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华滋国际海洋工程有限公司
Watts International Maritime Engineering Limited
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 2258)

CONTINUING CONNECTED TRANSACTION
MASTER CONSTRUCTION SERVICES AGREEMENT

INTRODUCTION

On 25 September 2020 (after trading hours), the Company as service provider and Watts Gallop as service recipient entered into the 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.

MASTER CONSTRUCTION SERVICES AGREEMENT

The principal terms of the Master Construction Services Agreement are summarized as follow:

Date

25 September 2020 (after trading hours)

Parties

- (1) the Company
- (2) Watts Gallop

Subject matter

Pursuant to the Master Construction Services Agreement, the Group will, if engaged by Watts Gallop Group, provide engineering construction services to Watts Gallop Group. 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.

Term

The Master Construction Services Agreement will be valid from the Effective Date to 31 December 2022.

Condition precedent

The Master Construction Services Agreement and the transactions contemplated thereunder and the proposed annual caps is conditional upon the approval by the Independent Shareholders in accordance with the Listing Rules.

Pricing policy

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.

REASONS FOR AND BENEFITS OF 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.

Having considered the above reasons and benefits, the Board (other than Mr. Wang Xiuchun, Mr. Wang Shizhong, Mr. Wang Lijiang and Mr. Wang Likai who have abstained from voting on the relevant Board resolutions and the independent non-executive Directors whose views will be set out in the letter from the Independent Board Committee in the circular to be despatched to the Shareholder) 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 terms 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.

Mr. Wang Xiuchun, Mr. Wang Shizhong, Mr. Wang Lijiang and Mr. Wang Likai, being Directors of the Company, have abstained from voting on the Board resolutions approving the Master Construction Services Agreement and the transactions contemplated thereunder.

ANNUAL CAPS AND BASIS FOR ANNUAL CAPS

Since the Master Construction Services Agreement is a new transaction between the Company and Watts Gallop, no historical transaction information of the Master Construction Services Agreement is available. There is no transaction in respect of the provision of engineering construction services by the Group to Watts Gallop Group since the Acquisition to the date of this announcement except for the transactions under the 2019 CCT Agreement.

The proposed annual caps for the transactions contemplated under the Master Construction Services Agreement for the years ending 31 December 2020, 31 December 2021 and 31 December 2022 are set out as follows:

	For the year ending 31 December 2020	For the year ending 31 December 2021	For the year ending 31 December 2022
Proposed annual caps	RMB57,000,000	RMB228,000,000	RMB347,000,000

In determining the proposed annual caps under the Master Construction Services Agreement, the Company has considered the following factors:

- (i) the expected demand of the Watts Gallop Group for the engineering construction services with reference to the estimated number of projects on hand or expected to be held by Watts Gallop Group;
- (ii) the historical transaction amounts between Shanghai Municipal and its subsidiaries and Watts Gallop Group in respect of the provision of engineering construction services by Shanghai Municipal and its subsidiaries to Watts Gallop Group for the years ended 31 December 2017, 31 December 2018 and 31 December 2019 set out below:

	For the year ended 31 December 2017	For the year ended 31 December 2018	For the year ended 31 December 2019
Historical transaction amounts	RMB180,700,000	RMB124,200,000	RMB259,500,000

- (iii) the anticipated construction plan, construction schedule, the potential variation of such schedule and expected workload.

INTERNAL CONTROL MEASURES REGARDING CONTINUING CONNECTED TRANSACTIONS

After identifying the potential projects from Watts Gallop Group, the marketing department will conduct the initial assessment on the prequalification requirements and assess our estimated expected profit margin based on scope of work, nature, size, duration, cost of raw material and subcontractors, complexity etc.

The marketing department and the finance department of the Group are jointly responsible for conducting reviews on compliance with relevant laws, regulations, the Group's internal policies and the Listing Rules in respect of the continuing connected transactions. Before submitting tenders or quotations for projects of Watts Gallop Group, the marketing department will submit a report with the terms of the tender including the basis of the derivation of the expected profit margin and at least two comparable transactions with similar terms to the finance department for approval, which shall be considered by the finance department based on, among others, the expected profit margin shall be not less favourable than at least two recent similar type (in terms of nature, size, duration, cost of raw material and subcontractors, complexity etc.) of projects that the engineering construction services of which were provided by the Group to Independent Third Parties and whether the annual caps will be exceeded.

In addition, independent non-executive Directors will conduct annual review in relation to the transactions contemplated under the Master Construction Services Agreement and provide annual confirmations in accordance with the Listing Rules that the transactions are entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better and the terms are fair and reasonable and in the interests of the Shareholders as a whole in the Company's annual report.

INFORMATION OF THE RELEVANT PARTIES

The Company

The Company is a company incorporated in the Cayman Islands on 20 December 2017. The Company is a leading port, waterway, marine engineering and municipal public engineering services provider in the PRC and is committed to the services of (i) port infrastructure, (ii) waterway engineering, (iii) construction of public infrastructure within cities, (iv) urban greening and (v) construction of building.

Watts Gallop

Watts Gallop is an investment holding company established under the laws of the PRC on 13 November 2003, and as at the date of this announcement, its subsidiaries are principally engaged in the real estate development, investment in property, property management, property leasing, production and manufacturing of transport and storage equipment for new energy, and trade service in the PRC.

As at the date of this announcement, Watts Gallop is ultimately owned as to 56.00% by Mr. Wang Shizhong, 8.66% by Mr. Ye Kangshun, 6.00% by Mr. Wang Xiuchun, 4.00% by Mr. Li Hongwei, 4.00% by Mr. Huang Guanming, 4.00% by Mr. Li Weifei, 2.70% by Mr. Tang Jinxin, 2.06% by Mr. Pan Xinfu, 2.00% by Ms. Zhu Weier, 1.50% by Ms. Zhou Meng, 1.36% by Mr. Shen Jianli, 1.36% by Mr. Wang Shiqin, 1.36% by Mr. Jin Yuhuan, 1.00% by Mr. Lu Yang, 1.00% by Mr. Yan Xincheng, 1.00% by Mr. Wang Likai, 0.50% by Ms. Wan Yun, 0.50% by Mr. Xu Mingsong, 0.50% by Ms. Zhu Qiulian, and 0.50% by Mr. Chen Yan.

LISTING RULES IMPLICATIONS

As at the date of this announcement, 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 74.52% 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 constitute 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 will be subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

ESTABLISHMENT OF INDEPENDENT BOARD COMMITTEE AND APPOINTMENT OF INDEPENDENT FINANCIAL ADVISER

The Company has established the Independent Board Committee to advise the Independent Shareholders in respect of the Master Construction Services Agreement and the transactions contemplated thereunder. The Company has also appointed Gram Capital as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under Master Construction Services Agreement and the proposed annual caps.

GENERAL

The EGM will be convened for the Independent Shareholders to consider and, if thought fit, to approve, the Master Construction Services Agreement and the transactions contemplated thereunder and the proposed annual caps. A circular containing, among others, (i) further details of the Master Construction Services Agreement and the transactions contemplated thereunder; (ii) a letter from the Independent Board Committee to the Independent Shareholders, (iii) a letter of advice from Gram Capital to the Independent Board Committee and the Independent Shareholders in relation to the Master Construction Services Agreement and the transactions contemplated thereunder; and (iv) a notice of EGM, is expected to be despatched to the Shareholders on or before 31 October 2020 as the Company needs more time to prepare and finalise information to be included in the circular.

Pursuant to Rule 14A.36 of the Listing Rules, any Shareholder with a material interest in the Master Construction Services Agreement and the transactions contemplated thereunder is required to abstain from voting on the relevant resolution(s) at the EGM. Since each of HuaZi Holding Limited, Ye Wang Zhou Holding Limited and HZ&BT Development Holding Limited has material interest in the Master Construction Services Agreement and the transactions contemplated thereunder, each of HuaZi Holding Limited, Ye Wang Zhou Holding Limited and HZ&BT Development Holding Limited and their associates must abstain from voting on the resolution(s) approving the Master Construction Services Agreement and the transactions contemplated thereunder at the EGM ^(Notes 1, 2, 3 and 4). To the best knowledge, information and belief of the Directors, save as disclosed in this announcement, none of the other Shareholders must abstain from voting on the relevant resolution(s).

Notes:

1. As at the date of this announcement, (i) HuaZi Holding Limited, a company holding 315,467,967 Shares, is wholly owned by Mr. Wang Shizhong; (ii) HZ&BT Development Holdings Limited, a company holding 143,542,720 Shares, is owned as to 15.71%, 15.70%, 15.70%, 10.60%, 8.08%, 7.85%, 5.34%, 5.34%, 3.92%, 3.92%, 1.96%, 1.96%, 1.96% and 1.96% by Mr. Li Hongwei, Mr. Li Weifei, Mr. Huang Guanming, Mr. Tang Jinxin, Mr. Pan Xinfu, Ms. Zhu Weier, Mr. Shen Jianli, Mr. Jin Yuhuan, Mr. Yan Xincheng, Mr. Lu Yang, Ms. Wan Yun, Ms. Zhu Qiulian, Mr. Xu Mingsong and Mr. Chen Yan, respectively; and (iii) Ye Wang Zhou Holding Limited, a company holding 104,324,869 Shares, is owned as to 46.76%, 32.40%, 8.10%, 7.34% and 5.40% by Mr. Ye Kangshun, Mr. Wang Xiuchun, Ms. Zhou Meng, Mr. Wang Shiqin and Mr. Wang Likai, respectively.
2. Pursuant to the acting-in-concert confirmation dated 22 August 2004 entered into among Mr. Wang Shizhong, Mr. Ye Kangshun, Mr. Wang Xiuchun, Ms. Zhou Meng and Mr. Wang Shiqin (as supplemented by another acting-in-concert confirmation dated 25 May 2018 entered into among the same parties and Mr. Wang Likai), they 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.
3. Mr. Wang Shizhong is the brother of Mr. Wang Shiqin, and a distant relative of Mr. Wang Xiuchun (王秀春). Mr. Wang Lijiang is the nephew of Mr. Wang Shizhong and the son of Mr. Wang Shiqin. Mr. Wang Likai is the son of Mr. Wang Shizhong.
4. Mr. Wang Xiuchun, Mr. Wang Shizhong, Ms. Wan Yun, Mr. Wang Lijiang and Mr. Wang Likai are Directors of the Company.

DEFINITIONS

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

“2019 CCT Agreement”	an agreement dated 1 July 2019 entered into between Zhejiang Benteng Municipal Gardening Construction Engineering Co., Ltd. (浙江奔騰市政園林建設工程有限公司), a direct wholly-owned subsidiary of Shanghai Municipal and an indirect wholly-owned subsidiary of the Company and Hangzhou Huazi Greentown Real Estate Co., Ltd. (杭州華滋綠城房地產有限公司) in relation to the provision of construction services by Zhejiang Benteng Municipal Gardening Construction Engineering Co., Ltd. to Hangzhou Huazi Greentown Real Estate Co., Ltd., the details of which are set out in the announcement of the Company dated 20 November 2019
“Acquisition”	the acquisition of the entire equity interest of the Shanghai Municipal by the Group, which was completed on 24 December 2019
“Board”	the board of Directors of the Company
“Company”	Watts International Maritime Engineering Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange
“connected persons”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting (or any adjournment thereof) of the Company to be convened to consider and approve, among other things, the Master Construction Services Agreement and the transactions contemplated thereunder and the proposed annual caps
“Effective Date”	the date on which the Master Construction Services Agreement and the transactions contemplated thereunder and the proposed annual caps shall be approved by the Independent Shareholders

“Group”	the Company and its subsidiaries from time to time
“Independent Board Committee”	the independent board committee of the Board, comprising all the independent non-executive Directors, established for the purpose of advising the Independent Shareholders on the terms of the Master Construction Services Agreement and the transactions contemplated thereunder
“Independent Financial Adviser” or “Gram Capital”	Gram Capital Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) and the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the transactions contemplated under Master Construction Services Agreement and the proposed annual caps
“Independent Shareholders”	Shareholders who do not have a material interest in the Master Construction Services Agreement and the transactions contemplated thereunder
“Independent Third Parties”	an individual(s) or a company(ies) who or which/are not connected person(s) of our Company within the meaning of the Listing Rules
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Master Construction Services Agreement”	the master engineering construction services agreement entered into on 25 September 2020 between the Company as service provider and Watts Gallop as service recipient, pursuant to which the Group will provide engineering construction services to Watts Gallop Group
“PRC”	the People’s Republic of China, which for the purpose of this announcement only excludes Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Shares”	the ordinary share(s) of HK\$0.01 each in the issued share capital of the Company

“Shareholder(s)”	holder(s) of the issued Share(s)
“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
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Watts Gallop”	Shanghai Watts Gallop Holding Group Co., Ltd.* (上海華滋奔騰控股集團有限公司), a company established in the PRC with limited liability and a connected person of the Company. As at the date of this announcement, Watts Gallop is owned as to 56.00% by Mr. Wang Shizhong, 8.66% by Mr. Ye Kangshun, 6.00% by Mr. Wang Xiuchun, 4.00% by Mr. Li Weifei, 4.00% by Mr. Li Hongwei, 4.00% by Mr. Huang Guanming, 2.70% by Mr. Tang Jinxin, 2.06% by Mr. Pan Xinfa, 2.00% by Ms. Zhu Weier, 1.00% by Mr. Wang Likai, 1.50% by Ms. Zhou Meng, 1.36% by Mr. Shen Jianli, 1.36% by Mr. Wang Shiqin, 1.36% by Mr. Jin Yuhuan, 1.00% by Mr. Yan Xincheng, 1.00% by Mr. Lu Yang, 0.50% by Ms. Wan Yun, 0.50% by Ms. Zhu Qiulian, 0.50% by Mr. Xu Mingsong, and 0.50% by Mr. Chen Yan
“Watts Gallop Group”	Watts Gallop and its subsidiaries and/or associate from time to time

* For identification purpose only

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

Shanghai, 25 September 2020

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