents per share):			
— Basic earnings per share	*6*	**4.27**	5.30
— Diluted earnings per share	*6*	**4.27**	5.30

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Note	**30 June 2019 Unaudited *RMB'000***	31 December 2018 Audited *RMB'000*
ASSETS			
Non-current assets			
Contract assets		**76,111**	182,635
Property, plant and equipment		**70,569**	75,917
Right-of-use assets	*3*	**397**	—
Intangible assets		**555**	489
Trade and other receivables	*7*	**11,241**	1,965
		158,873	261,006
Current assets			
Contract assets		**194,659**	269,905
Inventories		**14,450**	12,113
Trade and other receivables	*7*	**1,309,550**	1,160,689
Restricted cash		**13,521**	77
Cash and cash equivalents		**457,150**	385,890
		1,989,330	1,828,674
Total assets		**2,148,203**	2,089,680
EQUITY			
Capital and reserves			
Share capital		**7,303**	7,303
Share premium		**322,551**	322,551
Other reserves		**14,715**	12,876
Retained earnings		**224,694**	189,485
Total equity		**569,263**	532,215

	Note	**30 June 2019 Unaudited** *RMB'000*	31 December 2018 Audited *RMB'000*
LIABILITIES			
Non-current liabilities			
Trade and other payables	*8*	**28,357**	48,457
Deferred tax liabilities		**6,393**	9,258
		34,750	57,715
Current liabilities			
Borrowings		**20,000**	—
Trade and other payables	*8*	**1,507,721**	1,467,366
Current income tax liabilities		**7,526**	27,623
Contract liabilities		**8,745**	4,761
Lease liabilities		**198**	—
		1,544,190	1,499,750
Total liabilities		**1,578,940**	1,557,465
Total equity and liabilities		**2,148,203**	2,089,680

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2019

1 GENERAL INFORMATION AND REORGANISATION

Watts International Maritime Engineering Limited (the "**Company**") was incorporated in the Cayman Islands on 20 December 2017 as an exempted company with limited liability under the Companies Law, Cap.22 (Law of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is 4th Floor, Harbour Place, 103 South Church Street, P.O. Box 10240, Grand Cayman KY1-1002, Cayman Islands.

The Company, an investment holding company, and its subsidiaries (together, "**the Group**") provide port, waterway and marine engineering business, including infrastructure construction of maritime and ports and waterway and other engineering services. The ultimate controlling shareholders are Mr. Wang Shizhong, Mr. Ye Kangshun, Mr. Wang Xiuchun, Ms. Zhou Meng, Mr. Wang Shiqin, Mr. Wang Likai ("**Controlling Shareholders**"), who are parties acting collectively and have been controlling the group companies since their incorporation.

Pursuant to the group reorganisation as set out in the section headed "Reorganisation" in the Company's annual report for the year ended 31 December 2018 (the "**Reorganisation**"), the Company became the holding company of its subsidiaries now comprising the Group.

The Company has its share listed on the Stock Exchange of Hong Kong Limited.

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.

The condensed consolidated interim financial statements are presented in Renminbi ("**RMB**"), unless otherwise stated, and was approved for issue by the Board of Directors (the "**Board**") on 28 August 2019.

The condensed consolidated interim financial statements have not been audited.

2 BASIS OF PREPARATION

This condensed consolidated interim financial report for the reporting period ended 30 June 2019 has been prepared in accordance with Accounting Standard HKAS 34 *Interim Financial Reporting.*

The condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2018 and any public announcements made by the company during the interim reporting period.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period and the adoption of new and amended standards as set out below.

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies as a result of adopting HKFRS 16 *Leases*.

The impact of adopting of the leasing standard and the new accounting policies are disclosed in note 3 below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

(b) New and amended standards not adopted by the Group

The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2019 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
Amendments to HKFRS 3	Definition of business	1 January 2020
Amendments to HKAS 1 and HKAS 8	Definition of material	1 January 2020
HKFRS 17	Insurance contracts	1 January 2021
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

3 CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of HKFRS 16 *Leases* on the Group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019 in note 3(b) below.

The Group has adopted HKFRS 16 from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

(a) Adjustments recognised on adoption of HKFRS 16

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.35%.

	RMB'000
Operating lease commitments disclosed as at 31 December 2018	2,740
Less:	
Short-term leases recognised on a straight-line basis as expense	(2,134)
	606
Discounted using the lessee's incremental borrowing rate of at the date of initial application:	
Lease liability recognised as at 1 January 2019	**601**
Of which are:	
Current lease liabilities	403
Non-current lease liabilities	198
	601

The right-of-use assets were measured at the amount equal to the lease liability adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following type of assets:

	30 June 2019	**1 January 2019**
	RMB'000	*RMB'000*
Properties	397	601

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- Right-of-use assets — increase by RMB601,000
- Lease liabilities (current portion) — increase by RMB403,000
- Lease liabilities (non-current portion) — increase by RMB198,000

There was no impact on retained earnings on 1 January 2019.

(i) Impact on segment disclosures and profit

The executive directors have determined that no segment information is presented as no material segment information are affected by the change in policy.

(ii) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and

- the use of hindsight in determining the lease term where the contract contains options to extend the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and HKFRIC 4 *Determining whether an Arrangement contains a Lease.*

(b) The Group's leasing activities and how these are accounted for

The Group leases different properties and equipments. Rental contracts are typically made for fixed periods. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments).

The lease payments are discounted using incremental borrowing rate of the Group which the Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise small items of office furniture.

4 SEGMENT INFORMATION

(a) Description of segments and principal activities

The chief operating decision maker has been identified as the executive directors. The Group's management evaluates the Group's performance both from a service and geographic perspective and has identified two reportable segments of its business:

(i) Maritime and ports infrastructure; and

(ii) Waterway and other engineering.

The segment results represent the gross profit of the maritime and ports infrastructure and waterway and other engineering.

The amounts provided to the management with respect to total assets, total liabilities and capital expenditure are measured in a manner consistent with that of condensed consolidated interim financial statements. The management reviews the total assets, total liabilities and capital expenditure at Group level, therefore no segment information of total assets, total liabilities and capital expenditure information was presented.

(b) Segment results and other information

The revenue from external parties is measured in the same way as in the condensed consolidated interim statement of comprehensive income. The segment information for the six months ended 30 June 2019 is as follows:

	Six months ended 30 June 2019		
	Maritime and ports infrastructure Unaudited *RMB'000*	**Waterway and other engineering Unaudited** *RMB'000*	**Total Unaudited** *RMB'000*
Revenue	**403,653**	**65,666**	**469,319**
Cost of sales	**(350,497)**	**(56,549)**	**(407,046)**
Segment results	**53,156**	**9,117**	**62,273**
Unallocated item:			
Selling and distribution expenses			**(1,403)**
Administrative expenses			**(17,117)**
Net impairment losses on financial assets			**(9,308)**
Other operating expenses			**(76)**
Other income			**3,118**
Other gains — net			**765**
Finance costs — net			**(583)**
Profit before income tax			**37,669**
Income tax expense *(Note 5)*			**(2,460)**
Profit for the period			**35,209**
Segment items included:			
Depreciation and amortisation	**(5,603)**	**(912)**	**(6,515)**
Net impairment losses on financial assets	**(8,740)**	**(568)**	**(9,308)**

The segment information for the six months ended 30 June 2018 is as follows:

	Six months ended 30 June 2018		
	Maritime and ports infrastructure Unaudited *RMB'000*	Waterway and other engineering Unaudited *RMB'000*	Total Unaudited *RMB'000*
Revenue	382,929	64,864	447,793
Cost of sales	(324,438)	(60,569)	(385,007)
Segment results	58,491	4,295	62,786
Unallocated item:			
Selling and distribution expenses			(1,346)
Administrative expenses			(21,469)
Net impairment losses on financial assets			(4,306)
Other operating expenses			(290)
Other income			2,364
Other gains — net			2,542
Finance income — net			178
Profit before income tax			40,459
Income tax expense *(Note 5)*			(7,625)
Profit for the period			32,834
Segment items included:			
Depreciation and amortisation	(4,821)	(817)	(5,638)
Net impairment losses on financial assets	(4,060)	(246)	(4,306)

(c) Revenue from external customers

Revenue from external customers by region, based on the location of the customers:

	Six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
	RMB'000	*RMB'000*
Mainland China		
Maritime and ports infrastructure		
Revenue	**286,130**	142,751
Cost of sales	**(255,832)**	(127,811)
	30,298	14,940
Waterway and other engineering		
Revenue	**65,666**	64,864
Cost of sales	**(56,549)**	(60,569)
	9,117	4,295
Southeast Asia		
Maritime and ports infrastructure		
Revenue	**117,523**	240,178
Cost of sales	**(94,665)**	(196,627)
	22,858	43,551

Non-current assets, other than non-current receivables, contract assets and deferred tax assets, by territory:

	As at	
	30 June	31 December
	2019	2018
	Unaudited	Audited
	RMB'000	*RMB'000*
Mainland China	**49,654**	51,565
Southeast Asia	**21,867**	24,841
Total	**71,521**	76,406

5 INCOME TAX EXPENSE

The amounts of tax expense charged to the condensed consolidated interim statement of comprehensive income represent:

	Six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
	RMB'000	*RMB'000*
Current income tax	**5,325**	9,076
Deferred income tax	**(2,865)**	(1,451)
Income tax expense — net	**2,460**	7,625

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the entity operates. The decrease in income tax expense during the period is due to the impact of adjustment for current income tax expense of prior year.

(a) Cayman Islands profit tax

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and is exempted from payment of the Cayman Islands income tax.

(b) BVI profits tax

The Company's subsidiaries incorporated in the BVI are exempted from BVI income tax, as they are incorporated under the International Business Companies Act of the BVI.

(c) Hong Kong profits tax

One of the Company's subsidiaries incorporated in Hong Kong, is subject to Hong Kong profits tax. The applicable Hong Kong profits tax rate is 16.5% for the six months ended 30 June 2019 and 2018.

(d) PRC corporate income tax ("CIT")

The Company's subsidiaries incorporated in Mainland China are subject to PRC income tax. The applicable CIT tax rate is 25% for the six months ended 30 June 2019 and 2018.

(e) Brunei income tax

One of the Company's subsidiaries incorporated in Brunei is subject to Brunei income tax. The applicable Brunei income tax rate is 18.5% for the six months ended 30 June 2019 and 2018.

(f) Indonesia income tax

One of the Company's subsidiaries incorporated in Indonesia is subject to Indonesia income tax. Indonesia income tax is charged through a system of withholding taxes. The customers of the Group are required to withhold final income tax for construction services and the banks are required to withhold final income tax on interest income from bank deposits. For the six months ended 30 June 2019 and 2018, income tax was provided at the rate of 4% on the construction and income tax of 20% was provided on the interest income from bank deposits, according to respective Indonesia income tax laws and regulations.

6 BASIC AND DILUTED EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of the basic earnings per share is based on the profit for the six months period ended 30 June 2019 attributable to the Shareholders of the Company and the weighted average number of ordinary shares in issue.

The weighted average number of ordinary shares for the six months period ended 30 June 2018 used for such purpose has been retrospectively adjusted for the effects of the issue of shares in connection with the Reorganisation and the capitalisation issue of ordinary shares, both completed during the year ended 31 December 2018.

	Six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
Profit attributable to the Shareholders of the Company *(RMB'000)*	**35,209**	32,834
Weighted average number of ordinary shares in issue *(thousands)*	**825,400**	619,050
Total basic earnings per share attributable to the ordinary equity holders of the Group *(RMB cents)*	**4.27**	5.30

(b) Diluted earnings per share

Diluted earnings per share is of the same amount as the basic earnings per share as there were no potentially dilutive ordinary share outstanding as at 30 June 2019 and 2018.

7 TRADE AND OTHER RECEIVABLES

	As at	
	30 June 2019	31 December 2018
	Unaudited	Audited
	RMB'000	*RMB'000*
Trade receivables *(i)*	**1,048,022**	975,482
Less: allowance for impairment of trade receivables	**(17,019)**	(6,799)
Trade receivables — net *(i)*	**1,031,003**	968,683
Retention receivables *(ii)*	**205,641**	139,790
Less: allowance for impairment of retention receivables	**(245)**	(137)
Retention receivables — net *(ii)*	**205,396**	139,653
Bills receivables *(i)*	**28,935**	11,669
Other receivables	**45,513**	39,212
Prepayments	**9,944**	3,437
	1,320,791	1,162,654
Less: non-current portion		
Retention receivables *(ii)*	**(11,241)**	(1,965)
Current portion	**1,309,550**	1,160,689

(i) The Group's revenues are generated through marine construction services and settlements are made in accordance with the terms specified in the contracts governing the relevant transactions. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, certain customers may have large trade receivables balances, there may be concentration of credit risk. The customers of certain long ageing trade and retention receivables are related to some large projects and the customers have strong financial capacity with low credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances.

The carrying amounts of trade and retention receivables approximate their fair value as at 30 June 2019 and 31 December 2018.

As at 30 June 2019 and 31 December 2018, the ageing analysis of the trade and bills receivables based on the payment requests or demand notes of customers is as follows:

	As at	
	30 June 2019	31 December 2018
	Unaudited	Audited
	RMB'000	*RMB'000*
Within 3 months	**290,606**	452,867
4 to 6 months	**40,765**	139,889
7 to 12 months	**378,508**	28,513
1 to 2 years	**283,089**	310,369
2 to 3 years	**46,546**	21,525
Over 3 years	**37,443**	33,988
	1,076,957	987,151

(ii) Retention receivables represent amounts due from customers upon completion of the free maintenance period of the construction services, which normally lasts from one to two years, and the maintenance cost is usually immaterial during that period. In the condensed consolidated interim statement of financial position, retention receivables are classified as current assets if they are expected to be received in one year or less. If not, they are presented as non-current assets. The ageing of the retention receivables is as follows:

	As at	
	30 June 2019	31 December 2018
	Unaudited	Audited
	RMB'000	*RMB'000*
Within 1 year	**86,846**	6,033
1 to 2 years	**66,611**	90,379
2 to 3 years	**33,277**	25,902
3 to 4 years	**1,461**	14,439
4 to 5 years	**14,478**	491
Over 5 years	**2,968**	2,546
	205,641	139,790

The credit terms granted to customers by the Group are usually 30 to 60 days.

8 TRADE AND OTHER PAYABLES

	As at	
	30 June 2019	31 December 2018
	Unaudited	Audited
	RMB'000	*RMB'000*
Trade payables *(i)*	**1,018,050**	1,036,321
Bills payables *(i)*	**35,880**	1,500
Retention payables *(ii)*	**113,842**	121,249
Long-term payables *(iii)*	**287,485**	275,939
Payroll and social security	**5,469**	6,112
Other tax liabilities excluding income tax liabilities	**57,328**	51,598
Other payables	**18,024**	23,104
	1,536,078	1,515,823
Less: non-current portion		
Retention payables *(ii)*	**(27,970)**	(38,655)
Long-term payables *(iii)*	**(387)**	(9,802)
	(28,357)	(48,457)
Current portion	**1,507,721**	1,467,366

(i) The Group's trade and bills payables are mainly denominated in the RMB.

As at 30 June 2019 and 31 December 2018, the ageing analysis of the trade and bills payables based on the payment requests or demand notes is as follows:

	As at	
	30 June 2019	31 December 2018
	Unaudited	Audited
	RMB'000	*RMB'000*
Within 3 months	**196,124**	410,269
4 to 6 months	**51,797**	181,530
7 to 12 months	**362,177**	106,547
1 to 2 years	**324,882**	251,139
2 to 3 years	**68,815**	55,953
Over 3 years	**50,135**	32,383
	1,053,930	1,037,821

(ii) Retention payables represent amounts due to suppliers upon completion of the free maintenance period of the construction services, which normally lasts from one to two years. In the condensed consolidated interim statement of financial position, retention payables are classified as current liabilities if they will be required to be paid in one year or less. If not, they are presented as non-current liabilities. The ageing of the retention payables is as follows:

	As at	
	30 June 2019	31 December 2018
	Unaudited	Audited
	RMB'000	*RMB'000*
Within 1 year	**23,601**	27,820
1 to 5 years	**80,382**	83,787
Over 5 years	**9,859**	9,642
	113,842	121,249

(iii) Long-term payables represent amounts due to suppliers for certain construction services with unbilled payables and the expected billing periods are over one year. In the condensed consolidated interim statement of financial position, long-term payables are classified as current liabilities if they will be required to be paid in one year or less. If not, they are presented as non-current liabilities. The ageing of the long-term payables is as follows:

	As at	
	30 June 2019	31 December 2018
	Unaudited	Audited
	RMB'000	*RMB'000*
Within 1 year	**88,274**	66,732
1 to 5 years	**183,463**	191,092
Over 5 years	**15,748**	18,115
	287,485	275,939

9 DIVIDENDS

At a meeting held on 28 August 2019, the Board resolved to declare an interim dividend of HK1.2 cents (equivalent to RMB1.1 cents) per share, representing total amount of approximately HK$9.9 million (equivalent to RMB8.9 million). This interim dividend has not been recognised as a dividend payable in this interim financial information, but will be recognised as an appropriation of share premium for the year ending 31 December 2019.

10 COMMITMENTS

(a) Capital commitments

As at 30 June 2019 and 31 December 2018, the Group and the Company did not have any significant capital commitments.

(b) Commitments under operating leases

As at 30 June 2019 and 31 December 2018, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	As at	
	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
No later than 1 year	**569**	2,537
Later than 1 year and no later than 2 years	**—**	203
	569	2,740

11 EVENTS OCCURING AFTER THE REPORTING PERIOD

Except for the interim dividends disclosed in note 9, there were no other material subsequent events undertaken by the Company or by the Group after 30 June 2019.

Management Discussion and Analysis

Market Review

Port, waterway and marine engineering work refer to the construction and installation of structures and facilities in river and sea areas. It can be divided into three main segments, namely: (i) port infrastructure; (ii) waterway engineering; and (iii) marine engineering.

In recent years, China's coastal ports are generally adapted to the development of the national economy and will enter a moderately leading stage. Against the background of slower growth in demand for transport, the construction of the coastal port infrastructure has been slowed down, and the coastal ports have entered a new stage of accelerating the expansion of functions and achieving the improvement in quality and efficiency. At the same time, the strategy of Yangtze River Economic Zone and the concept of green transportation development have been further deepened, domestic ports have been continuously integrated, and the development of inland waterways has been sped up significantly.

With the continuous deepening of the Belt and Road Initiative, the economy of Southeast Asia where Brunei and Indonesia are located will be further developed, and the demand for port and waterway construction will grow steadily.

Business Review

In the first half of 2019, the Company's business continued to develop steadily, and its projects in China and Southeast Asia were steadily carried out.

A breakdown of the Group's revenue by geographic location and segment for the Reporting Period is set out in the table below:

	Revenue recognised for the Reporting Period *(RMB in million)*	**Contribution to total revenue**
Mainland China		
Maritime and ports infrastructure	286.1	61%
Waterway and other engineering	65.7	14%
Southeast Asia		
Maritime and ports infrastructure	117.5	25%
Total	469.3	100%

Future Plans and Prospects

The future development of the industry in the PRC will mainly be driven by development of specialised wharfs, implementation of land reclamation programme, new energy construction, upgrade and expansion of existing port facilities, large-tonnage ports construction, development of smart water transport system and construction of inland waterways. At the same time, the economic development in Southeast Asia and the construction of the Belt and Road Initiative will vigorously drive the market demand and infrastructure upgrade of the ports and waterways of Southeast Asian countries and the demand for opening and cooperation will be more and more. In this regard, the Group will further strengthen our leading market position in the port and waterway industry in the PRC, focusing on the development of markets in the circum-Bohai-sea region, Yangtze River Delta region, Guangdong-Hong Kong-Macao region, Hainan-Guangxi economic belt and the construction of China's inland waterways; the Group will continue to follow the Belt and Road Initiative to proactively exploit overseas markets, especially the Indonesian market, and strive to expand its share in the Indonesian market.

The Company has been operating in core and specialised areas of the PRC port, waterway and marine engineering industry, primarily focusing on maritime and ports infrastructure and waterway and other engineering. At the same time, the Company also continues to pay attention to the market changes in the entire construction industry, looking for opportunities in the specialised areas and related construction industry to expand the Company's revenue and contribute more benefits to the shareholders of the Company (the "**Shareholders**"). As China enters a new stage of transformation of both urbanization and urban development, urban construction has entered a period of rapid development, which has put forward higher requirements for urban infrastructure construction, and the construction of inland rivers has also driven the growth of development. Based on its core professional advantages, the Group is actively expanding the businesses of urban river docks, waterside platforms, landscape platforms, river dredging, etc. At the same time, relying on regional advantages, and the development of the Yangtze River Delta urban agglomeration, the Group is optimistic about the opportunities arising from the 2022 Hangzhou Asian Games, and is actively seeking related homogenous construction development area with synergistic benefits. The Group believes that this area will render significant opportunities in the future, and the Company is still closely watching.

Financial Overview

Revenue

The Group has been operating in core and specialised areas of the port, waterway and marine engineering industry, with maritime and ports infrastructure and waterway and other engineering as its principal business. Throughout the years, we have gradually expanded our business into the Yangtze River Delta, Pearl River Delta, and Central and Northern China. In 2016, we also became one of the pioneers in the PRC to set foot in Southeast Asia by branching out to Brunei and Indonesia following China's Belt and Road Initiative.

In the first half of 2019, the Group's main focus was to provide maritime and ports infrastructure and waterway and other engineering works and/or services in the PRC and Southeast Asia and to generate revenue from such provision. The Group's revenue from continuing operations was RMB469.3 million, representing an increase of approximately 4.8% from RMB447.8 million in the first half of 2018. Revenues from the PRC and Southeast Asia in the first half of 2019 were RMB351.8 million and RMB117.5 million, respectively. The recognition of the Group's revenue largely depends on the progress/phase of the project. The increase in revenue for the first half of 2019 was primary due to the successful implementation of our development strategy in China's market by extending from offshore engineering to onshore engineering construction services. The revenue from the PRC increased by 69.5% compared with that of the first half of 2018 to RMB351.8 million.

Cost of sales and profits from main operations

Cost of sales in the first half of 2019 was RMB407.0 million, representing an increase of 5.7% from RMB385.0 million in the first half of 2018. In the first half of 2019, cost of sales incurred in the PRC and Southeast Asia was RMB312.4 million and RMB94.7 million respectively. Cost of sales mainly consists of the cost of used raw materials and consumables, subcontracting costs, direct labour cost and depreciation of property, plant and equipment.

In the first half of 2019, the cost of raw materials and consumables used and cost of subcontracting amounted to RMB260.4 million and RMB120.3 million respectively, representing an increase of 12.4% and a decrease of 6.1% from that in the first half of 2018, respectively. The Group's profit from main operations generated from continuing operations largely depends on the location and composition of the project. In the first half of 2019, the Group's consolidated gross profit from main operations was RMB62.3 million, a decrease of 0.8% from RMB62.8 million in the first half of 2018. It mainly came from the gross profit from the PRC which was RMB39.4 million, an increase of RMB20.2 million from RMB19.2 million in the first half of 2018, and the gross profit from Southeast Asia which was RMB22.9 million, a decrease of RMB20.7 million from RMB43.6 million in the first half of 2018.

Operating profit from continuing operations in the first half of 2019 was RMB38.3 million, representing a decrease of 5.0% from RMB40.3 million in the first half of 2018, mainly due to RMB9.3 million of provision for impairment of financial assets, representing an increase of RMB5.0 million from that in the first half of 2018.

Administrative expenses

The administrative expenses in the first half of 2019 was RMB17.1 million, representing a decrease of 20.5% compared to RMB21.5 million in the first half of 2018, primarily due to RMB6.6 million of provision for the listing expenses in the first half of 2018.

Income tax expense

The Group's income tax expense in the first half of 2019 was RMB2.5 million, representing a decrease of 67.1% compared to RMB7.6 million in the first half of 2018, primarily due to super-deduction of Research and Development expenses of the Group.

Trade and other receivables

The Group's net trade and other receivables increased to RMB1,320.8 million as at 30 June 2019 (as at 31 December 2018: RMB1,162.7 million), which mainly comprised of progress receivables on projects, receivables on project completion, delivery and settlement, and retention receivables on completed projects. The main reason for increase of trade and other receivables in the first half of 2019 was that contract assets were transferred to trade and other receivables upon the completion of some projects. The Group's net contract assets decreased by RMB181.7 million to RMB270.8 million as at 30 June 2019 from RMB452.5 million as at 31 December 2018.

Trade and other payables

The Group's trade and other payables increased to RMB1,536.1 million as at 30 June 2019 (as at 31 December 2018: RMB1,515.8 million), mainly from the procurement and subcontracting items for the newly commenced projects were not yet due for payment.

Bank borrowings

The Group held RMB20.0 million of short-term bank credit borrowings as at 30 June 2019 (31 December 2018: Nil).

Current assets, capital structure, and gearing ratio

The Group maintained a healthy liquidity position with net current asset balance and net cash of approximately RMB445.1 million (as at 31 December 2018: RMB328.9 million) and RMB457.2 million (as at 31 December, 2018: RMB385.9 million), respectively as at 30 June 2019. The Group's gearing ratio (calculating by dividing total liabilities by total assets) as at 30 June 2019 was 73.5% (as at 31 December 2018: 74.5%). The gearing ratio in the first half of 2019 slightly decreased.

Charges on assets

As at 30 June 2019, the Group had no charges on assets.

Foreign exchange

Operations of the Group are mainly conducted in Chinese Renminbi (“**RMB**”), Hong Kong dollars (“**HK$**”), Brunei dollars (“**BN$**”), United States dollars (“**US$**”) and Indonesian Rupiahs (“**IDR**”) (collectively, “**Major Currencies**”). The Group did not adopt any hedging policy and the Directors considered that the exposure to foreign exchange risks can be mitigated by using the Major Currencies (i) as principal currencies for contract entered by and between the Group and its customers and (ii) to settle payments to our suppliers and operating expenses where possible. In the event that settlement from the Group’s customer are received in a currency other than the Major Currencies, such currency will be retained for payment of operating expenditures when necessary and the remaining amount will be converted to HK$ or US$ promptly.

Capital expenditures and commitments

The Group generally finances its capital expenditures by cash flows generated from its operation, and the net proceeds from the Listing provide an additional source of funding to meet its capital expenditure plan. In the first half of 2019, the Group paid RMB2.5 million for the purchase of machinery and equipment used for construction. As at 30 June 2019, the Group had no major capital commitments.

Contingent liabilities

As at 30 June 2019, the Group had no contingent liabilities.

Material acquisition and disposal of subsidiaries, associates and joint ventures

The Group had no material investments, acquisition and disposal during the Reporting Period.

Significant investment held

As at 30 June 2019, the Group held no significant investment.

Use of Proceeds

The Group's net proceeds from the Listing were approximately HK$202.9 million. As at 30 June 2019, the utilisation of net proceeds raised by the Group from the Listing is as below:

(HK$ in million)

	Estimated use of proceeds	Utilised up to 30 June 2019	Unutilised up to 30 June 2019	Expected timeline for utilisation of the unutilised net proceeds *(Note)*
Funding our capital needs and cash flow under our existing projects in the PRC and Southeast Asia	65.5	21.3	44.2	December 2021 or before
Purchasing new vessels and construction equipment	35.7	2.1	33.6	December 2020 or before
Recruiting talent	13.0	1.2	11.8	December 2021 or before
Strategic equity investment	68.8	—	68.8	December 2020 or before
General working capital	19.9	19.9	—	—
	202.9	44.5	158.4	

Note: The expected timeline for utilising the remaining proceeds is based on the best estimation of the future market conditions made by the Group. It will be subject to change based on the current and future development of market conditions.

Interim Dividend

The Board resolved the declaration of an interim dividend of HK 1.2 cents (equivalent to approximately RMB1.1 cents) per ordinary share, totalling HK$9.9 million (equivalent to approximately RMB8.9 million), for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil) payable on Monday, 28 October 2019 to the Shareholders whose names appear on the register of members of the Company on Monday, 16 September 2019.

Closure of Register of Members

For determining the entitlement of the Shareholders to the interim dividend, the register of members of the Company will be closed from Thursday, 12 September 2019 to Monday, 16 September 2019, both days inclusive, during which period no transfer of shares shall be registered. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai for registration not later than 4:30 p.m. on Wednesday, 11 September 2019.

Employees and Remuneration Policies

As at 30 June 2019, the Group had a total of 257 employees. Shanghai Third Harbor Benteng Maritime Engineering Co., Ltd. ("**Third Harbor Maritime**") had a total of 138 employees, PT. Shanghai Third Harbor Benteng Construction and Engineering had a total of 83 employees (including 15 Chinese employees who are appointed by Third Harbor Maritime. They have entered into employment contracts with Third Harbor Maritime, and we have purchased the relevant insurance for them in both China and Indonesia), and Pahaytc & Benteng JV Sdn Bhd had a total of 36 employees (including 8 Chinese employees who are appointed by Third Harbor Maritime. They have entered into employment contracts with Third Harbor Maritime, and we have purchased the relevant insurance for them in China). Our employees have been paid remuneration in accordance with relevant laws and regulations in China, Indonesia and Brunei. The Company pays appropriate salary and bonuses with reference to actual practice. Other related benefits include pensions, medical insurance, unemployment insurance and housing allowances.

The remuneration committee of the Company has been established to provide recommendations to the Board on the overall remuneration policy and structure of the Group's Directors and senior management, review the remuneration and ensure that no Directors have determined their own remuneration.

During the Reporting Period, the Group did not experience any strikes, lockouts or major labour disputes affecting operations, or encounter any major difficulties in hiring and retaining qualified employees.

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

During the Reporting Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Rules Governing the Listings of Shares on the Stock Exchange (the "**Listing Rules**") as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries to all Directors, all Directors of the Company confirms that they have fully complied with the relevant requirements set out in its own code of conduct during the Reporting Period.

Compliance with Corporate Governance Code

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted all the code provisions in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. The Company has complied with all applicable code provisions under the CG Code during the Reporting Period.

By order of the Board
Watts International Maritime Engineering Limited
Wang Xiuchun
Chairman

Hong Kong, 28 August 2019

As at the date of this announcement, the Board comprises Mr. Wang Xiuchun, Mr. Wang Shizhong, Ms. Wan Yun, Mr. Wang Lijiang and Ms. Olive Chen as executive Directors, Mr. Wang Hongwei, Mr. How Sze Ming and Mr. Sun Dajian as independent non-executive Directors.