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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

Financial Summary

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
		(restated)[(i)]
Revenue	**2,049,922**	2,307,526
Gross profit	**246,732**	305,777
Profit before income tax	**104,071**	169,173
Profit for the year	**101,163**	131,299
Total comprehensive income for the year attributable to the shareholders of the Company	**101,212**	132,165
Earnings per share for profit attributable to the shareholders of the Company (expressed in RMB cents per share):		
— Basic earnings per share	**12.26**	20.41
— Diluted earnings per share	**12.26**	20.41
	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
		(restated)[(i)]
Total assets	**3,425,344**	3,622,147
Total equity	**654,063**	1,029,962

Note (i) Comparative figures have been restated for the Group's application of merger accounting for business combinations under common control. Details of the restatements are set out in Note 3 to the annual results announcement.

Annual results for the year ended 31 December 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 audited consolidated annual results of the Group for the year ended 31 December 2019 (the "**Reporting Period**"), which have been reviewed by the audit committee of the Company (the "**Audit Committee**"), and have been approved by the Board on 26 March 2020.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	Note	Year ended 31 December 2019 RMB'000	2018 RMB'000 (restated)
Revenue	4	**2,049,922**	2,307,526
Cost of sales		**(1,803,190)**	(2,001,749)
Gross profit		**246,732**	305,777
Selling and distribution expenses		**(2,971)**	(3,912)
Administrative expenses		**(116,060)**	(116,080)
Net impairment losses on financial assets		**(32,634)**	(11,492)
Other operating expenses		**(682)**	(668)
Other income		**6,379**	4,316
Other gains — net	5	**12,137**	694
Operating profit		**112,901**	178,635
Finance income		**10,571**	7,271
Finance costs		**(19,401)**	(16,733)
Profit before income tax		**104,071**	169,173
Income tax expense	6	**(2,908)**	(37,874)
Profit for the year		**101,163**	131,299
Other comprehensive income			
Items that may be reclassified to profit or loss			
Currency translation differences		**2,471**	866
Changes in the fair value of equity instruments at fair value through other comprehensive income		**(2,422)**	—
Other comprehensive income for the year, net of tax		**49**	866
Total comprehensive income for the year attributable to the shareholders of the Company		**101,212**	132,165
Earnings per share for profit attributable to the shareholders of the Company (expressed in RMB cents per share):			
— Basic earnings per share	7	**12.26**	20.41
— Diluted earnings per share	7	**12.26**	20.41

Consolidated Statement of Financial Position

As at 31 December 2019

	Note	As at 31 December **2019** *RMB'000*	2018 *RMB'000* (restated)
ASSETS			
Non-current assets			
Property, plant and equipment		**110,628**	106,826
Land use rights		**—**	10,548
Right-of-use assets		**16,582**	—
Intangible assets		**603**	496
Contract assets	9	**346,533**	377,869
Trade and other receivables	8	**114,096**	71,047
Deferred tax assets		**9,751**	5,592
Financial assets at fair value through other comprehensive income		**4,844**	—
		603,037	572,378
Current assets			
Inventories		**31,978**	28,574
Contract assets	9	**516,804**	544,769
Trade and other receivables	8	**1,742,741**	1,601,124
Amounts due from shareholders		**—**	361,896
Financial assets at fair value through profit or loss		**50**	21,811
Restricted cash		**59,023**	7,134
Cash and cash equivalents		**471,711**	484,461
		2,822,307	3,049,769
Total assets		**3,425,344**	3,622,147

	Note	As at 31 December 2019 RMB'000	2018 RMB'000 (restated)
EQUITY			
Capital and reserves			
Share capital		**7,303**	7,303
Share premium		**313,609**	322,551
Other reserves		**14,328**	193,718
Retained earnings		**318,823**	506,390
Total equity		**654,063**	1,029,962
LIABILITIES			
Non-current liabilities			
Borrowings		**29,000**	33,500
Lease liabilities		**4,657**	—
Trade and other payables	10	**301,885**	267,245
Deferred tax liabilities		**3,198**	9,258
		338,740	310,003
Current liabilities			
Lease liabilities		**1,810**	—
Borrowings		**29,500**	6,500
Trade and other payables	10	**2,372,979**	2,226,867
Income tax payables		**13,871**	40,571
Contract liabilities	9	**14,381**	8,244
		2,432,541	2,282,182
Total liabilities		**2,771,281**	2,592,185
Total equity and liabilities		**3,425,344**	3,622,147

Notes to Annual Result Announcement

1 GENERAL INFORMATION AND REORGANISATION

1.1 General Information

Watts International Maritime Engineering Limited 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 provide port, waterway and marine engineering business, including infrastructure construction of ports and waterway engineering services (the "**Listing Business**") and municipal public construction business after completion of the acquisition of the "Acquired Group" as described in Note 3. 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.

Prior to the completion of the reorganisation as described in Note 1.2 below (the "**Reorganisation**"), the Listing Business was principally operated in Mainland China and Southeast Asia through companies managed and controlled by the Controlling Shareholders.

The Company completed its initial public offering and its shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 19 November 2018 (the "**Listing**").

The consolidated financial statements are presented in Renminbi ("**RMB**"), unless otherwise stated.

The financial position and performance of the Group was particularly affected by the following events and transactions during the reporting period:

- The acquisition of the Acquired Group in December 2019 which resulted in restatement of the Group's 2018 comparative amounts of the consolidated statement of comprehensive income by including the operating results of the Acquired Group and eliminated its transactions with the Acquired Group, as if the acquisition had been completed on the earliest date being presented, i.e. 1 January 2018. The consolidated statement of financial position of the Group as at 1 January 2018 was restated to include the assets and liabilities of the Acquired Group.

- The adoption of the new accounting standard for leases (Note 2.2).

The consolidated financial statements have been approved for issue by the Board of Directors on 26 March 2020.

1.2 Reorganisation

In preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited, the Group underwent a reorganisation (the "**Reorganisation**"), pursuant to which the Listing Business were transferred to the Company. Detailed steps of the Reorganisation will be disclosed in the 2019 annual report.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements will be set out in the 2019 annual report. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") and the disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. They have been prepared on a historical cost basis, except for certain financial assets and liabilities (including derivative instruments) which were measured at fair value.

The preparation of the consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements will be disclosed in the 2019 annual report.

(i) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

- HKFRS 16 Leases
- Prepayment Features with Negative Compensation — Amendments to HKFRS 9

- Long-term Interests in Associates and Joint Ventures — Amendments to HKAS 28

- Annual Improvements to HKFRS Standards 2015 — 2017 Cycle

- Plan Amendment, Curtailment or Settlement — Amendments to HKAS 19

- Interpretation 23 Uncertainty over Income Tax Treatments.

The Group had to change its accounting policies as a result of adopting HKFRS 16. The Group elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019. This is disclosed in Note 2.2. Most of the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(ii) New and amended standards and revised conceptual framework not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. These standards and revised conceptual framework are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

		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
Revised Conceptual Framework	Revised Conceptual Framework for Financial Reporting	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

2.2 Changes in accounting policies

As indicated in Note 2.1 above, the Group has adopted HKFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition 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.

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 4.85%.

(i) Practical expedients applied

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

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review — there were no onerous contracts as at 1 January 2019
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate 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 Interpretation 4 *Determining whether an Arrangement contains a Lease*.

(ii) Measurement of lease liabilities

	As at 1 January 2019 *RMB'000*
Operating lease commitments disclosed as at 31 December 2018	**8,073**
Less:	
Short-term leases recognised on a straight-line basis as expense	**(2,134)**
	5,939
Discounted using the lessee's incremental borrowing rate of at the date of initial application	**4,318**
Lease liability recognised as at 1 January 2019	**4,318**
Of which are:	
Current lease liabilities	**711**
Non-current lease liabilities	**3,607**
	4,318

(iii) Measurement of right-of-use assets

The Group's land use rights meet the definition of right-of-use assets under HKFRS 16 and hence have been reclassified accordingly at their carrying amounts as at 1 January 2019.

The right-of-use assets for properties and land under leases 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 1 January 2019. 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:

	As at 1 January 2019
	RMB'000
Land use rights	**10,548**
Land under leases	**3,717**
Properties	**601**
	14,866

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

- Right-of-use assets — increase by approximately RMB14,866,000

- Lease liabilities (current portion) — increase by approximately RMB711,000

- Lease liabilities (non-current portion) — increase by approximately RMB3,607,000

- Land use rights — decrease by approximately RMB10,548,000

3 APPLICATION OF BUSINESS COMBINATIONS UNDER COMMON CONTROL

On 14 November 2019, Shanghai Third Harbor Benteng Maritime Engineering Co., Ltd. ("**Third Harbor Maritime**"), a wholly-owned subsidiary of the Company, as the purchaser and Shanghai Watts Gallop Holding Group Co., Ltd. ("**Watts Gallop**"), a company also controlled by the Controlling Shareholders, as the vendor entered into a sale and purchase agreement, pursuant to which Watts Gallop agreed to sell, and Third Harbor Maritime agreed to purchase, the entire issued share capital of Shanghai Watts Benteng Municipal Public Engineering Co., Ltd. and its subsidiaries (the "**Acquired Group**"), at an initial cash consideration of RMB170,000,000.

The Acquired Group is principally engaged in municipal public construction business in the PRC focusing on (i) construction of public infrastructure within cities which includes public roads, bridges, and tunnels; (ii) urban greening; and (iii) construction of buildings.

The consideration to be satisfied by the Group in the following manner:

(a) assumption of debt in the amount of RMB84,490,000 owed by Watts Gallop to the Acquired Group (the "**Debt**"). The Debt represents the non-trade advances resulting from an intra-group funding arrangement within entities controlled by the Controlling Shareholders of Watts Gallop from time to time as at 31 August 2019, which was mainly for working capital purpose, and was interest-free and repayable on demand; and

(b) a sum of RMB85,510,000 was paid/shall be payable by Third Harbor Maritime to Watts Gallop by the following instalments by cash:

    i) RMB10,000,000 (equivalent to approximately HK$11,111,111) was paid in December 2019, after the condition precedent was satisfied;

    ii) RMB25,000,000 (equivalent to approximately HK$27,777,778) shall be paid on or before 31 December 2020;

    iii) RMB25,000,000 (equivalent to approximately HK$27,777,778) shall be paid on or before 31 December 2021; and

    iv) RMB25,510,000 (equivalent to approximately HK$28,355,556) shall be paid on or before 31 December 2022.

The acquisition was considered as a business combination under common control as Third Harbor Maritime and the Acquired Group are both ultimately controlled by Controlling Shareholders. Under HKFRS, the acquisition of the Acquired Group was accounted for using merger accounting in accordance with Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" ("**AG 5**") issued by the HKICPA. Accordingly, the Acquired Group was included in the consolidated financial statements from the beginning of the earliest period presented as if the Acquired Group had always been part of the Group. As a result, the Group has restated its 2018 comparative amounts of the consolidated statement of comprehensive income by including the operating results of the Acquired Group and eliminated its transactions with the Acquired Group, as if the acquisition had been completed on the earliest date being presented, i.e. 1 January 2018. The consolidated statement of financial position of the Group as at 31 December 2018 was restated to include the assets and liabilities of the Acquired Group. The fair value of the total consideration to be satisfied by the Group is approximately RMB164,067,000, which is considered as a deemed distribution to shareholders.

The following are reconciliations of the effects arising from the accounting of common control combination in accordance with AG 5 on the Group's consolidated income statements, consolidated statements of comprehensive income and consolidated statements of financial position in connection with the Acquired Group as at/for the year ended 31 December 2018:

(a) Effect on the consolidated statement of comprehensive income for the year ended 31 December 2018

	The Group (before business combination under common control) RMB'000	Effect of business combination under common control RMB'000	Adjustment (Note) RMB'000	Consolidated RMB'000
Revenue	1,489,656	817,870	—	2,307,526
Cost of sales	(1,275,128)	(726,621)	—	(2,001,749)
Gross profit	214,528	91,249	—	305,777
Selling and distribution expenses	(2,981)	(931)	—	(3,912)
Administrative expenses	(75,486)	(40,594)	—	(116,080)
Net impairment losses on financial assets	(8,675)	(1,845)	(972)	(11,492)
Other operating expenses	(332)	(336)	—	(668)
Other income	2,396	1,920	—	4,316
Other gains — net	419	275	—	694
Operating profit	129,869	49,738	(972)	178,635
Finance income	2,986	4,285	—	7,271
Finance costs	(341)	(16,392)	—	(16,733)
Profit before income tax	132,514	37,631	(972)	169,173
Income tax expense	(28,448)	(9,669)	243	(37,874)
Profit for the year	104,066	27,962	(729)	131,299
Other comprehensive income				
Items that may be reclassified to profit or loss				
Currency translation differences	866	—	—	866
Other comprehensive income for the year, net of tax	866	—	—	866
Total comprehensive income for the year attributable to the shareholders of the Company	104,932	27,962	(729)	132,165
Earnings per share for profit attributable to the shareholders of the Company (expressed in RMB cents per share):				
— Basic and diluted	16.18	4.35	(0.12)	20.41

Note: The adjustments represent the elimination of impairment loss for trade and retention receivables between a subsidiary in the Group and the Acquired Group.

(b) *Effect on the consolidated statement of financial position as at 1 January 2018*

	The Group (before business combination under common control)	Effect of business combination under common control	Adjustment (Note)	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS				
Non-current assets				
Property, plant and equipment	82,646	31,623	—	114,269
Land use rights	—	10,824	—	10,824
Intangible assets	343	19	—	362
Contract assets	97,085	283,395	—	380,480
Trade and other receivables	13,848	78,210	—	92,058
Deferred tax assets	12,093	6,047	(1,032)	17,108
	206,015	410,118	(1,032)	615,101
Current assets				
Inventories	5,730	6,371	—	12,101
Contract assets	138,005	202,223	—	340,228
Trade and other receivables	977,413	497,214	(42,669)	1,431,958
Amounts due from shareholders	294,484	306,608	—	601,092
Financial assets at fair value through profit or loss	20,000	50	—	20,050
Restricted cash	8,024	37,891	—	45,915
Cash and cash equivalents	122,264	126,335	—	248,599
	1,565,920	1,176,692	(42,669)	2,699,943
Total assets	1,771,935	1,586,810	(43,701)	3,315,044
EQUITY				
Capital and reserves				
Share capital	8	—	—	8
Other reserves	119,870	177,740	—	297,610
Retained earnings	487,618	284,970	3,098	775,686
Total equity	607,496	462,710	3,098	1,073,304

	The Group (before business combination under common control)	Effect of business combination under common control	Adjustment (Note)	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
LIABILITIES				
Non-current liabilities				
Borrowings	—	40,000	—	40,000
Trade and other payables	181,450	296,984	—	478,434
Deferred tax liabilities	11,760	177	—	11,937
	193,210	337,161	—	530,371
Current liabilities				
Borrowings	—	5,500	—	5,500
Trade and other payables	940,508	762,208	(46,799)	1,655,917
Income tax payables	7,038	15,754	—	22,792
Contract liabilities	23,683	3,477	—	27,160
	971,229	786,939	(46,799)	1,711,369
Total liabilities	1,164,439	1,124,100	(46,799)	2,241,740
Total equity and liabilities	1,771,935	1,586,810	(43,701)	3,315,044

Note: The adjustment represents the elimination of trade and retention receivables of the Acquired Group owed by a subsidiary in the Group. The deferred tax assets relating to the allowance for impairment of such eliminated trade and retention receivables are eliminated accordingly. The eliminated retained earnings represent the accumulated impact of the above impairment losses and deferred income tax in prior years.

(c) Effect on the consolidated statement of financial position as at 31 December 2018

	The Group (before business combination under common control) *RMB'000*	Effect of business combination under common control *RMB'000*	Adjustment (Note) *RMB'000*	Consolidated *RMB'000*
ASSETS				
Non-current assets				
Property, plant and equipment	75,917	30,909	—	106,826
Land use rights	—	10,548	—	10,548
Intangible assets	489	7	—	496
Contract assets	182,635	195,234	—	377,869
Trade and other receivables	1,965	69,082	—	71,047
Deferred tax assets	—	6,381	(789)	5,592
	261,006	312,161	(789)	572,378
Current assets				
Inventories	12,113	16,461	—	28,574
Contract assets	269,905	274,864	—	544,769
Trade and other receivables	1,160,689	464,279	(23,844)	1,601,124
Amounts due from shareholders	—	361,896	—	361,896
Financial assets at fair value through profit or loss	—	21,811	—	21,811
Restricted cash	77	7,057	—	7,134
Cash and cash equivalents	385,890	98,571	—	484,461
	1,828,674	1,244,939	(23,844)	3,049,769
Total assets	2,089,680	1,557,100	(24,633)	3,622,147
EQUITY				
Capital and reserves				
Share capital	7,303	—	—	7,303
Share premium	322,551	—	—	322,551
Other reserves	12,876	180,842	—	193,718
Retained earnings	189,485	314,536	2,369	506,390
Total equity	532,215	495,378	2,369	1,029,962

	The Group (before business combination under common control)	Effect of business combination under common control	Adjustment (Note)	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
LIABILITIES				
Non-current liabilities				
Borrowings	—	33,500	—	33,500
Trade and other payables	48,457	218,788	—	267,245
Deferred tax liabilities	9,258	—	—	9,258
	57,715	252,288	—	310,003
Current liabilities				
Borrowings	—	6,500	—	6,500
Trade and other payables	1,467,366	786,503	(27,002)	2,226,867
Income tax payables	27,623	12,948	—	40,571
Contract liabilities	4,761	3,483	—	8,244
	1,499,750	809,434	(27,002)	2,282,182
Total liabilities	1,557,465	1,061,722	(27,002)	2,592,185
Total equity and liabilities	2,089,680	1,557,100	(24,633)	3,622,147

Note: The adjustment represents the elimination of trade and retention receivables of the Acquired Group owed by a subsidiary in the Group. The deferred tax assets relating to the allowance for impairment of such eliminated trade and retention receivables are eliminated accordingly. The eliminated retained earnings represent the accumulated impact of the above impairment losses and deferred income tax in prior years.

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.

In prior years, the original business analysis of the Group was mainly divided into two reportable segments, namely the ports infrastructure segment and the waterway engineering segment.

In view of the acquisition of municipal public construction business and downsizing of waterway engineering segment in 2019, the Group's executive directors consider it more informative and reflective of underlying business realities to present the business performance analysis of the Group according to the following categories:

(i) Marine construction, including infrastructure construction of ports, waterway engineering and other services; and

(ii) Municipal public construction, including construction of public infrastructure within cities, urban greening and construction of buildings.

The executive directors assess the performance of the business segments based on profit for the year, which is consistent with that in the consolidated financial statements.

Segment assets and liabilities are measured in the same way as in the consolidated financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset. These liabilities are allocated based on the operations of the segment.

(b) Segment results and other information

The revenue from external parties is measured in the same way as in the consolidated statement of comprehensive income. The segment information for the year ended 31 December 2019 is as follows:

	Year ended 31 December 2019			
	Marine construction *RMB'000*	**Municipal public construction** *RMB'000*	**Unallocated item**[(i)] *RMB'000*	**Total** *RMB'000*
Revenue	**921,258**	**1,128,664**	**—**	**2,049,922**
Cost of sales	**(791,366)**	**(1,011,824)**	**—**	**(1,803,190)**
Gross profit	**129,892**	**116,840**	**—**	**246,732**
Selling and distribution expenses	**(2,315)**	**(656)**	**—**	**(2,971)**
Administrative expenses	**(54,831)**	**(54,724)**	**(6,505)**	**(116,060)**
Net impairment losses on financial assets	**(28,257)**	**(4,377)**	**—**	**(32,634)**
Other operating expenses	**(346)**	**(336)**	**—**	**(682)**
Other income	**4,511**	**1,868**	**—**	**6,379**
Other gains — net *(Note 5)*	**12,473**	**(336)**	**—**	**12,137**
Finance costs — net	**5,754**	**(14,584)**	**—**	**(8,830)**
Profit before income tax	**66,881**	**43,695**	**(6,505)**	**104,071**
Income tax expense *(Note 6)*	**611**	**(3,519)**	**—**	**(2,908)**
Profit for the year	**67,492**	**40,176**	**(6,505)**	**101,163**
Segment items included:				
Depreciation and amortisation	**(13,811)**	**(6,545)**	**—**	**(20,356)**

The segment assets and liabilities at 31 December 2019 are as follows:

	Year ended 31 December 2019			
	Marine construction *RMB'000*	**Municipal public construction** *RMB'000*	**Inter-segment elimination** *RMB'000*	**Total** *RMB'000*
Total assets	**2,173,914**	**1,515,455**	**(264,025)**	**3,425,344**
Total liabilities	**1,587,235**	**1,284,002**	**(99,956)**	**2,771,281**

(i) The unallocated item represents the legal and professional fees incurred in relation to the acquisition of the Acquired Group in 2019 (2018: Nil), mainly including expenses of lawyers, valuer, financial advisers and reporting accountants.

The segment information for the year ended 31 December 2018 is as follows:

	Year ended 31 December 2018 (restated)			
	Marine construction *RMB'000*	Municipal public construction *RMB'000*	Inter-segment elimination *RMB'000*	Total *RMB'000*
Revenue	1,489,656	817,870	—	2,307,526
Cost of sales	(1,275,128)	(726,621)	—	(2,001,749)
Gross profit	214,528	91,249	—	305,777
Unallocated item:				
Selling and distribution expenses	(2,981)	(931)	—	(3,912)
Administrative expenses	(75,486)	(40,594)	—	(116,080)
Net impairment losses on financial assets	(8,675)	(1,845)	(972)	(11,492)
Other operating expenses	(332)	(336)	—	(668)
Other income	2,396	1,920	—	4,316
Other gains — net *(Note 5)*	419	275	—	694
Finance costs — net	2,645	(12,107)	—	(9,462)
Profit before income tax	132,514	37,631	(972)	169,173
Income tax expense *(Note 6)*	(28,448)	(9,669)	243	(37,874)
Profit for the year	104,066	27,962	(729)	131,299
Segment items included:				
Depreciation and amortisation	(10,900)	(5,541)	—	(16,441)

The segment assets and liabilities at 31 December 2018 are as follows:

	Year ended 31 December 2018 (restated)			
	Marine construction *RMB'000*	Municipal public construction *RMB'000*	Inter-segment elimination *RMB'000*	Total *RMB'000*
Total assets	2,089,680	1,557,100	(24,633)	3,622,147
Total liabilities	1,557,465	1,061,722	(27,002)	2,592,185

Certain comparative amounts have been reclassified to conform to the current period's presentation. These reclassifications only impacted the reclassification of the consolidated statement of comprehensive income, and had no effect on reported total assets, liabilities, equity or net profit.

(c) Revenue from external customers

The Group derives revenues from the transfer of services over time for external customers in the following services and location of the customers:

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
		(restated)
Mainland China		
Marine construction		
Revenue	**724,705**	951,885
Cost of sales	**(613,270)**	(831,117)
	111,435	120,768
Municipal public construction		
Revenue	**1,128,664**	817,870
Cost of sales	**(1,011,824)**	(726,621)
	116,840	91,249
Southeast Asia		
Marine construction		
Revenue	**196,553**	537,771
Cost of sales	**(178,096)**	(444,011)
	18,457	93,760

5 OTHER GAINS — NET

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
		(restated)
Gains on receivables transferred under Novation Agreement *(Note 8(v))*	**6,621**	2,405
Net foreign exchange gains/(losses)	**5,426**	(1,240)
Gains on compensation from insurance company	**774**	—
Commercial penalties and compensations	**(747)**	(483)
Fair value gains on financial assets at fair value through profit or loss	**305**	1,004
Net losses on disposal of property, plant and equipment	**(222)**	(78)
Donations	**(20)**	(883)
Losses on disposal of investment in associates	**—**	(31)
	12,137	694

6 INCOME TAX EXPENSE

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

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
		(restated)
Current income tax	**12,638**	40,679
Deferred income tax	**(9,730)**	(2,805)
Income tax expense — net	**2,908**	37,874

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the entity operates.

(i) Cayman Islands profits 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.

(ii) British Virgin Islands ("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.

(iii) 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 year ended 31 December 2019 and 2018.

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

The Group's subsidiaries in the PRC are subject to PRC CIT which is calculated based on the applicable tax rate of 25% (2018: 25%) on the assessable profits of the subsidiaries in accordance with PRC tax laws and regulations, except for one as disclosed below.

Third Harbor Maritime, a subsidiary of the Group, is approved to be new and high-technology enterprise since the year ended 31 December 2019 and is entitled to a preferential income tax rate of 15%. The certificate of new and high-technology enterprise is subject to renewal for each three years interval.

(v) 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 years ended 31 December 2019 and 2018.

(vi) 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 years ended 31 December 2019 and 2018, income tax was provided at the rate of 3% on the revenue from construction services, and income tax of 20% was provided on the interest income from bank deposits, according to the respective Indonesia income tax laws and regulations.

7 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 year attributable to the shareholders of the Company and the weighted average number of ordinary shares in issue.

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 and the capitalisation issue of ordinary shares, both completed during the year ended 31 December 2018.

	2019	2018 (restated)
Profit attributable to the shareholders of the Company *(RMB'000)*	**101,163**	131,299
Weighted average number of ordinary shares in issue *(thousands)*	**825,400**	643,360
Total basic earnings per share attributable to the ordinary equity holders of the Group *(RMB cents)*	**12.26**	20.41

(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 31 December 2019 and 2018.

8 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
		(restated)
Trade receivables *(i)*	**1,404,877**	1,304,148
Less: allowance for impairment of trade receivables	**(52,196)**	(37,212)
Trade receivables — net	**1,352,681**	1,266,936
Retention receivables *(ii)*	**307,927**	210,883
Less: allowance for impairment of retention receivables	**(24,072)**	(9,314)
Retention receivables — net	**283,855**	201,569
Bills receivables *(i)*	**26,145**	11,749
Long-term trade receivables *(iii, iv)*	**57,738**	60,904
Less: allowance for impairment of long-term trade receivables	**(1,773)**	(1,754)
Long-term trade receivables-net	**55,965**	59,150
Other receivables	**67,966**	87,283
Prepayments	**70,078**	45,484
Prepaid taxation	**147**	—
	1,856,837	1,672,171
Less: non-current portion		
Retention receivables	**(59,496)**	(14,332)
Long-term trade receivables	**(52,767)**	(56,114)
Other receivables	**(1,833)**	(601)
	(114,096)	(71,047)
Current portion	**1,742,741**	1,601,124

(i) The Group's revenues are generated through marine construction services and municipal public construction services. 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 receivables balances.

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

As at 31 December 2019 and 2018, the ageing analysis of the trade and bills receivables based on the payment requests acknowledged by the customers is as follows:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
		(restated)
Up to 3 months	**463,023**	581,880
4 to 6 months	**180,333**	176,638
7 to 12 months	**229,522**	78,544
1 to 2 years	**291,746**	349,810
2 to 3 years	**162,261**	56,339
Over 3 years	**104,137**	72,686
	1,431,022	1,315,897

(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 five years, and the maintenance cost is usually immaterial during that period. In the consolidated 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 31 December	
	2019	2018
	RMB'000	*RMB'000*
		(restated)
Within 1 year	**153,589**	42,934
1 to 2 years	**25,198**	101,317
2 to 3 years	**77,759**	26,646
3 to 4 years	**19,625**	24,175
4 to 5 years	**19,007**	9,941
Over 5 years	**12,749**	5,870
	307,927	210,883

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

(iii) Long-term trade receivables represent amounts due from customers for services performed relating to a public-private-partnership with quarterly instalment in fifteen years. Long-term trade receivables were measured at amortised cost using the effective interest method at average rate of 5.39%.

(iv) As at 31 December 2019, the Group pledged long-term trade receivables with carrying amount of approximately RMB55,965,000 (2018: RMB59,150,000) for the bank borrowings amounted to RMB33,500,000 (2018: RMB40,000,000).

(v) On 6 July 2018, Shanghai Third Harbor Benteng Construction and Engineering Co., Ltd. ("**Third Harbor Construction**") and Third Harbor Maritime entered into a supplemental agreement to the Business and Asset Transfer Agreements (the "**Novation Agreement**"), pursuant to which certain assets and liabilities, including trade and other receivables, trade and other payables and contract assets relating to the Listing Business were transferred to Third Harbor Maritime from Third Harbor Construction. The consideration was determined with reference to the carrying amount of the net trade and other receivables, trade and other payables and contract assets. Accordingly, the trade and other receivables recorded by Third Harbor Maritime under the Novation Agreement has taken into account the effect of the allowance for impairment of trade and other receivables of approximately RMB47,302,000 previously recorded by Third Harbor Construction.

Subsequently, when the actual cash collection of the above trade and other receivables exceeds the amount recorded by the Third Harbor Maritime, the difference is recognised in "Other gains — net" (Note 5).

9 CONTRACT ASSETS AND LIABILITIES

The Group recognised the following assets and liabilities relating to contract with customers:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
		(restated)
Contract assets		
Current portion		
Marine construction	**292,645**	271,342
Municipal public construction	**233,174**	278,076
Less: allowance for impairment of contract assets	**(9,015)**	(4,649)
	516,804	544,769
Non-current portion		
Marine construction	**182,025**	183,603
Municipal public construction	**170,685**	201,784
Less: allowance for impairment of contract assets	**(6,177)**	(7,518)
	346,533	377,869
Total contract assets	**863,337**	922,638
Contract liabilities		
Marine construction	**2,186**	4,761
Municipal public construction	**12,195**	3,483
Total contract liabilities	**14,381**	8,244

(i) Significant changes in contract assets and liabilities

The contract assets are the Group's right to consideration in the exchange for services that the Group has transferred to customers. The contract assets transferred to trade and retention receivables when receipt of the consideration is conditional only on the passage of time.

The Group expects that contract assets have the same risk characteristics as trade receivables. The impairment of contract assets does not have significant impact on the Group.

The contract liabilities above are due to the non-refundable advance payment made by customers. Such liabilities fluctuate as a result of the terms of different projects. A contract liability is the Group's obligation to render services to a customer for which the Group has received consideration from the customer. A contract liability is recognised by the Group when the customer pay consideration but before the Group renders service to the customer.

Due to the completion of the construction, approximately RMB340,240,000 and RMB121,896,000 of contract assets were transferred to trade receivables, while approximately RMB142,915,000 and RMB45,706,000 of contract assets were transferred to retention receivables during the years ended 31 December 2019 and 2018.

10 TRADE AND OTHER PAYABLES

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
		(restated)
Trade payables *(i)*	**1,468,289**	1,420,246
Bills payables *(i)*	**29,390**	1,500
Retention payables *(ii)*	**297,211**	294,607
Long-term payables *(iii)*	**659,987**	588,536
Payroll and social security	**13,941**	11,661
Other payables	**84,924**	90,778
Other tax liabilities excluding income tax liabilities	**121,122**	86,784
	2,674,864	2,494,112
Less: non-current portion		
Retention payables *(ii)*	**(136,392)**	(136,697)
Long-term payables *(iii)*	**(160,493)**	(119,996)
Other payables	**(5,000)**	(10,552)
	(301,885)	(267,245)
Current portion	**2,372,979**	2,226,867

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

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

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
		(restated)
Within 3 months	**784,262**	609,037
4 to 6 months	**167,860**	194,757
7 to 12 months	**120,911**	163,002
1 to 2 years	**213,158**	307,301
2 to 3 years	**127,780**	90,169
Over 3 years	**83,708**	57,480
	1,497,679	1,421,746

(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 five years. In the consolidated 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 31 December	
	2019	2018
	RMB'000	*RMB'000*
		(restated)
Within 1 year	**131,186**	130,522
1 to 5 year	**136,972**	147,761
Over 5 years	**29,053**	16,324
	297,211	294,607

(iii) Long-term payables mainly consist of long-term trade payables and amount due to Watts Gallop of approximately RMB69,578,000, representing unsettled consideration for the acquisition of the Acquired Group. Long-term trade payables represent amounts due to suppliers for certain construction services with unbilled payables and the expected billing period is over one year. For some suppliers, usually 10% to 35% of the payments will be paid upon the completion of the construction and 5% to 10% of the payments will be paid after the warranty period expires. Long-term payables are measured at amortised cost using the effective interest method at the average rate from 4.35% to 4.90%. In the consolidated 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 analysis of the long-term payables is as follows:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
		(restated)
Within 1 year	**291,539**	255,162
1 to 5 year	**350,455**	312,348
Over 5 years	**17,993**	21,026
	659,987	588,536

11 DIVIDENDS

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
		(restated)
Interim, paid	**8,942**	—
Final, proposed	**16,266**	—
	25,208	—

At a meeting held on 26 March 2020, the Board of Directors proposed a final dividend of HK2.20 cents (equivalent to RMB1.97 cents) per share (2018: Nil), representing total amount of approximately HK$18,159,000 (equivalent to RMB16,266,000) (2018: Nil) to be distributed from the share premium account. This dividend is not reflected as a dividend payable in these consolidated financial statements, but will be reflected as an appropriation from the share premium account for the year ending 31 December 2020.

12 COMMITMENTS

(a) Capital commitments

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

(b) Non-cancellable operating leases

As lessee

The Group leases various offices and land under non-cancellable operating leases expiring within one to three years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

From 1 January 2019, the Group has recognised right-of-use assets for these leases, except for short-term and low-value leases.

Minimum lease payments under non-cancellable operating leases not recognised in the financial statements are payable as follows:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
		(restated)
No later than 1 year	**1,310**	2,845
Later than 1 year and no later than 2 years	**300**	511
Later than 2 years and less than 3 years	**150**	339
More than 3 years	**—**	4,378
	1,760	8,073

As lessor

As at 31 December 2019 and 2018, the Group had the following total future minimum lease receivables under the non-cancellable operating leases falling due as follows:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
		(restated)
No later than 1 year	**1,932**	1,932
Later than 1 year and no later than 2 years	**1,932**	1,932
Later than 2 years and less than 3 years	**1,932**	1,932
More than 3 years	**—**	1,932
	5,796	7,728

Management Discussion and Analysis

The Company is a leading port, waterway and maritime engineering services ("**Marine Construction Services**") provider in the People's Republic of China ("**China**" or "**PRC**") and is committed to port infrastructure and waterway engineering service. In 2019, the Company completed the acquisition of Shanghai Watts Benteng Municipal Public Engineering Co., Ltd. ("**Shanghai Municipal**"), expanding its business to the field of municipal public engineering of which include the services of construction of public infrastructure within cities, urban greening and construction of buildings ("**Municipal Public Construction Services**").

Business Review

Since the Company's listing on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") in November 2018, the Company has actively sought opportunities for sustainable growth of its port, waterway and marine engineering business in China to maximize return for shareholders. In 2019, the Company continued to focus on Marine Construction Services, widely conducted its business in mainland China and other countries such as Indonesia and Brunei, and expanded its business to the field of Municipal Public Construction Services through the acquisition of Shanghai Watts Benteng Municipal Public Engineering Co., Ltd., mainly serving PRC government agencies, state-owned enterprises and other large enterprise in China. As a result, the Group possesses the first-grade general contractor qualification certificate for conducting port, waterway and marine engineering business in the PRC, first-grade general contractor qualifications for building engineering construction and first-grade general contractor qualifications for municipal public engineering construction, which expands the Group's business capacity and scope of project acceptance, enabling the Group to undertake inland ports and waterway engineering, municipal public engineering projects, and projects which require licenses and technical capabilities of port, waterway and marine engineering and municipal public engineering, adding synergy to the Group's existing business, expanding the Group's customer base and increasing its business opportunities, thus increasing the Group's revenue and profit.

In 2019, the Group recorded a revenue of RMB2,049.9 million, representing a decrease of 11.2% from the year ended 31 December 2018. The decrease in revenue was due to the decrease in revenue of marine construction segment, which was mainly due to certain owners of large projects having postponed their expected project commencement date due to economic slowdown and the enhancment of the approval of shoreline resources that reduced certain needs for marine expansion. This led to less work being performed for the year ended 31 December 2019. On the other hand, during the economic slowdown, the Group fully considered the control of project operation risks. The adoption of a more prudent strategy for the acceptance of new projects led to reduction in the number of new projects being undertaken. At the same time, through the selection of high-quality projects and effective cost control, it has improved "project management" of the Group.

In respect of municipal public construction segment, we adopted robust and prudent operation strategy and it has benefited from the further expansion of urbanization in China, which led to steady growth of the business segment for the year ended 31 December 2019. Given that the Group is in a competitive industry which is dynamic in nature, it is important for the Group to be sustainable, adaptive to changes and responsive to market trends. Following the acquisition, the Group has been able to react more quickly to market trends and demands and improve its market competitiveness by adding synergistic benefits to the Group's existing business as well as bring new business opportunities to the Group, which in turn, will increase the revenue and profit of the Group to maximize its shareholders' returns in the long run.

Future Plans and Prospect

The future development of the port, waterway and marine engineering industry in the PRC will mainly be driven by the development of specialised wharves, implementation of land reclamation programmes, new energy construction, upgrade and expansion of existing port facilities, large-tonnage ports constructions, development of smart water transport systems, construction of inland waterways and water environment treatment. The economic development in Southeast Asia and the construction of the Belt and Road Initiative will vigorously drive market demand and infrastructure upgrade of the ports and waterways in Southeast Asian countries and will increase opportunities for cooperation in the future. In this regard, the Group will further strengthen our leading market position in the port, waterway and marine engineering industry in the PRC by 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 and water environment treatment. Besides, the Group will continue to follow the Belt and Road Initiative in laying a solid foundation for the business in Bruneian and Indonesian markets, and actively expand its market shares in surrounding countries and regions in Southeast Asia, so as to increase the Group's overall revenue.

Through the acquisition of Shanghai Municipal and its subsidiaries, the Group has expanded its business from core and specialised areas of the port, waterway and marine engineering industry to the field of municipal public engineering of which include the construction of public infrastructure within cities, urban greening and construction of buildings. This is the Group's rapid response to market trends and demand in the context of the overall economic slowdown. This has combined the advantages of the marine construction segment and the municipal public construction segment. The Group will be able to maintain and improve its market competitiveness by adding synergies to its original business, through expanding its original business from the coast to inland rivers which involve municipal public engineering business sector, thereby increasing the Group's revenue and profits to maximize the long-term returns to its shareholders.

Based on the actual operation situation of the Group, our principal future strategies are as follows:

- Further strengthen our leading market position in the port, waterway and marine engineering industry in the PRC;
- Explore opportunities in inland river and inland city;
- Continue to capture business opportunities from China's Belt and Road Initiative and closely pay attention to the market of economic region along Belt and Road, especially explore and expand the Southeast Asian markets; and
- Continue to focus on operational efficiency, enlarge our scale of operation and recruit talents.

Financial Overview

Revenue

In 2019, the Group's consolidated revenue was RMB2,049.9 million, representing a year-on-year decrease of approximately 11.2% compared with the revenue of RMB2,307.5 million of the previous fiscal year. The main operation income was divided into marine construction segment, and municipal public construction segment this year, with revenues of RMB921.2 million and RMB1,128.7 million, respectively. Revenues from the PRC and Southeast Asia in 2019 were RMB1,853.4 million and RMB196.5 million, respectively.

The recognition of the Group's revenue mainly depends on the progress/phase of the project. The decrease in revenue from marine construction segment for the year was primary due to (i) the completion of certain Southeast Asia and domestic projects in the first half of 2019 and (ii) certain new projects that were awarded contract in 2019 have not begun construction.

Cost of sales and profits from main operations

The consolidated cost of sales in 2019 was RMB1,803.2 million, representing a decrease of 9.9% from RMB2,001.7 million in 2018. The costs of marine construction segment and municipal public construction segment in 2019 were RMB791.4 million and RMB1,011.8 million, respectively. In 2019, cost incurred in the PRC and Southeast Asia was RMB1,625.1 million and RMB178.1 million, respectively.

Cost of sales mainly consists of the cost of used raw materials and consumables and subcontracting costs. In 2019, cost of used raw materials and consumables and subcontracting costs were RMB1,153.3 million and RMB543.4 million, representing an increase of 7.4% and a decrease of 34.3% from 2018 respectively. The main operation profit of the Group depends largely on the location and composition of the project. The consolidated gross profit in 2019 was approximately RMB246.7 million, representing a decrease of 19.3% from RMB305.8 million in 2018.

Administrative expenses

Administrative expenses in 2019 was RMB116.1 million, basically consistent with RMB116.1 million in 2018,

Income tax expense

Third Harbor Maritime, a wholly-owned subsidiary of the Group, obtained new and high-technology enterprise recognition in October 2019 and was entitled to preferential income tax rate of 15% since the the year of 2019 (2018: 25%).

The Group's income tax expense in 2019 was RMB2.9 million, representing a decrease of 92.3% from RMB37.9 million in 2018, primarily due to the Group's entitlement to preferential tax rate and the super deduction of research and development expenses in accordance with China's tax law.

Property, plant and equipment

In 2019, the Group additionally purchased property, plant and equipment of RMB22.3 million, which was mainly purchase of industry machine and equipment.

Trade and other receivables

The Group's net trade and other receivables increased to RMB1,856.8 million as of 31 December 2019 (as of 31 December 2018: RMB1,672.2 million), which mainly comprised of progress receivables on projects, receivables on project completion, delivery and settlement, and retention receivables on completed projects. The increase in trade and other receivables in 2019 was mainly due to the increase in progress receivables and retention receivables with the progression of domestic and overseas projects. The Group has assessed the expected credit losses and has made proper provisions for impairment losses.

Trade and other payables

The Group's trade and other payables increased to RMB2,674.9 million as at 31 December 2019 (as of 31 December 2018: RMB2,494.1 million), mainly because (i) the procurement and subcontracting items for the newly commenced projects were not yet due for payment and (ii) instalments of the consideration for the acquisition of the Acquired Group were not yet settled.

Current assets, capital structure and gearing ratio

The Group maintained a healthy liquidity position with net current asset and net cash of approximately RMB389.8 million (as of 31 December 2018: RMB767.6 million) and RMB471.7 million (as of 31 December 2018: RMB484.5 million), respectively as at 31 December 2019. The Group's gearing ratio (calculated by dividing total liabilities by total assets) as at 31 December 2019 was 80.9% (as of 31 December 2018: 71.6%). The decrease in net current asset and increase in the gearing ratio as at 31 December 2019 was mainly due to an amount of RMB361.9 million due from shareholder as at 31 December 2018 of Zhejiang Benteng Municipal Garden Construction Engineering Co., Ltd. ("**Zhejiang Benteng Municipal**") was settled in 2019. The Group's bank borrowings as at 31 December 2019 amounted to RMB58.5 million (as of 31 December 2018: RMB40.0 million), which are denominated in RMB and with fixed interest rate.

Foreign exchange

Operations of the Group are mainly conducted in Chinese Renminbi ("**RMB**"), Hong Kong dollars ("**HK$**"), Brunei dollars ("**BND**"), United States dollars ("**US$**") 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 contracts entered into 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 2019, the Group paid RMB20.9 million for the purchase of machinery and equipment used for construction. As of 31 December 2019, the Group had no major capital commitments.

Contingent liabilities

As at 31 December 2019, there is one outstanding claim against Zhejiang Benteng Municipal. According to the legal adviser for the claim, potentially face liability, legal fees and costs, and interest which are not expected to be significant. As such, these legal proceedings individually or in aggregate would not have material financial or operational adverse impact on the consolidated financial statements.

As at 31 December 2019, the Group has also provided guarantee to Zhejiang Fushui Construction Co., Ltd., a third party, amounted to RMB20,000,000.

After the assessment of the financial position of the third party, the directors of the Company concluded no significant default risk or provision for such guarantees are required.

Significant investment held

For the year ended 31 December 2019, the Group had no significant investment.

Charges on assets

As at 31 December 2019, the Group pledged long-term trade receivables with carrying amount of approximately RMB56.0 million (2018: RMB59.2 million) for the long-term bank borrowings amounted to RMB33.5 million (2018: RMB40.0 million).

Material acquisition and disposal of subsidiaries, associates and joint ventures

On 14 November 2019, Third Harbor Maritime (an indirect wholly-owned subsidiary of the Company, as the purchaser), entered into the sale and purchase agreement with Watts Gallop (as the vendor), pursuant to which, the purchaser has conditionally agreed to acquire, and the vendor has conditionally agreed to sell, Shanghai Municipal for a total consideration of RMB170,000,000 (equivalent to approximately HK$188,888,889). Shanghai Municipal and its subsidiaries are principally engaged in the municipal public engineering (市政工程) business in the PRC focusing on (i) construction of public infrastructure within cities which includes public roads, bridges and tunnels; (ii) urban greening; and (iii) construction of buildings. The transaction was approved by the shareholders at the extraordinary general meeting of the Company held on 24 December 2019 and the acquisition was also completed on the same day.

Please refer to the announcements of the Company dated 14 November 2019, 20 November 2019 and 24 December 2019 and the circular dated 6 December 2019 for details. Save as disclosed above, during the year ended 31 December 2019, there was no material acquisitions or disposal of subsidiaries, associates and joint ventures by the Company.

Use of Proceeds

The Group's net proceeds from the Listing was approximately HK$202.9 million. As at 31 December 2019, the utilisation of net proceeds raised by the Group from the Listing is as below:

(Unit: HK$ million)

	Estimated use of proceeds	**Utilised up to 31 December 2019**	**Unutilised up to 31 December 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	22.8	12.9	December 2020 or before
Recruiting talent	13.0	3.4	9.6	December 2021 or before
Strategic equity investment	68.8	—	68.8	December 2020 or before
General working capital	19.9	19.9	—	—
Total	202.9	67.4	135.5	

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.

During the year ended 31 December 2019, the proceeds raised by the Company from the Listing were utilised, or were proposed to be utilised, according to the intentions previously disclosed by the Company, and there was no material change or delay in the use of proceeds.

Event After The Reporting Period

After the outbreak of the Coronavirus Disease 2019 ("**COVID-19 outbreak**") in early 2020, a series of precautionary and control measures have been and has continuously been implemented globally. As of the date of this announcement, the Group has gradually restored to its normal operation capacities, the customers, suppliers and subcontractors of the Group have been subject to different degrees of disruptions to their normal operations and the Group's services and procurement activities have been affected. As a result, the performance of the Group would be impacted during the first half of 2020, such as delay in receiving trade receivables, project commencement and potential tenders postponed. Given the rapid development of the COVID-19 outbreak around the world, the management of the Group will keep abreast to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group.

Proposed Final Dividend

The Board recommended the payment of a final dividend of HK2.20 cents (equivalent to approximately RMB1.97 cents) per ordinary share of the Company for the year ended 31 December 2019 to the shareholders whose names appeared on the register of members of the Company on Tuesday, 30 June 2020 (2018: Nil). Subject to the approval of the shareholders at the Company's forthcoming annual general meeting to be held on Thursday, 18 June 2020 (the "**AGM**"), such dividend is expected to be paid on Friday, 31 July 2020.

Closure of Register of Members

For the purpose of determining the identity of the shareholders of the Company entitled to attend the AGM, the register of members of the Company will be closed from Saturday, 13 June 2020 to Thursday, 18 June 2020, both days inclusive, during the period no transfer of shares shall be registered. All transfer documents accompanied by the relevant certificates and transfer forms must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 12 June 2020.

For the purpose of determining the entitlement of the shareholders of the Company to the proposed final dividend, the register of members of the Company will be closed from Thursday, 25 June 2020 to Tuesday, 30 June 2020, both days inclusive, during which period no transfer of shares shall be registered. In order to qualify for the proposed final 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, 24 June 2020.

Employees and remuneration policies

As at 31 December 2019, the Group had a total of 432 employees. In particular, Third Harbor Maritime had 165 employees, PT. Shanghai Third Harbor Benteng Construction and Engineering had 84 employees (including 16 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), Pahaytc & Benteng JV Sdn Bhd had 4 employees (including 3 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), Shanghai Municipal and its subsidiaries had 179 employees. 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, 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.

Purchase, sale or redemption of 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 Listing of Securities 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 confirm 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. As at 31 December 2019, the Company has complied with all applicable code provisions under the CG Code.

Audit Committee

The Audit Committee has discussed with management and reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2019.

There is no disagreement by the Audit Committee with the accounting treatment adopted by the Company.

Scope of Work of PricewaterhouseCoopers

The figures in respect of the Group's consolidated statement of comprehensive income and consolidated statement of financial position and the related notes thereto for the year ended 31 December 2019 as set out in this announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

Publication of Annual Results and Annual Report

This results announcement is published on the website of the Stock Exchange at http://www.hkexnews.hk and on the website of the Company at http://www.shbt-china.com. The annual report containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company in due course and will be published on the websites of the Company and the Stock Exchange.

By Order of the Board
Watts International Maritime Engineering Limited
Wang Xiuchun
Chairman and Executive Director

Hong Kong, 26 March 2020

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.