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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 2020

Financial Summary

	Six months ended 30 June	
	2020	2019
	Unaudited	Unaudited
	RMB'000	*RMB'000*
		(restated)[i]
Revenue	**602,832**	861,666
Gross profit	**74,039**	108,891
Profit before income tax	**26,304**	50,725
Profit for the period	**23,235**	44,768
Total comprehensive income for the period attributable to the Shareholders of the Company	**21,328**	46,607
Earnings per share for profit attributable to the Shareholders of the Company (expressed in RMB cents per share):		
— Basic earnings per share	**2.82**	5.42
— Diluted earnings per share	**2.82**	5.42
	As at 30 June 2020	As at 31 December 2019
	Unaudited	Audited
	RMB'000	*RMB'000*
Total assets	**3,248,253**	3,425,344
Total equity	**656,793**	654,063

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 condensed consolidated interim financial information for the six months ended 30 June 2020.

Interim results for the six months ended 30 June 2020

The board of directors of Watts International Maritime Engineering Limited hereby announces the unaudited consolidated interim results of the Group for the six months ended 30 June 2020, which have been reviewed by the Audit Committee, and have been approved by the Board on 27 August 2020.

Condensed Consolidated Interim Statement of Comprehensive Income

For the Six Months Ended 30 June 2020

	Note	Six months ended 30 June 2020 Unaudited *RMB'000*	2019 Unaudited *RMB'000* (restated)
Revenue	4	**602,832**	861,666
Cost of sales		**(528,793)**	(752,775)
Gross profit		**74,039**	108,891
Selling and distribution expenses		**(1,509)**	(1,636)
Administrative expenses		**(40,702)**	(46,367)
Net impairment losses on financial assets		**(4,456)**	(7,740)
Other operating expenses		**(426)**	(250)
Other income		**2,212**	4,038
Other gains — net		**1,570**	322
Operating profit		**30,728**	57,258
Finance income		**5,102**	1,910
Finance costs		**(9,526)**	(8,443)
Profit before income tax		**26,304**	50,725
Income tax expense	5	**(3,069)**	(5,957)
Profit for the period		**23,235**	44,768
Other comprehensive income			
Items that may be reclassified to profit or loss			
Currency translation differences		**(350)**	1,839
Changes in the fair value of equity instruments at fair value through other comprehensive income		**(1,557)**	—
Other comprehensive income for the period, net of tax		**(1,907)**	1,839
Total comprehensive income for the period attributable to the Shareholders of the Company		**21,328**	46,607
Earnings per share for profit attributable to the Shareholders of the Company (expressed in RMB cents per share):			
— Basic earnings per share	6	**2.82**	5.42
— Diluted earnings per share	6	**2.82**	5.42

Condensed Consolidated Interim Statement of Financial Position

As at 30 June 2020

	Note	**30 June 2020 Unaudited** *RMB'000*	31 December 2019 Audited *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**103,716**	110,628
Right-of-use assets		**15,648**	16,582
Intangible assets		**475**	603
Contract assets	4(d)	**286,236**	346,533
Trade and other receivables	7	**111,755**	114,096
Deferred tax assets		**7,772**	9,751
Financial assets at fair value through other comprehensive income		**3,766**	4,844
		529,368	603,037
Current assets			
Inventories		**30,321**	31,978
Contract assets	4(d)	**544,268**	516,804
Trade and other receivables	7	**1,559,801**	1,742,741
Financial assets at fair value through profit or loss		**50**	50
Restricted cash		**69,820**	59,023
Cash and cash equivalents		**514,625**	471,711
		2,718,885	2,822,307
Total assets		**3,248,253**	3,425,344
EQUITY			
Capital and reserves			
Share capital		**7,303**	7,303
Shares held for employee share scheme		**(1,986)**	—
Share premium		**296,997**	313,609
Other reserves		**14,746**	14,328
Retained earnings		**339,733**	318,823
Total equity		**656,793**	654,063

	Note	**30 June 2020 Unaudited** ***RMB'000***	31 December 2019 Audited *RMB'000*
LIABILITIES			
Non-current liabilities			
Borrowings		**26,750**	29,000
Lease liabilities		**3,920**	4,657
Trade and other payables	8	**327,320**	301,885
Deferred tax liabilities		**906**	3,198
		358,896	338,740
Current liabilities			
Lease liabilities		**1,579**	1,810
Borrowings		**29,500**	29,500
Trade and other payables	8	**2,147,398**	2,372,979
Income tax payables		**3,288**	13,871
Contract liabilities	4(d)	**50,799**	14,381
		2,232,564	2,432,541
Total liabilities		**2,591,460**	2,771,281
Total equity and liabilities		**3,248,253**	3,425,344

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2020

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 ports and waterway engineering services 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.

The Company has its shares listed on the Main Board of 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.

The condensed consolidated interim financial information is presented in Renminbi ("**RMB**"), unless otherwise stated, and is approved for issue by the Board of Directors (the "**Board**") on 27 August 2020.

The condensed consolidated interim financial information has not been audited.

In the first half year of 2020, the Coronavirus Disease 2019 ("**COVID-19**") had certain impact on the Group's business and economic activities in the domestic and oversea markets. A series of precautionary and control measures have been and continued to be implemented, including postponement of work resumption, certain level of restrictions and controls over the travelling of people and traffic arrangements, quarantine of certain residents, heightening of hygiene and epidemic prevention requirements in factories and offices and encouraged social distancing. Due to the above control measures, the resumption of business by the Group's customers and suppliers has been delayed, and it has resulted in a decrease in revenue and the related costs.

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the half-year reporting period ended 30 June 2020 has been prepared in accordance with Accounting Standard HKAS 34 *Interim Financial Reporting*.

The condensed consolidated interim financial information does not include all the notes of the type normally included in an annual financial statements. Accordingly, this information is to be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2019 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, except for 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. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

These standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments:

		Effective for annual periods beginning on or after
Amendments to HKAS 1 and HKAS 8	Definition of Material	1 January 2020
Amendments to HKFRS 3	Definition of a Business	1 January 2020
Revised Conceptual Framework	Revised Conceptual Framework for Financial Reporting	1 January 2020
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform	1 January 2020
Amendments to HKFRS16	Covid-19-related Rent Concessions	1 June 2020

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

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 2020 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2022
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract	1 January 2022
Amendments to HKFRS 3	Reference to the Conceptual Framework	1 January 2022
HKFRS 17	Insurance contracts	1 January 2023
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
Annual Improvements to HKFRS Standards 2018–2020		1 January 2022

The Group is assessing the full impact of the new standards, new interpretations and amendments to standards and interpretations.

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:

(i) 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

(ii) 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 condensed consolidated interim 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 comparative amounts of the condensed consolidated interim statement of comprehensive income for the six months ended 30 June 2019 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 2019.

The following are reconciliations of the effects arising from the accounting of common control combination in accordance with AG 5 on the Group's condensed consolidated interim statement of comprehensive income in connection with the Acquired Group for the period ended 30 June 2019.

Effect on the condensed consolidated interim statement of comprehensive income for the six months ended 30 June 2019 (unaudited):

	The Group (before business combination under common control) *RMB'000*	**Effect of business combination under common control** *RMB'000*	**Consolidated** *RMB'000*
Revenue	469,319	392,347	861,666
Cost of sales	(397,005)	(355,770)	(752,775)
Gross profit	72,314	36,577	108,891
Selling and distribution expenses	(1,403)	(233)	(1,636)
Administrative expenses	(27,158)	(19,209)	(46,367)
Net impairment losses on financial assets	(9,308)	1,568	(7,740)
Other operating expenses	(76)	(174)	(250)
Other income	3,118	920	4,038
Other gains — net	765	(443)	322
Operating profit	38,252	19,006	57,258
Finance income	25	1,885	1,910
Finance costs	(608)	(7,835)	(8,443)
Profit before income tax	37,669	13,056	50,725
Income tax expense	(2,460)	(3,497)	(5,957)
Profit for the period	**35,209**	**9,559**	**44,768**
Other comprehensive income			
Items that may be reclassified to profit or loss			
Currency translation differences	1,839	—	1,839
Other comprehensive income for the period, net of tax	1,839	—	1,839
Total comprehensive income for the period attributable to the Shareholders of the Company	**37,048**	**9,559**	**46,607**
Earnings per share for profit attributable to the Shareholders of the Company (expressed in RMB cents per share):			
— Basic and diluted	**4.27**	**1.15**	**5.42**

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 period, which is consistent with that in the condensed consolidated interim financial information.

Segment assets and liabilities are measured in the same way as in the condensed consolidated interim financial information. 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 customers 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 2020 is as follows:

	Six months ended 30 June 2020 (unaudited)			
	Marine construction *RMB'000*	Municipal public construction *RMB'000*	Inter-segment elimination *RMB'000*	Total *RMB'000*
Revenue	181,449	465,375	(43,992)	602,832
Cost of sales	(156,063)	(416,722)	43,992	(528,793)
Gross profit	25,386	48,653	—	74,039
Unallocated item:				
Operating expenses				(47,093)
Other income				2,212
Other gains — net				1,570
Finance costs — net				(4,424)
Profit before income tax				26,304
Income tax expense *(Note 5)*				(3,069)
Profit for the period				23,235
Segment items included:				
Depreciation and amortisation	(5,613)	(3,397)	—	(9,010)
Net impairment losses on financial assets	(8,590)	4,134	—	(4,456)

The segment assets and liabilities as at 30 June 2020 are as follows:

	As at 30 June 2020 (unaudited)			
	Marine construction *RMB'000*	Municipal public construction *RMB'000*	Inter-segment elimination *RMB'000*	Total *RMB'000*
Total assets	1,919,402	1,388,870	(60,019)	3,248,253
Total liabilities	1,422,292	1,229,187	(60,019)	2,591,460

The segment information for the six months ended 30 June 2019 is as follows:

	Six months ended 30 June 2019 (restated) (unaudited)		
	Marine construction	Municipal public construction	Total
	RMB'000	*RMB'000*	*RMB'000*
Revenue	469,319	392,347	861,666
Cost of sales	(397,005)	(355,770)	(752,775)
Gross Profit	72,314	36,577	108,891
Unallocated item:			
Operating expenses			(55,993)
Other income			4,038
Other gains — net			322
Finance costs — net			(6,533)
Profit before income tax			50,725
Income tax expense *(Note 5)*			(5,957)
Profit for the period			44,768
Segment items included:			
Depreciation and amortisation	(6,719)	(3,209)	(9,928)
Net impairment losses on financial assets	(9,308)	1,568	(7,740)

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

	As at 31 December 2019 (audited)			
	Marine construction	Municipal public construction	Inter-segment elimination	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	2,009,846	1,430,965	(15,467)	3,425,344
Total liabilities	1,502,746	1,284,002	(15,467)	2,771,281

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

(c) Revenue from contract with customers and cost of sales

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

	For the six months ended 30 June (unaudited)						
	2020				2019 (restated)		
	Maritime and ports infrastructure	**Municipal public construction**	**Inter-segment elimination**	**Total**	Maritime and ports infrastructure	Municipal public construction	Total
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Mainland China							
Revenue	**139,131**	**465,375**	**(43,992)**	**560,514**	351,796	392,347	744,143
Cost of sales	**(118,064)**	**(416,722)**	**43,992**	**(490,794)**	(302,340)	(355,770)	(658,110)
	21,067	**48,653**	**–**	**69,720**	49,456	36,577	86,033
Southeast Asia							
Revenue	**42,318**	**–**	**–**	**42,318**	117,523	–	117,523
Cost of sales	**(37,999)**	**–**	**–**	**(37,999)**	(94,665)	–	(94,665)
	4,319	**–**	**–**	**4,319**	22,858	–	22,858

Non-current assets, other than non-current receivables, contract assets, financial assets at fair value through other comprehensive income and deferred tax assets, by territory:

	As at	
	30 June 2020	31 December 2019
	Unaudited	Audited
	RMB'000	*RMB'000*
Mainland China	**103,583**	108,596
Southeast Asia	**16,256**	19,217
Total	**119,839**	127,813

(d) Contract assets and liabilities

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

	As at 30 June 2020	As at 31 December 2019
	Unaudited	Audited
	RMB'000	*RMB'000*
Contract assets		
Current portion		
Marine construction	**332,540**	292,645
Municipal public construction	**220,001**	233,174
Less: allowance for impairment of contract assets	**(8,273)**	(9,015)
	544,268	516,804
Non-current portion		
Marine construction	**63,941**	182,025
Municipal public construction	**228,332**	170,685
Less: allowance for impairment of contract assets	**(6,037)**	(6,177)
	286,236	346,533
Total contract assets	**830,504**	863,337
Contract liabilities		
Marine construction	**22,028**	2,186
Municipal public construction	**28,771**	12,195
Total contract liabilities	**50,799**	14,381

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	
	2020	2019
	Unaudited	Unaudited
	RMB'000	*RMB'000*
		(restated)
Current income tax	**3,871**	8,919
Deferred income tax	**(802)**	(2,962)
Income tax expense — net	**3,069**	5,957

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) 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.

(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 2020 and 2019.

(d) 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% (2019: 25%) on the assessable profits of the subsidiaries in accordance with PRC tax laws and regulations, except for the 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-year interval.

(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 2020 and 2019.

(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 2020 and 2019, income tax was provided at the rate of 3% 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 ended 30 June 2020 and 2019 attributable to the Shareholders of the Company and the weighted average number of ordinary shares in issue.

	Six months ended 30 June	
	2020	2019
	Unaudited	Unaudited (restated)
Profit attributable to the Shareholders of the Company *(RMB'000)*	**23,235**	44,768
Weighted average number of ordinary shares in issue *(thousands)*	**825,263**	825,400
Total basic earnings per share attributable to the ordinary equity holders of the Group *(RMB cents)*	**2.82**	5.42

(b) Diluted earnings per share

Diluted earnings per share is of the same amount as the basic earnings per share as there was no potentially dilutive ordinary share outstanding as at 30 June 2020 and 2019.

7 TRADE AND OTHER RECEIVABLES

	As at	
	30 June 2020	31 December 2019
	Unaudited	Audited
	RMB'000	*RMB'000*
Trade receivables *(i)*	**1,206,089**	1,404,877
Less: allowance for impairment of trade receivables	**(51,472)**	(52,196)
Trade receivables — net	**1,154,617**	1,352,681
Retention receivables *(ii)*	**293,331**	307,927
Less: allowance for impairment of retention receivables	**(30,078)**	(24,072)
Retention receivables — net	**263,253**	283,855
Bills receivables *(i)*	**15,199**	26,145
Long-term trade receivables *(iii, iv)*	**56,090**	57,738
Less: allowance for impairment of long-term trade receivables	**(1,831)**	(1,773)
Long-term trade receivables — net	**54,259**	55,965
Other receivables	**65,700**	67,966
Prepayments	**117,808**	70,078
Prepaid taxation	**720**	147
	1,671,556	1,856,837
Less: non-current portion		
Retention receivables *(ii)*	**(57,020)**	(59,496)
Long-term trade receivables *(iii, iv)*	**(50,981)**	(52,767)
Other receivables	**(3,754)**	(1,833)
	(111,755)	(114,096)
Current portion	**1,559,801**	1,742,741

(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 30 June 2020 and 31 December 2019.

As at 30 June 2020 and 31 December 2019, the ageing analysis of the trade and bills receivables based on the payment requests acknowledged by the customers is as follows:

	As at	
	30 June 2020	31 December 2019
	Unaudited	Audited
	RMB'000	*RMB'000*
Within 3 months	**204,474**	463,023
4 to 6 months	**81,096**	180,333
7 to 12 months	**444,004**	229,522
1 to 2 years	**251,256**	291,746
2 to 3 years	**113,200**	162,261
Over 3 years	**127,258**	104,137
	1,221,288	1,431,022

(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 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 2020	31 December 2019
	Unaudited	Audited
	RMB'000	*RMB'000*
Within 1 year	**100,081**	153,589
1 to 2 years	**67,086**	25,198
2 to 3 years	**60,288**	77,759
3 to 4 years	**33,398**	19,625
4 to 5 years	**5,293**	19,007
Over 5 years	**27,185**	12,749
	293,331	307,927

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 30 June 2020, the Group pledged long-term trade receivables with carrying amount of approximately RMB54,259,000 (As at 31 December 2019: RMB55,965,000) for the bank borrowings amounted to RMB31,250,000 (As at 31 December 2019: RMB33,500,000).

8 TRADE AND OTHER PAYABLES

	As at 30 June 2020 Unaudited *RMB'000*	As at 31 December 2019 Audited *RMB'000*
Trade payables *(i)*	**1,235,160**	1,468,289
Bills payables *(i)*	**30,901**	29,390
Retention payables *(ii)*	**279,759**	297,211
Long-term payables *(iii)*	**700,175**	659,987
Payroll and social security	**13,598**	13,941
Other payables	**85,132**	84,924
Dividends payable	**16,612**	—
Other tax liabilities excluding income tax liabilities	**113,381**	121,122
	2,474,718	2,674,864
Less: non-current portion		
Retention payables *(ii)*	**(124,870)**	(136,392)
Long-term payables *(iii)*	**(185,450)**	(160,493)
Other payables	**(17,000)**	(5,000)
	(327,320)	(301,885)
Current portion	**2,147,398**	2,372,979

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

As at 30 June 2020 and 31 December 2019, the ageing analysis of the trade and bills payables based on the payment requests or demand notes is as follows:

	As at	
	30 June 2020	31 December 2019
	Unaudited	Audited
	RMB'000	*RMB'000*
Within 3 months	**420,385**	784,262
4 to 6 months	**83,317**	167,860
7 to 12 months	**383,546**	120,911
1 to 2 years	**195,787**	213,158
2 to 3 years	**75,184**	127,780
Over 3 years	**107,842**	83,708
	1,266,061	1,497,679

(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 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 2020	31 December 2019
	Unaudited	Audited
	RMB'000	*RMB'000*
Within 1 year	**46,657**	131,186
1 to 5 years	**198,939**	136,972
Over 5 years	**34,163**	29,053
	279,759	297,211

(iii) Long-term payables mainly consist of long-term trade payables and amount due to Watts Gallop of approximately RMB70,706,000, 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 5.01%. 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 analysis of the long-term payables is as follows:

	As at	
	30 June 2020	31 December 2019
	Unaudited	Audited
	RMB'000	*RMB'000*
Within 1 year	**267,456**	291,539
1 to 5 years	**413,720**	350,455
Over 5 years	**18,999**	17,993
	700,175	659,987

9 DIVIDENDS

At a meeting held on 26 March 2020, the Board proposed a final dividend of HK2.20 cents (equivalent to RMB2.01 cents) per share for the year ended 31 December 2019. This proposed dividend, representing total amount of approximately HK$18,159,000 (equivalent to RMB16,612,000), was reflected as an appropriation of share premium for the six months ended 30 June 2020 upon approval by the Shareholders at the annual general meeting of the Company held on 18 June 2020. This final dividend has been paid in July.

At a meeting held on 27 August 2020, the Board resolved to declare an interim dividend of HK0.80 cent (equivalent to RMB0.73 cent) per share, representing total amount of approximately HK$6,603,000 (equivalent to RMB6,032,000). This interim dividend has not been recognised as a dividend payable in this condensed interim financial information, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2020.

10 COMMITMENTS

(a) Capital commitments

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

	As at	
	30 June	31 December
	2020	2019
	Unaudited	Audited
	RMB'000	*RMB'000*
Property, plant and equipment	**7,680**	—

(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	
	30 June	31 December
	2020	2019
	Unaudited	Audited
	RMB'000	*RMB'000*
No later than 1 year	**451**	1,310
Later than 1 year and no later than 2 years	**300**	300
Later than 2 years and less than 3 years	**—**	150
	751	1,760

As lessor

As at 30 June 2020 and 31 December 2019, the Group had the following total future minimum lease receivables under the non-cancellable operating leases falling due as follows:

	As at 30 June 2020 Unaudited ***RMB'000***	31 December 2019 Audited *RMB'000*
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	**966**	1,932
	4,830	5,796

11 EVENTS OCCURRING 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 2020.

Management Discussion and Analysis

The Company is a leading port, waterway, marine engineering and municipal public engineering services provider in the PRC and is committed to the services of (i) port infrastructure, (ii) waterway engineering, (iii) construction of public infrastructure within cities, (iv) urban greening and (v) construction of building.

Business Review

In the first half of 2020, the Group actively developed new areas based on the strategic plan on the basis of steadily advancing its core business. Affected by the measures taken to respond to the COVID-19 outbreak, such as quarantine, lockdown and travel restrictions, the work schedule and the recognition of revenue for the Group's existing and ongoing construction in and outside China in the first half of the year was delayed.

The following table sets forth a breakdown of the Group's revenue by segment for the six months ended 30 June 2020:

	Revenue recognised during the Reporting Period *(RMB million)*
Marine construction (including infrastructure construction of ports, waterway engineering and other services)	181.4
Municipal public construction (including construction of public infrastructure within cities, urban greening and construction of buildings)	465.4
Inter-segment elimination	(44.0)
Total	602.8

Future Plans and Prospects

Despite the impact of the COVID-19 outbreak, the Group will consistently and actively monitor market conditions, take appropriate actions to alleviate the negative impact of the pandemic on the Group's business and performance, strengthen internal and project cost control, optimize and consolidate the Group's resources, explore the possibility of forming strategic alliances with other industry-leading companies, and expand the scope of new areas. These efforts aim to enhance the overall efficiency of the Group.

From the viewpoint of the domestic market, China is in a pivotal stage where it needs to transform its development mode, optimize its economic structure, and change the driving force. To accomplish the targets for economic and social development for the year and deal with the negative impact of the pandemic, infrastructure investment will still be considered as one of the major means to maintain steady growth and make structural adjustments. With the commencement of construction of infrastructure projects in succession in various localities, the investment and construction in the infrastructure industry will embrace a new round of rapid growth. By relying on its leading market position in China's port and waterway industries and grasping the consolidation trend of the construction market, the Group will fully leverage its competitive advantages in core business while actively participating in projects of upgrading marine infrastructure and new urbanization projects, etc. Building on the original industrial chain, the Group will expand the environmental engineering business, carry out water environment governance and water basin governance, and participate in ecological and environmental governance projects, to widen its revenue channels.

In the international market, the uncertainty of Sino-US trade frictions and the prevention and control of the COVID-19 outbreak have exacerbated the global economic upheaval, making the international situation more complex and the overseas security risk factor increase. The Group will closely monitor changes in the international situation, focus on the big picture of national diplomacy and foreign trade development, and insist that investment and infrastructure development be still important solutions for major countries in the world to revitalize the economy. The Group will continue to pursue the Belt and Road Initiative (BRI) while implementing the strategy of "going global", to blaze new trails in a pioneering spirit and tackle difficulties. In addition, the Group will proactively expand its share in the construction markets of neighboring countries and regions and further increase its overall revenue, by going beyond the existing market performance in Indonesia and Brunei.

Financial Overview

Revenue

The Group's consolidated revenue in the first half of 2020 was RMB602.8 million, representing a year-on-year decrease of approximately 30.0% from RMB861.7 million in the same period of last fiscal year. The main operation income was divided into marine construction segment, and municipal public construction segment this year, with revenues of RMB181.4 million and RMB465.4 million, respectively (all before elimination of inter-segment transactions). Revenues from the PRC and Southeast Asia in 2020 were RMB560.5 million and RMB42.3 million, respectively. The decrease in revenue in the first half of 2020 was mainly attributable to (among other things) the impact of the COVID-19 outbreak in the first half of 2020 (such as quarantine, lockdown and travel restrictions), which led to the delay of work schedule for the Group's existing and ongoing construction in and outside China in the first half of the year.

Cost of sales and profits from main operations

The consolidated cost of sales in the first half of 2020 was RMB528.8 million, representing a decrease of 29.8% from RMB752.8 million in the first half of 2019. The costs of marine construction segment and municipal public construction segment in the first half of 2020 were RMB156.1 million and RMB416.7 million, respectively (all before elimination of inter-segment transactions). In the first half of 2020, cost incurred in the PRC and Southeast Asia was RMB490.8 million and RMB38.0 million, respectively.

Cost of sales mainly consists of the cost of used raw materials and consumables and subcontracting costs. In the first half of 2020, cost of used raw materials and consumables and subcontracting costs were RMB297.6 million and RMB179.4 million, representing a decrease of 36.9% and 22.8% from the first half of 2019 respectively. The Group's profit from main operations largely depends on the location and composition of the project. In the first half of 2020, the Group's consolidated profit from main operations was RMB74.0 million, a decrease of 32.0% from RMB108.9 million in the first half of 2019. The gross profit from the marine construction segment, and municipal public construction segment in the first half of 2020 was RMB25.3 million and RMB48.7 million, respectively (all before elimination of inter-segment transactions). The gross profit from the PRC and Southeast Asia was RMB69.7 million and RMB4.3 million, respectively.

Operating profit in the first half of 2020 was RMB30.7 million, representing a decrease of 46.4% from RMB57.3 million in the first half of 2019, mainly due to (among other things) the impact of the COVID-19 outbreak in the first half of 2020 (such as quarantine, lockdown and travel restrictions), which led to the delay of work schedule for the Group's existing and ongoing construction in and outside China in the first half of the year.

Administrative expenses

The administrative expenses in the first half of 2020 was RMB40.7 million, representing a decrease of 12.3% compared to RMB46.4 million in the first half of 2019, primarily because the Company actively controlled expenses and improved office efficiency this year.

Income tax expense

The Group's income tax expense in the first half of 2020 was RMB3.1 million, representing a decrease of 48.5% compared to RMB6.0 million in the first half of 2019, mainly due to the decrease of the profit before tax in first half of 2020 and the Group obtained new and high-technology enterprise recognition and which was entitled to preferential income tax rate by the end of 2019.

Trade and other receivables

The Group's net trade and other receivables decreased to RMB1,671.6 million as of 30 June 2020 (as of 31 December 2019: RMB1,856.8 million), which mainly comprised of progress receivables on projects, receivables on project completion, delivery and settlement, and retention receivables on completed projects. The decrease of trade and other receivables in the first half of 2020 was mainly due to the completion of some projects and the collection of payments due. The Group has assessed the expected credit losses and has made proper provisions for impairment losses. The Group's net contract assets decreased by RMB32.8 million to RMB830.5 million as at 30 June 2020 from RMB863.3 million as at 31 December 2019.

Trade and other payables

The Group's trade and other payables decreased to RMB2,474.7 million as at 30 June 2020 (as at 31 December 2019: RMB2,674.9 million), mainly because part of the payment was made in accordance with the payment treaty, and the procurement and subcontracting items for the newly commenced projects were not yet due for payment.

Current assets, capital structure, and gearing ratio

The Group maintained a healthy liquidity position with net current asset and cash and cash equivalents of approximately RMB486.3 million (as of 31 December 2019: RMB389.8 million) and RMB514.6 million (as of 31 December 2019: RMB471.7 million), respectively as at 30 June 2020.

The Group's gearing ratio (calculating by dividing total liabilities by total assets) as at 30 June 2020 was 79.8% (as of 31 December 2019: 80.9%). The Group's bank borrowings of the first half of 2020 were RMB56.3 million which are denominated in RMB and with fixed interest rate.

Charges on assets

As of 30 June 2020, the Group had no charges on assets.

Foreign exchange

Operations of the Group are mainly conducted in RMB, HK$, BND, US$ and IDR. 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 settlements from the Group's customers 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. As of 30 June 2020, the Group had no major capital commitments.

Contingent liabilities

As of 30 June 2020, the Group had no contingent liabilities.

Material acquisition and disposal of subsidiaries, associates and joint ventures

As of 30 June 2020, the Group had no material investment, acquisition and disposal.

Significant investment held

As of 30 June 2020, 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 2020, 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 2020	Unutilised up to 30 June 2020	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	24.4	11.3	December 2021 or before
Recruiting talent	13.0	5.1	7.9	December 2021 or before
Strategic equity investment	68.8	—	68.8	December 2021 or before
General working capital	19.9	19.9	—	—
	202.9	70.7	132.2	

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 six months ended 30 June 2020, 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.

Interim Dividend

The Board resolved the declaration of an interim dividend of HK0.80 cent (equivalent to approximately RMB0.73 cent) per ordinary share, for the six months ended 30 June 2020 (six months ended 30 June 2019: HK1.2 cents) payable on Friday, 30 October 2020 to the Shareholders whose names appear on the register of members of the Company on Friday, 18 September 2020.

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 Wednesday, 16 September 2020 to Friday, 18 September 2020, 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, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 15 September 2020.

Employees and Remuneration Policies

As at 30 June 2020, the Group had a total of 498 employees. In particular, Third Harbor Maritime had a total of 141 employees, Benteng Indonesia had a total of 128 employees (including 24 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). Benteng Brunei had a total of 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 Watts Benteng Municipal Public Engineering Co., Ltd. and its subsidiaries had a total of 225 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, 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 Group has adopted the Model Code as set out in Appendix 10 to 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.

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 complied with all 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 30 June 2020, the Company has complied with all applicable code provisions under CG code.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions have the following meanings:

Audit Committee	the audit committee of the Company
Benteng Brunei	Pahaytc & Benteng JV Sdn Bhd, a company incorporated under the laws of Brunei with limited liability on January 2016

Benteng Indonesia	PT. Shanghai Third Harbor Benteng Construction and Engineering, a company incorporated under the laws of Indonesia on 16 September 2016 and obtained its legal entity status on 21 September 2016
BN$ or BND	Brunei Dollars, the lawful currency of Brunei
Board	the board of Directors of the Company
Company	Watts International Maritime Engineering Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
Director(s)	the director(s) of the Company
Group	the Company and its subsidiaries from time to time
HK$ or HK dollars	Hong Kong dollars, the lawful currency of Hong Kong
IDR	the Indonesian Rupiah, the lawful currency of Indonesia
Listing	the Company's shares were listed on the Main Board of the Stock Exchange on 19 November 2018
Listing Rules	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
Major Currencies	RMB, HK$, BN$, IDR and US$, the major currencies used by the Group in conducting its business
PRC or China	the People's Republic of China, but for the purpose of this announcement only and, unless the context otherwise requires, excluding Hong Kong Special Administrative Region of the People's Republic of China, Macau Special Administrative Region of the People's Republic of China and Taiwan
Renminbi or RMB	Renminbi, the lawful currency of the PRC
Reporting Period	six months ended 30 June 2020

Share(s)	ordinary shares of HK$0.01 each in the share capital of the Company
Shareholder(s)	holder(s) of the Shares
Stock Exchange	The Stock Exchange of Hong Kong Limited
Third Harbor Maritime	Shanghai Third Harbor Benteng Maritime Engineering Co., Ltd.* (上海三航奔騰海洋工程有限公司), established under the laws of the PRC as a limited liability company on 14 August 2017, and a wholly-owned subsidiary of our Company
US$, USD or US dollars	U.S. dollars, the lawful currency of U.S.

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

Shanghai, 27 August 2020

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