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华滋国际海洋股份有限公司

Watts International Maritime Company Limited

(formerly known as Watts International Maritime Engineering Limited 华滋国际海洋工程有限公司)

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 2258)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2021**

Financial Summary

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Revenue	2,262,779	1,818,384
Gross profit	207,768	202,641
Profit before income tax	58,042	58,897
Profit for the year	47,062	46,836
Total comprehensive income for the year attributable to the Shareholders of the Company	45,128	37,061
Earnings per share for profit attributable to the Shareholders of the Company (expressed in RMB cents per share):		
— Basic earnings per share	5.75	5.69
— Diluted earnings per share	5.75	5.69
	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Total assets	3,335,550	3,432,028
Total equity	703,360	663,724

Annual results for the year ended 31 December 2021

The Board is pleased to announce the audited consolidated annual results of the Group for the year ended 31 December 2021, which have been reviewed by the Audit Committee, and have been approved by the Board on 29 March 2022.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2021

	Note	Year ended 31 December	
		2021	2020
		RMB'000	RMB'000
Revenue	3	2,262,779	1,818,384
Cost of sales		<u>(2,055,011)</u>	<u>(1,615,743)</u>
Gross profit		207,768	202,641
Selling and distribution expenses		(3,994)	(3,530)
Administrative expenses		(113,565)	(93,046)
Net impairment losses on financial assets		(20,855)	(26,800)
Other operating expenses		(2,315)	(1,372)
Other income		8,398	6,125
Other losses — net		<u>(3,564)</u>	<u>(12,441)</u>
Operating profit		71,873	71,577
Finance income		5,282	7,568
Finance costs		<u>(19,113)</u>	<u>(20,248)</u>
Profit before income tax		58,042	58,897
Income tax expense	4	<u>(10,980)</u>	<u>(12,061)</u>
Profit for the year		<u>47,062</u>	<u>46,836</u>
Other comprehensive income			
Items that may be reclassified to profit or loss			
Currency translation differences		(1,895)	(8,244)
Changes in the fair value of equity instruments at fair value through other comprehensive income		<u>(39)</u>	<u>(1,531)</u>
Other comprehensive income for the year, net of tax		<u>(1,934)</u>	<u>(9,775)</u>
Total comprehensive income for the year attributable to the Shareholders of the Company		<u>45,128</u>	<u>37,061</u>
Earnings per share for profit attributable to the Shareholders of the Company (expressed in RMB cents per share):			
— Basic earnings per share	5	<u>5.75</u>	<u>5.69</u>
— Diluted earnings per share	5	<u>5.75</u>	<u>5.69</u>

Consolidated Statement of Financial Position

As at 31 December 2021

		As at 31 December	
		2021	2020
	Note	RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		86,557	107,116
Right-of-use assets		14,117	15,972
Intangible assets		292	403
Contract assets	3	538,541	482,300
Trade and other receivables	6	152,086	112,386
Deferred tax assets		15,997	10,457
Financial assets at fair value through other comprehensive income		6,253	3,792
		<u>813,843</u>	<u>732,426</u>
Current assets			
Inventories		42,708	68,781
Contract assets	3	642,639	679,468
Trade and other receivables	6	1,316,533	1,413,376
Financial assets at fair value through profit or loss		—	50
Restricted cash		75,994	114,231
Cash and cash equivalents		443,833	423,696
		<u>2,521,707</u>	<u>2,699,602</u>
Total assets		<u><u>3,335,550</u></u>	<u><u>3,432,028</u></u>

		As at 31 December	
		2021	2020
	<i>Note</i>	RMB'000	RMB'000
EQUITY			
Capital and reserves			
Share capital		7,303	7,303
Share premium		291,505	296,997
Other reserves		14,404	11,521
Shares held for employee share scheme		(4,756)	(4,756)
Retained earnings		394,904	352,659
		<hr/>	<hr/>
Total equity		703,360	663,724
		<hr/>	<hr/>
LIABILITIES			
Non-current liabilities			
Borrowings		19,500	24,500
Lease liabilities		2,941	4,087
Trade and other payables	7	260,127	256,224
		<hr/>	<hr/>
		282,568	284,811
		<hr/>	<hr/>
Current liabilities			
Lease liabilities		2,117	2,507
Borrowings		104,885	29,500
Trade and other payables	7	2,175,944	2,321,453
Income tax payables		20,377	18,579
Contract liabilities	3	46,299	111,454
		<hr/>	<hr/>
		2,349,622	2,483,493
		<hr/>	<hr/>
Total liabilities		2,632,190	2,768,304
		<hr/>	<hr/>
Total equity and liabilities		3,335,550	3,432,028
		<hr/> <hr/>	<hr/> <hr/>

Notes to Annual Results Announcement

For the year ended 31 December 2021

1 GENERAL INFORMATION

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 marine construction and municipal public construction services in Mainland China and Southeast Asia. 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 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**").

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

The consolidated financial statements have been approved for issue by the Board on 29 March 2022.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) 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 HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements will be disclosed in the 2021 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 2021:

- Interest Rate Benchmark Reform – Phase 2 — amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16
- COVID 19 — Related Rent Concessions beyond 30 June 2021

The 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, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2021 reporting periods and have not been early adopted by the Group. These standards, amendments or interpretations 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
HKAS 16 (Amendments)	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
HKAS 37 (Amendments)	Onerous Contracts — Cost of Fulfilling a Contract	1 January 2022
HKFRS 3 (Amendments)	Reference to the Conceptual Framework	1 January 2022
AG 5 (Revised)	Merger Accounting for Common Control Combinations	1 January 2022
HKSA 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2023
HKSA 12 (Amendments)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
HKFRS 8 (Amendments)	Definition of Accounting Estimates	1 January 2023
HKFRS 17	Insurance Contracts	1 January 2023
HK Int 5 (2020)	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023
HKFRS 10 and HKAS 28 (Amendments)	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

3 SEGMENT INFORMATION

(a) Description of segments and principal activities

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

- (i) 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 segment results represent the gross profit of marine construction and municipal public construction.

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

(b) Segment results and other information

The segment information for the year ended 31 December 2021 is as follows:

	Year ended 31 December 2021		
	Marine construction RMB'000	Municipal public construction RMB'000	Total RMB'000
Revenue	871,189	1,391,590	2,262,779
Cost of sales	(788,458)	(1,266,553)	(2,055,011)
Gross profit	82,731	125,037	207,768
Unallocated items			
Operating expenses			(140,729)
Other income			8,398
Other losses — net			(3,564)
Finance costs — net			(13,831)
Profit before income tax			58,042
Income tax expense (<i>Note 4</i>)			(10,980)
Profit for the year			47,062
Segment items included:			
Depreciation and amortisation	(11,280)	(7,479)	(18,759)
Net impairment losses on financial assets	(16,112)	(4,743)	(20,855)

The segment assets and liabilities at 31 December 2021 are as follows:

	As at 31 December 2021			Total RMB'000
	Marine construction RMB'000	Municipal public construction RMB'000	Inter-segment elimination RMB'000	
Total assets	<u>1,732,275</u>	<u>1,709,109</u>	<u>(105,834)</u>	<u>3,335,550</u>
Total liabilities	<u>1,277,298</u>	<u>1,460,726</u>	<u>(105,834)</u>	<u>2,632,190</u>

The segment information for the year ended 31 December 2020 is as follows:

	Year ended 31 December 2020			Total RMB'000
	Marine construction RMB'000	Municipal public construction RMB'000	Inter-segment elimination RMB'000	
Revenue	524,322	1,421,426	(127,364)	1,818,384
Cost of sales	<u>(466,835)</u>	<u>(1,276,272)</u>	<u>127,364</u>	<u>(1,615,743)</u>
Gross profit	<u>57,487</u>	<u>145,154</u>	<u>—</u>	<u>202,641</u>
Unallocated items				
Operating expenses				(124,748)
Other income				6,125
Other losses — net				(12,441)
Finance costs — net				<u>(12,680)</u>
Profit before income tax				58,897
Income tax expense (<i>Note 4</i>)				<u>(12,061)</u>
Profit for the year				<u>46,836</u>
Segment items included:				
Depreciation and amortisation	(11,277)	(6,409)	—	(17,686)
Net impairment losses on financial assets	<u>(23,761)</u>	<u>(3,039)</u>	<u>—</u>	<u>(26,800)</u>

The segment assets and liabilities at 31 December 2020 are as follows:

	As at 31 December 2020			Total RMB'000
	Marine construction RMB'000	Municipal public construction RMB'000	Inter-segment elimination RMB'000	
Total assets	<u>1,817,405</u>	<u>1,710,094</u>	<u>(95,471)</u>	<u>3,432,028</u>
Total liabilities	<u>1,353,910</u>	<u>1,509,865</u>	<u>(95,471)</u>	<u>2,768,304</u>

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

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

	Year ended 31 December						
	2021			2020			
	Marine construction RMB'000	Municipal public construction RMB'000	Total RMB'000	Marine construction RMB'000	Municipal public construction RMB'000	Inter-segment elimination RMB'000	Total RMB'000
Mainland China							
Revenue	640,957	1,391,590	2,032,547	431,495	1,421,426	(127,364)	1,725,557
Cost of sales	(577,984)	(1,266,553)	(1,844,537)	(403,987)	(1,276,272)	127,364	(1,552,895)
	<u>62,973</u>	<u>125,037</u>	<u>188,010</u>	<u>27,508</u>	<u>145,154</u>	<u>—</u>	<u>172,662</u>
Southeast Asia							
Revenue	230,232	—	230,232	92,827	—	—	92,827
Cost of sales	(210,474)	—	(210,474)	(62,848)	—	—	(62,848)
	<u>19,758</u>	<u>—</u>	<u>19,758</u>	<u>29,979</u>	<u>—</u>	<u>—</u>	<u>29,979</u>

The breakdown of individual customer's revenue exceeds 10% of the Group's total revenue for the year ended 31 December 2021 and 2020 is as follows:

	Year ended 31 December	
	2021 RMB'000	2020 RMB'000
Customer A	<u>424,323</u>	<u>287,080</u>

(d) Segment assets by territory

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 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Mainland China	89,474	108,071
Southeast Asia	11,492	15,420
	<hr/>	<hr/>
Total	<u>100,966</u>	<u>123,491</u>

(e) Contract assets and liabilities

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

	As at 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Contract assets		
Current portion		
Marine construction	441,216	414,458
Municipal public construction	216,493	278,734
Less: allowance for impairment of contract assets	(15,070)	(13,724)
	<hr/>	<hr/>
	642,639	679,468
	<hr/>	<hr/>
Non-current portion		
Marine construction	83,383	73,997
Municipal public construction	469,188	420,240
Less: allowance for impairment of contract assets	(14,030)	(11,937)
	<hr/>	<hr/>
	538,541	482,300
	<hr/>	<hr/>
Total contract assets	<u>1,181,180</u>	<u>1,161,768</u>

	As at 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Contract liabilities		
Marine construction	12,859	40,483
Municipal public construction	33,440	70,971
	<hr/>	<hr/>
Total contract liabilities	<u>46,299</u>	<u>111,454</u>

4 INCOME TAX EXPENSE

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

	Year ended 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax	16,546	16,469
Deferred income tax	(5,566)	(4,408)
	<hr/>	<hr/>
Income tax expense — net	<u>10,980</u>	<u>12,061</u>

(a) 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.

(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 years ended 31 December 2021 and 2020.

(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% (2020: 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-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 years ended 31 December 2021 and 2020.

(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 years ended 31 December 2021 and 2020, 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.

5 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 during the year, as adjusted to reflect the shares repurchased under the share award scheme during the years ended 31 December 2021 and 2020.

	Year ended 31 December	
	2021	2020
Profit attributable to the Shareholders of the Company (<i>RMB'000</i>)	47,062	46,836
Weighted average number of ordinary shares in issue (<i>thousands</i>)	819,008	822,455
Total basic earnings per share attributable to the ordinary equity holders of the Group (<i>RMB cents</i>)	<u>5.75</u>	<u>5.69</u>

(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 31 December 2021 and 2020.

6 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables (<i>i</i>)	1,106,874	1,124,138
Less: allowance for impairment of trade receivables	<u>(86,210)</u>	<u>(74,021)</u>
Trade receivables — net (<i>i</i>)	<u>1,020,664</u>	<u>1,050,117</u>
Retention receivables (<i>ii</i>)	253,332	259,912
Less: allowance for impairment of retention receivables	<u>(23,335)</u>	<u>(18,222)</u>
Retention receivables — net (<i>ii</i>)	<u>229,997</u>	<u>241,690</u>
Bills receivables (<i>i</i>)	26,810	21,381
Long-term trade receivables (<i>iii</i>)	50,874	54,398
Less: allowance for impairment of long-term trade receivables	<u>(1,750)</u>	<u>(1,880)</u>
Long-term trade receivables-net (<i>iii</i>)	<u>49,124</u>	<u>52,518</u>
Other receivables	51,161	53,065
Prepayments	89,363	106,396
Prepaid taxation	<u>1,500</u>	<u>595</u>
	<u>1,468,619</u>	<u>1,525,762</u>
Less: non-current portion		
Retention receivables (<i>ii</i>)	(102,030)	(59,474)
Long-term trade receivables (<i>iii</i>)	(45,574)	(49,158)
Other receivables	<u>(4,482)</u>	<u>(3,754)</u>
	<u>(152,086)</u>	<u>(112,386)</u>
Current portion	<u><u>1,316,533</u></u>	<u><u>1,413,376</u></u>

- (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 and 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 2021 and 2020.

As at 31 December 2021 and 2020, 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	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	418,251	374,850
4 to 6 months	134,618	144,160
7 to 12 months	142,021	95,271
1 to 2 years	172,778	263,133
2 to 3 years	119,426	124,241
Over 3 years	146,590	143,864
	<u>1,133,684</u>	<u>1,145,519</u>

- (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	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	134,239	42,864
1 to 2 years	29,024	103,467
2 to 3 years	36,035	19,862
3 to 4 years	1,498	53,410
4 to 5 years	43,543	18,309
Over 5 years	8,993	22,000
	<u>253,332</u>	<u>259,912</u>

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%.

As at 31 December 2021, the Group pledged long-term trade receivables with carrying amount of approximately RMB49,124,000 (2020: RMB52,518,000) for the bank borrowings amounted to RMB24,500,000 (2020: RMB29,000,000).

7 TRADE AND OTHER PAYABLES

	As at 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables (<i>i</i>)	1,579,958	1,674,743
Bills payables (<i>i</i>)	—	28,000
Retention payables (<i>ii</i>)	194,899	180,382
Long-term payables (<i>iii</i>)	391,175	438,401
Payroll and social security	19,927	23,355
Other payables	98,515	88,695
Other tax liabilities excluding income tax liabilities	151,597	144,101
	<u>2,436,071</u>	<u>2,577,677</u>
Less: non-current portion		
Retention payables (<i>ii</i>)	(107,118)	(95,654)
Long-term payables (<i>iii</i>)	(112,608)	(129,770)
Other payables	(40,401)	(30,800)
	<u>(260,127)</u>	<u>(256,224)</u>
Current portion	<u><u>2,175,944</u></u>	<u><u>2,321,453</u></u>

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

As at 31 December 2021 and 2020, the ageing analysis of the trade and bills payables based on the payment requests or demand notes is as follows:

	As at 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	607,472	634,850
4 to 6 months	199,662	190,834
7 to 12 months	265,183	234,488
1 to 2 years	136,495	321,015
2 to 3 years	162,017	144,190
Over 3 years	209,129	177,366
	<u>1,579,958</u>	<u>1,702,743</u>

- (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	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	19,786	34,438
1 to 5 years	119,636	101,449
Over 5 years	55,477	44,495
	<u>194,899</u>	<u>180,382</u>

(iii) As at 31 December 2021, long-term payables mainly consist of long-term trade payables and amount due to Shanghai Watts Gallop Holding Group Co., Ltd. (“**Watts Gallop**”) of approximately RMB24,265,000 (2020: RMB46,863,000), representing unsettled consideration for acquisition. 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 3.97% to 5.01%. 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	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	139,884	131,265
1 to 5 years	172,873	237,570
Over 5 years	78,418	69,566
	<u>391,175</u>	<u>438,401</u>

8 DIVIDENDS

At a meeting held on 29 March 2022, the Board proposed the payment of a final dividend of HK1.60 cents (equivalent to approximately RMB1.31 cents) per share for the year ended 31 December 2021 (2020: HK0.80 cent (equivalent to approximately RMB0.66 cent) per share), representing total amount of approximately HK\$13,206,000 (equivalent to RMB10,813,000) (2020: HK\$6,603,000 (equivalent to RMB5,492,000)) 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 ended 31 December 2022.

9 COMMITMENTS

(a) Capital commitments

As at 31 December 2021 and 2020, 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	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
No later than 1 year	150	300
Later than 1 year and no later than 2 years	—	150
	<u>150</u>	<u>450</u>

As lessor

As at 31 December 2021 and 2020, the Group had the following total future minimum lease receivables under the non-cancellable operating leases falling due as follows:

	As at 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
No later than 1 year	1,932	1,932
Later than 1 year and no later than 2 years	—	1,932
	<u>1,932</u>	<u>3,864</u>

MANAGEMENT DISCUSSION AND ANALYSIS

The Company is a leading port, waterway, maritime 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 buildings.

Business Review

The Group has the first-grade qualifications for the general contracting of port, waterway and marine engineering business, as well as the construction and municipal public engineering business. Therefore, the Group is capable of undertaking inland river, port, waterway and municipal public engineering projects. The Group boasts the strongest construction capacity both in and outside China and a good customer base. These advantages have laid a solid foundation for the long-term stable development of the Group and the maximization of the return of the Shareholders.

In 2021, the Group recorded revenue of RMB2,262.8 million, representing an increase of approximately 24.4% over the year ended 31 December 2020. The increase in revenue was principally attributable to a significant increase in the revenue generated from the marine construction segment, which grew 66.2% over the previous year. With the continuous spread of COVID-19 in 2021 after its outbreak in early 2020 and the comprehensive implementation of anti-pandemic measures, including isolation, blockade and travel restrictions, the cost of the Group's domestic and overseas projects in hand and under construction increased and the projects fell behind schedule. The Group opted to tackle this tough situation by strengthening project management, integrating group-wide resources, and undertaking more projects as well as carrying forward these projects. These multifaceted measures promoted the Group to realise an increase in revenue. In particular, to address the pandemic spread in the Southeast Asia, the Group took diversified actions, including developing the market in greater depth, expanding the project scope, reinforcing project management and increasing closed-loop control, which were rewarded by a year-on-year revenue increase of 148.2% in the Southeast Asia Marine Construction Segment in 2021. For the municipal public construction segment, we continued to adopt a prudent business strategy and carried forward various projects at a steady pace and the revenue from such segment in 2021 was basically unchanged compared to that in the previous year. In view of the impact of COVID-19 on the operation and cost of the Group's businesses at home and abroad, the Group recorded a gross margin of 9.2% in 2021, representing a slight decline compared with that in 2020.

Chinese economy is now still in recovery from the severe impacts of the pandemic, and is further worsened by many new changes in the situations at home and abroad and a complex environment that will make it even more difficult to maintain a steady economic development. The Group dealt with this adverse climate by adhering to the endogenous growth, cementing the current core business segments with competitive strengths and expanding the environmental engineering niche. Besides, the Group forged a tridimensional marketing mechanism, built a professional team, strengthened its competitiveness in the market and got fruitful results.

Future Plans and Prospect

Facing the spread of the global pandemic, inadequate recovery drive for the world economy and uncertainties, the Group will hold fast to the overall keynote of seeking progress while ensuring stability, and continue to mitigate the negative impacts with appropriate measures. We will aim at leading enterprises, identifying our gaps and becoming more competitive in the market without cease.

From the domestic perspective, the on-and-off pandemic in some regions, coupled with the slow consumption and investment recovery, has obviously brought more risks and challenges to China's economy. However, the economy of China will maintain a long-term sanguine development trend and embrace diverse favorable factors for a sustainable development. To power a sustainable economic development, China will actively expand effective investment, moderately make capital investment with a forward-looking concept, with a focus on major water resource project, integrate tridimensional traffic network, important energy base and facilities, under the framework of the significant development strategy and the "Fourteenth Five-year Plan" of the state. This will be a big blessing for the Group. The Group will continue as before to consolidate our leading market status in port, waterway, municipal and construction sectors, accelerate the pace to forge a new development pattern and adapt to the new economic development trend. We will scale up the continuous spending on the environmental technology business, increase the market share and strive to keep moving forward while growing steadily.

From the international perspective, the global economy will face a rising systemic risk posed by the global pandemic spread combined with the increasingly complex international political and economic situations. The global industrial chain, supply chain and value chain are rebuilt at a faster pace, and the overseas expansion, compliant operation and stability of supply chain are under greater pressure. The Group will prudentially observe the market dynamics in the Southeast Asia, earmark more resources for the overseas risk control system and strictly control risks. At the same time, we will capture the rigid capital construction demands in many Southeast Asian countries and build the "Belt and Road Initiative" together with high quality.

Financial Overview

Revenue

In 2021, the Group's consolidated revenue was RMB2,262.8 million, representing a year-on-year increase of approximately 24.4% compared with the revenue of RMB1,818.4 million in the previous fiscal year. The main operation income is divided into marine construction segment and municipal public construction segment, with revenue of RMB871.2 million and RMB1,391.6 million. Revenues from the PRC and Southeast Asia in 2021 were RMB2,032.5 million and RMB230.3 million, respectively.

The increase in the Group's revenue for the year was mainly due to the undertaking of more projects and the strengthening of project management, thereby speeding up project progress.

Cost of sales and profits from main operations

The consolidated cost of sales in 2021 was RMB2,055.0 million, representing an increase of 27.2% from RMB1,615.7 million in 2020. The costs of marine construction segment and municipal public construction segment in 2021 were RMB788.5 million and RMB1,266.5 million. In 2021, cost incurred in the PRC and Southeast Asia were RMB1,844.5 million and RMB210.5 million, respectively.

Cost of sales mainly consists of the cost of used raw materials and consumables and subcontracting costs. In 2021, cost of raw materials and consumables used and subcontracting costs were RMB1,126.2 million and RMB769.9 million, representing an increase of 18.0% and 48.9% from RMB954.2 million and RMB516.9 million in 2020, respectively. The main operation profit of the Group depends largely on the location and composition of the project. The consolidated gross profit in 2021 was approximately RMB207.8 million, representing an increase of 2.6% from RMB202.6 million in 2020.

Administrative expenses

In 2021, the administrative expenses amounted to RMB113.6 million, increased by 22.2% as compared with RMB93.0 million in 2020. Due to the influence of COVID-19 in 2021, the Group increased the expenditure of epidemic control and prevention. However, administrative expenses as a percentage of revenue decreased from 5.1% in 2020 to 5.0% in 2021.

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%. The certificate of new and high-technology enterprise is subject to renewal for each three-year interval. Management of the Group expects the certificate of new and high-technology enterprise of Third Harbor Maritime could be renewed in the year of 2022 when the current three-year period expires.

The Group's income tax expense in 2021 was RMB11.0 million, representing a decrease of 9.1% from RMB12.1 million in 2020, mainly due to the increase in the proportion of profits of Third Harbor Maritime in 2021.

Trade and other receivables

The Group's net trade and other receivables decreased to RMB1,468.6 million as at 31 December 2021 (as at 31 December 2020: RMB1,525.8 million), which mainly comprised progress receivables on projects, receivables on project completion, delivery and settlement, and retention receivables on completed projects. The decrease in trade and other receivables in 2021 was mainly due to the improvement of credit control and the input in settlement of receivables. The Group has assessed the expected credit losses and has made proper provisions for impairment losses. The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each Reporting Period. To assess whether there is a significant increase in credit risk, the Group compares the risk of default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information.

Trade and other payables

The Group's net trade and other payables decreased to RMB2,436.1 million as at 31 December 2021 (as at 31 December 2020: RMB2,577.7 million), mainly due to the strengthened management of trade and other payables to support the smooth progress of construction projects under the impact of the pandemic.

Current assets, capital structure and gearing ratio

The Group maintained a healthy liquidity position with net current assets and cash and cash equivalents of approximately RMB172.1 million (as at 31 December 2020: RMB216.1 million) and RMB443.8 million (as at 31 December 2020: RMB423.7 million), respectively as at 31 December 2021. The Group's gearing ratio (calculated by dividing total liabilities by total assets) as at 31 December 2021 was 78.9% (as at 31 December 2020: 80.7%). The decrease in net current assets and gearing ratio as at 31 December 2021 reflected the

Group's enhanced management of receivables and liabilities and optimized capital structure. The Group's borrowings as at 31 December 2021 amounted to RMB124.4 million (as at 31 December 2020: RMB54.0 million), which are denominated in RMB and with fixed interest rate. The Group's borrowings of RMB105.0 million as at 31 December 2021 will be repaid before 31 December 2022, RMB15.0 million will be repaid before 31 December 2025 with an annual repayment amount of RMB5.0 million each year, the remaining RMB4.5 million will be repaid before 31 December 2026.

Foreign exchange

Operations of the Group are mainly conducted in the 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; (ii) to settle payments to our suppliers and operating expenses where possible; and (iii) certain amounts of cash and bank balances are dominated in US\$. In the event that settlements 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 2021, the Group paid RMB8.5 million for the purchase of machinery and equipment used for construction. As at 31 December 2021, the Group had no major capital commitments.

Contingent liabilities

As at 31 December 2021, the Group had no significant contingent liabilities.

Charges on assets

As at 31 December 2021, the Group pledged long-term trade receivables with carrying amount of approximately RMB49.1 million (2020: RMB52.5 million) for the long-term bank borrowings amounted to RMB24.5 million (2020: RMB29.0 million).

Material acquisition and disposal of subsidiaries, associates and joint ventures

For the year ended 31 December 2021, the Group had no material acquisition and disposal of subsidiaries, associates and joint ventures.

Significant investment held

As at 31 December 2021, the Group had no significant investment or future plans for significant investments or capital assets.

Use of Proceeds

The Group's net proceeds from the Listing was approximately HK\$202.9 million. As at 31 December 2021, the utilisation of net proceeds raised by the Group from the Listing is as below:

(HK\$ million)

	Original allocation of net proceeds as stated in the Prospectus	Revised allocation of net proceeds	Utilised up to 31 December 2021	Unutilised up to 31 December 2021	Expected timeline for utilisation of the unutilised net proceeds (Note 1)
Funding our capital needs and cash flow under our existing projects in the PRC and Southeast Asia	65.5	21.3	21.3	—	—
Purchasing new vessels and construction equipment	35.7	24.5	24.5	—	—
Funding the capital needs and cash flow under the Group's port, waterway and marine engineering projects (Note 2)	—	44.2	44.2	—	—
Purchasing new vessels and construction equipment and repair and maintenance of vessels and construction equipment (Note 2)	—	11.2	11.2	—	—
Recruiting talent	13.0	13.0	11.6	1.4	December 2022 or before
Strategic equity investment	68.8	68.8	—	68.8	December 2022 or before
General working capital	19.9	19.9	19.9	—	—
Total	202.9	202.9	132.7	70.2	

Notes:

- 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.

2. On 17 December 2020, the Board resolved to (i) change the use of the net proceeds for funding capital needs and cash flow under existing projects in the PRC and Southeast Asia which remains unutilised and approved that such amount of approximately HK\$44.2 million shall be reallocated as funding the capital needs and cash flow under the Group's port, waterway and marine engineering projects; and (ii) change the use of net proceeds for purchasing new vessels and construction equipment and approved that the use of such amount of approximately HK\$11.2 million shall be expanded as purchasing new vessels and construction equipment and repair and maintenance of vessels and construction equipment. For details, please refer to the Company's announcement dated 17 December 2020.

During the year ended 31 December 2021, 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.

Event after the Reporting Period

The Group did not have any significant events subsequent to the Reporting Period.

Final dividend

The Board recommended the payment of a final dividend of HK1.60 cents (equivalent to approximately RMB1.31 cents) (2020: HK0.80 cent (equivalent to RMB0.66 cent)) per share for the year ended 31 December 2021 to the Shareholders whose names appeared on the register of members of the Company on Friday, 24 June 2022. Subject to the approval of the Shareholders at the 2022 AGM, such dividend is expected to be paid on Tuesday, 16 August 2022.

Closure of Register of Members

For the purpose of determining the identity of the Shareholders entitled to attend and vote at the 2022 AGM, the register of members of the Company will be closed from Monday, 13 June 2022 to Thursday, 16 June 2022, 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, 10 June 2022.

For the purpose of determining the entitlement of the Shareholders to the proposed final dividend, the register of members of the Company will be closed from Wednesday, 22 June 2022 to Friday, 24 June 2022, both days inclusive, during the 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 Hong Kong 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 for registration not later than 4:30 p.m. on Tuesday, 21 June 2022.

Employees and remuneration policies

As at 31 December 2021, the Group had a total of 603 employees (2020: 557 employees). In particular, Third Harbor Maritime had 155 employees, Benteng Indonesia had 143 employees (including 18 Chinese employees who are appointed by Third Harbor Maritime and 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 1 employee (1 Chinese employee who is appointed by Third Harbor Maritime and has entered into employment contracts with Third Harbor Maritime, and we have purchased the relevant insurance for him in China). Shanghai Watts Environmental Technology Co., Ltd. had 30 employees. Shanghai Municipal Group had 274 employees. Our employees have been paid remuneration in accordance with relevant laws and regulations in China, Indonesia and Brunei. The Group pays appropriate salary and bonuses with reference to actual practice. Other related benefits include pensions, unemployment insurance and housing allowances. The staff costs, including Directors' emoluments, of the Group were approximately RMB69.9 million for the Reporting Period (2020: approximately RMB58.1 million).

The Remuneration Committee has been established to provide recommendations to the Board on the overall remuneration policy and structure of the 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 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 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 applied the principles of the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. For the Reporting Period, the Company has complied with all applicable code provisions under the CG Code in force during the year.

Audit Committee

The Audit Committee has discussed with management and reviewed the audited consolidated financial statements of the Group for the Reporting Period.

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 2021 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 annual 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 2021 annual report containing all the information required by the Listing Rules will be dispatched to the Shareholders and published on the above websites in due course.

Definitions

2022 AGM	the forthcoming annual general meeting of the Company to be held on Thursday, 16 June 2022
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 in 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 Company 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)	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 listing of the Company's shares 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 China Taiwan
Prospectus	the prospectus of the Company dated 30 October 2018
Renminbi or RMB	Renminbi, the lawful currency of the PRC
Reporting Period	the period from 1 January 2021 to 31 December 2021
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
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 Company Limited
Wang Xiuchun
Chairman and Executive Director

Shanghai, 29 March 2022

As at the date of this announcement, the Board comprises Mr. Wang Xiuchun, Ms. Wan Yun, Mr. Wang Lijiang and Mr. Wang Likai 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.