华滋国际海洋股份有限公司

Watts International Maritime Company Limited

(Incorporated in the Cayman Islands with limited liability)

Stock code : 2258

2022

Annual Report

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Corporate Information

Directors

Executive directors

Mr. Wang Xiuchun (王秀春) *(Chairman)*
Ms. Wan Yun (萬雲) *(Chief executive officer)*
Mr. Wang Lijiang (王利江)
(concurrently as joint company secretary)
Mr. Wang Likai (王利凱)

Non-executive director

Mr. Wang Shizhong (王士忠)

Independent non-executive directors

Mr. Wang Hongwei (王洪衛)
Mr. Sun Dajian (孫大建)
Mr. How Sze Ming (侯思明)

Audit committee

Mr. Sun Dajian (孫大建) *(Chairman)*
Mr. How Sze Ming (侯思明)
Mr. Wang Hongwei (王洪衛)

Remuneration committee

Mr. How Sze Ming (侯思明) *(Chairman)*
Mr. Sun Dajian (孫大建)
Mr. Wang Hongwei (王洪衛)

Nomination committee

Mr. Wang Hongwei (王洪衛) *(Chairman)*
Mr. Sun Dajian (孫大建)
Mr. How Sze Ming (侯思明)

Joint company secretaries

Mr. Wang Lijiang (王利江)
Ms. Zhang Xiao (張瀟) *(ACG, HKACG)*

Authorised representatives

Ms. Wan Yun (萬雲)
Ms. Zhang Xiao (張瀟)

Registered address in the Cayman Islands

4th Floor, Harbour Place
103 South Church Street
PO Box 10240
Grand Cayman
KY1-1002, Cayman Islands

Principal place of business and headquarters in the PRC

5/F, Tower 17
2816 Yixian Road Baoshan district
Shanghai, the PRC

Principal place of business in Hong Kong

40th Floor, Dah Sing Financial Centre
No. 248 Queen's Road East
Wan Chai, Hong Kong

Auditor

PricewaterhouseCoopers
Certified Public Accountants
Registered Public Interest Entity Auditor
22/F, Prince's Building Central
Hong Kong

Legal adviser as to Hong Kong law

Dentons Hong Kong LLP
Suite 3201, Jardine House
1 Connaught Place Central
Hong Kong

Principal share registrar and transfer office

Harneys Fiduciary (Cayman) Limited
4th Floor, Harbour Place
103 South Church Street
PO Box 10240
Grand Cayman
KY1-1002, Cayman Islands

Hong Kong share registrar

Computershare Hong Kong Investor Services Limited
Shop 1712–1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong

Principal banks

Bank of Communications, Shanghai Sanmenlu Sub-branch
Bank of Communications Co., Ltd. Hong Kong Branch

Company's website

www.shbt-china.com

Stock code

2258

Chairman's Statement

Revenue of the Group for the year amounted to approximately RMB2,075.6 million

Dear Shareholders,

On behalf of the Board of Directors (the "**Board**") of WATTS INTERNATIONAL MARITIME COMPANY LIMITED (the "**Company**"), together with its subsidiaries (the "**Group**"), I am pleased to present the audited annual results and consolidated financial statements of the Group for the year ended 31 December 2022 to all the Shareholders.

The shares of the Group were successfully listed on the main board of The Stock Exchange of Hong Kong Limited on 19 November 2018 (the "**Listing**"). Its principal businesses include port, waterway, marine engineering services, municipal public engineering and construction engineering services, and environmental technology engineering services. The Group always adhered to the main line of high-quality development and strived to become a first grade comprehensive construction service enterprise.

In 2022, due to the market environment under the impact of multiple unexpected factors at home and abroad such as the pandemic, the Group's domestic and overseas projects in hand and under construction were adversely affected in terms of construction period, revenue and profit. However, the Group unswervingly adhered to the general principle of seeking progress while maintaining stability, paid close attention to market dynamics, insisted on improving risk management and internal control, optimized the operating structure under the framework of high-quality development, focused the Group's strengths on key projects, important regions and major markets, and consolidated the foundation for development. On the basis of continuous improvement of our port construction business, waterway construction business, municipal engineering construction business, and engineering construction business, the Group steadily promoted the business scope of environmental technology through developing soil remediation, three waste treatment, water environment treatment and carbon neutrality businesses so as to enhance the Group's transformation and upgrading.

In 2022, the Group recorded revenue of approximately RMB2,075.6 million, of which revenue from the marine construction segment was approximately RMB512.5 million and revenue from the municipal public construction segment was approximately RMB1,563.1 million. The overall revenue was relatively stable. The Group recorded a net profit of approximately RMB27.1 million in 2022.

In 2023, facing the new opportunities and challenges under the new market situation, the Group will continue to forge ahead with unremitting efforts, enhance its technological innovation, value creation and risk management and control capabilities, improve its international level and professional capabilities, and steadily promote the high-quality development of the Group. Internally, we will strengthen cost control, increase the added value of projects, and strive to improve the return on investment. Externally, the Group will strengthen market development, optimize the Group's marketing structure, and strive to expand the overall income sources.

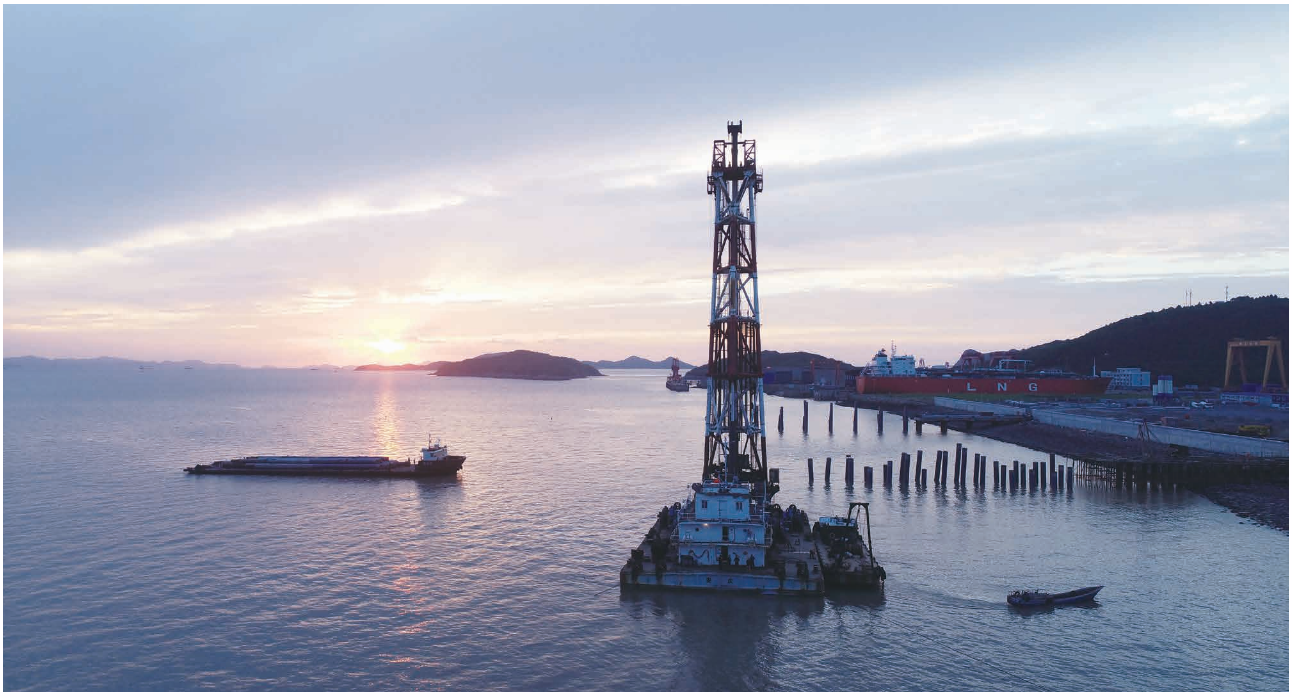
In 2023, the Group will focus on improving quality and efficiency, continue to deepen the 4+1 business development strategy, accelerate the transformation and upgrading of industrial development, promote the construction of modern industrial chain within its traditional competition edge (with particular attention to the pioneering advantages of the Southeast Asia to expand overseas markets), increase investment in new technologies and new techniques in emerging business areas, and develop green and low-carbon new industries. At the same time, the Group will accelerate its structural adjustment, continue to improve its corporate governance mechanism, explore high-quality development potential, and strive to enhance long-term return of our Shareholders with better overall profitability.

Finally, on behalf of the members of the Board, I would like to take this opportunity to express our heartfelt thanks to our Shareholders, management team, employees, customers, suppliers, subcontractors and other business partners for their support.

Best regards

Wang Xiuchun (王秀春)
Chairman

28 March 2023



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 enjoys grade A qualifications for the general contracting of the port, waterway and marine engineering business, and construction and municipal public engineering business. Therefore, the Group is qualified for inland river, port, waterway and municipal public engineering projects. The Group boasts the strongest construction capacity both in and outside China and a solid customer base. This sustains the stable development of the Group and the maximization of the return to shareholders.

In 2022, the Group recorded revenue of RMB2,075.6 million, representing a decrease of 8.3% over the year ended 31 December 2021. The decrease was principally due to the economic slowdown and extensively rising production costs amid the repeated pandemic outbreaks. In 2022, the Group saw rising costs of projects in hand and under construction in China and beyond, and the construction progress was delayed once more due to the pandemic quarantines, lockdowns and restrictions on travelers. We, however, managed to maintain our operating revenue within the predictable range thanks to the steady expansion of our business scope through continuous improvement in our internal management and increased efforts on cost control. The Group, despite the pandemic and soaring costs of raw materials at home and abroad, sustained an 8.2% gross margin in 2022, edging down as compared to 2021.

In 2022, apart from the lingering outbreaks of COVID-19, China economically was impacted by unexpected factors. The international landscape became increasingly complicated and severe, and China's economic development showed more uncertainties. The Group stayed true to its original mission, which has at its very core port, waterway and municipal public engineering projects. With this in mind, we forged ahead with innovations to branch out into the environmental engineering business. Meanwhile, we, taking into full consideration the fundamental principle of "coexistence of opportunities and challenges, and opportunities outweighing challenges", strengthened our overall competitiveness.

Future Plans and Prospect

As the pandemic controls are lifted in China and beyond, shrinking demand resulting from the pandemic begins recovering, which has a positive impact on the recovery of the global economy. The Group will stay committed to improving internal control. This will mean strengthening cost control, risk prevention and expanding business scope, with a view to improve returns to Shareholders.

In terms of the domestic market in China, the COVID-19 pandemic prevention and control has been downgraded under the management of Class B infectious diseases. Fueled by proactive fiscal policies, the domestic economy runs steadily on the whole, which offers further opportunities for a sustained economic recovery. In the year to come, China will give priority to enlarging domestic demand by accelerating the construction of major projects and introducing the urban renewal program during the "14th Five-Year Plan" period. This will facilitate the Group's overall resource allocation and allow the Group to leverage on its leading position in the port, waterway, municipal and construction industries to further consolidate its market share. At the same time, China will pursue the green development transformation by promoting environmental and pollution controls and strengthening the overall governance of drainage areas and the construction of urban and rural infrastructure construction, as well as working on the major projects for ecosystem protection and restoration. This is favourable for the Group to further our environmental engineering business and enable us to follow all-new development philosophy for a new development pattern.

The international market environment remains uncertain with persistently high global inflation, leading to limited growth in the global economy and trade. The relaxed pandemic response by an increasing number of countries and regions provides great impetus for recovering the world economy, stimulating consumer consumption and improving mobility of people, capital and a wide range of other elements across the world. Keeping a close eye on the international markets, we will stay alert to the risks coming with opportunities. That will mean pursuing progress while ensuring stability. While actively expanding to the market in Southeast Asia and joining the "Belt and Road" Initiative, we will at the same time strengthen risk control against possible further risks.

Financial Overview

Revenue

In 2022, the Group's consolidated revenue was RMB2,075.6 million, representing a decrease of approximately 8.3% compared with the revenue of RMB2,262.8 million in the previous fiscal year. The main operation income is divided into marine construction segment and municipal public construction segment, with revenue of RMB512.5 million and RMB1,563.1 million. Revenues from the PRC and Southeast Asia in 2022 were RMB1,914.2 million and RMB161.4 million, respectively.

The decrease in the Group's consolidated revenue for the year was mainly due to the repeated pandemic outbreaks in 2022. The Group saw delayed construction progress of projects in hand and under construction in China and beyond due to the upgraded control of anti-pandemic measures such as the pandemic quarantines, lockdowns and restrictions on travelers.

Cost of sales and profits from main operations

The consolidated cost of sales in 2022 was RMB1,904.5 million, representing a decrease of 7.3% from RMB2,055.0 million in 2021. The costs of marine construction segment and municipal public construction segment in 2022 were RMB466.1 million and RMB1,438.4 million. In 2022, cost incurred in the PRC and Southeast Asia were RMB1,751.4 million and RMB153.1 million, respectively.

Cost of sales mainly consists of the cost of raw materials and consumables used and subcontracting costs. In 2022, cost of raw materials and consumables used and subcontracting costs were RMB962.4 million and RMB743.2 million, representing decreases of 14.5% and 3.5% from RMB1,126.2 million and RMB769.9 million in 2021, respectively. The main operation profit of the Group depends largely on the location and composition of the project. The consolidated gross profit in 2022 was approximately RMB171.1 million, representing a decrease of 17.7% from RMB207.8 million in 2021.

Administrative expenses

In 2022, the administrative expenses amounted to RMB92.4 million, decreasing by 18.7% as compared with RMB113.6 million in 2021. It was mainly due to our control over administrative expenses. Administrative expenses as a percentage of revenue decreased from 5.0% in 2021 to 4.5% in 2022.

Income tax expense

Third Harbor Maritime, a wholly-owned subsidiary of the Group, having obtained new and high-technology enterprise recognition in October 2019 and renewed it in October 2022, was entitled to preferential income tax rate of 15%. Watts Environmental was recognised as a new and high-technology enterprise in November 2022 and was entitled to a preferential tax rate of 15%. The certificate of new and high-technology enterprise is subject to renewal each three-year interval.

The Group's income tax expense in 2022 was RMB13.0 million, representing an increase of 18.2% from RMB11.0 million in 2021, mainly due to the decrease of super deduction of income tax expenses relating to research and development expenses.

Trade and other receivables

The Group's net trade and other receivables increased to RMB1,529.1 million as at 31 December 2022 (as at 31 December 2021: RMB1,468.6 million), which mainly comprised progress receivables on projects, receivables on project completion, delivery and settlement, and retention receivables on completed projects. The increase in trade and other receivables in 2022 was mainly due to the increase in bills receivables, progress receivables and retention receivables as domestic and foreign projects progress. 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 assets 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 RMB2,293.9 million as at 31 December 2022 (as at 31 December 2021: RMB2,436.1 million), mainly due to strengthening the management of trade and other payables to support the smooth progress of engineering projects.

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 RMB174.2 million (as at 31 December 2021: RMB172.1 million) and RMB540.2 million (as at 31 December 2021: RMB443.8 million), respectively as at 31 December 2022. The Group's gearing ratio (calculated by dividing total liabilities by total assets) as at 31 December 2022 was 78.7% (as at 31 December 2021: 78.9%). The increase in net current assets and the decrease in gearing ratio as at 31 December 2022 reflected the Group has strengthened the management of receivables and liabilities and optimized its capital structure. The Group's bank borrowings as at 31 December 2022 amounted to RMB233.9 million (as at 31 December 2021: RMB109.5 million), which are denominated in RMB and with fixed interest rate. The Group's borrowings of RMB219.4 million as at 31 December 2022 will be repaid before 31 December 2023 and the remaining RMB14.5 million will be repaid before 31 December 2027.

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 denominated 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.

Contingent liabilities

As at 31 December 2022, there are three outstanding claims against Watts Gallop Construction. According to the legal advisers for the claims, potential liability, legal fees and costs, and interest are not expected to be significant. As such, these legal proceedings individually or in aggregate would not have material financial or operational adverse impact on the Group's consolidated financial statements.

Charges on assets

As at 31 December 2022, the Group pledged long-term trade receivables with carrying amount of approximately RMB44.1 million (2021: RMB49.1 million) for the long-term bank borrowings amounted to RMB19.5 million (2021: RMB24.5 million).

As at 31 December 2022, bills receivables with a total net book amount of RMB21.6 million and trade receivables with a total net book amount of RMB6.0 million were pledged as collateral for the Group's bank borrowings amounted to RMB27.6 million (2021: Nil).

Material acquisition and disposal of subsidiaries, associates and joint ventures

For the year ended 31 December 2022, the Group had no material acquisition and disposal of subsidiaries, associates and joint ventures.

Significant investment held

As at 31 December 2022, 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 2022, 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	Unutilised as at 31 December 2021	Utilised during the Reporting Period	Unutilised up to 31 December 2022	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	—	—	—	—
Purchasing new vessels and construction equipment	35.7	24.5	—	—	—	—
Funding the capital needs and cash flow under the Group's port, waterway and marine engineering projects *(Note 2)*	—	44.2	—	—	—	—
Purchasing new vessels and construction equipment and repair and maintenance of vessels and construction equipment *(Note 2)*	—	11.2	—	—	—	—
Recruiting talent	13.0	13.0	1.4	1.4	—	—
Strategic equity investment	68.8	68.8	68.8	—	68.8	December 2023 or before
General working capital	19.9	19.9	—	—	—	—
Total	202.9	202.9	70.2	1.4	68.8	

Notes:

1. 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 2022, 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.

Biographical Details of Directors and Senior Management

Board of Directors

Our Board currently consists of eight Directors, comprising four executive Directors, one non-executive Director and three independent non-executive Directors. The powers and duties of our Board include convening general meetings and reporting our Board's work at our Shareholders' meetings, determining our business and investment plans, preparing our periodic financial budgets and reports, formulating proposals for profit distributions and exercising other powers, functions and duties as conferred by our Articles of Association.

Executive Directors

Mr. Wang Xiuchun (王秀春), aged 55, was appointed as an executive Director on 9 April 2018, and was appointed as the chairman of the Board on 27 March 2019. Mr. Wang Xiuchun is a distant relative of Mr. Wang Shizhong (王士忠), our non-executive Director. Mr. Wang Xiuchun joined the Group in January 2002 and is primarily responsible for overall management and strategic planning. Mr. Wang Xiuchun is a director of a number of subsidiaries of the Group. From January 1993 to December 1999, Mr. Wang Xiuchun served as a construction engineering team member and project manager at Watts Gallop Construction (formerly known as Fuyang Municipal Engineering Company (富陽市市政工程公司)). From January 2002 to February 2014, Mr. Wang Xiuchun served in various positions in Third Harbor Construction, including manager of the equipment department, administrative deputy general manager, general manager and chairman. During these tenures, he was primarily responsible for production equipment management, administrative and general management, and day-to-day business, management and production operations, respectively. From February 2009 to December 2013, he was also the chairman of Shanghai Watts Gallop Holding Industrial Co., Ltd. (上海華滋奔騰控股集團實業有限公司), where he was primarily responsible for overall management and strategic planning. From January 2014 to August 2017, he was the chairman of Third Harbor Construction, where he was responsible for business planning, development strategies, formulation of major guidelines and policies, and making major business decisions.

Mr. Wang Xiuchun obtained his diploma in industrial and civil architecture from Zhengzhou University (鄭州大學) in the PRC in September 2009 and his diploma in engineering management from Chongqing University (重慶大學) in the PRC in July 2012, both by distant learning.

Ms. Wan Yun (萬雲), aged 44, was appointed as an executive Director on 9 April 2018, and was appointed as the chief executive officer on 27 March 2019. Ms. Wan joined the Group in January 2010 and is primarily responsible for day-to-day business operation and the overall administration. Ms. Wan is a director of a number of subsidiaries of the Group. From July 2002 to June 2006, Ms. Wan was the financial administrator in Fuyang Gallop Real Estate Development Co., Ltd. (富陽奔騰房地產開發有限公司). From January 2006 to December 2009, she served as the secretary to the board of directors of Watts Gallop. From January 2010 to January 2012, she served at Third Harbor Construction as a chief accountant. From January 2012 to February 2018, she was the chief financial officer of Watts Gallop.

Ms. Wan obtained her bachelor of administration with a major in accounting from China Agricultural University (中國農業大學) in the PRC in July 2002.

Mr. Wang Lijiang (王利江), aged 35, was appointed as an executive Director on 9 April 2018. Mr. Wang is also a joint company secretary of the Company. Mr. Wang Lijiang is the nephew of Mr. Wang Shizhong (王士忠), our non-executive Director, and the son of Mr. Wang Shiqin (王士勤), a controlling shareholder of the Company. Mr. Wang Lijiang joined the Group in March 2014 and is primarily responsible for accounting and financial management. From November 2010 to March 2014, Mr. Wang Lijiang undertook several positions at Eastern Communications Co., Ltd. (東方通信股份有限公司), which is listed on the Shanghai Stock Exchange (stock code: 600776), including senior specialist of the strategic investment department, secretary to the president and overseas manager of the financial equipment department. From March 2014 to December 2016, Mr. Wang Lijiang worked as the manager of the material and equipment department and the assistant to the chairman of Third Harbor Construction, primarily responsible for material purchase and equipment management. From January 2016 to February 2018, he was the executive assistant to the chief executive officer, manager of the human resources administration department and secretary to the board of directors at Jiangsu Watts Energy& Engineering Co., Ltd. (江蘇華滋能源工程有限公司) (formerly known as Jiangsu Watts Offshore & Engineering Co., Ltd. (江蘇華滋海洋工程有限公司)). From February 2016 to February 2018, he also served as the secretary to the board of directors of Watts Gallop.

Mr. Wang Lijiang obtained his bachelor of arts with a major in English (international trade) from the Hefei University of Technology (合肥工業大學) in the PRC in June 2009 and a master's degree in international marketing and entrepreneurship from the University of Essex in England in November 2011.

Mr. Wang Likai (**王利凱**), aged 30, was appointed as an executive Director on 18 June 2020. Mr. Wang Likai is the son of Mr. Wang Shizhong, our non-executive Director. He is also the cousin of Mr. Wang Lijiang (王利江), our executive director and a joint company secretary, and the nephew of Mr. Wang Shiqin (王士勤), a controlling shareholder of the Company. Mr. Wang Likai joined the Group in May 2020 and is primarily responsible for management of personnel and integration of resources of the Group. Mr. Wang Likai is a director of a number of subsidiaries of the Group. From May 2017 to June 2020, Mr. Wang Likai was the chairman and general manager of Shanghai Watts Property Management Co., Ltd.* (上海華滋物業管理有限公司). From August 2017 to April 2020, he served as an executive director and general manager of Shanghai Ziguang Property Management Co., Ltd.* (上海滋廣物業管理有限公司). From October 2018 to April 2020, he was an executive director and general manager of Shanghai Watts Medical Technology Co., Ltd.* (上海華滋醫療科技有限公司). Mr. Wang Likai has been an executive director and general manager of Shanghai Watts Gallop Holding Industrial Co., Ltd* (上海華滋奔騰控股集團實業有限公司) since July 2017 and a director of Jiangsu Watts Energy Engineering Co., Ltd* (江蘇華滋能源工程有限公司) since February 2018.

Mr. Wang Likai obtained his Bachelor of Arts degree from the University of California, Irvine in the United States in March 2016.

Non-executive Director

Mr. Wang Shizhong (王士忠), aged 58, was appointed as an executive Director on 20 December 2017, and was re-designated from executive director to non-executive director on 18 June 2020. Mr. Wang Shizhong is the father of Mr. Wang Likai, our executive Director, the uncle of Mr. Wang Lijiang, our executive Director and a joint company secretary, the brother of Mr. Wang Shiqin (王士勤), a controlling shareholder of the Company, as well as a distant relative of Mr. Wang Xiuchun, the chairman of the Board and our executive Director. Mr. Wang Shizhong joined the Group in November 2003 and is primarily responsible for advising on strategy and business development of the Group. Mr. Wang is a director of a number of subsidiaries of the Group. From December 1987 to May 2004, Mr. Wang held several positions at Watts Gallop Construction (formerly known as Fuyang Municipal Engineering Company (富陽市市政工程公司)), including general manager and chairman. From May 2004 to December 2007, Mr. Wang was the chairman of Third Harbor Construction. Since November 2003, he has been the chairman of Watts Gallop and Zhejiang Watts Gallop Real Estate Development Co., Ltd. (浙江華滋奔騰房地產開發有限公司) (formerly known as Zhejiang Gallop Real Estate Development Co., Ltd. (浙江奔騰房地產開發有限公司)).

Mr. Wang obtained his diploma in water supply and sewerage from Zhejiang Radio and Television University (浙江廣播電視大學) in the PRC in July 1987.

Independent Non-executive Directors

Mr. Sun Dajian (孫大建), aged 68, was appointed as our independent non-executive Director on 19 October 2018. Mr. Sun is also the chairman of the Audit Committee and a member of each of the Nomination Committee and Remuneration Committee. From September 1988 to July 1989, Mr. Sun served as a teaching assistant at Shanghai University of Finance and Economics (上海財經大學). From May 1990 to April 2017, Mr. Sun successively served as a certified accountant at Dahua Accountants Firm (大華會計師事務所), the deputy chief accountant, the chief accountant and the financial director at Shanghai Yaohua Pilkington Glass Group Co., Ltd. (上海耀華皮爾金頓玻璃股份有限公司, a glass manufacturer listed on the Shanghai Stock Exchange (Stock Code: 600819)), and a certified public accountant at the Shanghai branch of Zhongxinghua Certified Public Accountants LLP. (中興華會計師事務所 (特殊普通合夥)). From May 2017 to present, Mr. Sun has been working as a certified public accountant at Shanghai New JaHwa CPAs (上海新嘉華會計師事務所有限公司).

Mr. Sun is a supervisor of Zhejiang Haers Vacuum Containers Co., Ltd. (浙江哈爾斯真空器皿股份有限公司, stock code: 002615), a company listed on the Shenzhen Stock Exchange. In the past three years, Mr. Sun was an independent director of Shanghai Jahwa United Co., Ltd. (上海家化聯合股份有限公司, stock code: 600315), a company listed on the Shanghai Stock Exchange, Zhejiang Haers Vacuum Containers Co., Ltd. (浙江哈爾斯真空器皿股份有限公司, stock code: 002615) and Shanghai SK Petroleum &Chemical Equipment Corporation Ltd. (上海神開石油化工裝備股份有限公司, stock code: 002278), both listed on the Shenzhen Stock Exchange, and L&K Engineering (Suzhou) Co., Ltd. (亞翔系統集成科技 (蘇州) 股份有限公司, stock code: 603929), a company listed on the Shanghai Stock Exchange.

Mr. Sun obtained his bachelor in accounting from Shanghai University of Finance and Economics (上海財經大學) in July 1983.

Mr. How Sze Ming (**侯思明**), aged 46, was appointed as an independent non-executive Director on 19 October 2018. Mr. How is also the chairman of the Remuneration Committee of the Company and a member of each of the Audit Committee and the Nomination Committee. Mr. How has over 20 years of experience in investment banking and business assurance industries. Mr. How had worked for several renowned investment banks with PRC background, including Southwest Securities (HK), CMB International, ICBC International and CCB International, and has provided an array of financial advisory services to many companies listed on the Hong Kong Stock Exchange.

Mr. How is currently an independent non-executive director of the following companies listed on the Hong Kong Stock Exchange, World-Link Logistics (Asia) Holding Limited (Stock Code: 6083) and Ruicheng (China) Media Group Limited (Stock Code: 1640). In the past three years, Mr. How was an independent non-executive director of the following companies listed on the Stock Exchange, Forgame Holdings Limited (Stock Code: 484), Shanghai Zendai Property Limited (Stock Code: 755) and 1957 & Co. (Hospitality) Limited (Stock Code: 8495).

Mr. How graduated from The Chinese University of Hong Kong in Hong Kong with a bachelor of business administration in December 1999. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants.

Mr. Wang Hongwei (**王洪衛**), aged 55, was appointed as an independent non-executive Director on 19 October 2018. Mr. Wang is also the chairman of the Nomination Committee and a member of each of the Audit Committee and the Remuneration Committee. Since 1996, Mr. Wang Hongwei has been teaching at Shanghai University of Finance and Economics (上海財經大學), successively served as the head of the investment department, the deputy director of the post-graduate department, the assistant to the principal and the director of the research office. Since June 2004, Mr. Wang Hongwei has been the vice principal of Shanghai University of Finance and Economics (上海財經大學). From August 2013 to May 2016, Mr. Wang Hongwei was the dean of Shanghai Finance University (上海金融學院). From June 2016 to August 2018, Mr. Wang Hongwei was a professor at Shanghai Lixin University of Accounting and Finance (上海立信會計金融學院). Since August 2018, Mr. Wang Hongwei has been a professor at Shanghai University of Finance and Economics (上海財經大學).

Mr. Wang Hongwei is an independent director of Bank of Hangzhou Co., Ltd. (杭州銀行股份有限公司, Shanghai Stock Exchange stock code: 600926), Shanghai Shimao Co., Ltd. (上海世貿股份有限公司, Shanghai Stock Exchange stock code: 600823), and Shanghai New Huang Pu Industrial Group Co., Ltd. (上海新黃浦實業集團股份有限公司, Shanghai Stock Exchange stock code: 600638). Over the past three years, Mr. Wang was an independent director of Elegant Home-Tech Co., Ltd. (愛麗家居科技股份有限公司, stock code: 603221), which is listed on the Shanghai Stock Exchange.

Mr. Wang Hongwei obtained his PhD degree in agricultural resources economics and land utilisation management from the Nanjing Agricultural University (南京農業大學) in the PRC in June 1996.

Senior Management

Mr. Ye Sheng (葉盛), aged 42, was appointed as our chief financial officer on 27 March 2019. Mr. Ye joined the Group in June 2018 and has over 15 years' experience in auditing and finance industries. Mr. Ye is a director of a number of subsidiaries of the Group. Prior to joining the Group, Mr. Ye served at PricewaterhouseCoopers Zhong Tian LLP (普華永道中天會計師事務所 (特殊普通合夥)) from August 2003 to May 2018, and PricewaterhouseCoopers LLP Australia from September 2012 to August 2014 as a senior manager of Audit and Assurance.

Mr. Ye obtained his bachelor's degree in management with a major in accounting (international accounting) from Shanghai University of Finance and Economics (上海財經大學) in the PRC in July 2003. He is also a certified public accountant in the PRC.

Ms. Wang Huina (王慧娜), aged 43, was appointed as the general manager at Watts Gallop Construction on 1 March 2018, primarily responsible for the day-to-day business operations of Watts Gallop Construction. Ms. Wang joined Watts Gallop Construction in February 2003 and held several positions in Watts Gallop Construction, including manager of the general management department, assistant to general manager, deputy general manager and general manager.

Ms. Wang obtained a diploma in computer and application from Hangzhou Normal College (杭州師範學院) in July 2002. She obtained a diploma in business administration (online education) from Southwest University of Science and Technology (西南科技大學) by distant learning in June 2005.

Joint company secretaries

Mr. Wang Lijiang (王利江), an executive Director, was appointed on 9 April 2018 as one of the joint company secretaries of our Company.

Ms. Zhang Xiao (張瀟) was appointed as one of the joint company secretaries of the Company on 28 August 2019. Ms. Zhang Xiao is an assistant vice president of SWCS Corporate Services Group (Hong Kong) Limited. She has over ten years of experience in the field of corporate secretaries.

Ms. Zhang Xiao obtained a bachelor's degree in computer science from The Chinese University of Hong Kong in Hong Kong in 2010 and a master's degree in corporate governance from Hong Kong Metropolitan University in Hong Kong in 2018. She is an associate member of The Hong Kong Chartered Governance Institute and The Chartered Governance Institute.

The Board is pleased to present its annual report and the audited financial statements of the Group for the year ended 31 December 2022.

Principal place of business and principal activities

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 buildings.

Our principal place of business and headquarters in the PRC are located at 5/F, Tower 17, 2816 Yixian Road, Baoshan District, Shanghai, the PRC. Our principal place of business in Hong Kong is located at 40th Floor, Dah Sing Financial Centre, No. 248 Queen's Road East, Wanchai, Hong Kong.

Business review and results

The Group's business review for the year is set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this annual report. The Group's future business development discussion is set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this annual report. The key financial performance indicators used in the Group's performance analysis for the year are set out in the section headed "Five Year Financial Summary" of this annual report. The Group's results for the year ended 31 December 2022 are set out in the section headed "Consolidated Statement of Comprehensive Income" of this annual report.

Dividend policy

The Company has formulated a dividend policy, pursuant to which the Board reserves power to declare and distribute dividends to the shareholders of the Company as and when appropriate. In considering whether to declare dividends or not, the Board shall also consider operations results, cashflows, financial position, statutory and regulatory restrictions, future development, business strategies, and any other factors that the Board may consider relevant.

Final dividend

The Board recommended the payment of a final dividend of HK0.92 cent (equivalent to approximately RMB0.82 cent) (2021: HK1.60 cents (equivalent to RMB1.31 cents)) per share for the year ended 31 December 2022 to the Shareholders whose names appeared on the register of members of the Company on Monday, 26 June 2023. Subject to the approval of the Shareholders at the 2023 AGM, such dividend is expected to be paid on Friday, 18 August 2023.

Closure of Register of Members

For the purpose of determining the identity of the Shareholders entitled to attend and vote at the 2023 AGM, the register of members of the Company will be closed from Monday, 12 June 2023 to Thursday, 15 June 2023, 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, 9 June 2023.

For the purpose of determining the entitlement of the shareholders of the Company to the proposed final dividend, the register of members of the Company will be closed from Wednesday, 21 June 2023 to Monday, 26 June 2023, both days inclusive, during which period no transfer of Shares shall be registered. In order to qualify for the proposed final dividend, all transfers of Shares accompanied by the relevant share certificates, must be lodged with the Company's 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, 20 June 2023.

Major customers, suppliers and subcontractors

For the year ended 31 December 2022, our revenue generated from our top five customers amounted to approximately RMB875.9 million, representing approximately 42.2% of our total revenue for the same period, while our revenue generated from our largest customer amounted to approximately RMB358.7 million, representing approximately 17.3% of our total revenue for the same period.

For the year ended 31 December 2022, purchase from our largest raw material supplier amounted to approximately RMB27.7 million, representing approximately 2.9% of our total cost of raw materials and consumables used for the same period, while purchases from our top five raw material suppliers amounted to approximately RMB116.4 million, representing approximately 12.1% of our total cost of raw materials and consumables used for the same period.

For the year ended 31 December 2022, our subcontracting costs to the top five subcontractors amounted to approximately RMB559.7 million, representing approximately 75.3% of our total subcontracting costs for the same period, while the subcontracting cost to our largest subcontractor amounted to approximately RMB410.0 million, representing approximately 55.2% of our total subcontracting costs for the same period.

During the year ended 31 December 2022, to the knowledge of the Directors, none of the Directors, their close associates, or shareholders of the Company (which, to the knowledge of the Directors, owned more than 5% of the number of issued Shares) had interests in the five largest suppliers or customers or subcontractors of the Company.

Backlog of our projects

During the year ended 31 December 2022, we completed 361 contracts with original contract value of RMB2,348.6 million and we also entered into 395 new contracts with original contract value of RMB2,815.3 million. As of 31 December 2022, we have 132 contracts on hand with original contract value of RMB7,706.5 million and aggregate value of RMB3,650.7 million in our backlog.

Property, plant and equipment

Details of the movements in the property, plant and equipment of the Group during the year ended 31 December 2022 are set out in Note 14 to the consolidated financial statements of this annual report.

Subsidiaries

Particulars of the names, principal activities and places of operation, places of incorporation/ establishment and issued and paid-in share capital of the principal subsidiaries of the Company as of 31 December 2022 are set out in Note 13 to the consolidated financial statements of this annual report.

Financial summary

A summary of the Group's published financial information for the latest five financial years is set out on page 193 under the section headed "Five Year Financial Summary" of this annual report. The summary does not form part of the consolidated financial statements.

Financial statements

The financial position of the Group for the year ended 31 December 2022 and the financial position of the Group on that date are set out in the consolidated financial statements of this annual report.

The discussion and analysis of the Group's performance for the year and the major factors affecting our results and financial position are set out in the section headed "Management Discussion and Analysis" of this annual report.

Share capital

Details of the movements in the share capital of the Company for the year ended 31 December 2022 are set out in Note 24 to the consolidated financial statements of this annual report.

Distributable reserves

Details of the movements in the reserves of the Group during the year ended 31 December 2022 are set out in the section headed "Consolidated Statement of Changes in Equity" of this annual report. As of 31 December 2022, the Company's share premium reserve which available for distribution, calculated in accordance with the provision of the Companies Act (As Revised), Chapter 22 of the Cayman Islands (the "**Companies Act**") was amounted to RMB280.1 million. Under the Companies Act, the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the dividend, if any, is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

Directors

The table below sets out the Directors as at the date of this annual report:

Name	Age	Position	Date of appointment as a Director
Mr. Wang Xiuchun (王秀春) *(Notes 1, 2)*	55	Chairman & executive Director	9 April 2018
Ms. Wan Yun (萬雲)	44	Executive Director & chief executive officer	9 April 2018
Mr. Wang Lijiang (王利江) *(Notes 1, 2)*	35	Executive Director	9 April 2018
Mr. Wang Likai (王利凱) *(Notes 1,2)*	30	Executive Director	18 June 2020
Mr. Wang Shizhong (王士忠) *(Notes 1, 2, 3)*	58	Non-executive Director	20 December 2017
Mr. Wang Hongwei (王洪衛)	55	Independent non-executive Director	19 October 2018
Mr. How Sze Ming (侯思明)	46	Independent non-executive Director	19 October 2018
Mr. Sun Dajian (孫大建)	68	Independent non-executive Director	19 October 2018

Notes:

1. Mr. Wang Shizhong (王士忠) is the father of Mr. Wang Likai (王利凱), the uncle of Mr. Wang Lijiang (王利江) and a distant relative of Mr. Wang Xiuchun (王秀春).

2. Pursuant to the acting-in-concert confirmation dated 22 August 2004 entered into among Mr. Wang Shizhong (王士忠), Mr. Ye Kangshun (葉康舜), Mr. Wang Xiuchun (王秀春), Ms. Zhou Meng (周萌) and Mr. Wang Shiqin (王士勤) (as supplemented by another acting-in-concert confirmation dated 25 May 2018 entered into among the same parties and Mr. Wang Likai (王利凱)), they confirm, among other things, (i) they would be actively cooperating with each other and acting in concert with an aim to achieve consensus and concerted action on all major decisions and affairs relating to Zhejiang Benteng Investment Co., Ltd. (浙江奔騰投資有限公司) (which was later known as Shanghai Watts Gallop Holding Group Co., Ltd. (上海華滋奔騰控股集團有限公司)); (ii) when exercising their voting rights at the members' shareholders' and directors' meetings, they would vote unanimously in accordance with the consensus achieved among the parties, save and except for circumstances in which connected transaction is involved and any of them is required to abstain in voting; and (iii) they would act at the direction of Mr. Wang Shizhong (王士忠) if an unanimous vote could not be reached.

3. Mr. Wang Shizhong (王士忠) has been designated from executive Director to non-executive Director with effect from 18 June 2020.

The Company has received the annual confirmation of independence signed by each independent non-executive Director in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

In accordance with Article 109(a) of the Articles, at each annual general meeting, one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. Accordingly, Mr. Wang Xiuchun, Mr. Wang Likai and Mr. Sun Dajian will retire by rotation at the 2023 AGM and be eligible to offer themselves for re-election as Directors.

Board of directors and senior management

Biographical details of the Directors and senior management of the Company are set out in the section headed "Biographical Details of Directors and Senior Management" of this annual report.

Directors' service contracts

Each of our executive Directors, other than Mr. Wang Likai, has entered into a service contract with the Company for an initial period of three years commencing on the Listing Date and thereafter continue on a month to month basis.

Mr. Wang Likai has entered in to a service contract with the Company as an executive Director for a fixed term of three years commencing from 18 June 2020 and thereafter continue on a month to month basis, subject to retirement by rotation in accordance with the Articles.

Mr. Wang Shizhong, the non-executive Director, has entered into an appointment letter with the Company for a fixed term of three years commencing from 18 June 2020 and thereafter continue on a month to month basis, subject to retirement by rotation in accordance with the Articles.

Each of our independent non-executive Directors has entered into a new appointment letter with the Company for a fixed term of three years commencing from 19 November 2021.

None of the Directors who are proposed for re-election at the 2023 AGM has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

Directors' interests in transactions, arrangements or contracts of significance

Save as disclosed below in the section headed "Connected Transactions" and "Related Party Transactions" in Note 34 to the consolidated financial statements, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company or any of its subsidiaries was a party, and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly subsisted at the year-end or at any time during the Reporting Period.

Management contract

For the year ended 31 December 2022, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed.

Employees and remuneration policies

As of 31 December 2022, the Group had a total of 557 employees. In particular, Third Harbor Maritime had 131 employees, Benteng Indonesia had 86 employees (including 12 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 34 employees. Shanghai Municipal Group had 305 employees. Our employees have been paid remuneration in accordance with relevant laws and regulations in China, Indonesia and Brunei. The Company pays appropriate salary and bonuses with reference to actual practice. Other related benefits include pensions, unemployment insurance and housing allowances. The staff costs, including Directors' emoluments, of the Group were approximately RMB71.8 million for the Reporting Period (2021: approximately RMB69.9 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.

Remuneration to the Directors and the five highest paid individuals

Details of the remuneration to the Directors and the five highest paid individuals are set out in Notes 9 and 38 to the consolidated financial statements.

The senior management's total remuneration paid/payable for the year ended 31 December 2022 (including all executive Directors) by band is as follows:

Band	Number of senior management for the year ended 31 December 2022
Nil to RMB1,000,000	4
Over RMB1,000,000	2

Change in information of Directors

The following changes in the information of Directors are required to be disclosed pursuant to Rule 13.51 B(1) of the Listing Rules:

Mr. Wang Hongwei, an independent non-executive Director, has resigned as an independent director of Elegant Home-Tech Co., Ltd. (Shanghai Stock Exchange stock code: 603221) on 18 November, 2022.

Save as disclosed above, there is no other change in the Directors' information, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Directors' and chief executive's interests and short positions in shares, underlying shares and debentures of the Company and its associated corporations

As of 31 December 2022, the interests and/or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise should be notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 of the Listing Rules were as follows:

Name of Director/ Chief Executive	Capacity/Nature of Interest	Number of Shares held	Shareholding percentage (%) in the Shares
Mr. Wang Xiuchun (王秀春)(3)	Interest held jointly with another person	419,792,836	50.86%
Mr. Wang Likai (王利凱)(3)	Interest held jointly with another person	419,792,836	50.86%
Mr. Wang Shizhong (王士忠)(3)	Interest in a controlled corporation	315,467,967	
	Interest held jointly with another person	104,324,869	
		419,792,836	50.86%
Ms. Wan Yun (萬雲)	Beneficial Owner	18,571,444	2.25%
Mr. Wang Lijiang (王利江)	Beneficial Owner	8,254,000	1.00%

Notes:

1. All interests stated are long positions.

2. The calculation is based on the total number of 825,400,000 Shares in issue as of 31 December 2022.

3. HuaZi Holding Limited is beneficially and wholly owned by Mr. Wang Shizhong. By virtue of the SFO, Mr. Wang is deemed to be interested in the 315,467,967 Shares held by HuaZi Holding Limited.

   Ye Wang Zhou Holding Limited, which holds 104,324,869 Shares, is owned as to 46.76%, 32.40%, 8.10%, 7.34% and 5.40% by Mr. Ye Kangshun (葉康舜), Mr. Wang Xiuchun (王秀春), Ms. Zhou Meng (周萌), Mr. Wang Shiqin (王士勤) and Mr. Wang Likai (王利凱), respectively. By virtue of the Acting-in-concert Confirmation, Mr. Wang Shizhong (王士忠), Mr. Wang Xiuchun (王秀春) and Mr. Wang Likai (王利凱) are deemed to be interested in each other's interest in the Shares.

Save as disclosed above, as of 31 December 2022, none of the Directors and chief executive of the Company had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations which would have to be notified to the Company and the Stock Exchange under Part XV of the SFO, or as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise should be notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 of the Listing Rules.

Substantial shareholders' interests and short positions in shares and underlying shares

As of 31 December 2022, so far as is known to the Directors, as recorded in the register required to be kept by the Company under Section 336 of the SFO, the following persons (other than the Directors and the chief executives of the Company) or companies had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	Nature of Interest	Number of Shares	Shareholding percentage (%) in the Shares
HuaZi Holding Limited (3)(6)	Beneficial Owner	315,467,967	38.22%
Ye Wang Zhou Holding Limited (4)(5)	Beneficial Owner	104,324,869	12.64%
Mr. Ye Kangshun (葉康舜)(3)(4)(5)(6)	Interest in a controlled corporation	104,324,869	
	Interest held jointly with another person	315,467,967	
		419,792,836	50.86%
Ms. Zhou Meng (周萌)(3)(4)(5)(6)	Interest held jointly with another person	419,792,836	50.86%
Mr. Wang Shiqin (王士勤)(3)(4)(5)(6)	Interest held jointly with another person	419,792,836	50.86%
HZ&BT Development Holding Limited	Beneficial Owner	143,542,720	17.39%

Notes:

1. All interests stated are long positions.

2. The calculation is based on the total number of 825,400,000 Shares in issue as of 31 December 2022

3. HuaZi Holding Limited is beneficially and wholly owned by Mr. Wang Shizhong (王士忠). By virtue of the SFO, Mr. Wang is deemed to be interested in the Shares held by HuaZi Holding Limited.

4. Pursuant to the Acting-in-concert Confirmation, Mr. Wang Shizhong (王士忠), Mr. Ye Kangshun (葉康舜), Mr. Wang Xiuchun (王秀春), Ms. Zhou Meng (周萌), Mr. Wang Shiqin (王士勤) and Mr. Wang Likai (王利凱) have acknowledged and confirmed, among other things, that they are parties acting in concert (having the meaning as ascribed thereto in the Takeovers Code). As such, each of them is deemed to be interested in each other's interest in the Shares.

5. Ye Wang Zhou Holding Limited, which holds 104,324,869 Shares, is owned as to 46.76%, 32.40%, 8.10%, 7.34% and 5.40% by Mr. Ye Kangshun (葉康舜), Mr. Wang Xiuchun (王秀春), Ms. Zhou Meng (周萌), Mr. Wang Shiqin (王士勤) and Mr. Wang Likai (王利凱), respectively.

6. By virtue of the Acting-in-concert Confirmation, each of Mr. Wang Shizhong (王士忠), Mr. Ye Kangshun (葉康舜), Mr. Wang Xiuchun (王秀春), Ms. Zhou Meng (周萌), Mr. Wang Shiqin (王士勤) and Mr. Wang Likai (王利凱) is deemed to be interested in the Shares held by HuaZi Holding Limited and Ye Wang Zhou Holding Limited.

Save as disclosed above, as at 31 December 2022, none of the Directors was aware of that any persons (other than Directors or chief executives of the Company) or companies had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Directors' rights to purchase shares or debentures

Save as disclosed in this annual report, at no time during the year under review had any of the Directors or any of their spouses or children under the age of 18 been granted any right to purchase shares or debentures of the Company to obtain interests or exercised any relevant rights; neither the Company nor any of its subsidiaries was a party to any arrangement that would enable the Directors or any of their spouses or children under the age of 18 to obtain any relevant rights of any other entity corporations.

Pension scheme

The Group operates post-employment schemes via defined contribution pension plans. The Group's contributions to the defined contribution plans are expensed as incurred and not reduced by contributions forfeited by those employees who leave the plan prior to vesting fully in the contribution. Details of the pension scheme undertaken by the Group are set out in Note 2.20 to the consolidated financial statements.

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.

Share Option Scheme

The Company adopted a share option scheme pursuant to the written resolutions of the then Shareholders on 19 October 2018. From 1 January 2023, the Company will rely on the transitional arrangements provided for share schemes and will comply with the new Chapter 17 of the Listing Rules accordingly (effective from 1 January 1 2023). Set out below is a summary of the Share Option Scheme.

1. Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to motivate Eligible Persons (as set out below) to optimise their future contributions to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of Executives (as defined below), to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

2. Participant of the Share Option Scheme

The Board may, at its sole discretion, invite any director or proposed director (including an independent non-executive director) of any member of the Group, any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in, any member of the Group (an "**Employee**"), any proposed Employee, any full-time or part-time Employee, or a person for the time being seconded to work full-time or part-time for any member of the Group (an "**Executive**"), a consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group, a person or entity that provides research, development or other technological support or any advisory, consultancy, professional or other services to any member of the Group, or a close associate of any of the foregoing persons (together, the "**Eligible Persons**" and each an "**Eligible Person**").

3. Duration

The Share Option Scheme shall be valid and effective for a period of 10 years commencing on the Listing Date. However, the Shareholders in general meeting may by resolution at any time terminate the Share Option Scheme. Upon the expiry or termination of the Share Option Scheme as aforesaid, no further Share Option shall be offered but in all other respects the provisions of the Share Option Scheme shall remain in full force and effect. All share options granted prior to such expiry or termination (as the case may be) and not then exercised shall continue to be valid and exercisable subject to and in accordance with the terms of the Share Option Scheme.

The remaining life of the Share Option Scheme is approximately five years and eight months until 19 November 2028.

4. Grant of Share Options

On and subject to the terms of the Share Option Scheme, the Board shall be entitled at any time within the period of the Share Option Scheme to offer the grant of any share option to any Eligible Person as the Board may in its absolute discretion select, and on acceptance of the offer, grant such part of the share option as accepted to the Eligible Person.

Subject to the provisions of the Share Option Scheme, the Board may in its absolute discretion when offering the grant of a share option impose any conditions, restrictions or limitations in relation thereto in addition to those set out in the Share Option Scheme as the Board may think fit (to be stated in the letter containing the offer of the grant of the Share Option) including (without prejudice to the generality of the foregoing) continuing eligibility criteria, conditions, restrictions or limitations relating to the achievement of performance, operating or financial targets by the Company and/or the grantee, the satisfactory performance or maintenance by the grantee of certain conditions or obligations or the time or period when the right to exercise the share option in respect of all or some of the Shares which the share option relates shall vest.

An offer of the grant of a share option shall be deemed to have been accepted when the duplicate letter comprising acceptance of the share option duly signed by the grantee together with a remittance in favour of the Company of HK$1.00 by way of consideration for the grant thereof is received by the Company within the period specified in the letter containing the offer of the grant of the share option. Once such acceptance is made, the Share Option shall be deemed to have been granted and to have taken effect from the offer date.

5. Maximum number of Shares available for Subscription

The maximum number of Shares to be issued upon exercise of all share options which may be granted under the Share Option Scheme (and under any other share option schemes) shall not in aggregate exceed 10% of the Shares in issue immediately after completion of the Placing and as at the Listing Date (i.e. not exceeding 82,540,000 Shares) (the "**Scheme Mandate Limit**"), provided that our Company may at any time as the Board may think fit seek approval from our Shareholders to refresh the scheme mandate limit, except that the maximum number of Shares to be issued upon exercise of all share options which may be granted under the Share Option Scheme (and under any other share option schemes of our Company) shall not exceed 10% of the Shares in issue as at the date of approval by the Shareholders in general meeting where such limit is refreshed. Options previously granted under the Share Option Scheme and any other share option schemes (including those outstanding, cancelled, and lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes or exercised options under the said schemes of our Company) shall not be counted for the purpose of calculating the limit as refreshed.

Notwithstanding the preceding paragraph, the maximum number of Shares to be issued upon exercise of all outstanding share options granted and yet to be exercised under the Share Option Scheme (and under any other share option schemes of our Company) shall not exceed 30% of the Shares in issue from time to time.

The maximum number of Shares issued and to be issued upon exercise of the share options granted to any one Eligible Person (including exercised and outstanding share options) in any 12-month period shall not exceed 1% of the Shares in issue from time to time. Where any further grant of share options to such Eligible Person would result in the Shares issued and to be issued upon exercise of all Share Options granted and which may be granted to such Eligible Person (including exercised, cancelled and outstanding Share Options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant shall be separately approved by the Shareholders in general meeting with such Eligible Person and his close associates (or his associates if such Eligible Person is a connected person) abstaining from voting. The applicable requirements of Rule 17.03(4) of the Listing Rules shall be complied with.

As at the date of this report, the total number of shares available for issue under the Share Option Scheme is 82,540,000 Shares, which represents 10% of the issued shares as at the date of this report.

6. Exercise period and vesting period

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during the option period to be determined and notified by the Board to each grantee.

7. Subscription price of Shares

The subscription price in respect of any particular Share Option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant share option (and shall be stated in the letter containing the offer of the grant of the share option) but the subscription price shall not be less than whichever is the highest of:

(1) the nominal value of Share;

(2) the closing price of Shares as stated in the Stock Exchange's daily quotations sheet on the offer date; and

(3) the average of the closing prices of Shares as stated in the Stock Exchange's daily quotations sheet for the five Business Days immediately preceding the offer date. The subscription price shall also be subject to adjustment in accordance with the terms of the Share Option Scheme.

8. Maximum number of Shares per grantee who is a core connected person

Each grant of Share Options to a Director, chief executive or substantial Shareholder of the Company or any of their respective associates under the Share Option Scheme shall be approved by independent non-executive Directors (excluding the independent non-executive Director who is the proposed grantee of the Share Options). Where any grant of share options to a substantial Shareholder or an independent non-executive Director or any of their respective associates would result in the securities issued and to be issued upon exercise of all Share Options already granted and which may be granted (including Share Options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(1) representing in aggregate over 0.1% of the Shares in issue; and

(2) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK$5 million,

such further grant of share options must be approved by the Shareholders. The Company shall send a circular to the Shareholders containing the information required under Rule 17.04 of the Listing Rules. The relevant Eligible Person, his associates and all core connected persons of the Company shall abstain from voting at such general meeting. Any vote taken at the meeting to approve the grant of such share options must be taken on a poll.

Other details of the Share Option Scheme are set out in the Prospectus.

No share option has been granted by the Company under the Share Option Scheme since the Listing Date and up to the date of this report.

Share award scheme

On 24 March 2020, the Company has adopted a share award scheme (the "**Share Award Scheme**") to, among other things, recognize the contributions of the eligible persons of the Share Award Scheme and motivate them to strive for the future development and expansion of the Group. From 1 January 2023, the Company will rely on the transitional arrangements provided for share schemes and will comply with the new Chapter 17 of the Listing Rules accordingly (effective from 1 January 2023). Set out below is a summary of the Share Award Scheme.

1. Purpose of the Scheme

The purpose of the Share Award Scheme is to recognize the contributions by the eligible persons in order to incentivize them to remain with the Group, and to motivate them to strive for the future development and expansion of the Group.

2. Grant of Award

The Board may, from time to time, select any eligible person to be a selected participant and, subject to the scheme rules, grant an award to such selected participant during the award period. In determining the selected participants, the Board or the committee of the Board or person(s) to which the Board has delegated its authority may take into consideration matters including the present and expected contribution of the relevant selected participant to the Group.

Where any grant of an award is proposed to be made to any person who is a connected person of the Company within the meaning of the Listing Rules, prior approval from the independent non-executive Directors of the Company (excluding any independent non-executive Director who is a proposed recipient of the grant of an Award) shall be necessary and the Company shall comply with such provisions of the Listing Rules as may be applicable.

3. Restrictions on Grant

No award shall be made to any selected participant and no directions or recommendations shall be given to the trustee with respect to a grant of an award under the Scheme:

(a) where dealings by directors of the Company are prohibited under any code or requirement of the Listing Rules or any applicable laws, rules or regulations;

(b) after an event involving inside information in relation to affairs or securities of the Company has occurred or a matter involving inside information in relation to the securities of the Company has been the subject of a decision, until such inside information has been publicly announced in accordance with the applicable laws and the Listing Rules;

(c) during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results;

(d) during the period of 30 days immediately preceding the publication date of the half-year results or, if shorter, the period from the end of the relevant half-year period up to the publication date of the results; and

(e) in any circumstances which is prohibited under the Listing Rules, the SFO or any other law or regulation or where any requisite approval from any governmental or regulatory authority has not been granted.

4. Maximum Number of Shares to be Granted

The total number of the award shares underlying all grants made pursuant to the Share Award Scheme shall not exceed in total ten per cent (10%) of the Company's entire issued share capital as of the adoption date (i.e. 82,540,000 Shares) (the "**Scheme Limited**") without the Shareholders' approval.

As at the date of this report, the total number of shares available for issue under the Share Award Scheme is 82,540,000 Shares, which represents 10% of the issued shares as at the date of this report.

5. Satisfaction of Awards

The Company shall issue and allot Shares to the trustee and/or transfer to the trust the necessary funds and instruct the trustee to acquire Shares through on-market transactions at the prevailing market price, so as to satisfy the award. The Company shall not issue or allot Shares nor instruct the trustee to acquire Shares through on–market transactions at the prevailing market price, where such action (as applicable) is prohibited under the Listing Rules, the SFO or other applicable laws from time to time.

Subject to the rules of the Share Award Scheme, the Company may at any time and from time to time at its sole and absolute discretion instruct the Trustee to acquire the Shares at a maximum price for the purpose of the Share Award Scheme and the Shares so acquired shall be kept for the time being in the pool of the trust fund as reserve for the future grant of the award share to the selected participants in accordance with the rules of the Share Award Scheme, provided that at no point during the award period shall the trustee hold five per cent (5%) or more of the total issued share capital of the Company at the relevant time.

6. Vesting of Award Shares

The Board or the committee of the Board or person(s) to which the Board delegated its authority may from time to time while the Share Award Scheme is in force and subject to all applicable laws, determine such vesting criteria and conditions or periods for the award Shares to be vested hereunder. The Board or the committee of the Board or person(s) to which the Board delegated its authority may either (a) direct and procure the trustee to release from the trust the award Shares to the selected participants by transferring the number of award Shares to the selected participants in such manner as determined by them from time to time; or (b) to the extent that, at the determination of the Board or its delegate(s), it is not practicable for the selected participant to receive the award in Shares solely due to legal or regulatory restrictions with respect to the selected participant's ability to receive the award in Shares or the Trustee's ability to give effect to any such transfer to the selected participant, the Board or its delegate(s) will direct and procure the trustee to sell, on-market at the prevailing market price, the number of award Shares so vested in respect of the selected participant and pay the selected participant the proceeds in cash arising from such sales based on the actual selling price of such award Shares.

7. **Voting Rights**

Neither the selected participants nor the trustee may exercise any of the voting rights in respect of any award Shares that have not yet vested.

8. **Assignment or Transfer of Award**

Any award granted under the Share Award Scheme but not yet vested are personal to the selected participant and shall not be assignable or transferable and no selected participant shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any other person over or in relation to any such award, or enter into any agreement to do so.

9. **Alteration of the Scheme**

Subject to the Scheme Limit and compliance with the Share Award Scheme Rules, the Share Award Scheme may be altered or varied in any respect by a resolution of the Board, provided that no such alteration shall operate to affect adversely any subsisting rights of any selected participant unless prior consent is obtained from such selected participant(s) or otherwise in compliance with the rules of the Share Award Scheme.

10. **Duration and Termination**

Unless terminated earlier as determined by the Board in accordance with the terms of the Share Award Scheme, the Share Award Scheme shall be valid and effective for the period commencing on its adoption date, and ending on the business days immediately prior to the 10th anniversary of the adoption date (after which no further awards will be granted), and thereafter for so long as there are any non-vested award Shares granted hereunder prior to the expiration of the Share Award Scheme, in order to give effect to the vesting of such award Shares or otherwise as may be required in accordance with the terms of the Share Award Scheme. Following the settlement, lapse, forfeiture or cancellation (as the case may be) of the last outstanding award made or can be made under the Share Award Scheme, the trustee shall sell all the Shares remaining in the trust, if any, as agreed between the trustee and the Company, and remit all cash and net proceeds of such sales and other funds remaining in the trust, after making appropriate deductions in respect of all disposal costs, expenses and other liabilities in accordance with the trust deed to the Company.

The remaining life of the Share Award Scheme is seven years.

Since the adoption date of the Share Award Scheme to 31 December 2022, no share award was granted, exercise, expired or lapsed and there is no outstanding share award under the Share Award Scheme.

The number of shares that may be issued in respect of options and awards granted during the year ended 31 December 2022 under all schemes of the Company divided by the weighted average number of shares in issue is nil.

Continuing connected transactions

For the year ended 31 December 2022, the following transactions of the Group constituted its continuing connected transactions.

Non-exempt continuing connected transactions

(1) Master Procurement Agreement

Reasons for the Master Procurement Agreement and its Pricing Policy

On 7 April 2021, the Company as purchaser and Watts Gallop as vendor entered into the 2021 Master Procurement Agreement in respect of the procurement of raw materials and other consumables related to production and operation of the Group ("**Raw Materials**") from 7 April 2021 to 31 December 2023 (the "**2021 Master Procurement Agreement**"). Pursuant to the 2021 Master Procurement Agreement, the Group may procure Raw Materials from Watts Gallop Group from time to time during the term of the 2021 Master Procurement Agreement. It is expected that separate definitive procurement agreements will be entered into between the Group and Watts Gallop Group to set out specific terms and conditions of specific transactions pursuant to the principal terms stipulated in the 2021 Master Procurement Agreement.

The transactions contemplated under the 2021 Master Procurement Agreement are expected to be of a recurrent nature and will occur on a regular and continuing basis in the ordinary and usual course of business of the Group. The 2021 Master Procurement Agreement is intended to streamline the continuing connected transactions between the Group and Watts Gallop Group. The purposes of entering into the 2021 Master Procurement Agreement are to renew the term of the master procurement agreement entered into on 19 October 2018 between the same parties, and to renew the annual caps for the transactions contemplated thereunder, in order to ensure the continuation of the on-going procurement of the Raw Materials from the Watts Gallop Group by the Group.

The Raw Materials purchased from Watts Gallop Group are primarily used in the construction projects in the Group's ordinary and usual course of business. With years of stable and long-term business relationship between the Group and Watts Gallop Group and Watts Gallop Group's experience in the supply of the Raw Materials, the Directors believe that Watts Gallop Group is able to provide the Group with quality Raw Materials at competitive prices and terms in the open market. In addition, Watts Gallop Group is familiar with the Group's business needs, quality standards and operation requirements through the long-term cooperation with the Group. When compared to the similar Raw Materials offered by Independent Third Parties, the prices and terms offered by Watts Gallop Group are fair and reasonable, and are comparable to or better than those offered by Independent Third Parties. Nevertheless, the Directors consider that based on the Group's historical purchase amount and nature of the Raw Materials purchased from Watts Gallop Group for the three years ended 31 December 2020, the Group were able to purchase such Raw Materials with similar quality standards and business terms from other Independent Third Parties easily, and hence, the Group have no reliance on Watts Gallop Group.

The transactions contemplated under the 2021 Master Procurement Agreement will be conducted in the ordinary and usual course of business of the Group, on normal commercial terms or better, and on terms which are comparable to or better than those offered by Independent Third Parties.

The prices of the Raw Materials are set through tendering and bidding process, which there must be at least two bidders who are Independent Third Parties attending the tendering and bidding process. The Company will take into consideration factors including, but not limited to, the bidders' sufficient licenses and qualifications, business scale and capacities and will also make reference to the prevailing market terms and prices, as well as the government-prescribed prices or government-guided prices (where applicable).

Annual Caps

The annual caps for the transactions contemplated under the 2021 Master Procurement Agreement are approximately RMB20.0 million, RMB20.0 million and RMB20.0 million for the three years ended/ending 31 December 2021, 2022 and 2023, respectively.

For the year ended 31 December 2022, the amount in respect of the transaction under the 2021 Master Procurement Agreement was approximately RMB4.0 million.

Implications under the Listing rules

Mr. Wang Shizhong, a non-executive Director and a controlling shareholder of the Company, owns 56% equity interest in Watts Gallop. Mr. Wang Shizhong and the parties acting in concert with him (including Mr. Ye Kangshun, Mr. Wang Xiuchun, Ms. Zhou Meng, Mr. Wang Shiqin and Mr. Wang Likai) together own an aggregate of 72.52% equity interest in Watts Gallop. As such, Watts Gallop is a connected person of the Company. The 2021 Master Procurement Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) (other than the profits ratio) in respect of the highest annual cap under the 2021 Master Procurement Agreement exceeds 0.1% but less than 5%, the 2021 Master Procurement Agreement is subject to the reporting, announcement and annual review requirements, but is exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

(2) Contractual Arrangements

Reasons for the Contractual Arrangements

We are primarily engaged in the port, waterway and marine engineering business in the PRC and Southeast Asia. Pursuant to the relevant Indonesian laws and regulations, the maximum foreign ownership in a company that engages in port infrastructure is limited to 67%. As of 31 December 2021, we directly held 67% equity interests in Benteng Indonesia. To consolidate control over and derive the economic benefits and risks from the remaining 33% equity interests in Benteng Indonesia, we have entered into contractual arrangements with PTPB (the "**Contractual Arrangements**").

Risk relating to the Contractual Arrangements

The Company believes the following risks are associated with the Contractual Arrangements. Further details are set out on pages 54 to 56 of the Prospectus.

- There is no assurance that the Contractual Arrangements will be considered to be in compliance with the relevant laws and regulations of Indonesia in the future

- We rely on the Contractual Arrangements to control and obtain economic benefits from Benteng Indonesia, our operating entity in Indonesia, which may not be as effective in providing operational control as direct ownership

- There are limitations when we exercise our rights to demand for and effect the transfer of the 33% shareholding in Benteng Indonesia under the Contractual Arrangements

- The Indonesian shareholders as borrowers under the Contractual Arrangements may have conflicts of interest or disputes with us, which may materially and adversely affect our business

- The Contractual Arrangements may be subject to scrutiny of tax authorities of Indonesia and additional tax may be imposed if there is any change in laws or change in the interpretation of laws or regulations by the tax authorities of Indonesia in the future

- We do not have any insurance coverage to cover our risks relating to our Contractual Arrangements in Indonesia

The Company's management works closely with its external legal counsels and advisors to monitor the regulatory environment and developments in Indonesia laws and regulations to mitigate the risks associated with the Contractual Arrangements.

Particulars and principal activities of Benteng Indonesia

Benteng Indonesia is a company incorporated under the laws of Indonesia on 16 September 2016, which is currently held as to 67% by Engineering Prosper and 33% by PTPB under the Contractual Arrangements.

Benteng Indonesia's main business is in the port, waterway and marine engineering industry.

Summary of main terms of the Contractual Arrangements

Below is a summary of main terms of the Contractual Arrangements. For details, please refer to the section headed "Trust and Contractual Arrangements" of the Prospectus.

1. A Cooperation agreement was entered into between PTSP and Third Harbor Construction, pursuant to which we formed Benteng Indonesia to engage in the port and waterway construction business (the "**PTSP Cooperation Agreement**");

   Third Harbor Construction, PTSP and PTPB then entered into a first novation to the PTSP Cooperation Agreement on 26 April 2018 which was retroactively effective as at the date of 23 August 2017 (the "**PTPB Cooperation Agreement**");

   Engineering Prosper, PTPB and Third Harbor Construction entered into a second novation to the PTPB Cooperation Agreement on 26 April 2018;

2. A loan agreement was entered into among PTPB, PTSP and Third Harbor Construction, pursuant to which we agreed to provide a loan to PTPB in the sum of USD330,000 (the "**PTPB Loan**") for the purpose of investing into Benteng Indonesia (the "**PTPB Loan Agreement**");

   A new loan agreement was entered into between Engineering Prosper and PTPB on 26 April 2018 after the assignment of the receivables in the PTPB Loan Agreement from Third Harbor Construction to Engineering Prosper;

3. A pledge of shares agreement was entered into among PTPB, Third Harbor Construction and Benteng Indonesia, pursuant to which PTPB pledged its 330,000 shares, representing 33% equity interests in Benteng Indonesia, to Third Harbor Construction (the "**PTPB Pledge of Shares Agreement**");

   A new pledge of shares agreement was entered into among PTPB, Engineering Prosper and Benteng Indonesia on 26 April 2018 after the termination of the PTPB Pledge of Shares Agreement;

4. An assignment of rights to dividends agreement was entered into among PTPB, Benteng Indonesia and Third Harbor Construction, pursuant to which PTPB agreed to assign the rights to receive dividends on the 330,000 shares owned by PTPB to Third Harbor Construction (the "**PTPB Assignment of Rights to Dividends Agreement**");

   A new assignment of rights to dividends agreement was entered into among PTPB, Engineering Prosper and Benteng Indonesia on 26 April 2018 after the termination of the PTPB Assignment of Rights to Dividends Agreement;

5. An option agreement was entered into between PTPB and Third Harbor Construction, pursuant to which PTPB agreed to grant an option to Third Harbor Construction to purchase the 330,000 shares owned by PTPB in Benteng Indonesia (the "**PTPB Option Agreement**");

   A new option agreement was entered into between Engineering Prosper and PTPB on 26 April 2018 after the termination of the PTPB Option Agreement;

6. A power of attorney to sell was entered into between PTPB and Third Harbor Construction, pursuant to which PTPB agreed to grant a power of attorney to Third Harbor Construction to sell the 330,000 shares owned by PTPB in Benteng Indonesia (the "**PTPB Power of Attorney to Sell**");

   A new power of attorney to sell was entered into between Engineering Prosper and PTPB on 26 April 2018 after the termination of the PTPB Power of Attorney to Sell (the "**Engineering Prosper Power of Attorney to Sell**");

7. A power of attorney to vote was entered into between PTPB and Third Harbor Construction, pursuant to which PTPB agreed to grant a power of attorney to Third Harbor Construction to vote in the shareholders' meeting to represent the 330,000 shares owned by PTPB in Benteng Indonesia (the "**PTPB Power of Attorney to Vote**"); and

   A new power of attorney to vote was entered into between Engineering Prosper and PTPB on 26 April 2018 after the termination of the PTPB Power of Attorney to Vote.

Significance of business activities of Benteng Indonesia to the Company

Pursuant to relevant laws and regulations in Indonesia, the maximum foreign ownership in a company conducting business in the port, waterway and marine engineering industry in Indonesia is limited to 67%. In order to quickly establish our presence in Southeast Asia and/or to comply with all relevant local laws and regulations, we incorporated Benteng Indonesia by entering into contractual arrangements with our local parties.

Revenue and Assets

The revenue, profit for the year and total assets subject to the Contractual Arrangements are set out as follows:

	Year ended 31 December 2022 *RMB in million*
Revenue	**161.4**
Profit for the year	**1.9**

	As of 31 December 2022 *RMB in million*
Total assets	**218.5**

For the year ended 31 December 2022, the revenue and profit for the year subject to the Contractual Arrangements amounted to approximately 7.8% and 7.0% of the revenue and profit for the year of the Group. As of 31 December 2022, the total assets subject to the Contractual Arrangements amounted to approximately 6.3% of the total assets of the Group.

During the year ended 31 December 2022, no dividends or other distributions have been made by Benteng Indonesia to PTPB.

The extent to which the Contractual Arrangements relate to requirement of applicable laws, rules and regulation other than foreign ownership restriction

As disclosed in the Prospectus, the Company's Indonesian Legal Advisers, after taking reasonable enquiries and due diligence have confirmed that the Contractual Arrangements comply in fact and in good faith with all relevant laws and regulations in Indonesia.

Material change in the Contractual Arrangements

During the year ended 31 December 2022, there was no material change in the Contractual Arrangements and/or the circumstances under which they were adopted.

Unwinding the Contractual Arrangements

In the event that Indonesian law allows the foreign shareholders to directly hold more than 67% of the interest in an Indonesian company that is engaged in construction services, Engineering Prosper can exercise its power under the Engineering Prosper Power of Attorney to Sell and sell certain PTPB's shares in Benteng Indonesia to Engineering Prosper or to any member of the Group to the extent permissible under such Indonesian law and/or regulation.

In the event that Indonesian law allows the foreign shareholders to directly hold 100% of the interest in an Indonesian company that is engaged in construction services, we will unwind the Contractual Arrangements as soon as possible, including Engineering Prosper exercising its power under the Engineering Prosper Power of Attorney to Sell, and sell the entire PTPB's shares in Benteng Indonesia to Engineering Prosper or to any member of the Group, so that Benteng Indonesia will become the wholly-owned subsidiary of the Group.

No consideration would be payable by Engineering Prosper or any member of the Group to PTPB in the unwinding of the Contractual Arrangements mentioned above.

Implications under the Listing rules

PTPB directly held 33% equity interests in Benteng Indonesia, a subsidiary of the Company, and therefore is a connected person of the Company under Rule 14A.07(1) of the Listing Rules upon Listing. Accordingly, the transactions contemplated under the Contractual Arrangements constitute continuing connected transactions under Chapter 14A of the Listing Rules.

Waiver from the Stock Exchange

The Company has applied for, and the Stock Exchange has granted a waiver to the Company from strict compliance with (i) the announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions under the Contractual Arrangements; (ii) the requirement of setting a maximum aggregate annual value (i.e. an annual cap) in relation to the Contractual Arrangements under Rule 14A.53 of the Listing Rules; and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, subject to certain conditions as detailed in the section headed "Connected Transaction" of the Prospectus.

(3) Green Town Fuchun Rose Garden Phase 2 Zone 3 (綠城富春玫瑰園華墅二期三區)

Construction Agreement

Greentown Fuchun Rose Garden phase 2 zone 3 Construction Agreement and the background for its constitution of a continuing connected transaction

As disclosed in the announcement of the Company dated 24 December 2019, the Company completed the acquisition of the entire equity interest of Shanghai Municipal on 24 December 2019 in accordance with the terms and conditions under the Sale and Purchase Agreement (the "**Acquisition**"), Shanghai Municipal and its subsidiaries therefore have become indirect wholly-owned subsidiaries of the Company.

As of the completion date of the Acquisition, Mr. Wang Shizhong (a Director and a controlling Shareholder) and the parties acting in concert with him (including Mr. Ye Kangshun, Mr. Wang Xiuchun, Ms. Zhou Meng, Mr. Wang Shiqin and Mr. Wang Likai) together own an aggregate of 50.86% interest in the Company. As such, each of Mr. Wang Shizhong, Mr. Ye Kangshun, Mr. Wang Xiuchun, Ms. Zhou Meng, Mr. Wang Shiqin and Mr. Wang Likai is a controlling person of the Company and, hence, each of them is also a connected person of the Company.

As of the completion date of the Acquisition, Hangzhou Huazi Greentown was indirectly held as to an aggregate of approximately 73.77% by Mr. Wang Shizhong, Mr. Ye Kangshun, Mr. Wang Xiuchun, Ms. Zhou Meng, Mr. Wang Shiqin and Mr. Wang Likai. Hangzhou Huazi Greentown is therefore an associate of Mr. Wang Shizhong, Mr. Ye Kangshun, Mr. Wang Xiuchun, Ms. Zhou Meng, Mr. Wang Shiqin and Mr. Wang Likai and a connected person of the Company under Chapter 14A of the Listing Rules.

Upon the completion of the Acquisition, Watts Gallop Construction Engineering Group Co., Ltd ("**Watts Gallop Construction**", formerly known as Zhejiang Benteng Municipal Gardening Construction Engineering Co., Ltd.), a wholly-owned subsidiary of Shanghai Municipal, has become an indirect wholly-owned subsidiary of the Company. Prior to the completion of the Acquisition, Watts Gallop Construction has entered into the Greentown Fuchun Rose Garden phase 2 zone 3 Construction Agreement (the "**Greentown Construction Agreement**") with Watts Gallop Construction on 1 July 2019, in relation to the provision of services by Watts Gallop Construction to Hangzhou Huazi Greentown. Consequently, upon the completion of the Acquisition, the transaction under the Greentown Construction Agreement has constituted a continuing connected transaction of the Company under Chapter 14A of the Listing Rules. For details, please refer to the announcement of the Company dated 20 November 2019.

The material terms of the Greentown Construction Agreement

Name of the Agreement	Term of the Agreement	Scope of the Agreement	Total fee during the term of the Agreement (in RMB)
Greentown Fuchun Rose Garden phase 2 zone 3 (綠城富春玫瑰園華墅二期三區) Construction Agreement	30 July 2019 to 14 June 2022	Provision of the following services by Watts Gallop Construction to Hangzhou Huazi Greentown: Pile foundation works, civil works, structure, formwork, painting, masonry, heat insulation, water resistance system, decorative components, putty and coating, exterior wall stones, aluminium alloy doors and windows, water supply and drainage, fire protection, extra low voltage system, municipal engineering, landscape, slope support and protection, temporary roads, retaining walls and others of phase 2 zone 3 of the Greentown Fuchun Rose Garden Project	275,250,000

Annual caps

The annual caps for the years ended 31 December 2019, 2020, 2021 and 2022 are as follows:

(in RMB)

	For the year ended 31 December 2019	For the year ended 31 December 2020	For the year ended 31 December 2021	For the year ended 31 December 2022
Annual caps of the Agreement	16,000,000	150,000,000	120,000,000	30,000,000

For the year ended 31 December 2022, the aggregate amount in respect of the transaction under the Greentown Construction Agreement was approximately RMB29.4 million.

Pricing policy

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, the fee charged by Watts Gallop Construction for the services provided to Hangzhou Huazi Greentown under the Greentown Construction Agreement was determined after arm's length negotiations between Watts Gallop Construction and Hangzhou Huazi Greentown. The relevant fee was determined based on factors including (i) prevailing market price with reference to prices quoted on normal commercial terms by providers of similar services to independent third parties; (ii) the cost of relevant raw materials; and (iii) the relevant labour costs.

Reasons for and benefits of the continuing connected transaction

With years of stable business relationship between Hangzhou Huazi Greentown and Watts Gallop Construction and Watts Gallop Construction's involvement in providing services to Hangzhou Huazi Greentown since 2010, Watts Gallop Construction is familiar with the business needs, quality standards and operation requirements of Hangzhou Huazi Greentown. When compared to the price and terms offered by independent third parties for similar construction related services, the prices and terms offered by Hangzhou Huazi Greentown to Watts Gallop Construction are fair and reasonable, and are comparable to or better than those offered by independent third partied.

Implication under the Listing Rules

Pursuant to Rule 14A.60(1) of the Listing Rules, the Company is required to comply with the annual review and disclosure requirements under Chapter 14A of the Listing Rules, including publication of an announcement and annual reporting in respect of the continuing connected transaction under the Greentown Construction Agreement. The Company will further comply with all applicable reporting, disclosure and, if applicable, independent Shareholders' approval requirements under Chapter 14A of the Listing Rules upon any variation or renewal of the Greentown Construction Agreement.

(4) Master Construction Services Agreement

Reasons for the Master Construction Services Agreement and its Pricing Policy

On 25 September 2020, the Company as service provider and Watts Gallop as service recipient entered into the master construction services agreement (the "**2020–2022 Master Construction Services Agreement**"), pursuant to which the Group will provide engineering construction services to Watts Gallop Group from the Effective Date to 31 December 2022, subject to the terms and conditions provided under the Master Construction Services Agreement. The engineering construction services shall include but not limited to (i) marine engineering construction services, (ii) municipal public engineering construction services and (iii) other engineering construction services that may be provided by the Group (the "**Engineering Construction Services**").

As the 2020–2022 Master Construction Services Agreement expired on 31 December 2022, on 7 December 2022, the Company as service provider and Watts Gallop as service recipient entered into the 2023–2025 Master Construction Service Agreement (the "**2023–2025 Master Construction Services Agreement**"), pursuant to which the Group will provide engineering construction services to Watts Gallop Group from 1 January 2023 to 31 December 2025, subject to the terms and conditions provided under the 2023–2025 Master Construction Services Agreement, which was approved by the independent Shareholders at the extraordinary general meeting held on 2 February 2023, subsequent to the Reporting Period. The 2020–2022 Master Construction Services Agreement and the 2023–2025 Master Construction Services Agreement are called the Master Construction Services Agreement together (hereinafter referred to as the "**Master Construction Services Agreement**").

The transactions contemplated under the Master Construction Services Agreement are expected to be of a recurrent nature and will occur on a regular and continuing basis in the ordinary and usual course of business of the Group. The Master Construction Services Agreement is intended to streamline the continuing connected transactions between the Group and Watts Gallop Group.

With years of stable and long-term business relationship between the Group and Watts Gallop Group and the Group's involvement in providing services to Watts Gallop Group since 2010, the Group is familiar with the business needs, quality standards and operation requirements of Watts Gallop Group while Watts Gallop Group is familiar with the Group's construction capacity and qualification. Based on the pricing policy of the Master Construction Services Agreement, the Group is able to render revenue with terms not less favorable than Independent Third Parties. In addition, the long-term relation between the Group and Watts Gallop Group also create synergies such as more effective communication and higher work efficiency, while also reduce the administrative procedure and cost of the Group during the bidding process and less credit risk when collecting receivables.

The Board considers that the terms of the transactions contemplated under the Master Construction Services Agreement and the proposed annual caps are fair and reasonable and on normal commercial term or better, the Master Construction Services Agreement was entered in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

When determining the fees to be charged by the Group for the Engineering Construction Services to be provided by the Group under the Master Construction Services Agreement, the Company will mainly consider the expected gross profit margin of the project based on scope of work, nature, size, duration, cost of raw material and subcontractors, complexity etc.

Annual Caps

The annual caps for the transactions contemplated under the 2020–2022 Master Construction Services Agreement are approximately RMB57.0 million, RMB228.0 million and RMB347.0 million for the three years ended 31 December 2020, 2021 and 2022, respectively.

The annual caps for the transactions contemplated under the 2023–2025 Master Construction Services Agreement are approximately RMB362.0 million, RMB178.0 million and RMB118.0 million for the three years ending 31 December 2023, 2024 and 2025, respectively.

For the year ended 31 December 2022, the amount in respect of the transaction under the Master Construction Services Agreement was approximately RMB71.2 million.

Implication under the Listing Rules

Mr. Wang Shizhong, a non-executive Director and a controlling Shareholder, owned 56% equity interest in Watts Gallop. Mr. Wang Shizhong and the parties acting in concert with him (including Mr. Ye Kangshun, Mr. Wang Xiuchun, Ms. Zhou Meng, Mr. Wang Shiqin and Mr. Wang Likai) together owned an aggregate of 72.52% equity interest in Watts Gallop. As such, Watts Gallop is a connected person of the Company. The Master Construction Services Agreement and the transactions contemplated thereunder constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) (other than the profits ratio) in respect of the highest annual cap under the Master Construction Services Agreement exceeds 5%, the Master Construction Services Agreement was subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Confirmation from independent non-executive directors

The independent non-executive Directors have reviewed the 2021 Master Procurement Agreement, Contractual Arrangements, Greentown Construction Agreement and Master Construction Services Agreement (collectively, the "**CCTs**"), and confirmed that:

(i) the transactions carried out under the CCTs during the year were entered into in the ordinary and usual course of business of the Group;

(ii) the transactions carried out under the CCTs during the year were entered into on normal commercial terms or better;

(iii) the transactions carried out under the CCTs during the year were entered into according to the agreement governing them and on terms that are fair and reasonable and in the interests of the Shareholders as a whole;

(iv) the transactions carried out under the Contractual Arrangements during the year have been entered into in accordance with the relevant terms and conditions of the Contractual Arrangements and any Cloned Arrangements (as defined in the section headed "Connected Transactions" in the Prospectus) such that the revenue generated by Benteng Indonesia and any other Indonesian subsidiary(ies) under the Cloned Arrangements have been mainly retained by the Group;

(v) no dividends or other distributions have been made by Benteng Indonesia and any other Indonesian subsidiary(ies) under the Cloned Arrangements to the holders of its remaining shareholding interests which are not otherwise subsequently assigned or transferred to the Group; and

(vi) no new contracts were entered into, renewed or reproduced by the Group under the Cloned Arrangement during the year.

Letter from the Company's independent auditor

PricewaterhouseCoopers, the Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. PricewaterhouseCoopers has issued its unqualified letter containing its finding and conclusion in respect of the continuing connected transactions disclosed by the Group on pages 33 to 42 of this annual report in accordance with Rule 14A.56 of the Listing Rules.

Related party transactions

The related party transactions undertaken during the year ended 31 December 2022 are set out in Note 34 to the consolidated financial statements, among which, the continuing connected transactions as set out in items (a)(i) to (a)(iv) in Note 34 also constituted continuing connected transactions of the Company as defined in Chapter 14A of the Listing Rules. The Company has complied with all applicable disclosure requirements as set out in Chapter 14A of the Listing Rules.

Pre-emptive right

There are no provisions for pre-emptive rights in the Articles of Association or the laws of the Cayman Islands applicable to our Company that require our Company to offer new shares on a pro rata basis to existing shareholders.

Non-competition undertakings

On 22 October 2018, each of the Controlling Shareholders entered into the Deed of Non-Competition in favour of the Company (for itself and on behalf of all members of the Group). According to the Deed of Non-Competition, the Controlling Shareholders (collectively referred to as the "**Covenantors**") have irrevocably and unconditionally, jointly undertaken to the Company (for itself and as trustee of each member of the Group) that (among other things) during the period from the Listing Date to the date when the shares remain so listed on the Stock Exchange and the Covenantors are individually or collectively with any of their close associates interested directly or indirectly in not less than 30% of the issued share capital of the Company: (i) the Covenantors will not, and will procure their respective close associates (except for the members of the Group) not to compete with the Group, directly or indirectly; and (ii) the Covenantors will procure the Covenantors and/or any of their respective close associates (except for the members of the Group) to give priority referral to the Company of any business investment or other business opportunity that is identified or given to restricted business. The details of the Deed of Non-Competition are set out in the section headed "Relationship with Controlling Shareholders" of the Prospectus. The Company has received confirmations from each of the Covenantors confirming that they have complied with the undertakings under the Deed of Non-Competition during the Reporting Period.

The independent non-executive Directors have reviewed the status of compliance and confirmed that the controlling shareholders have complied with all such non-competition undertakings during the Reporting Period.

Directors' interests in competing business

During the year ended 31 December 2022, none of the Directors had any interest in any businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

Contract of significance

Save as disclosed in this annual report, at no time during the Reporting Period had the Company or any of its subsidiaries entered into any contract of significance with the Controlling Shareholders or any of their subsidiaries, nor had any contract of significance been entered into for the services provided by the Controlling Shareholders or any of their subsidiaries to the Company or any of its subsidiaries.

Compliance with laws and regulations

The Group persists in maintaining good corporate governance and operating in compliance with the laws and integrity through abidance by relevant laws and regulations, industry regulations and business ethics.

For the year ended 31 December 2022 and up to the date of this annual report, the Company had not been and was not a party to any material legal, arbitral or administrative proceedings, and the Company was not aware of any pending or threatened legal, arbitral or administrative proceedings against the Company or any of the Directors which could have a material adverse effect on the Company's operations or financial condition.

Compliance with key regulatory requirements

The Group's business is mainly operated by the Company's subsidiaries located in China, Indonesia and Brunei. Therefore, the establishment and operation of the Group are subject to the relevant laws and regulations of the above jurisdictions. For the year ended 31 December 2022 and up to the date of this annual report, the Group has complied with all relevant laws and regulations of the above jurisdictions in all material respects.

Principal risks and uncertainties

There are certain risks involved in the Group's operation, and set out below are some of the major risks that may materially and adversely affect us:

- Our performance is dependent on the general economic conditions and policies of the port, waterway, marine engineering and municipal public engineering industry in the PRC, especially the policies on public spending on transportation infrastructure projects;

- Our customers pay us by way of progress payments and require performance deposit and retention money, and any delay in progress payments or release of performance deposit and retention money may affect out working capital and cash flow;

- Our business operates under various permits, licences and/or qualifications and the loss of or failure to obtain or renew any or all of these permits or licences may materially and adversely affect our business, results of operations and financial condition;

- Our future gross profit and gross profit margins largely depend on our projects on hand and our ability to secure future sizeable and profitable port infrastructure, waterway engineering and municipal public engineering projects, and failure to secure these projects may materially and adversely affect our business, results of operations and financial condition; and

- Geopolitical risks may materially and adversely affect our business in countries where we operate, especially the Southeast Asian countries.

Environmental policies and performance

The Group sticks to the principle of "green growth, harmonious cooperation and mutual benefits", continuously improves the environmental management system, and strives to protect the environment in production and operation activities. The measures include but not limited to the following:

(i) identifying environmental protection requirements in project tender documents and assessing whether the Group has the capability to meet such requirements;

(ii) taking into consideration the environmental impact in project planning and the design of work method statements;

(iii) equipping all of the Group's vessels with fuel leakage defence equipment for suppressing the spread of floating fuel spills in case of leakage; and

(iv) sorting excavated materials from dredging and excavation works for recycling use or disposal, disposing of the excavated materials at designated dumping area according to the relevant regulations.

The Group strictly complies with the requirements of the Appendix 27 Environmental, Social and Governance Reporting Guide to the Listing Rules. For details of the Company's environmental policies and performance, please refer to the Environmental, Social and Governance Report of the annual report.

Equity-linked agreement

Save as disclosed under the sections headed "Share Option Scheme" and "Share Award Scheme", no equity-linked agreements were entered into by the Company during the year ended 31 December 2022 or have subsisted as at 31 December 2022.

Permitted Indemnity Provision

The Company has purchased appropriate liability insurance for directors and senior management and the permitted indemnity provisions for the benefit of the directors and senior management are currently in force.

Charitable donations

For the year ended 31 December 2022, the Group's charitable and other donations were approximately HK$671,700.

Audit committee

The Audit Committee has discussed with management and reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2022.

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

Sufficiency of public float

Based on information publicly available to the Company and to the best knowledge of the Directors, during the Reporting Period, the Company has maintained sufficient public float required under the Listing Rules.

Auditor

PricewaterhouseCoopers has been appointed as auditor of the Company. PricewaterhouseCoopers shall retire at the conclusion of the 2023 AGM and, being eligible, will offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Company will be proposed at the 2023 AGM. PricewaterhouseCoopers has audited the consolidated financial statements of the Company for the year ended 31 December 2022.

By order of the Board
Watts International Maritime Company Limited
Wang Xiuchun (王秀春)
Chairman and Executive Director

Shanghai, 28 March 2023

Compliance with Corporate Governance Code

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the shareholders and to enhance corporate value and accountability. The Company has adopted all the code provisions in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. As of 31 December 2022, the Company has complied with all applicable code provisions under the CG Code.

Corporate Culture

The Company adheres to the corporate spirit of "making progress every day with continuous pursuance and improvement", upholds the corporate mission of "creating value for customers, seeking development for employees, creating benefits for shareholders, and assuming responsibility for the society", and is striving to become a well-known general contracting service provider in the industry.

The Board

Board composition

As of the date of the annual report, the Board comprised eight Directors, including four executive Directors: Mr. Wang Xiuchun (王秀春), Ms. Wan Yun (萬雲), Mr. Wang Lijiang (王利江) and Mr. Wang Likai (王利凱), a non-executive Director: Mr. Wang Shizhong (王士忠) and three independent non-executive Directors: Mr. Wang Hongwei (王洪衛), Mr. How Sze Ming (侯思明) and Mr. Sun Dajian (孫大建). Mr. Wang Xiuchun (王秀春) is the chairman of the Board, and Ms. Wan Yun (萬雲) is the chief executive officer of the Company.

Chairman and chief executive officer

The positions of chairman and the chief executive officer are held separately. Mr. Wang Xiuchun (王秀春) is the chairman of the Board, and Ms. Wan Yun (萬雲) is the chief executive officer of the Company.

The chairman provides leadership and governance for the Board so as to create the conditions required for effective performance of the Board as a whole and effective contribution by individual Director. He also ensures that the Board performs its responsibilities and all key and appropriate issues are discussed by the Board in a timely manner. The chief executive officer has the delegated power to manage the Company and to oversee the activities of the Company.

The biographies of the Directors are set out under the section headed "Biographical Details of Directors and Senior Management" of this annual report. Except as disclosed in the above section of this annual report, there is no personal relationship (including financial, business, family or other material or related relationship) between any other Directors and the chief executive of the Company.

Responsibilities

The Board is responsible for supervising the Group's overall management, overseeing the Group's strategic planning, monitoring the Group's business and performance, and exercising other powers and functions assigned by articles of association of the Company. The Board is also responsible for the development, review and monitoring of the Group's policies and procedures in corporate governance, legal and regulatory compliance, as well as the training and continuing professional development of the Directors and senior management of the Company. The Board also reviews the disclosures of this corporate governance report to ensure compliance with the CG Codes.

The Board has assigned the powers and responsibilities of the Group's daily operations, management and administration to the senior management of the Company. The Board regularly reviews the functions and powers delegated to ensure that the assignments are still appropriate. To oversee specific aspects of the Company's affairs, the Board has established three board committees, including the audit committee, the remuneration committee and a nomination committee. The Board has assigned responsibilities to the Board committees in accordance with their respective scopes of powers and functions.

To ensure that independent views and input are available to the Board, all Board members are individually and independently accessible to the senior management of the Company to perform their duties. If necessary, the Board members may seek independent professional advice to assist the Directors in performing their responsibilities at the expense of the Company. In addition, the Board is represented by sufficient number of independent non-executive Directors which meets the requirement of the Listing Rules. The Board shall conduct annual review of the implementation and effectiveness of such policy to ensure independent views are available to the Board. The Board considers that the current policy to ensure independent views are available to the Board is sufficient and effective.

Independence of independent non-executive Directors

During the Reporting Period, the Company has complied with the requirements for appointment of at least three independent non-executive Directors under Rule 3.10(1) and Rule 3.10(2) of the Listing Rules and at least one of the independent non-executive Directors have appropriate professional qualification or accounting or related financial management expertise.

The Company has also complied with the requirements of Rule 3.10A of the Listing Rules relating to the appointment of independent non-executive Directors of which they represent at least one-third of the Board.

Each of the independent non-executive Directors has confirmed his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that, in accordance with these independent standards, they are independent and can effectively make independent judgments.

Directors' training and professional development

Each newly appointed Director is provided with necessary induction and information to ensure that he/she has proper understanding of the Company's operations and businesses. The Company also arranges for a briefing session to the Directors with updates on latest development and changes in the Listing Rules and other relevant regulatory requirements from time to time. The Directors are also provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to perform their responsibilities.

Directors are encouraged by the Company to participate in continuous professional development to develop and update their knowledge and skills.

All Directors have received training regarding compliance with Listing Rules offered by the agency hired by the Company on 24 August 2022. The individual training record of each Director received for the year ended 31 December 2022 is summarised in the section headed "Number of meetings and directors' attendance" below.

Board meetings

The Company intends to hold Board meetings regularly, at least four times a year. A notice of a regular Board meeting shall be given to all Directors not less than fourteen working days prior to the holding of the meeting, so that the Directors have an opportunity to attend the meeting. The notice also include matters in the agenda for a regular meeting. A Director may attend a Board meeting in person or appoint another Director in writing to attend a Board meeting on his/her behalf. The Company's joint company secretaries are responsible for preparing and maintaining the documents and records of the Board meeting. The draft and final minutes of each Board meeting and Board committee meeting will be sent to all Directors or committee members for comment within a reasonable period of time after the date of the meeting.

For the year ended 31 December 2022, four Board meetings were held; and one general meeting was convened.

Board committees

The Board is supported by three Board committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee. Each Board committee has clear written terms of reference approved by the Board, covering its responsibilities, powers and functions. The terms of reference of the Audit Committee, the Remuneration Committee and the Nomination Committee are available on the websites of the Stock Exchange and the Company.

All Board committees are provided with sufficient resources to perform their responsibilities, including access to independent management or professional advice when necessary.

Audit Committee57

The Audit Committee comprises three members, namely Mr. Sun Dajian (孫大建) (Chairman), Mr. How Sze Ming (侯思明) and Mr. Wang Hongwei (王洪衛), and all of whom are independent non-executive Directors.

The Audit Committee of the Company is mainly responsible for assisting the Board in providing independent advices on the effectiveness of the financial reporting system, risk management and internal control systems, overseeing the audit process, developing and reviewing policies, and performing other responsibilities assigned by the Board.

The written terms of reference of the Audit Committee are available on the websites of the Stock Exchange and the Company.

For the year ended 31 December 2022, two meetings were held by the Audit Committee and, among others, discussed:

- the audited financial statements of the Group for the year ended 31 December 2021;
- continuing connected transactions of the Group for the year ended 31 December 2021;
- proposed re-appointment of the auditor in 2022;
- risk management and internal control systems and their effectiveness;
- the unaudited financial statements of the Group for six months ended 30 June 2022; and
- the effectiveness of the internal audit function.

Remuneration Committee

The Remuneration Committee comprises three members, namely Mr. How Sze Ming (侯思明) (Chairman), Mr. Sun Dajian (孫大建) and Mr. Wang Hongwei (王洪衛), all of whom are independent non-executive Directors.

The Remuneration Committee has adopted the second model as described in paragraph B.1.2(c) (which has been re-arranged as code provision E.1.2(c) since 1 January 2022) of the CG Code (i.e. making recommendation to the Board on the remuneration package of individual executive director and senior management member). The principal responsibilities of the Company's Remuneration Committee include but not limited to the following: (i) making recommendations to the Board on the Company's policy and structure for all remuneration of the Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration; (ii) making recommendations to the Board on the remuneration of Directors and senior management; and (iii) reviewing and approving management's remuneration proposals with reference to corporate goals and objectives of the Board.

The written terms of reference of the Remuneration Committee are available on the websites of the Stock Exchange and the Company.

For the year ended 31 December 2022, one meeting was held by the Remuneration Committee and, among others, discussed:

- performance of executive Directors;
- remuneration policy and structure;
- remuneration packages of individual executive Directors and senior management; and
- remuneration of independent non-executive Directors.

Nomination Committee

The Nomination Committee comprises three members, namely Mr. Wang Hongwei (王洪衛) (Chairman), Mr. Sun Dajian (孫大建) and Mr. How Sze Ming (侯思明), and all of them are independent non-executive Directors.

The Nomination Committee is mainly responsible for making recommendations to the Board on the appointment and reappointment of Directors and the succession planning for Directors, in particular the chairman and the major executives.

The written terms of reference of the Nomination Committee are available on the websites of the Stock Exchange and the Company.

For the year ended 31 December 2022, one meeting was held by the Nomination Committee and, among others, discussed:

- review the structure, size and composition of the Board (including skills, knowledge and experience);
- assess the independence of independent non-executive Directors; and
- discuss re-election of retiring Directors.

Nomination policy

The Company has established a nomination policy which sets out the selection criteria and nomination procedures for the appointment of Directors. The selection criteria used by the Nomination Committee to assess candidates include reputation, achievements, expertise, industry experience, time available and diversity. The nomination procedure is summarised as follows:

(1) Appointment of Directors

The Nomination Committee identifies individual(s) suitably qualified to become Board members, having due regard to Board diversity policy, and assesses the independence of the proposed independent non-executive Director(s) as appropriate.

a. The Nomination Committee makes recommendation(s) to the Board.

b. The Board considers the individual(s) recommended by the Nomination Committee, having due regard to the Board diversity policy.

c. The Board confirms the appointment of the individual(s) as Director(s) or recommends the individual(s) to stand for election at a general meeting. Individual(s) appointed by the Board to fill a casual vacancy or as an addition to the Board will be subject to re-election by the shareholders at the next annual general meeting after initial appointment in accordance with the Company's articles of association.

(2) Re-appointment of Directors

a. The Nomination Committee considers each retiring Director, having due regard to the Board diversity policy and assesses the independence of each retiring independent non-executive Director.

b. The Nomination Committee makes recommendation(s) to the Board.

c. The Board considers each retiring Director recommended by the Nomination Committee having due regard to the Board diversity policy.

d. The Board recommends the retiring Directors to stand for re-election at the annual general meeting in accordance with the Company's articles of association.

The Nomination Committee will review and amend this policy in due course to ensure its effectiveness.

Board diversity

The Company believes that the diversity of Board members will be immensely beneficial for the enhancement of the Company's performance. Therefore, the Company has adopted a Board diversity policy to ensure that the Company will, when determining the composition of the Board, consider Board diversity in terms of, among other things, gender, age, cultural and educational background, race, professional experience, skills and knowledge and length of service. The Board diversity policy sets out the approach towards achieving diversity on the Board. Pursuant to the Board diversity policy, all Board appointments will be based on merits and contribution that the selected candidates made. A list of selected candidates will be submitted to the Board. The candidates will be considered against applicable criteria and their benefits to the diversity of the Board. The Nomination Committee will monitor the implementation of the policy from time to time and review the policy as appropriate to ensure the effectiveness of the policy.

During the year ended 31 December 2022, the Nomination Committee has reviewed the size, structure and composition of the Board with due regard to the Board diversity policy and considered that the existing Board composition reflects an appropriate mix of skills, experience and diversity among its members that are relevant to the Company's business model and contribute to an effective Board. All Directors, including the independent non-executive Directors, have contributed a wide range of valuable business experience, knowledge and professionalism to the Board, ensuring its effective and efficient operations. The independent non-executive Directors contribute to the Group and its strategies and policies by providing independent, constructive and informed comments.

The Board currently has one female Director and has therefore achieved gender diversity in respect of the Board. We will strive to enhance our female representation and achieve appropriate balance of gender diversity with reference to the stakeholders' expectation and international and local recommended best practices.

As at 31 December 2022, approximately 81.5% of the Company's workforce (including senior management) is male and approximately 18.5% is female. We will continue to monitor the above-mentioned gender ratio and will aim at achieving a greater gender diversity in hiring all positions across the Group.

Corporate governance functions

The Board is responsible for performing the duties on corporate governance functions set out below:

- To develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- To review and monitor the training and continuous professional development of directors and senior management;
- To review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- To develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and
- To review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

The Board has reviewed the Company's corporate governance policies and practices, Directors' and senior management's training and continuing professional development, the Company's policies and practices in complying with legal and regulatory requirements, compliance with the Model Code, and the Company's compliance with the CG Code and its disclosure in the corporate governance report.

Number of meetings and directors' attendance

The attendance record of each Director at the Board meetings, Board committee meetings and general meetings of the Company held for the year ended 31 December 2022 is set out in the table below:

Name of Director	Board meetings	General meetings	Audit Committee meetings	Remuneration Committee meetings	Nomination Committee meetings	Training regarding compliance with the Listing Rules
Executive Directors						
Mr. Wang Xiuchun (王秀春)	4/4	1/1	NA	NA	NA	√
Ms. Wan Yun (萬雲)	4/4	1/1	NA	NA	NA	√
Mr. Wang Lijiang (王利江)	4/4	1/1	NA	NA	NA	√
Mr. Wang Likai (王利凱)	4/4	1/1	NA	NA	NA	√
Non-executive Director						
Mr. Wang Shizhong (王士忠)	4/4	1/1	NA	NA	NA	√
Independent Non-executive Directors						
Mr. Sun Dajian (孫大建)	4/4	1/1	2/2	1/1	1/1	√
Mr. How Sze Ming (侯思明)	4/4	1/1	2/2	1/1	1/1	√
Mr. Wang Hongwei (王洪衛)	4/4	1/1	2/2	1/1	1/1	√

Remuneration of Directors and senior management

Details of the remuneration of the Directors and senior management are set out in Notes 34 and 38 to the consolidated financial statements in this annual report.

Directors' responsibilities for financial reporting

The Directors acknowledge their responsibilities for preparing the financial statements for the year ended 31 December 2022 which has been mentioned in the independent auditor's report on page 93.

The management has provided to the Board such explanation and information that are necessary to enable the Board to carry out an informed assessment of the Company's consolidated financial statements, which are put to the Board for approval. The Company provides all members of the Board with updates on the Group's performance, status quo and prospects on a regular basis.

The Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

Internal control and risk management

The Company has established risk management and internal control systems and has developed policies and procedures that are considered appropriate for our business operations. We will continuously monitor and evaluate our business and take measures to protect the interests of the Group and its shareholders.

The Board oversees and manages the risks associated with our business. The Audit Committee is responsible for reviewing and supervising our financial reporting process and internal control system. The Group has set up an internal audit department, which assists the Board and/or the Audit Committee on the ongoing review of the effectiveness of the Group's risk management and internal control systems. The Board through these functions is at least annually informed of significant risks that have an impact on the Group's performance. The Board is aware of the fact that such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable assurance and not absolute assurance against material misstatement or loss.

To improve our corporate governance and prevent future violations, we have adopted a series of internal control policies, procedures and programs designed to provide reasonable assurance for the realisation of goals such as effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations. The key points of our internal control system include the following:

- We regularly provide the Directors with the latest information on the Company's performance, status and prospects so that the entire Board and Directors can perform their responsibilities;
- We adopt different policies to ensure compliance with the Listing Rules, including rules regarding risk management, continuing connected transactions and information disclosure;
- We have implemented an internal control policy on financial management;

- We have implemented a series of internal rules and regulations relating to the business operation, including quality control, sales and marketing, production and procurement, research and development, human resources and information technology systems;

- We have implemented policies on social insurance funds and housing provident funds to ensure compliance with regulations in the future; and

- We have implemented procedures on disclosure of inside information, to ensure that any material information which comes to the knowledge of one or more officers should be properly identified, assessed and forwarded to the Board where appropriate.

The Company has established an internal audit function which can be reported directly to the Audit Committee. Internal audit staff will attend annual audit committee meetings to report on internal audit matters. In the event that any material internal control deficiencies are identified, the internal audit staff may report directly to the Audit Committee members.

The Board acknowledges that it is the responsibility of the Board for maintaining an adequate internal control and risk management system to safeguard shareholders' investments and Company's assets, and reviewing the effectiveness of such system on an annual basis.

The Board has reviewed the risk management and internal control systems of the Company and its subsidiaries during the year ended 31 December 2022. The Board considers that the existing internal control system is reasonably effective and adequate.

External auditor

PricewaterhouseCoopers has been appointed as an external auditor of the Company. The Audit Committee has been informed of the nature and fees of the audit and non-audit services conducted by PricewaterhouseCoopers, and it does not consider the services have any adverse effect on the independence of the external auditor. There was no disagreement between the Board and the Audit Committee on the selection and appointment of the auditor.

For the year ended 31 December 2022, the remuneration paid or payable to the Company's external auditor PricewaterhouseCoopers for the auditing and non-auditing services of which it provided to the Group is analysed as follows:

Service type	Fees paid or payable *RMB'000*
Audit services	
Audit services regarding the Group's 2022 financial statements	2,880
Non-audit services (1)	125

(1) Non-audit services mainly represented the professional fees payable by the Group for services relating to the environmental, social and governance reporting support.

Joint company secretaries

Mr. Wang Lijiang (王利江) and Ms. Zhang Xiao (張瀟) act as the joint company secretaries of the Company.

Biographical details of Mr. Wang Lijiang (王利江) and Ms. Zhang Xiao (張瀟) are set out in the section headed "Directors and Senior Management" in this annual report.

Ms. Zhang Xiao (張瀟) serves as an assistant vice president of SWCS Corporate Services Group (Hong Kong) Limited, and is responsible for advising the Board on corporate governance matters to ensure the compliance with policies and procedures set by the Board, and applicable laws, rules and regulations. Mr. Wang Lijiang (王利江), executive Director and joint company secretary of the Company, is the primary contact of Ms. Zhang Xiao (張瀟) in the Company.

Both Mr. Wang Lijiang (王利江) and Ms. Zhang Xiao (張瀟) have confirmed that they have received not less than 15 hours of relevant professional training as required by Rule 3.29 of the Listing Rules during the year ended 31 December 2022.

Convening of extraordinary general meetings

According to the Articles of Association, one or more shareholders who hold not less than one tenth of the paid-up share capital of the Company entitled to vote at the general meeting on the date of the request, have the right to issue a written request to the Board or the Company's secretary at any time, requiring the Board to convene an extraordinary general meeting to deal with any matters listed in the request. Such meeting shall be held within two months after the request. If within 21 days of such request, the Board fails to proceed to convene such meeting, the requisitionist him/herself may do so in the same manner, and all reasonable expenses incurred by the requisitionist as a result of the failure of the Board to convene such meeting shall be reimbursed to the requisitionist by the Company.

As regards proposing a person for election as a Director, the procedures are available on the website of the Company.

Procedures for shareholders to make proposals at general meetings

Shareholders should follow the procedures set out in the section headed "Convening of extraordinary general meetings" above for putting forward proposals for discussion at general meetings.

Directors' and officers' liability insurance

The Company has arranged Directors' and officers' liability insurance for its Directors and senior management. The insurance covers the corresponding costs, charges, expenses and liabilities for any legal action against them arising out of corporate activities.

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.

Communication with shareholders and investors

The Company considers that effective communication with the Shareholders is essential for enhancing investor relations and investors' understanding of the Group's business, performance and strategies. The Company also recognises the importance of timely and non-selective disclosure of information, which will enable Shareholders and investors to make the informed investment decisions. The Board has adopted a Shareholder's Communication Policy since the Listing Date which sets out the Company's commitment to maintaining an effective ongoing dialogue with Shareholders.

The Company maintains the policy of frank communication, and deliver information to shareholders and investors through various channels: the Company's financial reports (including interim and annual reports); annual general meetings and other extraordinary general meetings that may be convened; as well as by making available on the Company's website all the disclosed information submitted to the Stock Exchange, the Company's communications and other Company's publications.

The AGM provides opportunity for the shareholders to communicate directly with the Directors. The Chairman of the Company and the chairperson of the Board committees will attend the AGM to answer Shareholders' questions.

To promote effective communication, the Company maintains a website at www.shbt-china.com, where up-to-date information and updates on the Group's business operations and developments, financial information, corporate governance practices and other information are posted and are available for public access.

Additionally, the Shareholders are encouraged to (i) participate in general meetings or to appoint proxies to attend and vote at meetings for and on their behalves if they are unable to attend the meetings; and (ii) attend Shareholders' activities organised by the Company, where information about the Company, including its latest strategic plan, products and services will be communicated.

For the year ended 31 December 2022, the Company has reviewed the implementation and effectiveness of the Shareholders' Communication Policy and considered the above-mentioned communication channels between itself and the Shareholders are effective.

Constitutional documents

In order to conform to the core shareholder protection standards set out in Appendix 3 of the Listing Rules which took effect on 1 January 2022, and to make some house-keeping amendments, it was proposed to amend and restate the memorandum and articles of association of the Company.

Subsequent to the Reporting Period, the proposed amendments to the memorandum and articles of association of the Company were approved by the shareholders at the extraordinary general meeting held on 2 February 2023. For details, please refer to Appendix II to the circular of the Company dated 11 January 2023 and poll results announcement dated 2 February 2023.

The amended and restated memorandum and articles of association of the Company are available on the websites of the Stock Exchange and the Company.

Investors' relationship

The Company has maintained corporate transparency and communication with shareholders and investors through timely announcements and/or other publications. The Company's website provides an effective communication platform to understand the latest developments in the market.

Inquiry to the Board

Shareholders may submit their inquiries to the Board through the headquarters of the Company at 5/F, Tower 17, 2816 Yixian Road, Baoshan District, Shanghai, the PRC (email address: wime@shbt-china.com).

Environmental, Social and Governance Report

Watts International Maritime Company Limited hereby issues the 2022 Environmental, Social and Governance Report (the "**ESG Report**") of the Group to introduce our idea and practice of sustainable development to stakeholders from the two major aspects of environment and society. For corporate governance information of the Group, please refer to the *"Corporate Governance Report"* of the year.

Reporting Scope

This report covers Watts International Maritime Company Limited (the "**Company**") and its subsidiaries (the "**Group**" or "**we**"), includes the primary business of the Group, i.e. port, waterway, marine engineering services and municipal utilities and construction services. Among them, the environmental key performance indicators ("**KPIs**") disclosed mainly cover the Group's Shanghai and Hangzhou offices, while other information and the social key performance indicators relates to the Company and its subsidiaries. This report covers the period from 1 January 2022 to 31 December 2022 (the "**Reporting Period**").

Compared with the ESG Report of 2021, there is no significant adjustment in the reporting scope of this report.

Reporting Principles

In line with the *Environmental, Social and Governance Reporting Guide* (the "**ESG Reporting Guide**") as set out in Appendix 27 of the *Main Board Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited* (the "**HKEX**") (the "**Listing Rules**"), the ESG Report discloses the environmental and social impacts of the Group's businesses and operations. The ESG Report is prepared in accordance with the ESG Reporting Guide, and the compliance with the reporting principles is explained as below:

- "Materiality": the Group determines material ESG issues by stakeholder engagement and materiality assessment, which have been disclosed in the Report;

- "Quantitative": information on the standards, methodologies and source of conversion factors used for the reporting of emission and energy consumption has been disclosed in the Report;

- "Consistency": the statistical methods and environmental key performance indicators are consistent with the previous year.

Responsibility Governance

Directors' Declaration

The Board is the highest decision-making body of ESG management and takes overall responsibility for the Group's ESG strategy and reporting. The Board has identified and evaluated important ESG issues, and manages and monitors them on an ongoing basis. At the same time, the Board conducts regular reviews of ESG objectives and continuously implements various ESG tasks to shoulder the corporate mission of "creating value for customers, seeking development for employees, creating benefits for shareholders, and taking responsibility for society".

During the Reporting Period, the Board reviewed the results of the ESG materiality assessment and made the high importance issues identified in this assessment the focus of our future ESG efforts. The Board will continue to monitor the actual situation of the company internal operations and external business environment, and will update the priority ranking of materiality issues in a timely manner. In addition, the Board will regularly confirm and review the results of ESG efforts and adjust the strategies and targets accordingly in real time.

ESG Strategy and Organization Structure

While carrying out business, the Group has actively fulfilled its corporate social responsibility by integrating the concept of sustainable development into its daily decisions and operations, for realizing its commitment to making a positive impact on the environment and society. We have incorporated ESG factors into the Group's business strategy. In order to achieve a more scientific and effective ESG management, we have established a three-level ESG governance structure composed of the Board, management and ESG working groups with clarified corresponding ESG governance functions, so as to achieve top-down supervision of ESG issues and ensure the smooth development of the Group's ESG efforts.

As the highest decision-making body of ESG management in the Group, the Board takes overall responsibility for ESG management strategy, supervision and reporting. The Board receives regular reports from the management and the ESG working group to study, prioritize and make decisions on major ESG issues of the Group and to review the significant ESG-related risks. This ensures that all risks are effectively managed and monitored. The Board also regularly reviews and adjusts the establishment and achievement of the Group's ESG-related objectives, strategies and management policies, and regularly reviews the Group's ESG performance and examines and approves the annual ESG report.

The management of the Group is responsible for arranging the ESG working group to carry out relevant work in accordance with the objectives, strategies and management policies set by the Board. The management reports ESG-related risks and opportunities to the Board, and provides the Board with the annual ESG performance and annual ESG report.

The ESG working group involves the head of each department, and designates special staff to carry out daily ESG work and prepare annual ESG report. The ESG working group reports to the management on the daily ESG performance and the progress of annual ESG report.

Stakeholders Engagement

The Group understands the importance of engaging with various stakeholders for sustainable growth and is committed to maintaining stable and close relationships with all parties. We have established a diverse and smooth communication channel to collect and incorporate the views of various stakeholders on the Group's business plans and initiatives, so as to achieve mutual benefits and promote sustainable development in the market, workplace, community and environment. The following table lists the communications with stakeholders:

Stakeholder	Expectations and requirements	Communications and responses
Government and regulatory agencies	• Implementing the policies and regulatory rules which are enforced by government • Operating by the law • Tax paying according to the law • Advocating employment	• Daily management • Work meeting • Supervision and inspection
Shareholders	• Earning returns on investment • Good development of corporate business • Corporate governance • Risk management and control	• General meetings • Annual reports, interim reports and announcements • Investor relation activities • Company website
Clients	• Providing high quality projects and services • Equal and reciprocal cooperation	• Close communication with clients • Improving in client complaint response mechanism
Suppliers	• Achieving mutual benefits and common development via cooperation • Fostering equality, fairness and honouring commitments	• Cooperation in projects • Daily communication • Inspection and evaluation of suppliers • Public tendering and bidding

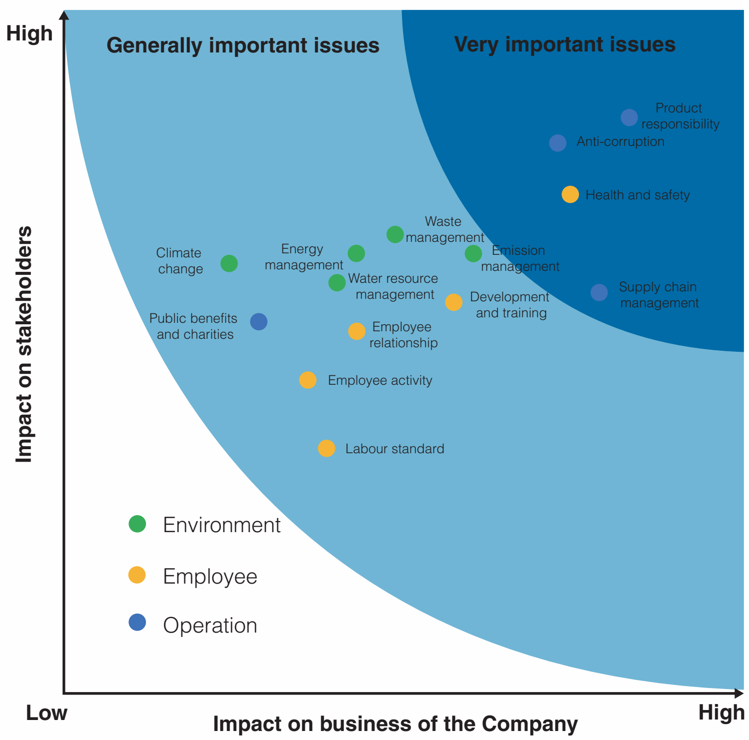
Stakeholder	Expectations and requirements	Communications and responses
Employees	• Wages and welfare protection • Safe and healthy working environment • Fair opportunity for promotion and development • Pandemic prevention and control	• Comprehensive compensation management system • Smooth internal communication channel • Complete staff training system • Safe and healthy working environment
Society	• Enhancing public welfare awareness • Facilitating the harmonious development of the community	• Social charity participation
Environment	• Environmental protection • Improving the energy utilization efficiency	• Attention to environmental protection • Energy conservation and emission reduction

Materiality Assessment

To have an in-depth knowledge on the influence of the sustainable development of the Group and important ESG issues for each stakeholder and the Group, the Group conducted a materiality assessment in accordance with the ESG Reporting Guide:

- Step 1 — Identification of ESG issues: Based on the ESG Reporting Guide, we identified 14 ESG issues and classified them into three categories, namely, Environment, Employee and Operation;
- Step 2 — Ranking of ESG issues: We invited internal and external stakeholders to fill out a questionnaire to assess the importance of ESG issues, and analyzed the results of the questionnaire in terms of "importance to the business of the Company" and "importance to stakeholders" to generate a materiality assessment matrix to rank the importance of ESG issues;
- Step 3 — Verification of the assessment results: The management and the ESG working group of the Group reviewed the results of the materiality assessment and finalized the identification of very important issues and generally important issues.

In 2022, the Group reviewed ESG issues and their materiality assessment results. Based on internal interviews and discussions, internal stakeholder suggestions and expert insights, we conducted a comprehensive analysis and judgment of each issue. Our efforts concluded that the results of the Group's ESG materiality assessment for the year were not different from those of previous years. The specific ESG materiality matrix is as follows:



Operational Excellence

Project Quality Assurance

The Group always puts quality at the forefront of its operations and strictly complies with the relevant laws and regulations in the places where it operates, including but not limited to the *Construction Law of the People's Republic of China*, the *Regulations on the Administration of Qualifications of Enterprises in Construction Industry* and the *Standards for Special Grade Qualification of General Contracting Enterprises for Construction*. We have formulated the *Quality, Environment, Occupational Health and Safety Management Manual*, and make clear provisions for management principles, management goals, organizational structure and responsibilities and corresponding management requirements. In accordance with policies *including the Measures for the Management of Engineering Projects' Technical Quality*, the *Measures for the Management and Verification of Project Processes*, the *Rules for Handling Project Quality Incidents*, etc., we provide guidance, supervision, inspection and services for project quality and ensure quality and safety of the Group's construction services.

Meanwhile, the Group implements standardized quality management in accordance with the requirements of the international quality management system to provide professional, safe and high-quality engineering services. In accordance with the *Quality Management System (GB/T19001–2016/ISO9001:2015)*, the *Code for Quality Management Of Engineering Construction Enterprises (GB/T50430–2007)*, the *Environmental Management System Requirements and Usage Guidelines (GB/T24001–2016/ISO14001:2015)* and the *Occupational Health and Safety Management System (GB/T45001–2020/ISO45001:2018)*, we have established systems of quality, environment, and occupational health and safety management, and obtained certifications for the three systems. We implement standardized quality management, improve the construction process and ensure the construction quality. Our subsidiaries, Shanghai Third Harbor Benteng Maritime Engineering Co., Ltd. ("**Third Harbor Maritime**") and Watts Gallop Construction Engineering Group Co., Ltd. ("**Watts Gallop Construction**"), have also obtained a number of first-class engineering qualifications.

Third Harbor Maritime

- Grade I Qualification for General Contracting of Port and Waterway Construction
- Grade I Qualification for Professional Contracting of Port and Coastal Engineering
- Grade I Qualification for Professional Contracting of Foundation Works

Watts Gallop Construction

- Grade I Qualification for General Contracting of Building Construction
- Grade I Qualification for General Contracting of Municipal Public Works Construction

Engineering qualifications of the Company's two principal subsidiaries

In order to achieve higher quality and smooth delivery, the Group has clarified the management scope and division of responsibilities of the departments responsible for major products and factored the relevant elements into the performance appraisal for improving the project engineering quality as a whole. All projects are delivered to the owner for handover acceptance after passing the self-inspection and self-assessment. If quality problems are found, the relevant department will take measures in a timely manner and report to the superior; if a project quality accident occurs, the project department will report the cause, status and loss of the accident within 24 hours and coordinate the investigation and evaluation. The relevant responsible persons will be punished according to the economic loss caused by the quality accident.

In order to further motivate employees' enthusiasm at work, the Group holds symposiums on the comprehensive quality from time to time to continuously review and improve the management system, develop and implement improvement measures, and enhance quality management performance. At the same time, the Group formulates the *Incentive Measures of the Company for Projects Wining Quality Award* to encourage employees to continuously improve project quality and carry out innovate work. Thanks to the unremitting efforts, we reaped several external awards in terms of project quality in 2022:

"2022 Qianjiang Cup Quality Engineering Award of Zhejiang Province Construction Project"

In July 2022, the "Fuchun No. 9 Primary School Project" constructed by Watts Gallop Construction and the "Hangzhou-Huangshan Railway Zhanqian Square Project" participated by Watts Gallop Construction, a subsidiary of the Company, were awarded the "2022 Qianjiang Cup Quality Engineering Award of Zhejiang Province Construction Project" by the Housing and Urban-Rural Development Department of Zhejiang Province. The "Qianjiang Cup Quality Engineering Award" is the highest award for the quality of construction projects in Zhejiang Province, and the quality of the awarded projects should reach the advanced level in Zhejiang Province and bring good economic and social benefits.

"Structural Quality Award of Hangzhou Construction Project"

In September 2002, three projects, namely "New Construction Project of Lingqiao Primary School", "Fu Zheng Chu Chu (2011) No. 26 Plot" and "Block C of Lingqiao Resettlement Area", constructed by Watts Gallop Construction, a subsidiary of the Company, were awarded the "Structural Quality Award of Hangzhou Construction Project" by Hangzhou General Station of Quality and Safety Supervision of Construction Projects in Zhejiang Province. This award represents a full affirmation of engineering quality of Watts Gallop Construction and also an inexhaustible impetus for our development.

The Group provides port infrastructure, waterway engineering and marine engineering, municipal utilities and construction services, which do not involve products subject to recalls for health and safety reasons and therefore do not involve relevant data for the time being. If the customers have any comments on the project, our project teams will communicate with the owner at the construction site in real time and resolve the issue. We also visit the owners regularly to listen to their feedback according to the needs of the project. During the Reporting Period, the Group didn't receive any product and service related complaints.

The Group complies with the relevant laws and regulations in the place where it operates, including but not limited to the *Patent Law of the People's Republic of China*, *Law of the People's Republic of China on Confidentiality* and the *Enterprise Intellectual Property Management Standards*. We have formulated the *Intangible Assets Management Policy* to strengthen the management on intangible assets such as patents, trademarks and proprietary technology rights, to protect the rights and interests of the Group, and to prevent the loss of intangible assets. In order to secure customer information, the Group has formulated a series of policies such as the *Confidentiality Management Policy* and the *Information System Management Policy*, which classify customer information as the Company's confidential information to effectively protect customer privacy. For employees, the Group requires all new employees to sign *Confidentiality Agreement* to further implement information security and privacy protection.

Achieving Win-win Cooperation

We highly value the importance of our supply chain to the sustainable development of the Group. In order to maintain fairness and impartiality in the procurement process, we have established and strictly complied with internal regulations such as the *Procurement Management System* and *Material Management System* to regulate the supply chain system of the Group.

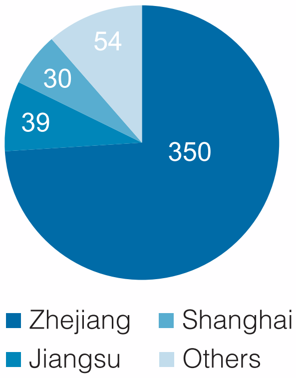
For the suppliers with whom we have a cooperative relationship for the first time, the Group's Material and Equipment Department shall evaluate them and require business licenses, qualification certificates and material inspection certificates and other supporting documents from them. Only suppliers who pass the review can be included in our *List of Qualified Suppliers*. As for the suppliers with whom we already have a cooperative relationship, we conduct annual assessment of the enterprises in the *List of Qualified Suppliers*, covering product quality, service and integrity, price and supply capability, etc. Meanwhile, we update the *List of Qualified Suppliers* in a timely manner to eliminate unqualified enterprises in order to ensure the security and stability of our supply chain. We do not consider cooperation with suppliers that have experienced major environmental pollution and major environmental accidents, as well as occupational diseases and major safety accidents without taking corrective measures.

To gain a deeper insight into the upstream market through visits

We gain a deeper insight into the market environment in which our suppliers operate through various means including but not limited to visits, research, phone calls, emails, etc. This aims to enhance our in-depth knowledge of our upstream companies.

For example, during the Reporting Period, we conducted a site visit to one of our pipe suppliers. In addition to checking and confirming its business license, management system certification, quality inspection report and getting the latest quotation documents, we also interviewed with the business specialist in the factory and gained a clearer and deeper knowledge about the manufacturing process, connection method, environmental performance and production capacity of high-density polyethylene (HDPE) double-walled winding pipes. Compared with the traditional pipe, HDPE pipe has more stable performance and is less polluting to the environment in the production and construction process, recognized as a new type of environmentally friendly and energy-saving pipe both at home and abroad. This direct communication with the supplier not only helps both parties to better understand each other's business needs, but also provides a reliable and responsible resource channel for our subsequent project implementation.

As at 31 December 2022, the Group had 473 suppliers. During the Reporting Period, the Group conducted annual review on some suppliers and no supplier was dismissed due to product security problems.



Geographical distribution of the Group's suppliers

In addition to suppliers, we also uphold a serious and responsible management attitude towards subcontractors. We have formulated a series of audit methods and management systems for them, including the *Evaluation and Management Methods for Qualified Subcontractors* and the *Management System for Safety Qualifications of Subcontracting Units and Personnel*, which are strictly observed and implemented in our actual operation. Such efforts help better control the management risks of the Company.

For the subcontractors with whom we cooperate for the first time, the Engineering Management Department shall check their business licenses and enterprise qualification certificates. This aims to learn about their reputation, engineering performance and production and technical management capabilities. We also judge whether they are related parties of the Company based on the information of controlling shareholders. Subcontractors can be included in the *List of Qualified Suppliers* only after passing the review of the Project Management Department. For the subcontractors with whom we have existing cooperation relationship, the Engineering Management Department reviews the *List of Qualified Suppliers* annually to fully inspect and monitor the quality and progress of subcontracted works and issues evaluation opinions. Subcontractors with non-compliant quality of subcontracted works, poor construction performance and no cooperation for three consecutive years will be removed from the *List of Qualified Suppliers*.

We include subcontractors and suppliers in the Group's sustainable development management framework. For subcontractors, we require them to sign agreements on safety management, public security, fire protection, and environmental protection while entering into the Labour subcontract, and specify safety objectives and persons responsible for safety in them. If any subcontractor violates the relevant regulations during the construction process, the Group will punish them according to the actual situation. As for suppliers, we require them to sign the *Environmental Protection Agreement, Safety Management Agreement* and *Integrity Construction Agreement*. This aims to encourage them to adopt environmentally friendly products and services and give priority to non-polluting and less polluting production processes and raw materials in accordance with the Group's regulations. Suppliers shall also take active measures to control excessive pollutants (wastewater, waste gas, solid waste, etc.) emitted during their production process to ensure that national or local emission standards are met within the specified period. The Group carries out occasional inspections of the operating environment and waste disposal in the suppliers' production operations.

Adherence to Business Ethics

Transparent and honest cultural atmosphere is a necessary element for building fine corporate culture. The Group is making every effort in anti-corruption to enhance the efficiency of our operations and the vitality of our development. We strictly comply with the relevant laws and regulations of the regions and countries where we operate, including but not limited to the *Criminal Law of the People's Republic of China*, the *Tendering and Bidding Law of the People's Republic of China*, the *Anti-Unfair Competition Law of the People's Republic of China*. We have also established internal related systems such as the *Corruption Prevention Policy* and the *Code of Corporate Governance Practices and Insider Information Disclosure Policy*, which explicitly require employees to adhere to business ethics and conduct, and explicitly prohibit employees from engaging in bribery, extortion, fraud, money laundering, etc. in their work. During the Reporting Period, there was no concluded legal case regarding corrupt practices brought against the Group or its employees.

The Group is focused on creating a clean, honest, fair and just environment for corporate cooperation. We adhere to the principles of sunshine cooperation and integrity in establishing cooperative relationships with all stakeholders. Before conducting business transactions with our partners, we carefully assess whether they (including agents, suppliers, customers or other trading partners) have records of dishonest behavior and require them to sign the *Integrity Construction Agreement*. In the course of cooperation, we require our major partners with whom we have business dealings to participate in training related to business ethics. Meanwhile, we regulate the behavior of our employees through integrity speeches and integrity pledges to ensure the effective implementation of our anti-corruption policy. These efforts are aimed at jointly maintaining an honest and equal partnership to protect the mutual interests of our partners and the Group.

The Group also conducts various forms of anti-fraud and anti-corruption training on a regular basis, covering all employees. This helps to enhance the business ethics awareness of employees as a whole, thereby reducing the Group's management risks and creating a clean and healthy environment for corporate development.

2022 Special training on anti-corruption management for all staff

In November 2022, in order to further strengthen the awareness of integrity and self-discipline among colleagues in all departments and to facilitate the understanding of anti-corruption among all employees, we conducted a special training on anti-corruption management for all employees. The training covered a series of positive and negative case illustrations, as well as a systematic explanation of the latest national anti-corruption laws and regulations and management policies, which effectively helped all departments to raise the attention towards anti-corruption work and enhanced the awareness of all employees for the application of relevant laws in actual business operations.

2022 Special training on anti-corruption management

The Group is committed to the prevention and timely detection of corrupt practices. To this end, we have established a reporting channel in the form of a reporting e-mail and hotline, so that employees or external stakeholders can report any violation of business ethics related to bribery, extortion, fraud, money laundering, etc.:

- Reporting e-mail: jubao@shbt-china.com

- Report hotline: 021-66189006

Once a report is received, the Group will collect relevant clues in a unified manner and accept them in a timely manner. Where suspected violations are confirmed by investigation, the employees involved will be subject to disciplinary action, and in serious cases, their appointment/employment will be terminated, and a case will be opened for review and referred to judicial authorities. For units or individuals who provide clues or evidence for reporting, and are found to be true, we will give appropriate rewards. At the same time, we will do our best to protect whistleblower information to avoid unfair treatment or retaliation in their work. During the Reporting Period, there was no corruption lawsuit filed against the Group or its employees.

People-oriented

Building a Healthy Workplace

The success of the Group depends on the hard work and dedication of all staff to serve our customers. We understand that attracting, retaining and nurturing talents is one of the most important way to ensure the competitiveness of the Group in the market. The Group strictly complies with all relevant laws and regulations of the regions and countries where it operates, including but not limited to the *Labour Law of the People's Republic of China*, the *Labour Contract Law of the People's Republic of China* and *Provisions on Prohibition of Child Labour*. We focus on protecting the legitimate rights and interests of all employees, creating a safe, secure and comfortable working environment for them, and adhering to the concept of mutual respect and harmonious coexistence. Meanwhile, we have formulated internal regulations such as *Human Resource Management System* and the *Compensation and Benefit Management System*. This aims to regulate in detail the recruitment, promotion, assessment, separation and salary calculation of employees, and strictly enforce them.

➢ ***Employment Management***

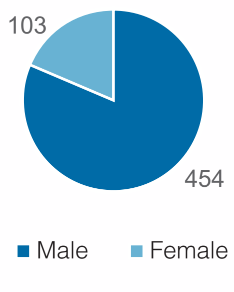
Following the "Belt and Road" initiative, the Group has expanded its engineering construction and technology business to a number of countries including Brunei and Indonesia. In order to better serve the Group's international business presence and help boost the local economy and employment rate, we actively promote talent diversification and localization and oppose any form of discrimination. Through multi-channel recruitment, we recruit local talents in overseas countries and regions, and strictly comply with relevant local laws and regulations. With the concept of diversity and equality, the Group prohibits restrictions on the career development of employees based on race, gender, color, age, family background, ethnic tradition, religion, physical fitness and nationality of origin. The Group provides equal treatment and opportunities for all employees in all aspects of pay and termination, recruitment and promotion, working hours and holidays, benefits and treatment.

The Group strongly discourages the employment of child Labour. That means the Group conducts identity checks on candidates during recruitment to ensure employment compliance throughout our business operations. All employees are required to provide their personal identification documents and academic certificates to verify their age and identity upon joining the company. In the event of a violation, the Group will conduct an investigation in accordance with the relevant procedures and refer the person to his/her parents or legal guardians, and in the event of a law violation, the matter will be referred to the relevant judicial bodies and will not be tolerated. There was no incident of child Labour employed by the Group during the Reporting Period.

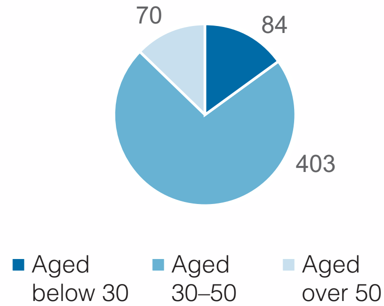
The Group always adheres to the principles of openness, fairness, competition and meritocracy, and strictly complies with relevant laws, regulations, policies and work procedures during the job recruitment process. We recruit talents through various channels such as social recruitment and campus recruitment, and implement the principle of merit-based recruitment under the same conditions. We have also established an *Internal Recommendation System* to encourage current employees to recommend suitable talents for the Group. The Group signs *Labour Contracts* with regular employees, stipulating the obligations and rights of both parties. The Group also establishes management systems such as the *Staff Entry and Quitting Management System* and does not dismiss employees at will.

As of 31 December 2022, the Group had a total of 557 full-time employees. The detailed data are as follows:

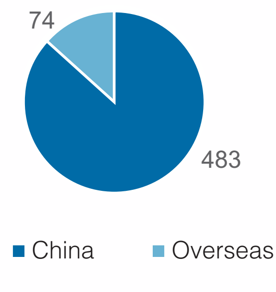
Total number of employees by gender (persons)



Total number of employees by age (persons)

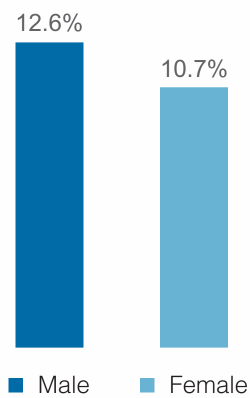


Total number of employees by region (persons)

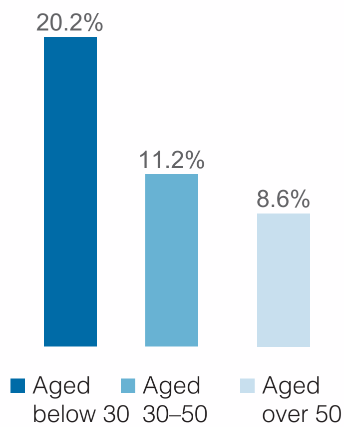


The Group's employee turnover was as follows:

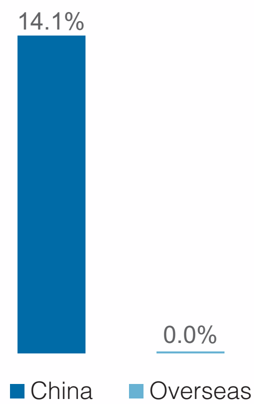
By gender



By age



By region



- ***Working Hours and Holidays***

The Group is committed to establishing and maintaining reasonable working hours and holidays. To that end, the Group has formulated the *Attendance and Leave Management System*, which standardizes the management of employees' working hours, attendance, leave, etc. Depending on the position, we implement the standard working hour system, comprehensive working hour system or flexible working hour system. In addition to statutory holidays, employees are also entitled to annual leave, unpaid leave, sick leave, work injury leave, marriage leave, bereavement leave, rescheduled leave, etc. In case of continuous operations or suspension as a result of seasonal climate conditions, each subsidiary and project department can also adjust the working hours under the *Leave Policy for Project Departments* as required.

In addition, in order to better control the overtime hours and ensure the rest and physical and mental health of our employees, the Group has clearly stipulated the working hours of our employees in the *Labour Contract* and the *Attendance and Leave Management System*. The Group strictly abides by the statutory working hours and eliminates forced Labour. If forced Labour is found, employees can report to the local Labour inspection team. We will also take immediate action to stop such behavior and investigate the cause, so as to strictly prevent the non-compliance. During the Reporting Period, the Group had no forced Labour incident.

The Group improves Labour productivity by continuously enhancing employee management and skills training while strictly controlling overtime hours and the number of overtime work performed by employees. If employees really need to work overtime, they shall get the approval from the department manager and the business supervisor. Overtime work on rest days and extended working hours on working days shall be compensated by scheduled leave by the department. Where scheduled leave is impossible, the overtime pay shall be paid to the staff, subject to the approval of the deputy general manager and general manager of the human resources department. The reasonableness of working hours shall also be ensured.

- ***Compensation and Benefits***

The Group is committed to building a comprehensive and scientific compensation and benefit system by formulating the *Management Policy of Compensation and Benefits* and reviewing it annually in accordance with market salary changes, job requirements and employees' salary levels in order to provide market-competitive salaries. Each employee's salary consists of basic salary, position allowance, monthly performance bonus and annual performance bonus. Meanwhile, the Group provides social insurance for its employees in accordance with the law, including pension, medical, unemployment, work injury, maternity and housing provident fund. In order to effectively safeguard the legitimate rights and interests of new industrial workers of subcontractors, the Group has formulated the *Commitment on Wage Payment for Migrant Workers*, which makes clear provisions on the process of wage payment. Meanwhile, the Group signed the Commitment on Wage Payment for Migrant Workers with subcontractors during the subcontracting construction of the project for the purpose of eliminating wage disputes of new industrial workers and thus effectively safeguarding the legitimate rights and interests of migrant workers.

In addition to statutory remuneration and benefits, the Group provides other welfare allowances to its employees, covering transportation, meal, communication, accommodation, project post, etc. To guard the health of our employees, the Group arranges annual medical checkups for active employees and purchases mutual insurance for them in a unified way, covering three benefits for hospitalization, special illness and accidents. For female employees, we also provide special health checkups for gynaecopathia and mastopathy to care for the health of our employees in multiple ways.

The Group values and is committed to maintaining harmonious and stable Labour relations. We have established diverse employee communication and complaint channels to facilitate communication and feedback between employees and the management.

Staff welfare: high temperature condolence activities

In the summer of 2022, the high temperature persisted. In order to further improve the Labour protection, escape the summer heat and thus ensure the safety of workers, we went to the site to send heat supplies to the front-line construction workers. This enhanced the enthusiasm and motivation of front-line workers.

High temperature condolence activity

➢ ***Enriching the Lives of Employees***

The Group carries out a variety of activities for its employees every year to enrich their leisure time. We are committed to promoting work-life balance and a relaxed work atmosphere for our employees and building a positive corporate culture.

Staff activity: Traditional Chinese medicine (TCM) lecture event

In September 2022, in order to enhance employees' awareness of their own health care and promote their physical and mental health, we conducted "TCM Health and Wellness" consultation activities by inviting teachers from Shanghai Huashang Health Management Center (上海华上健康管理中心) for employees. The teachers also offered a four-day physiotherapy consultation service for free for our employees.

TCM lecture event

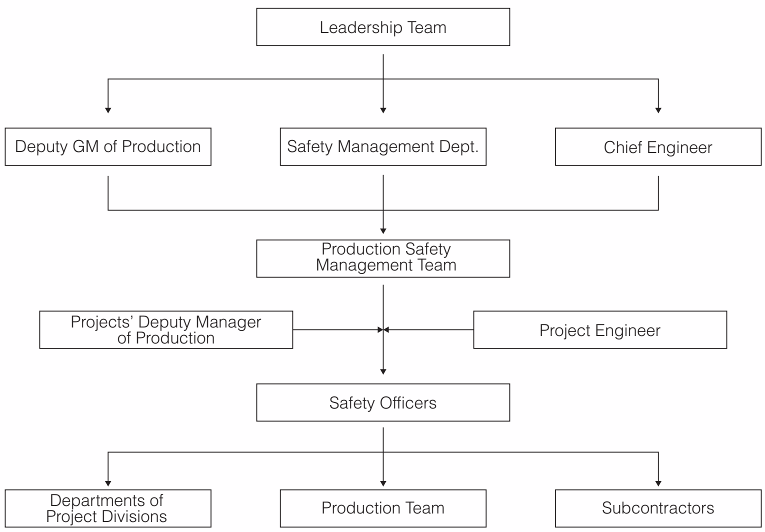
Implementation of Safety Construction

Safety construction policy

- People-oriented, safe development, safety first, precaution emphasis and comprehensive treatment

The Group is fully aware of the importance of occupational health and safety to our business and is committed to creating a good working environment for our employees. In strict compliance with relevant laws and regulations of the places where the Group operates, including but not limited to the *Labour Law of the People's Republic of China*, the *Work Safety Law of the People's Republic of China*, the *Law of the People's Republic of China on Prevention and Control of Occupational Diseases*, the *Regulations on Work Safety Licenses*, etc., the Group continues to improve our occupational health and safety management system. The Group provides multiple safeguards for the occupational health and safety of our employees by adopting comprehensive measures for occupational disease protection and Labour safety protection. In order to further reduce occupational health risks, we formulate the *Measures for the Prevention and Control of Occupational Health Hazards* in accordance with the *Law of the People's Republic of China on Prevention and Control of Occupational Diseases* and relevant administrative regulations. We also set up a leading group for prevention and control of occupational hazards. That means carrying out occupational disease prevention and control management in each department, such as establishing employee health monitoring files, carrying out occupational health education and training, and providing and supervising the wearing of occupational disease protective equipment.

The Group builds and continuously improves its safety management system, clarifies its safety construction policy, and is committed to reducing safety hazards and safety accidents in production. We develop multi-dimensional safety management systems, strictly abide by them and optimize and adjust time in a timely manner according to the actual production situation, including but not limited to the *Measures for the Management of Production Safety*, the *Regulations on Division of Duties for Production Safety*, the *Regulations on Production Safety Inspections* and the *Measures for the Management and Assessment of Safety Objectives*, the *Regulations on Safety Education and Training*. Each subsidiary of the Company has also established a complete and clearly structured safety management network. Among them, Watts Gallop Construction, a subsidiary of the Company, has additionally formulated the *Procedures for Reporting and Handling Work-related Injuries* in accordance with the *Regulations on Production Safety Accidents and Investigation and Handling*. This aims to handle work-related injuries in a timely manner, thereby reducing employee injuries and losses. The Group also honors the projects with no safety accidents in the year annually to motivate the project departments to build a high safety wall. From 2020 to 2022, the Group had no work-related fatalities. There was no work-related lost workday during the Reporting Period.



Production Safety Management Network

The Group has also formulated detailed and implementable safety management systems for subcontractors to enhance the safety management of subcontracting works, including the *Measures for Production Safety Management on Subcontractors* and the *Measures for the Management of Subcontractors' Qualifications and Personnel Qualifications*. Before signing the contract, the Group reviews the safety qualifications of all subcontractors, and only compliant subcontractors can enter the contract signing process. When signing the contract, each subcontractor is required to sign agreements with the Group related to safety management, security and fire prevention, environmental sanitation, etc. The agreements shall specify the safety objectives, the person responsible for safety, the person responsible for security, etc., and sets out clear requirements for subcontracting workers and other relevant personnel, equipment and site safety management.

The Group continues to improve its risk prevention and control management by proactively identifying potential occupational hazard risks in existing workplaces and assessing them. Depending on different risk levels, the Group takes necessary preventive measures to eliminate or reduce the risk hazard in a timely manner:

Adopting ventilation and dust removal systems, installing dust-absorbing hoods for key equipment, and cleaning up iron slag, dust, broken bricks, mortar and other pollutants in a timely manner;

Use of non-toxic or low-toxic materials, maintaining good ventilation during spraying and boiling glue, wearing protective equipment, gas masks and equipping with detoxification equipment when necessary;

Control and attenuate operational noise, continue to promote the replacement by silent tools, procure and use low-noise operational equipment in accordance with national standards;

Before the operation in flammable, explosive gas or liquid diffusion areas, ask the relevant departments to conduct tests first and get permissions;

The work-at-height sites are equipped with safety belts and protective rails to prevent fall-at-height incidents, etc.

The Group has established a sound safety education and training system, and from time to time organizes training and drills for safety and occupational health emergency plans for management and operation personnel. In view of the problems identified in the drills, each unit shall seriously summarize and evaluate them, so as to effectively improve the emergency response capability and level of the whole staff. This also enhances the safety awareness of the staff and thus ensures the achievement of the Group's safety management objectives.

"Production Safety Month" Activity

In June 2022, with the guiding principle of "obeying the production safety law and playing a better role of the first responsible person", the project department of the Group organized a month-long production safety activity for the person in charge of each construction site and the laborers of the second section of Cao'e River Shangpu Locks and Fairway Project. During the "Production Safety Month" activity, the project department carried out safety education and training as well as hidden danger investigation and rectification activities in combination with the construction characteristics of the project. The activity effectively improved the skills and abilities of the staff to prevent accidents and identify risks, and strive to reduce accidents and injuries.

In addition, we organized our employees to watch the video of "Flood Control Emergency Drill" of Shaoxing Engineering Management Center through live streaming, aiming to improve employees' safety awareness and response ability to deal with emergencies, and to popularize first aid knowledge for the sake of securing employees' lives and properties.

Hazard investigation and correction activity

Safety education training

Fire Drill of Watts Gallop Construction

In June 2022, Watts Gallop Construction, a subsidiary of the Company, conducted a fire accident rescue drill in order to further improve fire safety work and minimize the damage in case of emergencies. The participants came from all departments of the company and were divided into fire-fighting action group, communication and liaison group, evacuation guidance group and safety protection and rescue group. The division of labour promoted the evacuation of personnel, fire-fighting, material rescue and transportation, safety and security, medical rescue and site clean-up, etc. The fire drill effectively improved the fire safety awareness and fire knowledge across the company. It also enhanced the responsiveness and self-rescue ability of the participants in dealing with emergency fire incidents.

Create a Team of Talents

The Group attaches importance to the long-term development and continuous cultivation of employees by staying true to the concept of talent development and actively implementing the Company's talent cultivation strategy. The Group provides employees with clear promotion channels and a ranking system, which is being continuously improved. Among them, the ranking system includes three position lines for management staff, support staff and project management staff, respectively. Each line has corresponding ranks to facilitate the diversified development of employees. Meanwhile, the Group carried out performance appraisals on a seasonal, semi-annual and annual basis under the *Regulations on Performance Appraisal*. The appraisal result is used as the major basis for determining the staff's performance bonuses, and their salary and post adjustment in the next year, so as to continuously optimize the human resources team.

The Group is committed to providing extensive and continuous learning opportunities for our employees by actively conducting staff training. We continue to strengthen our talent team management and improve our talent training system to meet the talent needs of the Group's long-term development strategy. Every year from October to November, the Human Resources Department of the Group will collect the annual training needs from each department with the "*Annual Training Needs Form*" and formulate the annual training plan for the next year based on the information collected. During the pandemic in 2022, we swiftly adjusted our training mode by combining both online and offline teaching methods, which provided flexible and diversified learning paths for employees in different regions.

The Group provides education and training on quality control, laws and regulations, and safety operation for fresh graduate interns and regular employees with diversified training methods:

- Intern training: the Group formulated the *Regulations on the Internship Training for Fresh Graduates*, which detailed the internship management of fresh graduates, including the training plan, coaches, internship assessment, etc. The training was subdivided into two stages, i.e. "corporate recognition and elementary job skills training" and "basic job skills training". Before an intern becomes a regular employee, he/she shall pass the comprehensive evaluation of rotation and the final comprehensive assessment;

- Internal training: The Group regularly organizes training in various aspects, including internal control management, business etiquette, professional technology, engineering quality, anti-corruption, etc. while fully considering different trainees and covering the training needs of different employees;

- External training: The Group arranged the staff to get external training in professional institutes, participate in examination and obtain professional certificates for those who need professional training programs and certificates and are engaged in construction, quality and safety, etc.

Employee training

Job certification training of employees

Induction training site of Project Department

During the Reporting Period, the Group saw the training coverage rate of approximately 82.2%, with a breakdown of training by gender and employment type, as well as the average hours of training per employee, as shown in the table below:

	Percentage of trained employees	Average hours for each employee with complete training
By gender		
Male	79.3%	22.9
Female	20.7%	38.4
By employment type		
Senior management	3.5%	17.4
Middle management	9.0%	45.9
Staff	87.6%	24.4

Green Driven

Environmental goals

- Up-to-standard emission of construction site noise
- Up-to-standard discharge of mud and wastewater
- Roll out energy consumption reduction and energy conservation program
- Disposal of waste in compliance with relevant regulations

The Group actively fulfills its responsibility for environmental protection and adheres to the principle of "green growth, harmonious cooperation and mutual benefits". We strictly comply with the *Environmental Protection Law of the People's Republic of China*, the *Energy Conservation Law of the People's Republic of China*, and other laws and regulations in the places where we operate. We also continuously improve the construction of our environmental management system. We formulated a series of internal policies, including the *Measures for Environmental Protection and Pollution Prevention and Control* to provide guidelines on the management of noise, wastewater, waste, raised dust and other environmental issues in constructions. To reduce pollution emissions and resource consumption from production and operation activities, we identify and control key environmental risks and implement various environmental protection measures. The Group's Safety Management Department organizes regular environmental inspections and promptly stops and supervises the rectification of any hidden dangers found. We also promote environmental protection as an important element in our staff training to continuously raise the awareness of energy saving and environmental protection among all our staff and help achieve the green, healthy and sustainable development of the Group.

Practicing Compliant Emissions

The Group strictly regulates the emissions generated during its operations and implements a series of measures to minimize the environmental impact. We have implemented the provisions of the *Law of the People's Republic of China on Environmental Impact Assessment*, the *Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution*, the *Law of the People's Republic of China on the Prevention and Control of Water Pollution* and the *Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste* as well as the relevant local regulations on the civilized construction in major projects so as to enhance the control over the construction site emissions. During the Reporting Period, the Group had no violations related to emissions.

The Group's emissions mainly comprise of dust and wastewater generated in construction activities, nitrogen oxide (NO_x), sulfur dioxide (SO_2), particulate matters (PM) and other air pollutants and greenhouse gas emissions from the combustion of gasoline, greenhouse gas emissions from electricity consumption, and non-hazardous waste such as construction waste and domestic waste. The Group continuously endeavors to reduce emissions at construction sites through the following measures:

Dust

- Hardens the ground, regularly sprays water onto the ground to reduce the raised dust emission;
- Fully encloses the silo, stock bin and mixing bin of the mixing plant to effectively avoid dust pollution;
- Sets up a dust monitoring display in the mixing plant to show dust condition in the plant and takes timely measures when the predetermined value is exceeded;

Wastewater

- Mixing plant sewage treatment facilities use three-stage sedimentation tanks to filter out the dirt in the waste rinsing water;
- Equips all of the Group's vessels with fuel leakage protection equipment for suppressing the spread of floating fuel spills in case of leakage;

Greenhouse gas and air pollutants

- Controls the air pollutant emissions in the construction;
- Promotes low-energy, pollution-free, high efficiency technology, equipment and products;
- Rolls out the energy reduction program to reduce greenhouse gas emissions;

Waste

- Sorts out excavated materials of dredging and excavation works such as materials containing pollutant sediment and disposes of the excavated materials at the designated dumping area;
- Strictly complies with the relevant provisions on garbage classification, and sets up a dedicated garbage collection area to collect and classify the garbage;
- Actively cooperates with owners to put the emissions generated in the construction under unified management and disposal.

During the Reporting Period, the Group's emissions are shown as below. The reduction in greenhouse gas and air pollutant emissions is mainly attributable to lower consumption of direct energy (mainly gasoline for vehicles).

Type	Emissions[4]	2022	2021
Air pollutant	NO_x emissions (kg)[1]	675.95	803.45
	SO_2 emissions (kg)[1]	1.15	1.33
	PM emissions (kg)[1]	64.77	76.99
Greenhouse gas	Scope 1: Direct greenhouse gas emissions (tCO_2e)[2]	166.75	193.83
	Scope 2: Energy indirect greenhouse gas emissions (tCO_2e)[2]	95.99	81.41
	Total greenhouse gas emissions (tCO_2e)[2]	262.74	275.23
	Intensity of greenhouse gas emissions (tCO_2e per person)	2.12	2.09
Non-hazardous waste	Total non-hazardous wastes (tons)[3]	13.8	15.0
	Intensity of non-hazardous wastes (tons per person)	0.11	0.11

Notes:

1. The gasoline and electricity used on the construction site of the Group are provided by the project owner, therefore, the Group cannot monitor all energy consumption data. As a result, the ESG Report only discloses the emissions of NO_x, SO_2, and PM generated from the Group's vehicles in its gasoline consumption by Shanghai and Hangzhou offices; emissions are measured in accordance with *How to prepare an ESG Report? Appendix 2: Reporting Guidance on Environmental KPIs* issued by the HKEX.

2. The ESG Report only discloses the greenhouse gas emissions generated from the use of gasoline by vehicles owned by the Group's Shanghai and Hangzhou offices and the electricity used by the Shanghai headquarters; the greenhouse gas emission data is presented in carbon dioxide equivalent. Greenhouse gases from purchased electricity in Shanghai are calculated according to the electricity emission factor adjusted by the Shanghai Municipal Bureau of Ecology and Environment in 2022; other greenhouse gas emissions are accounted for in accordance with the *Guidelines for the Measuring and Reporting of Greenhouse Gas Emissions for Public Building Operating Enterprises* issued by the National Development and Reform Commission.

3. Most of the wastewater and non-hazardous wastes on the construction site are mainly disposed of by the project owner; therefore, the Group cannot monitor all emission data. The ESG Report only discloses figures of the domestic waste generated in the Group's Shanghai and Hangzhou offices.

4. Hazardous waste generated by the Group's office work consist of a small number of waste toner cartridges, waste ink cartridges, etc., and all hazardous wastes are recycled by qualified recyclers, so that only limited impact is exerted on the environment. Therefore, KPI A1.3 (total hazardous waste produced) has not been disclosed in the ESG Report.

Enhancing Resource Efficiency

The Group has always adhered to the tradition of protecting natural resources and conserving resources. That means regularly evaluating the efficiency of resource use in our daily operations to continuously improve the resource efficiency. We strictly comply with all relevant laws and regulations in the places where we operate, including but not limited to the *Energy Conservation Law of the People's Republic of China* and the *Water Law of the People's Republic of China*. The Group encourages green office and also reduces the consumption of various resources, such as energy and water resources through various management measures. These efforts aim to continuously improve the resource efficiency:

Energy Management

— Lamp upgrading: make full use of natural light, advocate the use of LED energy-saving lamps and turn off lights when leaving to reduce electricity consumption for lighting;

— AC energy saving: make full use of natural wind and set a moderate AC temperature in summer and winter to reduce AC power consumption;

— Equipment transformation: actively respond to the call of "energy saving, environmental protection, low carbon", accelerate the elimination of high-energy-consumption equipment and put the purchase and use of energy-saving and environmentally-friendly equipment in priority;

— Monitoring and statistics: keep accurate records of power consumption by setting up power consumption standard and strengthening monitoring;

— Online conferencing: use video conferences as many as possible so as to reduce the conference travel costs and resource consumption.

Water management

— Regular inspection: the maintenance team carries out daily maintenance of water-using equipment to prevent leaking;

— Monitoring and statistics: keep accurate records of water consumption by setting up water consumption standards and strengthening monitoring over exceptional water usage data;

— Water-saving publicity: encourage employees to develop the habit of saving water through various publicity and posting slogans.

During the Reporting Period, the Group's use of resources is shown as below. The reduction in total direct energy consumption and total energy consumption was mainly attributable to a decrease in the amount of gasoline used in vehicles as a result of lower mileage traveled.

Use of Resources[3]	2022	2021
Total direct energy consumption (MWh)	682.02	792.78
Total indirect energy consumption (MWh)	159.19	148.68
Total energy consumption (MWh)[1]	841.22	941.45
Intensity of energy consumption (MWh per person)	6.78	7.13
Total water consumption (tons)[2]	1,404.00	1,240.00
Intensity of total water consumption (tons per person)	11.32	9.39

Notes:

1. Most of the gasoline and electricity used in the construction site of the Group is provided by the project owner, therefore, the Group cannot collect all energy usage data. As a result, the ESG Report only discloses the volume of gasoline used by the vehicles owned by the Group's Shanghai and Hangzhou offices and the electricity used by its Shanghai and Hangzhou offices; the total volume of energy consumption is calculated in accordance with the Chart 1 Default Values of Relevant Parameters for Fossil Fuel in China in the appendix of the *Guidelines for the Measuring and Reporting of Greenhouse Gas Emissions for Public Building Operating Enterprises* issued by the National Development and Reform Commission.

2. Most of the water used in the construction site of the Group are provided by the project owner. The Group cannot collect all water usage data. The ESG Report only discloses the water consumption of the Group's Shanghai and Hangzhou offices. All the water used by the Group's Shanghai and Hangzhou offices comes from municipal water, which does not involve water resource acquisition.

3. As the Group does not use packaging materials in its operation, KPI A2.5 (total packaging material used for finished products) is not applicable.

Other Pollution Prevention and Control

In addition to the various types of emissions and use of resources stated above, the potential impact of the Group's business operations on the environment and natural resources also includes construction noise from machines with strong noise at construction sites and the impact on the local ecological environment. The Group strictly complies with the relevant laws and regulations of the regions and countries where it operates, including but not limited to the *Law of the People's Republic of China on Prevention and Control of Noise Pollution*, the *Emission Standard for Community Noise* and the *Law of the People's Republic of China on Environmental Impact Assessment*.

In order to reduce the noise impact on the nearby residents and the environment, we have designated construction time and implemented strict noise control. Moreover, we formulated the *Environmental Protection and Prevention Policy* to enhance noise-preventing awareness among all staff on site, and try to use weak-noise/noise-reduction machinery when possible. We set an enclosed machinery operation shed for noisy machinery on site to block the transmission of strong noise. Besides, the Group requires subcontractors to take measures so as to ensure that noise for the boundary of construction site does not exceed the limit.

To minimize the impact on the ecological environment, the Group strictly follows the project design and the owner's requirements for construction, while controlling the scope of construction, reducing the emission of pollutants and putting emphasis on the protection of the natural environment and biodiversity in the area where the project operates.

Addressing Climate Change

We focus on the risks and opportunities we face amid climate change, and implement green concepts in our daily operations. Third Harbor Maritime, a subsidiary of the Company, is mainly engaged in the construction of hydraulic projects that are concentrated in the coastal area of East China. During the typhoon and flood seasons, there is a possibility of being hit by typhoons and floods, which poses a great threat to the safety of the construction vessels, construction personnel and engineering structures undertaken by the Group. Third Harbor Maritime formulated the *Plan for Flood and Typhoon Prevention* and the plan dedicated to climate change, which clarify the process of protecting vessels from wind and protecting project engineering structures, mechanical and electrical equipment and construction materials. Meanwhile, we arranged the staff for several flood prevention and emergency rescue drills during the Reporting Period. In addition, Third Harbor Maritime has set up a leadership team for unified organization and coordination of flood and typhoon prevention. The team is also responsible for the final decision on emergency measures and takes overall leadership responsibility for flood and typhoon prevention.

General Manager	•Commander-in-chief for flood and typhoon prevention, engaging in the unified organization and coordination of the work of the leadership team, responsible for the final decision on emergency measures and taking the overall leadership responsibility for the work of flood and typhoon prevention;
Deputy General Manager	•Deputy commander-in-chief for flood and typhoon prevention, taking specific leadership responsibilities;
Safety Management Department	•Responsible for the arrangement of vessels, weather reception, release of weather news, organization, supervision, inspection and coordination of construction site rescue during flood and typhoon prevention;
Material and Equipment Department	•Responsible for the procurement of materials necessary for flood and typhoon prevention, reinforcement and evacuation of machinery and equipment, electrical equipment and materials during typhoons;
Engineering Management Department	•Assisting in the command of flood and typhoon prevention, including external contact with the project department;
Administration Department	•Responsible for logistics and vehicle dispatching, etc.

Third Harbor Maritime leadership team for flood and typhoon prevention

In addition to Third Harbor Maritime, other subsidiaries of the Company also minimize the impact of extreme weather events on the Company's operations and employees by inspecting facilities and equipment for potential hazards and enhancing safety education.

Typhoon "Muifa" emergency defense

On 14 September 2002, the Central Weather Bureau issued a red typhoon warning for the landfall of typhoon "Muifa" resulting in heavy rainfall in coastal areas. To make full efforts to defend against "Muifa" and strive to reduce safety and production accidents caused by extreme weather, *Watts Gallop Construction, a subsidiary of the Company*, quickly carried out all typhoon defense work and directed members of the project departments to strictly implement emergency measures against typhoons and the defense responsibilities of all parties. Each project department carried out a comprehensive safety hazard inspection for flood and typhoon prevention, and rectified the risks and hazards found in the inspection. These efforts aimed to minimize the damage caused by extreme weather to the Group's equipment and facilities, the impact on business and the danger to employees' lives. We had also established emergency shelters and provided emergency relief materials, and organized evacuation of people in advance. Thanks to the joint efforts of the Safety Management Department and the Project Management Department, more than two thousand people were evacuated from the site in an orderly manner and were properly accommodated.

Giving Back to Society

The Group actively fulfills its corporate social responsibility, pays attention to community development and gives back to the community. We are actively involved in public welfare activities and have formulated the *Methods on Management of Charity and Public Benefit Activities* in order to regulate matters related to charity. Such is how we fulfill our social responsibility as a corporate citizen. During the Reporting Period, the Group's charitable and other donations were approximately HK$671,700.

Donation during the Pandemic

During the COVID-19 pandemic in Shanghai in 2022, the Group donated materials and funds to various parties to support the frontline prevention and control work in the face of the pandemic situation and pressure to maintain supply. We donated RMB10,000 to the Shanghai Charity Foundation and 20,000 KN95 masks to Songnan Town and Luodian Town in Baoshan District, Shanghai, with a total value of RMB20,000. This demonstrated that we made a positive contribution to the significant milestones in the war against the pandemic in Shanghai and laid the foundation for the subsequent resumption of production and work.

At the same time, Watts Gallop Construction, a subsidiary of the Company, responded to the Group's call and donated RMB100,000 each to Lushan Subdistrict, Yinhu Subdistrict and the Housing and Urban-Rural Development Bureau of Fuyang District, Hangzhou, Zhejiang Province. This supported the frontline prevention and control work, contributing to the fight against the pandemic with financial support.

Volunteer Service

From January to April 2022, a number of employees of the Group took the initiative to be pandemic prevention and control volunteers, taking practical actions to help the pandemic prevention and control in different regions. Our volunteer employees were involved in regular inspections and duties, nucleic acid collection, community services, etc. In addition, 47 employees went to 41 quarantine sites in 6 prefectures, including Jinhua, Shaoxing and Ningbo, to provide transportation for medical staff and patients, as well as food, mineral water and other supplies.

Independent Auditor's Report

羅兵咸永道

To the Shareholders of Watts International Maritime Company Limited
(incorporated in the Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of Watts International Maritime Company Limited (the "**Company**") and its subsidiaries (the "**Group**"), which are set out on pages 96–192, comprise:

- the consolidated statement of financial position as at 31 December 2022;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("**the Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Revenue recognition
- Impairment of trade receivables, retention receivables, long-term trade receivables and contract assets

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition Refer to Note 2.22 in the summary of significant accounting policies, Notes 4(d) and 5(b) to the consolidated financial statements. The Group derives its revenues from marine construction services and municipal public construction services which amounted to approximately RMB512.5 million and RMB1,563.1 million for the year ended 31 December 2022, respectively. Revenue is recognised over the period in which the marine construction services and municipal public construction services are rendered, using the output method, with the reference to the project progress measurement and payment requests (the "**Requests**") acknowledged by customers and/or third-party engineering project supervisors who are authorised by customers. We focused on this area due to complexity of measuring the progress of different projects in many different locations and significant audit efforts spent.	Our procedures in relation to revenue recognition of marine construction services and municipal public construction services included: — We understood, evaluated and validated the Group's internal controls in respect of the Group's process to recognise revenue, mainly from customer contracts approval, progress measurement with reference to the Requests and revenue recording based on contract terms and the Requests acknowledged by customers and/or third-party engineering project supervisors. — We tested revenue transactions, on a sample basis, and performed the following procedures: (a) obtained the Requests for which the Group used to measure the value of work and/or services completed during the month and (i) examined the related contracts of marine construction services and municipal public construction services and agreed the contract sum and key transaction terms; (ii) checked the acknowledgements of the Requests from customers and/or third-party engineering project supervisors; (iii) checked the mathematical accuracy of the Requests and agreed the amounts with the revenue breakdown; and

Key Audit Matter	How our audit addressed the Key Audit Matter
	(b) compared with the subcontract costs, if any, and its composition to evaluate the reasonableness of the status of work-in-progress as set out in the Requests and the revenue recognised; — We sent customer confirmations, on a sample basis, to confirm the amounts of revenue transactions recognised during the year and obtained evidence and explanations from management and reconciled the book amounts to replied amounts where there were differences on the replies. — We selected, on a sample basis, the completed projects to compare the final settlement amounts set out in the subsequent acceptance settlement reports provided by third-party engineering project supervisors, to the accumulated revenue recognised for these projects. We found that the Group's revenue from marine construction services and municipal public construction services tested was supported by available evidence.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of trade receivables, retention receivables, long-term trade receivables and contract assets Refer to Notes 2.10 and 2.13 in the summary of significant accounting policies, Notes 3.1, 4(c), 5(e) and 20 to the consolidated financial statements. As at 31 December 2022, trade receivables, retention receivables, long-term trade receivables and contract assets of the Group amounted to RMB1,067.7 million, RMB283.0 million, RMB47.2 million and RMB1,101.1 million, while the impairment provision of which amounted to RMB77.1 million, RMB54.0 million, RMB3.1 million and RMB35.4 million, respectively. The impairment of trade receivables, retention receivables, long-term trade receivables and contract assets were assessed individually or collectively by the management. The management made significant judgments and estimates on the expected loss rates which consider factors including the past collection history of customers and are adjusted for forward-looking elements, such as expected significant changes in business, financial or economic conditions that may impact the customers' ability to meet its obligation, expected significant changes in the performance and behaviour of customers including changes in the payment period. We identified the impairment provision on trade receivables, retention receivables, long-term trade receivables and contract assets as a key audit matter due to the high degree of estimation uncertainties and the subjectivity of judgements involved in determining the impairment provision.	Our procedures in relation to management's assessment on the impairment of trade receivables, retention receivables, long-term trade receivables and contract assets included: — We obtained an understanding of the management's internal control and assessment process of the impairment assessment of trade receivables, retention receivables, long-term trade receivables and contract assets and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity of management's significant judgements, changes and susceptibility to management bias or fraud. — We tested, on a sample basis, the accuracy of ageing profiles on trade receivables, retention receivables, long-term trade receivables and contract assets by checking to the underlying invoices, payment demand notes or the Requests. — We obtained management's assessment on the collectability of individual trade receivables, retention receivables, long-term trade receivables and contract assets, and corroborated management's assessment against relevant supporting evidence, including credit history and financial capability of these customers.

Key Audit Matter	How our audit addressed the Key Audit Matter
	— For those trade receivables, retention receivables, long-term trade receivables and contract assets that were not assessed individually, we assessed the appropriateness of the Group's grouping by considering the credit risk, and the management's simplified approach including roll rate method to determine historical loss rate and industry and country modelling to determine forward looking adjustments. — We evaluated the reasonableness of the default rates of different groups by considering the actual losses incurred and whether the expected loss rates were assessed by the management based on the default rates considering the forward-looking elements, such as the Group's future business relationship with these customers, evidence from external sources including the relevant public search results relating to the financial circumstances of the customers, expected payments periods, GDP and industry investment index. — We assessed the adequacy of the disclosures related to the impairment assessment of trade receivables, retention receivables, long-term trade receivables and contract assets in the context of HKFRSs. We found that the judgements and estimates adopted by management in the assessment of impairment of trade receivables, retention receivables, long-term trade receivables and contract assets were supported by available evidence.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in Watts international Maritime Company Limited 2022 Annual Report (the "**annual report**") other than the consolidated financial statements and our auditor's report thereon. We have obtained some of the other information including corporate information, management discussion and analysis, biographical details of directors and senior management, report of the directors, corporate governance report and environmental, social and governance report prior to the date of this auditor's report. The remaining other information, including chairman's statement, five year financial summary and other section to be included in the annual report, are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the remaining other information to be included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Audit Committee and take appropriate action considering our legal rights and obligations.

Responsibilities of Directors and the Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is CHAN Chiu Kong, Edmond.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2023

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2022

	Note	Year ended 31 December 2022 RMB'000	2021 RMB'000
Revenue	5	**2,075,610**	2,262,779
Cost of sales	5,8	**(1,904,484)**	(2,055,011)
Gross profit		**171,126**	207,768
Selling and distribution expenses	8	**(5,616)**	(3,994)
Administrative expenses	8	**(92,356)**	(113,565)
Net impairment losses on financial assets	3.1(b)	**(28,741)**	(20,855)
Other operating expenses	8	**(336)**	(2,315)
Other income	6	**3,981**	8,398
Other gains/(losses) - net	7	**13,260**	(3,564)
Operating profit		**61,318**	71,873
Finance income	10	**4,475**	5,282
Finance costs	10	**(25,672)**	(19,113)
Profit before income tax		**40,121**	58,042
Income tax expense	11	**(13,023)**	(10,980)
Profit for the year		**27,098**	47,062
Other comprehensive income			
Items that may be reclassified to profit or loss			
Currency translation differences	26	**4,918**	(1,895)
Changes in the fair value of equity instruments at fair value through other comprehensive income, net of tax	22,26	**7,703**	(39)
Other comprehensive income for the year, net of tax		**12,621**	(1,934)
Total comprehensive income for the year attributable to the Shareholders of the Company		**39,719**	45,128
Earnings per share for profit attributable to the Shareholders of the Company (expressed in RMB cents per share):			
— Basic earnings per share	12	**3.31**	5.75
— Diluted earnings per share	12	**3.31**	5.75

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

As at 31 December 2022

	Note	As at 31 December 2022 RMB'000	2021 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	**77,081**	86,557
Right-of-use assets	15	**12,464**	14,117
Intangible assets	17	**147**	292
Contract assets	5	**535,359**	538,541
Trade and other receivables	20	**129,422**	152,086
Deferred tax assets	30	**21,696**	15,997
Financial assets at fair value through other comprehensive income	22	**15,287**	6,253
		791,456	813,843
Current assets			
Inventories	19	**11,993**	42,708
Contract assets	5	**530,401**	642,639
Trade and other receivables	20	**1,399,712**	1,316,533
Financial assets at fair value through profit or loss	21	**1,300**	—
Restricted cash	23	**166,281**	75,994
Cash and cash equivalents	23	**540,175**	443,833
		2,649,862	2,521,707
Total assets		**3,441,318**	3,335,550
EQUITY			
Capital and reserves			
Share capital	24	**7,303**	7,303
Share premium	24	**280,092**	291,505
Other reserves	26	**30,385**	14,404
Shares held for employee share scheme	25	**(4,756)**	(4,756)
Retained earnings	27	**418,642**	394,904
Total equity		**731,666**	703,360

Consolidated Statement of Financial Position

As at 31 December 2022

	Note	As at 31 December 2022 RMB'000	2021 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	29	**14,500**	19,500
Lease liabilities	16	**3,003**	2,941
Trade and other payables	28	**215,180**	260,127
Deferred tax liabilities	30	**1,266**	—
		233,949	282,568
Current liabilities			
Lease liabilities	16	**1,498**	2,117
Borrowings	29	**231,411**	104,885
Trade and other payables	28	**2,078,719**	2,175,944
Income tax payables		**25,746**	20,377
Contract liabilities	5	**138,329**	46,299
		2,475,703	2,349,622
Total liabilities		**2,709,652**	2,632,190
Total equity and liabilities		**3,441,318**	3,335,550

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

The financial statements on pages 96 to 192 were approved by the Board of Directors on 28 March 2023 and were signed on its behalf.

Director *Director*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

		Attribute to the Shareholders					
	Note	Share capital *RMB'000*	Shares held for employee share scheme *RMB'000*	Share premium *RMB'000*	Other reserves *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*
Balance at 1 January 2021		7,303	(4,756)	296,997	11,521	352,659	663,724
Comprehensive income							
Profit for the year		—	—	—	—	47,062	47,062
Currency translation differences		—	—	—	(1,895)	—	(1,895)
Changes in the fair value of equity instruments at fair value through other comprehensive income		—	—	—	(39)	—	(39)
Total comprehensive income		—	—	—	(1,934)	47,062	45,128
Appropriation to statutory reserves		—	—	—	4,817	(4,817)	—
Dividends distribution to shareholders	31	—	—	(5,492)	—	—	(5,492)
Balance at 31 December 2021		7,303	(4,756)	291,505	14,404	394,904	703,360

Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

		Attribute to the Shareholders					
	Note	Share capital *RMB'000*	Shares held for employee share scheme *RMB'000*	Share premium *RMB'000*	Other reserves *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*
Balance at 1 January 2022		7,303	(4,756)	291,505	14,404	394,904	703,360
Comprehensive income							
Profit for the year		—	—	—	—	27,098	27,098
Currency translation differences		—	—	—	4,918	—	4,918
Changes in the fair value of equity instruments at fair value through other comprehensive income, net of tax		—	—	—	7,703	—	7,703
Total comprehensive income		—	—	—	12,621	27,098	39,719
Appropriation to statutory reserves		—	—	—	3,360	(3,360)	—
Dividends distribution to shareholders	31	—	—	(11,413)	—	—	(11,413)
Balance at 31 December 2022		7,303	(4,756)	280,092	30,385	418,642	731,666

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the year ended 31 December 2022

	Note	Year ended 31 December 2022 RMB'000	2021 RMB'000
Cash flows from operating activities			
Cash generated from operations	32(a)	**33,297**	246
Income tax paid		**(13,417)**	(14,747)
Net cash generated from/(used in) operating activities		**19,880**	(14,501)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(8,010)**	(8,514)
Interest received		**1,798**	2,411
Proceeds from disposal of property, plant and equipment	32(c)	**699**	12,494
Dividends received from financial assets at fair value through other comprehensive income		**407**	348
Cash consideration paid during business combination under common control		**(25,510)**	(25,000)
Purchase of intangible assets	17	**(71)**	(71)
Purchase of financial assets at fair value through other comprehensive income		**—**	(2,500)
Payment for purchase of financial assets at fair value through profit or loss		**(1,300)**	—
Proceeds from sale of financial assets at fair value through profit or loss		**—**	50
Net cash used in investing activities		**(31,987)**	(20,782)
Cash flows from financing activities			
Proceeds from borrowings	32(d)	**303,384**	99,885
Repayments of borrowings	32(d)	**(181,858)**	(29,500)
Dividend paid	31	**(11,013)**	(5,492)
Interest paid		**(8,200)**	(4,012)
Lease payment	32(d)	**(800)**	(1,782)
Net cash generated from financing activities		**101,513**	59,099
Net increase in cash and cash equivalents		**89,406**	23,816
Cash and cash equivalents at beginning of the financial year		**443,833**	423,696
Effects of exchange rate changes on cash and cash equivalents		**6,936**	(3,679)
Cash and cash equivalents at end of year	23	**540,175**	443,833

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1 GENERAL INFORMATION

1.1 General Information

Watts International Maritime Company 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 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**”).

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

The consolidated financial statements have been approved for issue by the Board of Directors (the “**Board**”) on 28 March 2023.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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 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 are disclosed in Note 4.

(i) New and amended standards adopted by the Group

The Group has applied the following amendments or annual improvements for the first time for their annual reporting period commencing 1 January 2022:

- Property, Plant and Equipment: Proceeds before Intended Use — Amendments to HKAS 16

- Onerous Contracts — Cost of Fulfilling a Contract — Amendments to HKAS 37

- Annual Improvements to HKFRS Standards 2018-2020

- Reference to the Conceptual Framework — Amendments to HKFRS 3

- Covid-19 Related Rent Concessions beyond 30 June 2021 — Amendment to HKFRS 16 (March 2021) (the "**HKFRS 16 Amendment (March 2021)**")

- Amendments to AG 5 Merger Accounting for Common Control Combinations

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(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 2022 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 1 and HKFRS Practice Statement 2 (Amendments)	Disclosure of Accounting Policies	1 January 2023
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2023
HKAS 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

2.2 Principles of consolidation and equity accounting

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Principles of consolidation and equity accounting (Continued)

(b) Equity method

Under the method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment.

Where the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.9.

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/ permitted by applicable HKFRSs.

2.3 Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Acquisitions failed to meet the definition of business combination are treated as acquisitions of assets and liabilities instead of business combination.

Acquisition-related costs are expensed as incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Business combinations (Continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of comprehensive income.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognised in profit or loss.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

2.4 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The management of the Company assesses the financial performance and position of the Group, and makes strategic decisions. The chief operating decision-maker has been identified as the executive directors.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The consolidated financial statements are presented in RMB, which is the functional currency of the PRC subsidiaries in the Group and the Company.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in the consolidated statement of comprehensive income.

Foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within "Other gains/(losses) — net".

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as fair value through other comprehensive income are recognised in other comprehensive income.

(c) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each financial position presented are translated at the closing rate at the date of that financial position,
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, are recognised in other comprehensive income. When a foreign operation is sold, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Property, plant and equipment

Property, plant and equipment, comprising industrial machinery and equipment, office supplies and electronic equipment, transport equipment and buildings, are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they incurred.

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values of 0% to 5% over their estimated useful lives, as follows:

• Industrial machinery and equipment	3–25 years
• Transport equipment	3–8 years
• Buildings	5–20 years
• Office supplies and electronic equipment	3–5 years
• Leasehold improvements	3 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated statement of comprehensive income.

Construction-in-progress represents properties under construction and is stated at cost less accumulated impairment, if any. This includes cost of construction, plant and equipment and other direct costs. Construction-in-progress is not depreciated until such time as the assets are completed and are ready for operational use.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Intangible assets

(a) Licences

Separately acquired licences are shown at historical cost. Licences have a finite useful life and are subsequently carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives. The licence of the Group contains four registered patent licence. The legal term of the registered patent rights is 10 years which the Group consider as the justification to have useful life of 10 years.

(b) Software

The software of the Group mainly includes computer software, which is capitalised on the basis of the cost incurred to acquire the specific software. These costs are amortised over the estimated useful life of 2-5 years.

(c) Research and development

Research expenditures are expensed as incurred. Development expenditure incurred on projects to develop new technology and skills is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete, its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Other development expenditure which does not meet these criteria is expensed when incurred.

2.9 Impairment of non-financial assets

Assets that are subject to amortisation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial assets

(a) Classification

The Group classifies its financial assets in the following categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("**OCI**") or through profit or loss), and

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flow.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("**FVOCI**").

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(c) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

(i) Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial assets (Continued)

(c) Measurement (Continued)

(i) Debt instruments (Continued)

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in the consolidated statement of comprehensive income and presented in "Other gains/(losses) — net", together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of the consolidated statement of comprehensive income.

FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in "Other gains/(losses) — net". Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in "Other gains/(losses) — net" and impairment expenses are presented as separate line item in the statement of profit or loss.

FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in the consolidated statement of comprehensive income and presented net within "Other gains/(losses) — net" in the period in which it arises.

(ii) Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in "Other gains/(losses) — net" in the consolidated statement of comprehensive income as applicable. Impairment losses on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Details on how the fair value of financial instruments is determined are disclosed in Note 3.4(a).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial assets (Continued)

(d) Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 3.1 details how the Group determines whether there has been a significant increase in credit risk.

The Group has the following types of assets that are subject to HKFRS 9's expected credit loss model:

- trade and retention receivables for providing marine construction services and municipal public construction services
- contract assets relating to marine construction and municipal public construction contracts
- long-term trade receivables
- other receivables
- cash and cash equivalents
- restricted cash

For trade receivables and contract assets with no significant financing component, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the assets. The provision matrix is determined based on historical observed default rates over the expected life of the trade receivables and contract assets with similar credit risk characteristics and is adjusted for forward-looking estimates. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

For long-term trade receivables with financing component, the Group applies expected lifetime loss model similar with trade receivables and contract assets based on the original value of long-term trade receivables.

Impairment on other receivables and bank deposits are measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the consolidated statement of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the financial position where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.12 Inventories

Inventories including raw materials are stated at the lower of cost and net realisable value. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and disposal.

2.13 Trade receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection of trade receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

2.14 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, cash at bank, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.15 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

Long-term trade payables represent amounts due to suppliers for certain construction whose contractual payment periods are over one year. The Group determines the payment periods according to payment schedule in the contracts with suppliers, which is related to the estimated completion date of the project. The long-term trade payables are settled upon the completion of the project and measured at amortised cost using the effective interest method, which is used to calculate the discount amounts. Management reassesses the estimated completion date of the project and discount rate at each balance sheet date.

2.17 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.18 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Borrowing costs (Continued)

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

2.19 Current and deferred income tax

The income tax expense or credit for the year is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Current and deferred income tax (Continued)

(b) Deferred income tax (Continued)

Current and deferred tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2.20 Employee benefits

(a) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the financial position.

(b) Post-employment obligations

The Group operates post-employment schemes via defined contribution pension plans. For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

For employees in Mainland China:

The employees of the Group's subsidiaries established in the PRC participate in defined contribution retirement benefit plans organised by the relevant provincial governments under which the Group is required to make monthly contributions to these plans at certain percentages of the employees' monthly salaries and wages, subject to certain ceilings.

For employees in Hong Kong:

The Group participates in a Mandatory Provident Fund scheme (the "**MPF Scheme**") in accordance with the Mandatory Provident Fund Scheme Ordinance of Hong Kong. Under the rules of the MPF Scheme, the employer and its employees in Hong Kong are each required to contribute 5% of the employees' gross earnings with a ceiling of HK$1,500 per month.

For employees in Indonesia:

The Group participates in an employee social security programme (the "**Indonesian Social Security Programme**") in Indonesia, providing compensation in the event of working accidents, death, old age, and in case of sickness and hospitalisation. Under the Indonesian Social Security Programme, the employer is required to contribute a fixed percentage of the employee's salaries every month.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Employee benefits (Continued)

(b) Post-employment obligations (Continued)

For employees in Brunei:

The Group participates in a contribution scheme in accordance with the Employee Trust Act and Employee Trust Rules and Regulations of Brunei ("**Bruneian Contribution Scheme**"). Under the rules of the Bruneian Contribution Scheme, for the employees who are citizens and permanent residents of Brunei Darussalam aged below 55 years, the employees and the employers are each required to contribute a fixed percentage of the employee's basic salaries every month.

2.21 Provisions

Provisions for legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Warranty provision is provided to customers in conjunction with the construction services. The warranty obligation arises through the contract signed between the Group and customers, which lasts from one to five years after completion of construction. The Group's retention money are collected after the warranty period. During the years ended 31 December 2022 and 2021, the warranty cost was rare and immaterial, therefore provision for the warranty obligation was not recognised.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

2.22 Revenue recognition

Revenue are recognised when or as the control of the goods or services is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the goods and services may be transferred over time or at a point in time.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Revenue recognition (Continued)

When control of the goods or services is transferred over time, the progress towards complete satisfaction of performance obligation is measured based on one of the following methods that best depicts the Group's performance in satisfying the performance obligation:

(a) direct measurements of the value of individual services transferred by the Group to the customer, such as units produced or delivered, contract milestones, or surveys of work performed; or

(b) the Group's efforts or inputs to the satisfaction of the performance obligation.

A contract asset is the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer, and it should be presented separately. Incremental costs incurred to obtain a contract, if recoverable, are capitalised and presented as contract assets and subsequently amortised when the related revenue is recognised. A contract asset becomes a receivable when receipt of the consideration is conditional only on the passage of time.

Contract assets are assessed for impairment under the same approach adopted for impairment assessment of financial assets carried at amortised cost.

A contract liability is the Group's obligation to render the services to a customer for which the Group has received non-refundable consideration from the customer.

The following is a description of accounting policy for the revenue streams of the Group.

The Group obtains revenue from marine construction services and municipal public construction services. Marine construction services include the services of infrastructure construction of ports and waterway engineering. Municipal public construction services include construction of public infrastructure, urban greening and construction of buildings. These two construction related businesses have similar method of revenue recognition.

The Group derives revenue from the transfer of the above construction services over time.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Revenue recognition (Continued)

The progress towards complete satisfaction of performance obligation is measured in output method based on the project progress measurement and payment requests (the "**Requests**") acknowledged by customers and/or third-party engineering project supervisors who are authorised by customers, which are commensurate with the work performance based on direct measurements of the value of units delivered or survey of work performed. The contractual payment terms differ for different customers due to the variety of projects. Most of the payments are payable according to the stage of construction with credit terms of 30 to 60 days, while 10% to 35% of payments will be payable upon the completion of the construction and such portion of payments are recognised as contract assets before the completion of the projects and transferred to trade receivables when the Group has the right to bill the customers which is usually upon completion of construction; the rest 5% to 10% of the contract price are recognised as retention receivables, which would be paid after the warranty period expires. The payments are commensurate with the Group's performance and the contracts require certain amounts to be retained until completion of construction or expiry of warranty period which are intended for protection against non-performance. The Group does not intend to give a financing to customers in most cases and the Group makes efforts to collect the receivables and timely monitor the credit risk.

For some projects, such as the public-private-partnership project, longer payment term may be extended to customers. When determining the transaction price, the Group considers factors such as whether there is any financing component. The Group considers whether the payment schedule is commensurate with the Group's performance and whether the delayed payment is for finance purpose. When the contract contains a financing component which provides the customer a significant benefit or financing the transfer of construction services to the customer for more than one year, revenue is measured at the present value of the amount receivable discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception.

The Group does not have any variable consideration such as discounts, refunds, rebates, credits, penalties, performances bonuses or royalties. Also, the contract modification rarely occurs, and the contract price finally confirmed by the customer upon completion of project does not vary significantly from the original price. Trade receivables and contract assets expected to be recovered in one year or less are classified as current assets. If not, they are presented as non-current assets.

There is no material contract fulfilment cost or cost of obtaining contracts of the Group.

Cost of sales incurred comprise direct materials, the costs of subcontracting, direct labour, depreciation, and other expenses. Costs are recognised when incurred during the completion of the contract activity. Direct materials occupied the most in the cost of sales.

The Group records contract liability for non-refundable advance payment from customer before rendering of services since there is still performance obligation to complete. The contract liabilities are recognised as revenue over the period during which the relevant services are rendered to customers.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.24 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

The Group leases different equipment and land. Rental contracts for land are typically made for fixed periods. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Rental contracts for equipment are typically for construction projects with no fixed term periods and are for short-term lease purpose. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Leases (Continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- makes adjustments specific to the lease, e.g. term, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Leases (Continued)

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature.

2.25 Dividend distribution

Dividend distribution to the Company's shareholder is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's directors or shareholders, wherever appropriate.

2.26 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

2.27 Interest income

Interest income from financial assets at FVPL is included in the net fair value gains/(losses) on these assets, see Note 7 below.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 10 below. Any other interest income is included in other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. The Group entities collect most of the revenue and incur most of the expenditures in respect of their functional currencies. Foreign exchange risk arises from various currency exposures primarily through proceeds received from customers and shareholders, and payments to the suppliers that are denominated in a currency other than the Group's entities' functional currency. The currencies giving rise to this risk are primarily US dollar ("**US$**"), Indonesian Rupiah ("**IDR**") and Brunei dollar ("**BN$**"), as certain purchase and sales of the Group are denominated in US$, IDR and BN$. The Group also has certain amounts of cash and bank balances denominated in US$, which are exposed to foreign currency translation risk. The management of the Group considers that the Group's exposure to foreign currency exchange risk is not significant due to the most of the functional currency of the entities in Group is the same as the transaction currency.

The Group currently does not have a foreign currency hedging policy. However, the management of the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

At 31 December 2022, if RMB had strengthened/weakened by 5% against the US$, IDR and BN$ with all other variables held constant, the total profit for the year would have been RMB3,238,000 lower/higher (2021: RMB5,511,000), mainly as a result of foreign exchange gains/losses on translation of US$, IDR and BN$ denominated cash and cash equivalents, trade and other receivables and trade and other payables.

(ii) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets and liabilities other than bank deposits and bank borrowings. As borrowings are obtained at the fixed rates, the Group has no cash flow interest rate risk. The Group has not used any financial instrument to hedge its exposure to cash flow and fair value interest rate risks.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk

Credit risk arises from restricted cash, cash and cash equivalents, trade receivables, retention receivables, bill receivables and long-term trade receivables and contract assets. The carrying amounts of each class of these financial assets represent the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

(i) Risk management

To manage the risk with respect to cash and cash equivalents and restricted cash, the Group placed them in banks with high reputation.

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. Especially the following indicators are incorporated:

- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customers' ability to meet its obligations
- actual or expected significant changes in the operating results of customers
- significant increases in credit risk on other financial instruments of customers
- significant changes in the expected performance and behaviour of customers, including changes in the payment status of customers in the Group and changes in the operating results of the customers.

(ii) Impairment of financial assets

The Group has several types of financial assets that are subject to the expected credit loss model. The identified impairment loss of these financial assets was immaterial, except for the following ones:

- Trade and retention receivables from providing marine construction services and municipal public construction services.
- Contract assets relating to marine construction contracts and municipal public construction contracts.
- Long-term trade receivables from providing municipal public construction services.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all trade receivables, retention receivables, long-term trade receivables and contract assets.

To measure the expected credit losses, trade receivables, retention receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the payment profiles of providing marine construction services and municipal public construction services over a period of 6 years before 31 December 2022 or 1 January 2022 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has considered evidence from external sources including the relevant public search results relating to the financial circumstances of the customers and expected behaviour including method of payments or payments period, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Trade and retention receivables

For trade and retention receivables, the Group performs ongoing credit evaluations of its debtors' financial condition and does not require collateral from the debtors on the outstanding balances.

Individually impaired trade receivables and retention receivables are related to customers who are experiencing unexpected economic difficulties. The Group expects that the entire amounts of the receivables will have difficulty to be recovered and has recognised impairment losses. For the year ended 31 December 2022 and 2021, no individually impaired trade and retention receivables were identified.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) *Credit risk* (Continued)

(ii) Impairment of financial assets (Continued)

As at 31 December 2022 and 2021, the trade receivables and retention receivables have been grouped on the basis of shared credit risk characteristics and the days past due for the measurement of expected credit loss:

i) Marine construction services group

	Within 1 year *RMB'000*	1 to 2 years *RMB'000*	2 to 3 years *RMB'000*	Over 3 years *RMB'000*	Total *RMB'000*
Trade receivables					
At 31 December 2022					
Expected loss rate	2.03%	3.63%	8.23%	23.39%	
Gross carrying amount	260,143	108,271	46,065	97,858	512,337
Total loss allowance provision	5,273	3,934	3,793	22,891	35,891

	Within 1 year *RMB'000*	1 to 2 years *RMB'000*	2 to 3 years *RMB'000*	Over 3 years *RMB'000*	Total *RMB'000*
Retention receivables					
At 31 December 2022					
Expected loss rate	8.98%	13.95%	16.77%	69.34%	
Gross carrying amount	62,051	8,843	44,160	39,166	154,220
Total loss allowance provision	5,574	1,234	7,403	27,160	41,371

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) ***Credit risk*** (Continued)

(ii) Impairment of financial assets (Continued)

i) Marine construction services group (Continued)

	Within 1 year *RMB'000*	1 to 2 years *RMB'000*	2 to 3 years *RMB'000*	Over 3 years *RMB'000*	Total *RMB'000*
Trade receivables					
At 31 December 2021					
Expected loss rate	2.13%	3.51%	8.25%	27.96%	
Gross carrying amount	309,419	67,317	100,402	121,040	598,178
Total loss allowance provision	6,604	2,361	8,279	33,847	51,091

	Within 1 year *RMB'000*	1 to 2 years *RMB'000*	2 to 3 years *RMB'000*	Over 3 years *RMB'000*	Total *RMB'000*
Retention receivables					
At 31 December 2021					
Expected loss rate	3.37%	4.95%	6.12%	18.85%	
Gross carrying amount	16,289	47,624	11,952	42,690	118,555
Total loss allowance provision	548	2,356	732	8,048	11,684

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

ii) Municipal public construction services group

	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 3 years RMB'000	Over 3 years RMB'000	Total RMB'000
Trade receivables					
At 31 December 2022					
Expected loss rate	3.10%	8.50%	20.41%	64.48%	
Gross carrying amount	422,340	78,626	30,496	23,938	555,400
Total loss allowance provision	12,904	6,683	6,223	15,436	41,246

	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 3 years RMB'000	Over 3 years RMB'000	Total RMB'000
Retention receivables					
At 31 December 2022					
Expected loss rate	5.11%	29.56%	43.91%	98.15%	
Gross carrying amount	119,556	1,848	2,509	4,916	128,829
Total loss allowance provision	6,111	546	1,102	4,825	12,584

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

ii) Municipal public construction services group (Continued)

	Within 1 year *RMB'000*	1 to 2 years *RMB'000*	2 to 3 years *RMB'000*	Over 3 years *RMB'000*	Total *RMB'000*
Trade receivables					
At 31 December 2021					
Expected loss rate	2.61%	6.35%	14.26%	63.98%	
Gross carrying amount	358,661	105,461	19,024	25,550	508,696
Total loss allowance provision	9,365	6,695	2,712	16,347	35,119

	Within 1 year *RMB'000*	1 to 2 years *RMB'000*	2 to 3 years *RMB'000*	Over 3 years *RMB'000*	Total *RMB'000*
Retention receivables					
At 31 December 2021					
Expected loss rate	4.47%	17.22%	25.39%	90.11%	
Gross carrying amount	123,803	4,196	1,098	5,680	134,777
Total loss allowance provision	5,532	722	279	5,118	11,651

Contract assets

Contract assets relate to unbilled work in progress which have substantially the same risk characteristics as the trade receivables for the same types of contract. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets. Since the contract assets are still in performing, the payment is not due.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) ***Credit risk*** (Continued)

(ii) Impairment of financial assets (Continued)

Contract assets (Continued)

Individually impaired contract assets are related to projects under litigation claims. Management makes individual assessment on these contract assets based on historical settlement records, past experience, pledged assets as well as forward looking factors. As at 31 December 2022, the contract assets of RMB20,145,000 from two customers are under litigation claims. The Group made an individual loss allowance of RMB5,704,000 for these contract assets for the year ended 31 December 2022 (2021: Nil).

The expected loss rates of the remaining contract assets are assessed to be 2.03% for marine construction and 3.10% for municipal public construction (2021: 2.13% and 2.61%, respectively), which are the same as that of trade receivables past due up to one year respectively.

As at 31 December 2022, the loss allowance for provision for contract assets of marine construction and municipal public construction was approximately RMB7,219,000 and RMB28,170,000 (2021: RMB11,197,000 and RMB17,903,000, respectively).

Long-term trade receivables

Long-term trade receivables relate to a public-private-partnership project in municipal public construction services and are recognised as contract assets when the project is still performing and transferred to receivables after the project is finished. Since the customer is a government owned company with strong reputation and the payment is not due according to the contract, the expected loss rate for the long-term trade receivables is assessed to be the same as that of the trade receivables past due up to one year. As at 31 December 2022, the loss allowance for provision for long-term trade receivables was approximately RMB3,099,000 (2021: RMB1,750,000).

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) *Impairment of financial assets* (Continued)

Long-term trade receivables (Continued)

The loss allowance provision for trade receivables, retention receivables, long-term trade receivables and contract assets as at 31 December 2022 and 2021 reconciles to the opening loss allowance for that provision is as follows:

	Trade receivables *RMB'000*	Retention receivables *RMB'000*	Long-term trade receivables *RMB'000*	Contract assets *RMB'000*	Total *RMB'000*
At 1 January 2021	74,021	18,222	1,880	25,661	119,784
Provision for/(reversal of) loss allowance recognised in consolidated statement of comprehensive income	12,307	5,200	(130)	3,478	20,855
Currency translation differences	(118)	(87)	—	(39)	(244)
At 31 December 2021	86,210	23,335	1,750	29,100	140,395
(Reversal of)/provision for loss allowance recognised in consolidated statement of comprehensive income	**(9,149)**	**30,246**	**1,349**	**6,295**	**28,741**
Currency translation differences	**76**	**374**	**—**	**(6)**	**444**
At 31 December 2022	**77,137**	**53,955**	**3,099**	**35,389**	**169,580**

Other receivables

The Group adopts general approach for expected credit losses of other receivables and considers it has not significantly increased in credit risk from initial recognition. Thus, it is still in stage one and only consider 12-month expected credit losses.

For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. The Group considered counter parties having a low risk of default and a strong capacity to meet contractual cash flow as performing. The directors of the Company believe that there is no material credit risk in the Group's outstanding balance of other receivable.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Cash and cash equivalents and bills receivables

For cash and cash equivalents, restricted cash and bills receivables, the Group only transacts with state-owned or reputable financial institutions in Mainland China and reputable international financial institutions outside of Mainland China. There has been no recent history of default in relation to these financial institutions. The Group considered counter parties having a low risk of default and a strong capacity to meet contractual cash flow in the near term. The identified impairment loss was immaterial.

Net impairment losses on financial assets and contract assets recognised in profit or loss

During the year, the following losses were recognised in profit or loss in relation to impaired financial assets and contract assets:

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Net impairment losses on financial assets and contract assets	**28,741**	20,855

Impairment losses on trade receivables, retention receivables, long-term trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

3.2 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group's objective is to maintain adequate committed credit lines to ensure sufficient and flexible funding is available to the Group.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Liquidity risk (Continued)

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At 31 December 2021					
Borrowings	107,598	5,948	15,794	—	129,340
Lease liabilities	2,303	339	1,118	2,583	6,343
Trade and other payables	2,005,673	142,436	130,485	12,242	2,290,836
	2,115,574	148,723	147,397	14,825	2,426,519
At 31 December 2022					
Borrowings	**234,042**	**5,690**	**10,104**	**—**	**249,836**
Lease liabilities	**1,649**	**373**	**1,155**	**2,173**	**5,350**
Trade and other payables	**1,916,184**	**109,389**	**127,046**	**2,915**	**2,155,534**
	2,151,875	**115,452**	**138,305**	**5,088**	**2,410,720**

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Capital management

The capital structure of the Group consists of equity and borrowings. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce borrowings. The Group monitors capital on the basis of debt to equity ratio. The debt to equity ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings less cash and cash equivalents, time deposits and pledged bank deposits. The net cash position as at 31 December 2022 and 2021 was resulted from the Group's operation. The debt to equity ratios as at 31 December 2022 and 2021 are as follows:

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Total borrowings *(Note 29)*	**245,911**	124,385
Less: cash and cash equivalents, time deposit with maturity over 3 months and pledged bank deposits *(Note 23)*	**(706,456)**	(519,827)
Net cash	**(460,545)**	(395,442)
Total equity	**731,666**	703,360
Debt to equity ratio	**N/A**	N/A

3 FINANCIAL RISK MANAGEMENT (Continued)

3.4 Fair value estimation

(a) Financial assets and liabilities

(i) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

Recurring fair value measurements	Note	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
At 31 December 2022					
Financial assets at fair value through profit or loss	21	—	—	1,300	1,300
Financial assets at fair value through other comprehensive income	22	3,917	—	11,370	15,287
		3,917	—	12,670	16,587

Recurring fair value measurements	Note	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
At 31 December 2021					
Financial assets at fair value through other comprehensive income	22	3,753	—	2,500	6,253

3 FINANCIAL RISK MANAGEMENT (Continued)

3.4 Fair value estimation (Continued)

(a) Financial assets and liabilities (Continued)

(i) Fair value hierarchy (Continued)

There were no transfers between levels 1, 2, and 3 for recurring fair value measurements during the year.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

(ii) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- the use of quoted market prices or dealer quotes for similar instruments
- for other financial instruments discounted cash flow analysis.

The finance manager of the Group performs valuation on these level 3 instruments for financial reporting purposes. On an annual basis, the team adopts various valuation techniques to determine the fair value of the Group's level 3 instrument.

As at 31 December 2022 and 2021, the level 1 instrument of the Group mainly includes investment in listed securities, the fair value of the equity instrument is based on quoted market price at the end of the year. The instrument is included in level 1.

As at 31 December 2022, the level 3 instrument of the Group mainly includes investment in equity securities that are not publicly traded and instrument in a wealth management product.

As at 31 December 2021, the level 3 instrument of the Group mainly includes investment in equity securities that are not publicly traded.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.4 Fair value estimation (Continued)

(a) Financial assets and liabilities (Continued)

(ii) Valuation techniques used to determine fair values (Continued)

As the instrument in a wealth management product is not traded in an active market, its fair value has been determined using various applicable valuation techniques, including discounted cash flows approach and comparable transaction approach, etc. Major assumptions used in the valuation include historical financial results, assumptions about future growth rates, recent market transactions and other exposure.

For the Group's investments in equity securities in level 3 that are not publicly traded, the Group uses its judgment to select backsolving method and make major assumptions including risk-free interest rate, excepted volatility and probability and estimated time of liquidation/redemption listing scenario at each balance sheet date to assess the fair value.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management reassesses the useful lives on a regular basis. Management will increase the depreciation charge where useful lives are shorter than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

(b) Income taxes and deferred tax assets/liabilities

The Group is subject to income taxes in several jurisdictions. Judgement is required in determining the provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax provisions in the periods in which such determination are made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and taxation in the periods in which such estimate is changed.

(c) Provision for impairment of financial assets and contract assets

The Group's management determines the provision for impairment of trade receivables, retention receivables, long-term trade receivables and contract assets on a forward-looking basis and the expected lifetime losses are recognised from initial recognition of the assets. The provision matrix is determined based on the Group's historical observed default rates over the expected life of the trade receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. Contract assets will not be transferred to trade receivables or retention receivables unless the construction services are completed, which is the time when the Group has unconditional right to receive consideration. The Group assesses that the contract assets have substantially the same risk characteristics as the trade receivables for the same types of contracts. In making the judgement, management considers available reasonable and supportive forward-looking information such as actual or expected significant changes in the business relationship with customers, financial circumstances of the customers and expected behaviour including method of payments or payments period. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed by the Group's management.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

(d) Revenue recognition

The Group has primary responsibility to fulfillment of the contract, quality and warranty of the overall work and has discretion in selecting subcontractors and discretion of the pricing for subcontractor. Thus, the Group is acting as the principal and recognises revenue on a gross basis. The determination of the progress of the construction service involves judgements. The Group recognises revenue based on progress measurement and payment requests (the "**Requests**") acknowledged by customers and/or third-party engineering project supervisors who are authorised by customers. Management will assess whether the Requests reflect progress towards complete satisfaction of performance obligation and are commensurate with the work performance based on direct measurements of the value of units delivered or survey of work performed. The customers will provide final statement when the whole project is completed and may have adjustments on accumulated recognition of work performed according to the actual performance till the day of completion. Based on historical experience with similar projects, the difference is immaterial. In addition, when determining the transaction price, the Group considers factors such as whether there is any financing component. The Group considers whether the payment schedule is commensurate with the Group's performance and whether the delayed payment is for finance purpose. When the contract does not contain a financing component, the Group has recognised revenue on the Requests over the period during which the services are rendered and transferred to customers. When the contract contains a financing component which provides the customer a significant benefit or financing the transfer of services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception.

(e) Long-term payables

Long-term payables represent amounts due to suppliers for certain construction whose contractual payment periods are over one year. The Group determines the payment periods according to payment schedule in the contracts with suppliers, which is related to the estimated completion date of the project. The long-term payables are settled upon the completion of the project and measured at amortised cost using the effective interest method, which is used to calculate the discount amounts. Management reassesses the estimated completion date of the project and discount rate at each balance sheet date.

5 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.

5 SEGMENT INFORMATION (Continued)

(b) Segment results and other information

The segment information for the year ended 31 December 2022 is as follows:

	Year ended 31 December 2022		
	Marine construction RMB'000	Municipal public construction RMB'000	Total RMB'000
Revenue	512,498	1,563,112	2,075,610
Cost of sales	(466,054)	(1,438,430)	(1,904,484)
Gross profit	46,444	124,682	171,126
Unallocated items			
Operating expenses			(127,049)
Other income *(Note 6)*			3,981
Other gains — net *(Note 7)*			13,260
Finance costs — net *(Note 10)*			(21,197)
Profit before income tax			40,121
Income tax expense *(Note 11)*			(13,023)
Profit for the year			(27,098)
Segment items included:			
Depreciation and amortisation	(11,750)	(7,592)	(19,342)
Net impairment losses on financial assets *(Note 3.1)*	(10,066)	(18,675)	(28,741)

The segment assets and liabilities at 31 December 2022 are as follows:

	As at 31 December 2022			
	Marine construction RMB'000	Municipal public construction RMB'000	Inter-segment elimination RMB'000	Total RMB'000
Total assets	1,483,678	2,061,164	(103,524)	3,441,318
Total liabilities	1,031,885	1,781,291	(103,524)	2,709,652

5 SEGMENT INFORMATION (Continued)

(b) Segment results and other information (Continued)

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 *(Note 6)*			8,398
Other losses — net *(Note 7)*			(3,564)
Finance costs *(Note 10)*			(13,831)
Profit before income tax			58,042
Income tax expense *(Note 11)*			(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 *(Note 3.1)*	(16,112)	(4,743)	(20,855)

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

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

5 SEGMENT INFORMATION (Continued)

(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					
	2022			2021		
	Marine Construction	**Municipal public construction**	**Total**	Marine Construction	Municipal public construction	Total
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Mainland China						
Revenue	**351,084**	**1,563,112**	**1,914,196**	640,957	1,391,590	2,032,547
Cost of sales	**(312,964)**	**(1,438,430)**	**(1,751,394)**	(577,984)	(1,266,553)	(1,844,537)
	38,120	**124,682**	**162,802**	62,973	125,037	188,010
Southeast Asia						
Revenue	**161,414**	**—**	**161,414**	230,232	—	230,232
Cost of sales	**(153,090)**	**—**	**(153,090)**	(210,474)	—	(210,474)
	8,324	**—**	**8,324**	19,758	—	19,758

The breakdown of individual customer's revenue exceeds 10% of the Group's total revenue for the year ended 31 December 2022 and 2021 is as follows:

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Customer A	**358,740**	424,323

5 SEGMENT INFORMATION (Continued)

(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	
	2022	2021
	RMB'000	*RMB'000*
Mainland China	**78,677**	89,474
Southeast Asia	**11,015**	11,492
Total	**89,692**	100,966

(e) Contract assets and liabilities

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

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Contract assets		
Current portion		
Marine construction	**338,248**	441,216
Municipal public construction	**210,617**	216,493
Less: allowance for impairment of contract assets *(Note 3.1(b))*	**(18,464)**	(15,070)
	530,401	642,639
Non-current portion		
Marine construction	**17,882**	83,383
Municipal public construction	**534,402**	469,188
Less: allowance for impairment of contract assets *(Note 3.1(b))*	**(16,925)**	(14,030)
	535,359	538,541
Total contract assets	**1,065,760**	1,181,180
Contract liabilities		
Marine construction	**11,279**	12,859
Municipal public construction	**127,050**	33,440
Total contract liabilities	**138,329**	46,299

5 SEGMENT INFORMATION (Continued)

(e) Contract assets and liabilities (Continued)

(i) Significant changes in contract assets and liabilities

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

The Group expects that contract assets have the same risk characteristics as trade receivables. The impairment of contract assets does not have significant impact on the Group. The impairment of contract assets is disclosed in Note 3.1(b).

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

Due to the completion of the construction, approximately RMB604,010,000 and RMB475,427,000 of contract assets were transferred to trade receivables, while approximately RMB140,940,000 and RMB83,621,000 of contract assets were transferred to retention receivables during the years ended 31 December 2022 and 2021.

(ii) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue, which was included in the contract liability balance at the beginning of the year, recognised during the years ended 31 December 2022 and 2021 relates to carried-forward contract liabilities.

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Marine construction	**12,859**	40,483
Municipal public construction	**33,440**	70,971
	46,299	111,454

5 SEGMENT INFORMATION (Continued)

(e) Contract assets and liabilities (Continued)

(iii) Unsatisfied performance obligations

The following table shows unsatisfied performance obligations as at 31 December 2022 and 2021.

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Marine construction	**819,512**	574,140
Municipal public construction	**1,470,851**	1,874,677
	2,290,363	2,448,817

For marine construction services, management expects that 63% of the transaction price allocated to the unsatisfied contracts as at 31 December 2022 will be recognised as revenue before 31 December 2023, 28% will be recognised as revenue before 31 December 2024, the remaining 9% will be recognised as revenue before 31 December 2025. For municipal public construction services, management expects that 36% of the transaction price allocated to the unsatisfied contracts as at 31 December 2022 will be recognised as revenue before 31 December 2023, 28% will be recognised as revenue before 31 December 2024, 25% will be recognised as revenue before 31 December 2025, the remaining 11% will be recognised as revenue before 31 December 2026.

6 OTHER INCOME

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Rental income	**1,841**	6,629
Sales of raw materials	**1,820**	783
Government grants relating to costs	**320**	986
	3,981	8,398

7 OTHER GAINS/(LOSSES) — NET

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Net foreign exchange gains/(losses)	**14,221**	(3,882)
Dividend income from financial assets at fair value through other comprehensive income	**407**	348
Donations	**(600)**	(82)
(Losses)/gains on disposal of property, plant and equipment — net *(Note 32(c))*	**(45)**	653
Others — net	**(723)**	(601)
	13,260	(3,564)

8 EXPENSES BY NATURE

Expenses included in cost of sales, selling and distribution expenses, administrative expenses and other operating expenses are analysed as follows:

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Raw materials and consumables used	**962,427**	1,126,177
Subcontracting costs	**743,204**	769,921
Operating lease expenses	**110,627**	89,860
Wages and salaries, social welfare and benefits, including directors' emoluments *(Note 9)*	**71,775**	69,896
Consulate and agency expenses	**10,849**	6,687
Depreciation of property, plant and equipment *(Note 14)*	**17,473**	16,722
Travelling and entertainment expenses	**14,679**	16,872
Taxes and surcharges	**8,161**	8,242
Transportation expenses	**4,371**	5,779
Auditors' remuneration		
— Audit services	**2,880**	3,000
— Non-audit services	**125**	125
Depreciation of right of use assets *(Note 15)*	**1,653**	1,855
Utilities	**5,670**	10,387
Amortisation of intangible assets *(Note 17)*	**216**	182
Other expenses	**48,682**	49,180
	2,002,792	2,174,885

8 EXPENSES BY NATURE (Continued)

The Group incurred expenses amounted to approximately RMB49,660,000 and RMB66,452,000 related to research and development of new construction techniques for the years ended 31 December 2022 and 2021 respectively. All of these expenses comprise material costs in "Raw materials and consumables used", remuneration paid to certain staff in "Wages and salaries, social welfare and benefits" and depreciation of certain equipment in "Depreciation of property, plant and equipment".

9 EMPLOYEE BENEFIT EXPENSES

(a) Employee benefit expenses

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Salaries, wages and allowances	**57,117**	56,144
Pension costs	**6,989**	5,955
Bonuses	**7,669**	7,797
Total employee benefit expenses	**71,775**	69,896

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include two directors whose emoluments are reflected in the analysis presented in Note 38 during the year ended 31 December 2022 (year ended 31 December 2021: two). The emoluments paid to the remaining individuals for the years ended 31 December 2022 and 2021 are as follows:

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Basic salaries, housing allowances, other allowances and benefits in kind	**1,312**	1,039
Contribution to pension scheme	**103**	103
Discretionary bonuses	**468**	469
Total employee benefit expenses	**1,883**	1,611

9 EMPLOYEE BENEFIT EXPENSES (Continued)

(b) Five highest paid individuals (Continued)

The number of highest paid non-director individuals, whose remuneration for the years ended 31 December 2022 and 2021 fell within the following bands:

	Year ended 31 December	
	2022	2021
Emolument bands HK$100,000 to HK$1,000,000	**3**	3

During the years ended 31 December 2022 and 2021, no emoluments were paid to the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

10 FINANCE COSTS AND INCOME

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Finance income		
— Interest income derived from cash and bank and other financial instruments	**1,798**	2,411
— Unwinding of discount of long-term receivables	**2,677**	2,871
	4,475	5,282
Finance costs		
— Unwinding of discount of long-term payables *(i)*	**(17,281)**	(14,855)
— Interest expenses on bank borrowings	**(8,200)**	(4,012)
— Interest expenses paid/payable for lease liabilities	**(191)**	(246)
	(25,672)	(19,113)
Finance costs — net	**(21,197)**	(13,831)

(i) The financial cost is related to unwinding of discount of long-term payables and measured under effective rate method.

11 INCOME TAX EXPENSE

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

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Current income tax	**18,837**	16,546
Deferred income tax *(Note 30)*	**(5,814)**	(5,566)
Income tax expense — net	**13,023**	10,980

(i) Cayman Islands profits tax

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

(ii) British Virgin Islands ("BVI") profits tax

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

(iii) Hong Kong profits tax

One of the Company's subsidiaries incorporated in Hong Kong is subject to Hong Kong profits tax. The applicable Hong Kong profits tax rate is 16.5% for the years ended 31 December 2022 and 2021.

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

The Group's subsidiaries in the PRC are subject to PRC CIT which is calculated based on the applicable tax rate of 25% (2021: 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, obtained new and high-technology enterprise recognition in October 2019 and renewed in October 2022 and is entitled to a preferential income tax rate of 15%. Watts Environmental, a subsidiary of the Group was recognised as a new and high-technology enterprise in November 2022 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.

(v) Brunei income tax

One of the Company's subsidiaries incorporated in Brunei is subject to Brunei income tax. The applicable Brunei income tax rate is 18.5% for years ended 31 December 2022 and 2021.

11 INCOME TAX EXPENSE (Continued)

(vi) Indonesia income tax

One of the Company's subsidiaries incorporated in Indonesia is subject to Indonesia income tax. Indonesia income tax is charged through a system of withholding taxes. The customers of the Group are required to withhold final income tax for construction services and the banks are required to withhold final income tax on interest income from bank deposits. For the years ended 31 December 2022, income tax was provided at the rate of 2.65% on the revenue from construction services (2021: 3%) and income tax of 20% was provided on the interest income from bank deposits, according to respective Indonesia income tax laws and regulations.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the statutory tax rate to profits of the consolidated entities as follows:

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Profit before income tax	**40,121**	58,042
Tax calculated at applicable tax rates	**13,362**	20,366
Expenses not deductible for tax purpose	**445**	399
Tax losses for which no deferred income tax asset was recognised	**873**	192
Adjustments for current tax of prior periods	**772**	208
Super deduction of research and development expenses	**(2,429)**	(10,185)
Tax charge	**13,023**	10,980

During the years ended 31 December 2022 and 2021, no dividend withholding tax for PRC companies and Benteng Indonesia was provided as the directors have confirmed that the Group does not expect those subsidiaries to distribute the retained earnings to the Group as at 31 December 2022 and 2021 in the foreseeable future.

12 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 exclude the shares repurchased under the share award scheme during the years ended 31 December 2022 and 2021.

	2022	2021
Profit attributable to the Shareholders of the Company (RMB'000)	**27,098**	47,062
Weighted average number of ordinary shares in issue (thousands)	**819,008**	819,008
Total basic earnings per share attributable to the ordinary equity holders of the Group (RMB cents)	**3.31**	5.75

(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 2022 and 2021.

13 SUBSIDIARIES

As at 31 December 2022, the Company had direct and indirect interests in the following subsidiaries:

Name of entity	Place of incorporation/ establishment and type of legal entity	Date of incorporation/ establishment	Issued and Paid-in capital	Ownership interest held by the Group	Principal activities and place of operation
HuaZi Rosely Limited	BVI, limited liability company	5 January 2018	US$1	100%	Investment holding, BVI
Maritime Vansun Limited	BVI, limited liability company	5 January 2018	US$1	100%	Investment holding, BVI
Engineering Prosper Limited	BVI, limited liability company	5 January 2018	US$1	100%	Investment holding, BVI
Royal Karry HK Engineer Limited	HK, limited liability company	8 February 2018	HK$1	100%	Investment holding, HK
Shanghai Shanyu Construction and Engineering Co., Ltd.	PRC, wholly foreign owned enterprise	30 November 2017	RMB122,440,000	100%	Investment holding, PRC
Shanghai Yubo Construction and Engineering Co., Ltd.	PRC, limited liability company	1 December 2017	RMB120,000,000	100%	Investment holding, PRC
Shanghai Xingning Construction and Engineering Co., Ltd. ("**Shanghai Xingning**")	PRC, limited liability company	14 December 2017	RMB120,000,000	100%	Investment holding, PRC
Shanghai Third Harbor Benteng Maritime Engineering Co., Ltd. ("**Third Harbor Maritime**")(i)	PRC, limited liability company	14 August 2017	RMB120,000,000	100%	Provision of engineering and construction services, PRC
Pahaytc & Benteng JV Sdn Bhd ("**Benteng Brunei**")	Brunei, limited liability company	19 January 2016	BN$25,000	100%	Provision of engineering and construction services, Brunei
PT. Shanghai Third Harbor Benteng Construction and Engineering ("**Benteng Indonesia**")	Indonesia, limited liability company	21 September 2016	IDR13,162,000,000	100%	Provision of engineering and construction services, Indonesia
Shanghai Watts Benteng Municipal Public Engineering Co., Ltd.	PRC, limited liability company	30 April 2019	RMB130,500,000	100%	Investment holding, PRC
Watts Gallop Construction Engineering Group Co., Ltd. ("**Watts Gallop Construction**")(ii)	PRC, limited liability company	10 December 1999	RMB130,500,000	100%	Provision of Municipal Public construction services, PRC

13 SUBSIDIARIES (Continued)

Name of entity	Place of incorporation/ establishment and type of legal entity	Date of incorporation/ establishment	Issued and Paid-in capital	Ownership interest held by the Group	Principal activities and place of operation
Lanxi Watts Construction Engineering Co., Ltd.	PRC, limited liability company	2 March 2016	RMB26,500,000	100%	Provision of Municipal Public construction services, PRC
Qingtian Chunjiang Construction Engineering Co., Ltd.	PRC, limited liability company	6 March 2014	RMB16,950,000	100%	Provision of Municipal Public construction services, PRC
Shanghai Watts Environmental Technology Co., Ltd. ("**Watts Environmental**")(iii)	PRC, limited liability company	7 July 2020	RMB10,000,000	100%	Provision of engineering and construction services, PRC
Watts Zhihe (Shanghai) Cultural And Creative Development Co., Ltd. ("**Watts Zhihe**")(iv)	PRC, limited liability company	26 November 2021	—	100%	Provision of consulting services, PRC
Shanghai Third Harbor Benteng Maritime Engineering Malaysia Sdn. Bhd. ("**Benteng Malaysia**")(v)	Malaysia, limited liability company	15 November 2022	—	100%	Provision of engineering and construction services, Malaysia

(i) The issued capital of Third Harbor Maritime is RMB200,000,000, among which, amount of RMB80,000,000 has not been paid as at 31 December 2022.

(ii) The issued capital of Watts Gallop Construction of RMB387,500,000 subscribed by Shanghai Watts Benteng Municipal Public Engineering Co., Ltd. has not been paid as at 31 December 2022.

(iii) The issued capital of Third Harbor Benteng Environmental is RMB50,000,000, among which, amount of RMB40,000,000 has not been paid as at 31 December 2022.

(iv) The issued capital of Watts Zhihe of RMB10,000,000 subscribed by Third Harbor Maritime has not been paid as at 31 December 2022.

(v) The issued capital of Benteng Malaysia of Malaysia Ringgit ("MYR") 1,000,000 subscribed by Royal Karry HK Engineer Limited has not been paid as at 31 December 2022.

14 PROPERTY, PLANT AND EQUIPMENT

	Industrial machinery and equipment *RMB'000*	Transport equipment *RMB'000*	Buildings *RMB'000*	Office supplies and electronic equipment *RMB'000*	Leasehold improvements *RMB'000*	Construction-in-progress *RMB'000*	Total *RMB'000*
At 1 January 2021							
Cost	173,323	13,841	16,526	3,662	1,871	8,848	218,071
Accumulated depreciation	(92,100)	(12,129)	(3,483)	(3,009)	(234)	—	(110,955)
Net book amount	81,223	1,712	13,043	653	1,637	8,848	107,116
Year ended 31 December 2021							
Opening net book amount	81,223	1,712	13,043	653	1,637	8,848	107,116
Additions	5,343	635	—	458	2,078	—	8,514
Depreciation charge	(12,932)	(564)	(1,940)	(286)	(1,000)	—	(16,722)
Disposals	(11,837)	—	—	(4)	—	—	(11,841)
Currency translation differences	(89)	—	—	(1)	(26)	(394)	(510)
Closing net book amount	61,708	1,783	11,103	820	2,689	8,454	86,557
At 31 December 2021							
Cost	166,739	14,476	16,526	4,115	3,923	8,454	214,233
Accumulated depreciation	(105,031)	(12,693)	(5,423)	(3,295)	(1,234)	—	(127,676)
Net book amount	61,708	1,783	11,103	820	2,689	8,454	86,557

14 PROPERTY, PLANT AND EQUIPMENT (Continued)

	Industrial machinery and equipment *RMB'000*	Transport equipment *RMB'000*	Buildings *RMB'000*	Office supplies and electronic equipment *RMB'000*	Leasehold improvements *RMB'000*	Construction-in-progress *RMB'000*	Total *RMB'000*
Year ended 31 December 2022							
Opening net book amount	61,708	1,783	11,103	820	2,689	8,454	86,557
Additions	4,962	—	—	66	259	2,723	8,010
Transfers	—	—	—	9,288	—	(9,288)	—
Depreciation charge	(11,416)	(421)	(1,887)	(2,426)	(1,323)	—	(17,473)
Disposals	(582)	(124)	—	(38)	—	—	(744)
Currency translation differences	(2)	—	—	(101)	(1)	835	731
Closing net book amount	54,670	1,238	9,216	7,609	1,624	2,724	77,081
At 31 December 2022							
Cost	171,117	14,352	16,526	13,330	4,181	2,724	222,230
Accumulated depreciation	(116,447)	(13,114)	(7,310)	(5,721)	(2,557)	—	(145,149)
Net book amount	54,670	1,238	9,216	7,609	1,624	2,724	77,081

During the years ended 31 December 2022 and 2021, the amounts of depreciation expense charged to "Cost of sales", "Administrative expenses", "Other operating expenses" and "Selling and distribution expenses" are as follows:

	Year ended 31 December	
	2022 **RMB'000**	2021 *RMB'000*
Cost of sales	**12,401**	12,242
Administrative expenses	**4,978**	4,133
Other operating expenses	**59**	312
Selling and distribution expenses	**35**	35
	17,473	16,722

15 RIGHT-OF-USE ASSETS

	Land use rights RMB'000	Land under leases RMB'000	Properties RMB'000	Total RMB'000
At 1 January 2021				
Cost	12,210	4,440	3,970	20,620
Accumulated depreciation	(2,214)	(857)	(1,577)	(4,648)
Net book amount	9,996	3,583	2,393	15,972
Year ended 31 December 2021				
Opening net book amount	9,996	3,583	2,393	15,972
Depreciation charge	(276)	(507)	(1,072)	(1,855)
Closing net book amount	9,720	3,076	1,321	14,117
At 31 December 2021				
Cost	12,210	4,440	3,970	20,620
Accumulated depreciation	(2,490)	(1,364)	(2,469)	(6,503)
Net book amount	9,720	3,076	1,321	14,117
At 1 January 2022				
Cost	**12,210**	**4,440**	**3,970**	**20,620**
Accumulated depreciation	**(2,490)**	**(1,364)**	**(2,649)**	**(6,503)**
Net book amount	**9,720**	**3,076**	**1,321**	**14,117**
Year ended 31 December 2022				
Opening net book amount	**9,720**	**3,076**	**1,321**	**14,117**
Depreciation charge	**(276)**	**(422)**	**(955)**	**(1,653)**
Closing net book amount	**9,444**	**2,654**	**366**	**12,464**
At 31 December 2022				
Cost	**12,210**	**4,440**	**3,970**	**20,620**
Accumulated depreciation	**(2,766)**	**(1,786)**	**(3,604)**	**(8,156)**
Net book amount	**9,444**	**2,654**	**366**	**12,464**

15 RIGHT-OF-USE ASSETS (Continued)

During the year ended 31 December 2022 and 2021, depreciation of right-of-use assets charged to "Cost of sales", "Administrative expenses" and "Other operating expenses" are as follows:

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Cost of sales	**744**	1,057
Administrative expenses	**643**	522
Other operating expenses	**266**	276
	1,653	1,855

Land use rights of the Group represent prepaid operating lease payments for the land located in Zhejiang Province in the PRC. The Group has land lease agreements with mainland China government and obtained the land use right certificates. Land under leases of the Group represent lease arrangements with third parties without land use right certificates.

16 LEASE LIABILITIES

This note provides information for leases where the Group is a lessee.

(i) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Lease liabilities		
Current	**1,498**	2,117
Non-current	**3,003**	2,941
	4,501	5,058

(ii) Amounts recognised in the statement of profit or loss

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Depreciation charge of right-of-use assets		
Properties	**955**	1,072
Land under leases	**422**	507
Land use rights	**276**	276
	1,653	1,855
Interest expense (included in finance cost)	**191**	246
Expense relating to short-term leases (included in cost of sales)	**110,627**	89,860

During the year ended 31 December 2022, the total cash outflow for leases was approximately RMB111,427,000 (2021: RMB91,642,000).

17 INTANGIBLE ASSETS

	Licences *RMB'000*	Computer software *RMB'000*	Total *RMB'000*
At 1 January 2021			
Cost	100	1,344	1,444
Accumulated amortisation	(80)	(961)	(1,041)
Net book amount	20	383	403
Year ended 31 December 2021			
Opening net book amount	20	383	403
Additions	—	71	71
Amortisation charge	(9)	(173)	(182)
Closing net book amount	11	281	292
At 31 December 2021			
Cost	100	1,415	1,515
Accumulated amortisation	(89)	(1,134)	(1,223)
Net book amount	11	281	292
Year ended 31 December 2022			
Opening net book amount	**11**	**281**	**292**
Additions	**—**	**71**	**71**
Amortisation charge	**(10)**	**(206)**	**(216)**
Closing net book amount	**1**	**146**	**147**
At 31 December 2022			
Cost	**100**	**1,455**	**1,555**
Accumulated amortisation	**(99)**	**(1,309)**	**(1,408)**
Net book amount	**1**	**146**	**147**

Amortisation charges of intangible assets were charged to "Administrative expenses" in the consolidated statement of comprehensive income.

18 FINANCIAL INSTRUMENTS BY CATEGORY

The Group holds the following financial instruments:

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Financial assets		
Financial assets at amortised cost		
— Trade and other receivables excluding prepayments and prepaid taxation	**1,408,203**	1,377,756
— Cash and cash equivalents *(Note 23)*	**540,175**	443,833
— Restricted cash *(Note 23)*	**166,281**	75,994
Financial assets at fair value through profit or loss *(Note 21)*	**1,300**	—
Financial assets at fair value through other comprehensive income *(Note 22)*	**15,287**	6,253
Total	**2,131,246**	1,903,836

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Financial liabilities		
Liabilities at amortised cost		
— Borrowings *(Note 29)*	**245,911**	124,385
— Trade and other payables excluding payroll and social security, other tax liabilities	**2,121,776**	2,264,547
— Lease liabilities *(Note 16)*	**4,501**	5,058
Total	**2,372,188**	2,393,990

The Group's exposure to various risks associated with the financial instruments is discussed in Note 3. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

19 INVENTORIES

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Raw materials	**11,993**	42,708

Inventories recognised as an expense during the year ended 31 December 2022 amounted to RMB962,427,000 (2021: RMB1,126,177,000), included in cost of sales amounted to RMB925,854,000 (2021: RMB1,073,573,000) and research and development expenses amounted to RMB36,573,000 (2021: RMB52,604,000). There were no provision for or reversal of write-down of inventories during the years ended 31 December 2022 and 2021.

20 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Trade receivables *(i)*	**1,067,737**	1,106,874
Less: allowance for impairment of trade receivables *(iv)*	**(77,137)**	(86,210)
Trade receivables — net	**990,600**	1,020,664
Retention receivables *(ii)*	**283,049**	253,332
Less: allowance for impairment of retention receivables *(iv)*	**(53,955)**	(23,335)
Retention receivables — net	**229,094**	229,997
Bills receivables *(i)*	**75,113**	26,810
Long-term trade receivables *(v, vi)*	**47,156**	50,874
Less: allowance for impairment of long-term trade receivables *(iv)*	**(3,099)**	(1,750)
Long-term trade receivables-net	**44,057**	49,124
Other receivables *(iii)*	**69,339**	51,161
Prepayments	**118,066**	89,363
Prepaid taxation	**2,865**	1,500
	1,529,134	1,468,619

20 TRADE AND OTHER RECEIVABLES (Continued)

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Less: non-current portion		
Retention receivables *(ii)*	**(76,213)**	(102,030)
Long-term trade receivables *(v, vi)*	**(40,463)**	(45,574)
Other receivables *(iii)*	**(12,746)**	(4,482)
	(129,422)	(152,086)
Current portion	**1,399,712**	1,316,533

(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.

As at 31 December 2022, bills receivables with a total net book amount of RMB21,560,000 and trade receivables with a total net book amount of RMB6,001,000 were pledged as collateral for the Group's bank borrowings (2021: Nil) (Note 29).

20 TRADE AND OTHER RECEIVABLES (Continued)

As at 31 December 2022 and 2021, 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	
	2022	2021
	RMB'000	*RMB'000*
Within 3 months	**492,062**	418,251
4 to 6 months	**90,755**	134,618
7 to 12 months	**174,779**	142,021
1 to 2 years	**186,897**	172,778
2 to 3 years	**76,561**	119,426
Over 3 years	**121,796**	146,590
	1,142,850	1,133,684

(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	
	2022	2021
	RMB'000	*RMB'000*
Within 1 year	**132,312**	134,239
1 to 2 years	**49,061**	29,024
2 to 3 years	**22,523**	36,035
3 to 4 years	**35,502**	1,498
4 to 5 years	**1,498**	43,543
Over 5 years	**42,153**	8,993
	283,049	253,332

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

20 TRADE AND OTHER RECEIVABLES (Continued)

(iii) Other receivables mainly represent tender deposits and performance deposits due from customers. The tender deposits are usually returned after the bidding process, which may last approximately three months. The performance deposits are usually returned after the construction project is finished. Certain other receivables represent the reimbursed expenses paid on behalf of related parties (Note 34(b)). These receivables are unsecured, interest free and receivable/repayable on demand. The carrying amount of other receivables approximate their fair value and there is no indication of significant credit risk. Other receivables are classified as current assets if they are expected to be paid in one year or less. If not, they are presented as non-current assets.

(iv) The Group applies simplified approach to provide for expected credit losses prescribed in HKFRS 9 as disclosed in Note 3.1(b). Provision for impaired receivables has been included in "Net impairment losses on financial assets" in the consolidated statement of comprehensive income.

(v) 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%.

(vi) As at 31 December 2022, the Group pledged long-term trade receivables with carrying amount of approximately RMB44,057,000 (2021: RMB49,124,000) for the long-term bank borrowings amounted to RMB19,500,000 (2021: RMB24,500,000) as disclosed in Note 29(i).

(vii) The carrying amounts, excluding provision, of the Group's trade receivables, bills receivables, retention receivables, other receivables and long-term trade receivables are denominated in the following currencies:

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
RMB	**1,386,922**	1,343,838
IDR	**120,094**	111,831
BN$	**19,775**	12,002
US$	**15,603**	21,380
	1,542,394	1,489,051

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss are all held for trading and include the following:

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Current assets		
Bank products for wealth management	**1,300**	—

The above financial assets at fair value through profit or loss are denominated in RMB.

Change in fair values of financial assets at fair value through profit or loss is recorded in "Other gains/(losses) – net" in the consolidated statement of comprehensive income.

22 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Financial assets at fair value through other comprehensive income are equity securities which are not held for trading, and which the Group has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the Group considers this classification to be more relevant. Equity investments at FVOCI comprise the following individual investments:

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Non-current assets		
Listed securities	**3,917**	3,753
Unlisted securities	**11,370**	2,500
	15,287	6,253

As at 31 December 2022, the fair value of the financial assets at FVOCI is approximately RMB15,287,000 (2021: RMB6,253,000). The changes of fair value of the financial assets are recorded within the other reserve in consolidated financial statements.

23 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Cash on hand	**590**	422
Cash at bank	**705,866**	519,405
Less: Restricted cash *(i)*	**(166,281)**	(75,994)
	540,175	443,833

Cash at bank and on hand are denominated in the following currencies:

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
RMB	**618,022**	386,631
US$	**70,194**	116,186
IDR	**14,388**	14,304
HK$	**3,212**	1,282
BN$	**640**	1,424
	706,456	519,827

(i) The restricted cash represents the following balances:

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Deposits for wages of migrant labours	**97,900**	63,787
Restricted cash for project expenditure	**57,223**	4,985
Deposits for issuing bank acceptance notes	**6,500**	—
Restricted cash for litigation	**4,174**	4,366
Deposits for issuing letter of guarantee	**484**	2,856
	166,281	75,994

24 SHARE CAPITAL AND PREMIUM

		Amount		
	Number of ordinary shares	Equivalent nominal value of ordinary share *RMB'000*	Share premium *RMB'000*	Total *RMB'000*
Authorised:				
At 1 January 2021, 31 December 2021 and 2022	10,000,000,000	88,498	—	88,498
Issued:				
Balance as at 1 January 2021	825,400,000	7,303	296,997	304,300
Dividends *(Note 31)*	—	—	(5,492)	(5,492)
Balance as at 31 December 2021	825,400,000	7,303	291,505	298,808
Dividends *(Note 31)*	**—**	**—**	**(11,413)**	**(11,413)**
Balance as at 31 December 2022	**825,400,000**	**7,303**	**280,092**	**287,395**

The total number of issued share capital of the Company comprised 825,400,000 ordinary shares with a par value of HK$0.01 each as at 31 December 2022.

25 SHARES HELD FOR EMPLOYEE SHARE SCHEME

The Group has adopted share award scheme(the "**Scheme**"), effective from 24 March 2020(the "**Adoption Date**"). The Scheme is established to, among other things, recognise the contributions of the eligible persons and motivate them to strive for the future development and expansion of the Group. The Scheme will initially be valid and effective for the period commencing on the Adoption Date and ending on the business day immediately prior to the 10th anniversary of the Adoption Date. Pursuant to the Scheme, the award shares will be satisfied by (i) existing Shares to be acquired by a trustee(the "**Trustee**") on the market, and/or (ii) new shares to be allotted and issued to the Trustee. The total number of the award shares underlying all grants made pursuant to the Scheme shall not exceed 10% of the issued share capital of the Group as at the Adoption Date.

During the year ended 31 December 2020, the Group has set up a trust specially for the management of the Scheme and through the trust, a total of 6,392,000 shares of the Group have been purchased by the Trustee at a cost of approximately HK$5,263,000 (equivalent to approximately RMB4,756,000). No shares have been granted during the years ended 31 December 2022 and 2021.

26 OTHER RESERVES

	Other reserves				
	Statutory reserve *RMB'000* *Note (a)*	Merge reserve *RMB'000*	Financial assets at FVOCI *RMB'000*	Exchange reserve *RMB'000* *Note (b)*	Total *RMB'000*
Balance as at 1 January 2021	39,723	(19,051)	(3,953)	(5,198)	11,521
Appropriation to statutory reserves	4,817	—	—	—	4,817
Currency translation differences	—	—	—	(1,895)	(1,895)
Revaluation *(c)*	—	—	(39)	—	(39)
Balance as at 31 December 2021	44,540	(19,051)	(3,992)	(7,093)	14,404
Balance as at 1 January 2022	**44,540**	**(19,051)**	**(3,992)**	**(7,093)**	**14,404**
Appropriation to statutory reserves	**3,360**	**—**	**—**	**—**	**3,360**
Currency translation differences	**—**	**—**	**—**	**4,918**	**4,918**
Revaluation *(c)*	**—**	**—**	**9,034**	**—**	**9,034**
Income tax relating to these items	**—**	**—**	**(1,331)**	**—**	**(1,331)**
Balance as at 31 December 2022	**47,900**	**(19,051)**	**3,711**	**(2,175)**	**30,385**

(a) Statutory reserves comprise statutory surplus reserve of the subsidiary companies in the PRC. The Company's subsidiaries incorporated in the Mainland China are required to make appropriations to statutory reserves from their profit for the year after offsetting accumulated losses carried forward from prior years as determined under the Mainland China accounting regulations and before distribution to shareholders. The percentages to be appropriated to such statutory reserve are determined according to the relevant regulations in the Mainland China at rate of 10% or at the discretion of the board of directors of the Mainland China subsidiaries, and further appropriation is optional when the accumulated fund is 50% or more of the registered capital of the subsidiaries.

(b) Exchange reserve of the Group represents the difference arising from the translation of the financial statements of companies within the Group that have a functional currency different from RMB, the presentation currency of the financial statements of the Company and the Group.

(c) The Group has elected to recognise changes in the fair value of certain investments in equity securities in OCI, as explained in Note 22. These changes are recorded within the FVOCI reserve under equity. The Group transfers amounts from this reserve to retained earnings when the relevant equity securities are derecognised.

27 RETAINED EARNINGS

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
At beginning of year	**394,904**	352,659
Profit for the year	**27,098**	47,062
Appropriation to statutory reserves	**(3,360)**	(4,817)
At end of year	**418,642**	394,904

28 TRADE AND OTHER PAYABLES

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Trade payables *(i)*	**1,469,417**	1,579,958
Bills payables *(i)(vi)*	**13,000**	—
Retention payables *(ii)*	**204,054**	194,899
Long-term payables *(iii)*	**292,705**	391,175
Payroll and social security	**18,589**	19,927
Other payables *(iv)*	**142,200**	98,515
Dividend payables	**400**	—
Other tax liabilities excluding income tax liabilities	**153,534**	151,597
	2,293,899	2,436,071
Less: non-current portion		
Retention payables *(ii)*	**(95,570)**	(107,118)
Long-term payables *(iii)*	**(95,640)**	(112,608)
Other payables *(iv)*	**(23,970)**	(40,401)
	(215,180)	(260,127)
Current portion	**2,078,719**	2,175,944

28 TRADE AND OTHER PAYABLES (Continued)

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

As at 31 December 2022 and 2021, the ageing analysis of the trade and bills payables based on the payment requests or demand notes is as follows:

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Within 3 months	**521,671**	607,472
4 to 6 months	**144,103**	199,662
7 to 12 months	**195,718**	265,183
1 to 2 years	**248,526**	136,495
2 to 3 years	**85,893**	162,017
Over 3 years	**286,506**	209,129
	1,482,417	1,579,958

(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	
	2022	2021
	RMB'000	*RMB'000*
Within 1 year	**53,002**	19,786
1 to 5 years	**104,758**	119,636
Over 5 years	**46,294**	55,477
	204,054	194,899

28 TRADE AND OTHER PAYABLES (Continued)

(iii) 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	
	2022	2021
	RMB'000	*RMB'000*
Within 1 year	**97,252**	139,884
1 to 5 years	**130,085**	172,873
Over 5 years	**65,368**	78,418
	292,705	391,175

(iv) Other payables mainly represent performance deposits due to suppliers, which are usually repaid after the construction project is finished. Other payables are classified as current liabilities if they are expected to be paid in one year or less. If not, they are presented as non-current liabilities.

(v) The carrying amounts of the Group's trade payables, bills payables, retention payables, long-term payables and other payables are denominated in the following currencies:

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
RMB	**1,966,011**	2,145,402
IDR	**110,290**	65,674
BN$	**43,472**	46,978
US$	**2,003**	6,493
	2,121,776	2,264,547

(vi) As at 31 December 2022, bills payables of RMB7,000,000 (2021: Nil) were guaranteed by Zhejiang Watts Benteng Real Estate Development Co., Ltd. ("**Watts Gallop Real Estate**") (Note 34(c)).

29 BORROWINGS

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Non-current		
Long-term bank borrowings — Secured *(i)*	**14,500**	19,500
Current		
Long-term bank borrowings due within one year — Secured *(i)*	**5,000**	5,000
Short-term bank borrowings — Secured *(ii)*	**214,411**	85,000
Loans from shareholders — Unsecured *(iii)*	**12,000**	14,885
	245,911	124,385

The bank borrowings of the Group as at the respective balance sheet dates are all at fixed rate.

(i) As at 31 December 2022, the secured long-term bank borrowings of RMB19,500,000 (2021: RMB24,500,000) were guaranteed by Zhejiang Kexin Engineering Materials Co., Ltd. ("**Zhejiang Kexin**"), a third party, and were secured by the pledge of long-term trade receivables carrying amount of approximately RMB44,057,000 (2021: RMB49,124,000) (Note 20).

(ii) As at 31 December 2022, secured short-term borrowings of RMB76,850,000 (2021: RMB50,000,000) were guaranteed by Third Harbor Maritime, secured short-term borrowings of RMB35,000,000 (2021: RMB35,000,000) were guaranteed by Shanghai Watts Gallop Holding Group Co., Ltd. ("**Watts Gallop**"), secured short-term borrowings of RMB30,000,000 (2021: Nil) were guaranteed by Third Harbor Construction and secured short-term borrowings of RMB45,000,000 (2021: Nil) were guaranteed by Watts Gallop Real Estate (Note 34(c)).

As at 31 December 2022, short-term borrowings of RMB21,560,000 were secured by the pledged of the Group's bills receivables with net book amount of RMB21,560,000 (2021: Nil) (Note 20), and short-term borrowings of RMB6,001,000 were secured by the pledged of the Group's trade receivables with net book amount of RMB6,001,000 (2021: Nil) (Note 20).

(iii) As at 31 December 2022, the unsecured loans from shareholders are interest free and repayable on demand (Note 34(c)).

At 31 December 2022 and 2021, the Group's borrowings were repayable as follows:

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Within 1 year	**231,411**	104,885
Between 1 and 2 years	**5,000**	5,000
Between 2 and 5 years	**9,500**	14,500
	245,911	124,385

29 BORROWINGS (Continued)

The weighted average effective interest rates during the years ended 31 December 2022 and 2021 were as follows:

	Year ended 31 December	
	2022	2021
Bank borrowings	**4.20%**	4.44%

The carrying amount and fair value of non-current borrowings are as follows:

	As at 31 December			
	2022		2021	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	RMB'000	***RMB'000***	RMB'000	RMB'000
Non-current				
Bank borrowings	**14,500**	**14,631**	19,500	19,698

The fair values of non-current borrowings are based on discounted cash flows using a current borrowing rate. They are classified as level 3 fair values in the fair value hierarchy (see Note 3.4) due to the use of unobservable inputs, including own credit risk.

For the current borrowings, the fair values are not materially different to their carrying amounts, since the borrowings are of a short-term nature.

Movements in borrowings are analysed as follows:

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
At beginning of year	**124,385**	54,000
New borrowings	**303,384**	99,885
Repayments of borrowings	**(181,858)**	(29,500)
At end of year	**245,911**	124,385

30 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets and liabilities relate to income tax levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. The analysis of deferred tax assets and deferred tax liabilities is as follows:

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Deferred tax assets:		
— Deferred tax assets to be recovered within 12 months	**1,699**	949
— Deferred tax assets to be recovered after more than 12 months	**31,676**	28,690
Set-off of deferred tax liabilities pursuant to set-off provisions	**(11,679)**	(13,642)
Net deferred tax assets — net	**21,696**	15,997
Deferred tax liabilities:		
— Deferred tax liabilities to be recovered within 12 months	**(1,105)**	(1,256)
— Deferred tax liabilities to be recovered after more than 12 months	**(11,840)**	(12,386)
Set-off of deferred tax assets pursuant to set-off provisions	**11,679**	13,642
Net deferred tax liabilities — net	**(1,266)**	—

30 DEFERRED INCOME TAX (Continued)

(a) Deferred tax assets

The movement in deferred tax assets and liabilities during the years ended 31 December 2022 and 2021, without taking consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Allowance for impairment of financial assets and contract assets RMB'000	Tax losses RMB'000	Lease liabilities RMB'000	Others RMB'000	Total RMB'000
At 1 January 2021	22,592	590	1,361	1,399	25,942
Credited/(charged) to profit or loss	2,736	874	(16)	129	3,723
Currency translation differences	—	(26)	—	—	(26)
At 31 December 2021	25,328	1,438	1,345	1,528	29,639
At 1 January 2022	**25,328**	**1,438**	**1,345**	**1,528**	**29,639**
Credited/(charged) to profit or loss	**3,878**	**234**	**(53)**	**(273)**	**3,786**
Currency translation differences	**—**	**(50)**	**—**	**—**	**(50)**
At 31 December 2022	**29,206**	**1,622**	**1,292**	**1,255**	**33,375**

Deferred tax assets are recognised for tax losses carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable.

30 DEFERRED INCOME TAX (Continued)

(b) Deferred tax liabilities

	Property, plant and equipment RMB'000	Long-term payables RMB'000	Right-of-use assets RMB'000	Fair value change of FVOCI RMB'000	Others RMB'000	Total RMB'000
At 1 January 2021	(6,446)	(7,636)	(1,365)	—	(38)	(15,485)
Credited to profit or loss	812	872	159	—	—	1,843
At 31 December 2021	(5,634)	(6,764)	(1,206)	—	(38)	(13,642)
At 1 January 2022	**(5,634)**	**(6,764)**	**(1,206)**	**—**	**(38)**	**(13,642)**
Credited to profit or loss	**806**	**1,118**	**104**	**—**	**—**	**2,028**
Debit to other comprehensive income	**—**	**—**	**—**	**(1,331)**	**—**	**(1,331)**
At 31 December 2022	**(4,828)**	**(5,646)**	**(1,102)**	**(1,331)**	**(38)**	**(12,945)**

31 DIVIDENDS

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Final, proposed	**6,783**	11,413

At a meeting held on 28 March 2023, the Board proposed a final dividend of HK0.92 cent (equivalent to RMB0.82 cent) per share (2021: HK1.60 cents (equivalent to RMB1.31 cents) per share) for the year ended 31 December 2022, representing total amount of approximately HK$7,594,000 (equivalent to RMB6,783,000) (2021: HK$13,206,000 (equivalent to RMB11,413,000)) 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 ending 31 December 2023.

32 CASH GENERATED FROM OPERATIONS

(a) Reconciliation of profit before income tax to cash generated from operations

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Profit before income tax	**40,121**	58,042
Adjustments for:		
— Depreciation of property, plant and equipment *(Note 14)*	**17,473**	16,722
— Depreciation of right-of-use assets *(Note 15)*	**1,653**	1,855
— Amortisation of intangible assets *(Note 17)*	**216**	182
— Losses/(gains) on disposal of property, plant and equipment — net *(Note 7)*	**45**	(653)
— Dividend income from financial assets through other comprehensive income *(Note 7)*	**(407)**	(348)
— Provision for impairment of financial assets and contract assets *(Note 3.1)*	**28,741**	20,855
— Finance costs — net *(Note 10)*	**21,197**	13,831
— Net foreign exchange (gains)/losses	**(7,007)**	3,504
Operating capital before working capital changes	**(102,032)**	113,990
Changes in working capital:		
— (Increase)/decrease in restricted cash	**(90,287)**	38,237
— Decrease in inventories	**30,715**	26,073
— Decrease/(increase) in contract assets	**109,131**	(22,851)
— Increase/(decrease) in contract liabilities	**92,030**	(65,155)
— (Increase)/decrease in trade and other receivables	**(78,260)**	41,593
— Decrease in trade and other payables	**(132,064)**	(131,641)
Cash generated from operations	**33,297**	246

(b) Non-cash investing and financing activities

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Gains/(losses) recognised in other comprehensive income related to equity investments	**9,034**	(39)

32 CASH GENERATED FROM OPERATIONS (Continued)

(c) Proceeds from disposal of property, plant and equipment

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Net book amount for disposals *(Note 14)*	**744**	11,841
Net (losses)/gains on disposal of property, plant and equipment — net *(Note 7)*	**(45)**	653
Proceeds from disposal of property, plant and equipment	**699**	12,494

(d) Reconciliation of liabilities arising from financing activities

	Other assets	Liabilities from financing activities			
	Cash and cash equivalents	Borrowings (Current)	Borrowings (Non-current)	Lease liabilities	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Net debt as at 1 January 2021	423,696	(29,500)	(24,500)	(6,594)	363,102
Finance charges for lease liabilities	—	—	—	(246)	(246)
Non-cash changes reclassification	—	(5,000)	5,000	—	—
Cash flows	23,816	(70,385)	—	1,782	(44,787)
Foreign exchange adjustments	(3,679)	—	—	—	(3,679)
Net debt as at 31 December 2021	443,833	(104,885)	(19,500)	(5,058)	314,390
Finance charges for lease liabilities	**—**	**—**	**—**	**(243)**	**(243)**
Non-cash changes — reclassification	**—**	**(5,000)**	**5,000**	**—**	**—**
Cash flows	**89,406**	**(121,526)**	**—**	**800**	**(31,320)**
Foreign exchange adjustments	**6,936**	**—**	**—**	**—**	**6,936**
Net debt as at 31 December 2022	**540,175**	**(231,411)**	**(14,500)**	**(4,501)**	**289,763**

33 COMMITMENTS

(a) Capital commitments

As at 31 December 2022 and 2021, 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, see Notes 2.24 and 16 for further information.

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

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
No later than 1 year	**862**	150

As lessor

As at 31 December 2022 and 2021, the Group had the following total future minimum lease receivables under the non-cancellable operating leases falling due as follows:

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
No later than 1 year	**—**	1,932

34 RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control, jointly control or exert significant influence over the other party in holding power over the investee; exposure, or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect the amount of the investor's returns. Parties are also considered to be related if they are subject to common control or joint control. Related parties may be individuals or other entities.

34 RELATED PARTY TRANSACTIONS (Continued)

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the years ended 31 December 2022 and 2021, and balances arising from related party transactions as at the respective balance sheet dates.

Name and relationship with related parties are set out below:

Related party	Relationship
Mr. Wang Shizhong	Ultimate controlling shareholder
Shanghai Third Harbor Benteng Construction and Engineering Co., Ltd. ("**Third Harbor Construction**")	Controlled by the same ultimate controlling shareholder
Watts Gallop	Controlled by the same ultimate controlling shareholder
Zhejiang Zhoushan Benteng Construction Material Co., Ltd. ("**Zhoushan Benteng**")	Subsidiary of Watts Gallop
Jiangsu Shenyu Port Engineering Co., Ltd. ("**Jiangsu Shenyu**")	Subsidiary of Watts Gallop
Zhejiang Benteng Transportation Engineering Co., Ltd. ("**Benteng Transportation**")	Associate of Watts Gallop
Watts Gallop Real Estate	Controlled by the same ultimate controlling shareholder
Zhejiang Sanmei Real Estate Development Co., Ltd. ("**Zhejiang Sanmei**")	Subsidiary of Watts Gallop Real Estate
Hangzhou Huazi Greentown Real Estate Co., Ltd. ("**Hangzhou Huazi Greentown**")	Subsidiary of Watts Gallop Real Estate
Jiangsu Watts Energy & Engineering Co., Ltd. ("**Watts Energy & Engineering**")	Subsidiary of Watts Gallop
Zhejiang Zhongjiao Tonglu Construction Co., Ltd. ("**Zhongjiao Tonglu**")	Subsidiary of Watts Gallop
Shanghai Ziguang Property Management Co., Ltd. ("**Ziguang Property**")	Subsidiary of Watts Gallop
Ningguo Huazi Zhuyou Building Materials Technology Co., Ltd. ("**Ningguo Watts Zhuyou**")	Associate of Watts Gallop
Shanghai Zihui Property Management Co., Ltd. ("**Zihui Property**")	Subsidiary of Watts Gallop

34 RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with related parties

Save as disclosed elsewhere in these financial statements, during the years ended 31 December 2022 and 2021, the following transactions were carried out with related parties at terms mutually agreed by both parties:

(i) Provision of construction services

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Continuing connected transactions		
— Hangzhou Huazi Greentown *(a)*	**29,413**	46,553
— Hangzhou Huazi Greentown *(b)*	**60,269**	19,604
— Watts Gallop Real Estate *(b)*	**10,939**	12,561
— Watts Energy & Engineering *(c)*	**—**	9,983
— Benteng Transportation *(c)*	**—**	2,139
	71,208	44,287
	100,621	90,840

(a) The Group has entered into the Greentown Fuchun Rose Garden phase 2 zone 3 Construction Agreement with Hangzhou Huazi Greentown for providing building construction services in July 2019.

(b) The Group has entered into construction services agreement and provided building construction services to these related parties during the years ended 31 December 2022 and 2021.

(c) The Group has entered into construction services agreement and provided public infrastructure construction services to these related parties during the years ended 31 December 2022 and 2021.

34 RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with related parties (Continued)

(ii) Purchases of goods and services

	Year ended 31 December 2022 RMB'000	Year ended 31 December 2021 RMB'000
Continuing connected transactions		
Purchasing raw materials		
— Ningguo Watts Zhuyou	**2,929**	750
— Zhoushan Benteng	**704**	—
— Jiangsu Shenyu	**361**	10,029
	3,994	10,779

(iii) Rental

	Year ended 31 December 2022 RMB'000	Year ended 31 December 2021 RMB'000
Continuing connected transactions		
— Third Harbor Construction	**349**	383

(iv) Property service

	Year ended 31 December 2022 RMB'000	Year ended 31 December 2021 RMB'000
Continuing connected transactions		
— Zihui Property	**29**	114
— Ziguang Property	**13**	—
	42	114

The related party transactions above were carried out on terms mutually agreed between the parties. In the opinion of the directors of the Company, these transactions were entered into in the ordinary courses of business of the Group and in accordance with the terms of the underlying agreements.

34 RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with related parties (Continued)

(v) Provision of borrowings

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
— Certain shareholders *(Note 29)*	**19,473**	14,885

(vi) Repayments of borrowing

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
— Certain shareholders *(Note 29)*	**22,358**	—

(vii) Key management compensation

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

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Salaries, wages and allowances	**2,996**	3,497
Bonuses	**1,197**	353
Pension costs	**173**	236
	4,366	4,086

34 RELATED PARTY TRANSACTIONS (Continued)

(b) Balances with related parties

(i) Amounts due from related parties

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Trade and retention receivables		
— Hangzhou Huazi Greentown	**75,422**	86,191
— Zhejiang Sanmei	**29,029**	33,768
— Benteng Transportation	**7,752**	8,418
— Watts Energy & Engineering	**6,914**	9,112
— Third Harbor Construction	**4,295**	4,295
— Zhongjiao Tonglu	**1,254**	1,254
— Watts Gallop Real Estate	**41**	62
	124,707	143,100

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Contract assets		
— Hangzhou Huazi Greentown	**93,935**	67,011
— Watts Energy & Engineering	**3,464**	4,064
— Watts Gallop Real Estate	**676**	382
	98,075	71,457

34 RELATED PARTY TRANSACTIONS (Continued)

(b) Balances with related parties (Continued)

(i) *Amounts due from related parties* (Continued)

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Other receivables		
— Hangzhou Huazi Greentown *(a)*	**4,378**	—
— Jiangsu Shenyu	**2,000**	2,000
— Benteng Transportation	**1,169**	1,169
— Third Harbor Construction	**39**	—
— Ziguang Property	**9**	—
— Watts Gallop	**—**	614
	7,595	3,783

Note:

(a) The other receivables due from Hangzhou Huazi Greentown represent deposits for certain projects as at 31 December 2022.

(ii) *Amounts due to related parties*

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Trade and retention payables		
— Zhoushan Benteng	**3,895**	5,102
— Jiangsu Shenyu	**3,839**	6,131
— Ningguo Watts Zhuyou	**1,297**	600
— Third Harbor Construction	**130**	130
— Watts Energy & Engineering	**—**	30
	9,161	11,993

34 RELATED PARTY TRANSACTIONS (Continued)

(b) Balances with related parties (Continued)

(ii) *Amounts due to related parties* (Continued)

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Other payables		
— Watts Gallop	**386**	—

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Long-term payables		
— Watts Gallop	**—**	25,510

The above balances are unsecured, interest free and receivable/repayable on demand, except for long-term payables. The carrying amount of the balances appropriated their fair value as at 31 December 2022 and 2021.

(iii) *Borrowings*

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Loans from certain shareholders *(Note 29)*	**12,000**	14,885

34 RELATED PARTY TRANSACTIONS (Continued)

(c) Guarantees

As at 31 December 2022 and 2021, the Group's banking facilities were guaranteed by related parties as follows:

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
— Watts Gallop	**281,420**	220,000
— Watts Gallop Real Estate	**101,360**	—
— Third Harbor Construction	**100,000**	—
	482,780	220,000

35 CONTINGENCIES

As at 31 December 2022, there are three outstanding claims against Watts Gallop Construction. According to the legal advisers for the claims, potentially liability, legal fees and costs, and interest are not expected to be significant. As such, these legal proceedings individually or in aggregate would not have material financial or operational adverse impact on the consolidated financial statements.

36 EVENTS AFTER THE BALANCE SHEET DATE

Other than disclosed in Note 31 in this report, there was no significant event of the Group occurred after the balance sheet date.

37 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	Note	As at 31 December 2022 RMB'000	2021 RMB'000
ASSETS			
Non-current assets			
Investment in subsidiaries		**189,418**	189,418
Current assets			
Other receivables		**152,096**	127,063
Cash and cash equivalents		**41,258**	69,522
Total assets		**382,772**	386,003
EQUITY			
Capital			
Share capital		**7,303**	7,303
Share premium		**280,092**	291,505
Shares held for employee share scheme		**(4,756)**	(4,756)
Capital reserve	(a)	**65,859**	65,859
Accumulated losses	(a)	**(7,789)**	(15,208)
Total equity		**340,709**	344,703
Liabilities			
Current liabilities			
Trade and other payables		**50**	50
Amounts due to fellow subsidiaries		**42,013**	41,250
Total liabilities		**42,063**	41,300
Total equity and liabilities		**382,772**	386,003

The balance sheet of the Company was approved by the Board of Directors on 28 March 2023 and was signed on its behalf.

Director *Director*

37 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

(Continued)

(a) Reserve movement of the Company

	Accumulated losses *RMB'000*	Capital reserve *RMB'000*
1 January 2021	(9,652)	65,859
Loss for the year	(5,556)	—
At 31 December 2022	(15,208)	65,859
Profit for the year	7,419	—
At 31 December 2022	**(7,789)**	**65,859**

38 EMPLOYEE BENEFIT EXPENSES

(a) Directors and chief executive emoluments

The remuneration expenses of every director and the chief executive recorded in the consolidated statement of comprehensive income is set out below:

Name	Fees *RMB'000*	Salaries, housing allowance and other allowances *RMB'000*	Bonuses *RMB'000*	Employer's contribution to pension scheme *RMB'000*	Total *RMB'000*
For the year ended 31 December 2022					
Executive directors					
Mr. Wang Xiuchun *(i)*	—	625	419	39	1,083
Ms. Wan Yun *(i)*	—	558	499	50	1,107
Mr. Wang Lijiang	—	315	20	30	365
Mr. Wang Likai	—	350	—	—	350
Non-executive directors					
Mr. Wang Shizhong	—	—	—	—	—
Independent non-executive directors					
Mr. Sun Dajian	174	—	—	—	174
Mr. How Sze Ming	174	—	—	—	174
Mr. Wang Hongwei	174	—	—	—	174
	522	1,848	938	119	3,427

38 EMPLOYEE BENEFIT EXPENSES (Continued)

(a) Directors and chief executive emoluments (Continued)

Name	Fees *RMB'000*	Salaries, housing allowance and other allowances *RMB'000*	Bonuses *RMB'000*	Employer's contribution to pension scheme *RMB'000*	Total *RMB'000*
For the year ended 31 December 2021					
Executive directors					
Mr. Wang Xiuchun *(i)*	—	581	—	46	627
Ms. Wan Yun *(i)*	—	501	74	43	618
Mr. Wang Lijiang	—	280	19	30	329
Mr. Wang Likai	—	350	—	—	350
Non-executive directors					
Mr. Wang Shizhong	—	—	—	—	—
Independent non-executive directors					
Mr. Sun Dajian	162	—	—	—	162
Mr. How Sze Ming	162	—	—	—	162
Mr. Wang Hongwei	162	—	—	—	162
	486	1,712	93	119	2,410

Note:

(i) During the years ended 31 December 2022 and 2021, Mr. Wang Xiuchun was the chairman of the Company.

During the years ended 31 December 2022 and 2021, Ms. Wan Yun was the chief executive officer of the Company.

(ii) The remuneration shown above represents aggregate emoluments paid to or receivable by directors in respect of their services in connection with the management of the affairs of the Company or its subsidiaries undertaking.

None of the directors of the Company received or were paid any remuneration in respect of accepting office, and waived or agreed to waive any emolument for the years ended 31 December 2022 and 2021.

38 EMPLOYEE BENEFIT EXPENSES (Continued)

(b) Directors' retirement benefit

There were no retirement benefits paid to any director for the years ended 31 December 2022 and 2021.

(c) Directors' termination benefits

There were no termination benefits paid to any director for the years ended 31 December 2022 and 2021.

(d) Consideration provided to or receivable by third parties for making available directors' services

No consideration was provided to or receivable by third parties for making available directors' services for the years ended 31 December 2022 and 2021.

(e) Information about loans, quasi-loans and other dealings in favour of directors

Except as disclosed elsewhere in these financial statements, no loans, quasi-loans and other dealings were entered into between the Group and the directors in favour of the directors for the years ended 31 December 2022 and 2021.

(f) Directors' material interests in transactions, arrangements or contracts

Except as disclosed elsewhere in these financial statements, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year, during the years ended 31 December 2022 and 2021.

Five Year Financial Summary

Set out below is a summary of the published results and assets, liabilities and equity of the Group for the last five financial years:

	Year ended 31 December				
(RMB in million)	**2022**	2021	2020	2019	2018 (restated)[(i)]
Revenue	**2,076**	2,263	1,818	2,050	2,308
Gross profit	**171**	208	203	247	306
Profit before income tax	**40**	58	59	104	169
Income tax expense	**(13)**	(11)	(12)	(3)	(38)
Profit for the year	**27**	47	47	101	131

	As at 31 December				
(RMB in million)	**2022**	2021	2020	2019	2018 (restated)
Non-current assets	**791**	814	732	603	572
Current assets	**2,650**	2,522	2,700	2,822	3,050
Total assets	**3,441**	3,336	3,432	3,425	3,622
Non-current liabilities	**234**	283	285	339	310
Current liabilities	**2,476**	2,350	2,483	2,432	2,282
Total liabilities	**2,710**	2,633	2,768	2,771	2,592
Total equity	**731**	703	664	654	1,030

(i) As a result of the acquisition of Shanghai Municipal Group which has been accounted for under business combinations under common control, the Group has restated its 2018 comparative amounts of the consolidated statement of comprehensive income by including the operating results of the Shanghai Municipal Group and eliminated its transactions with the Shanghai Municipal Group, as if the acquisition had been completed on 1 January 2018. The consolidated statement of financial position of the Group as at 31 December 2018 was also restated to include the assets and liabilities of the Shanghai Municipal Group.

Definitions

2023 AGM	the forthcoming annual general meeting of the Company to be held on Thursday, 15 June 2023
Acting-in-concert Confirmation	the acting-in-concert confirmation dated 22 August 2004 entered into among Mr. Wang Shizhong, Mr. Ye Kangshun (葉康舜), Mr. Wang Xiuchun (王秀春), Ms. Zhou Meng (周萌) and Mr. Wang Shiqin (王士勤) (as supplemented by another acting-in-concert confirmation dated 25 May 2018 entered into among the same parties and Mr. Wang Likai (王利凱))
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
Companies Act	the Companies Act (As Revised), Cap. 22 of the Cayman Islands
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
COVID-19	the outbreak of the Coronavirus Disease 2019
Engineering Prosper	Engineering Prosper Limited, a BVI business company incorporated under the laws of the BVI with limited liability on 5 January 2018 and is a direct wholly-owned subsidiary of our Company
Director(s)	director(s) of the Company
Group	the Company and its subsidiaries from time to time
Hangzhou Huazi Greentown	Hangzhou Huazi Greentown Real Estate Co., Ltd.* (杭州華滋綠城房地產有限公司), a limited liability company established in the PRC on 9 February 2007, which is indirectly held as to an aggregate of approximately 73.77% by Mr. Wang Shizhong (王士忠) and the parties acting in concert with him (including Mr. Ye Kangshun, Mr. Wang Xiuchun, Ms. Zhou Meng (周萌), Mr. Wang Shiqin and Mr. Wang Likai) and therefore is a connected person of the Company
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
Nomination Committee	the nomination committee of the Company
Placing	the offer of 185,714,000 Shares to as described in the section headed "Structure and Conditions of the Share Offer" in the Prospectus
PRC or China	the People's Republic of China, but for the purpose of this annual report 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
PTPB	PT. Indo Panshi Bumi, a company established under the laws of Indonesia on 17 January 2018, the current registered holder of 33% shareholding interest in Benteng Indonesia under the Contractual Arrangements, and a connected person
PTSP	PT. Indo Sichuan Petroleum, a company established under the laws of Indonesia on 3 November 2018, the former registered holder of 33% shareholding interest in Benteng Indonesia under the Contractual Arrangements
Remuneration Committee	the remuneration Committee of the Company
Renminbi or RMB	Renminbi, the lawful currency of the PRC
Reporting Period	the period from 1 January 2022 to 31 December 2022
Sale and Purchase Agreement	the sale and purchase agreement dated 14 November 2019 (after trading hours) entered into between Third Harbor Maritime and Watts Gallop in relation to the acquisition of Shanghai Municipal
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
Shanghai Municipal	Shanghai Watts Benteng Municipal Public Engineering Co., Ltd.* (上海華滋奔騰市政工程有限公司), a company established in the PRC and acquired by the Company on 24 December 2019

Shanghai Municipal Group	Shanghai Municipal and its subsidiaries
Share(s)	ordinary shares of HK$0.01 each in the share capital of the Company
Share Option Scheme	the share option scheme conditionally approved and adopted by the Company on 19 October 2018
Shareholder(s)	holder(s) of the Shares
Stock Exchange	The Stock Exchange of Hong Kong Limited
Third Harbor Construction	Shanghai Third Harbor Benteng Construction and Engineering Co., Ltd.* (上海三航奔騰建設工程有限公司) (formerly known as First Engineering Company of Third Harbor Bureau* (第三航務工程局第一工程公司)), a company established under the laws of the PRC as a limited liability company on 1 June 1989
Third Harbor Maritime	Shanghai Third Harbor Benteng Maritime Engineering Co., Ltd. (上海三航奔騰海洋工程有限公司), established under the laws of the PRC as a limited liability company on 14 August 2017, and a wholly-owned subsidiary of our Company
US$, USD or US dollars	U.S. dollars, the lawful currency of U.S.
Watts Gallop	Shanghai Watts Gallop Holding Group Co., Ltd. (formerly known as Zhejiang Benteng Investment Co., Ltd.* (浙江奔騰投資有限公司) and Zhejiang Benteng Investment Group Co., Ltd.* (浙江奔騰投資集團有限公司), a company established under the laws of the PRC on November 2003
Watts Gallop Group	Watts Gallop and its subsidiaries

* *For identification purposes only*