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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)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2022**

Financial Summary

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Revenue	2,075,610	2,262,779
Gross profit	171,126	207,768
Profit before income tax	40,121	58,042
Profit for the year	27,098	47,062
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	3.31	5.75
— Diluted earnings per share	3.31	5.75
	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Total assets	3,441,318	3,335,550
Total equity	731,666	703,360

Annual results for the year ended 31 December 2022

The Board is pleased to announce the audited consolidated annual results of the Group for the year ended 31 December 2022, which have been reviewed by the Audit Committee, and have been approved by the Board on 28 March 2023.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2022

		Year ended 31 December	
		2022	2021
	Note	RMB'000	RMB'000
Revenue	3	2,075,610	2,262,779
Cost of sales		(1,904,484)	(2,055,011)
Gross profit		171,126	207,768
Selling and distribution expenses		(5,616)	(3,994)
Administrative expenses		(92,356)	(113,565)
Net impairment losses on financial assets		(28,741)	(20,855)
Other operating expenses		(336)	(2,315)
Other income		3,981	8,398
Other gains/(losses) — net		13,260	(3,564)
Operating profit		61,318	71,873
Finance income		4,475	5,282
Finance costs		(25,672)	(19,113)
Profit before income tax		40,121	58,042
Income tax expense	4	(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		4,918	(1,895)
Changes in the fair value of equity instruments at fair value through other comprehensive income, net of tax		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	5	3.31	5.75
— Diluted earnings per share	5	3.31	5.75

Consolidated Statement of Financial Position

As at 31 December 2022

		As at 31 December	
		2022	2021
	Note	RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		77,081	86,557
Right-of-use assets		12,464	14,117
Intangible assets		147	292
Contract assets	3	535,359	538,541
Trade and other receivables	6	129,422	152,086
Deferred tax assets		21,696	15,997
Financial assets at fair value through other comprehensive income		15,287	6,253
		<u>791,456</u>	<u>813,843</u>
Current assets			
Inventories		11,993	42,708
Contract assets	3	530,401	642,639
Trade and other receivables	6	1,399,712	1,316,533
Financial assets at fair value through profit or loss		1,300	—
Restricted cash		166,281	75,994
Cash and cash equivalents		540,175	443,833
		<u>2,649,862</u>	<u>2,521,707</u>
Total assets		<u><u>3,441,318</u></u>	<u><u>3,335,550</u></u>

		As at 31 December	
		2022	2021
	<i>Note</i>	RMB'000	RMB'000
EQUITY			
Capital and reserves			
Share capital		7,303	7,303
Share premium		280,092	291,505
Other reserves		30,385	14,404
Shares held for employee share scheme		(4,756)	(4,756)
Retained earnings		418,642	394,904
		<hr/>	<hr/>
Total equity		731,666	703,360
		<hr/>	<hr/>
LIABILITIES			
Non-current liabilities			
Borrowings		14,500	19,500
Lease liabilities		3,003	2,941
Trade and other payables	7	215,180	260,127
Deferred tax liabilities		1,266	—
		<hr/>	<hr/>
		233,949	282,568
		<hr/>	<hr/>
Current liabilities			
Lease liabilities		1,498	2,117
Borrowings		231,411	104,885
Trade and other payables	7	2,078,719	2,175,944
Income tax payables		25,746	20,377
Contract liabilities	3	138,329	46,299
		<hr/>	<hr/>
		2,475,703	2,349,622
		<hr/>	<hr/>
Total liabilities		2,709,652	2,632,190
		<hr/>	<hr/>
Total equity and liabilities		3,441,318	3,335,550
		<hr/> <hr/>	<hr/> <hr/>

Notes to Annual Results Announcement

For the year ended 31 December 2022

1 GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 20 December 2017 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is 4th Floor, Harbour Place, 103 South Church Street, P.O. Box 10240, Grand Cayman KY1-1002, Cayman Islands.

The Company, an investment holding company, and its subsidiaries (together, the "**Group**") provide marine construction and municipal public construction services in Mainland China and Southeast Asia. The ultimate controlling shareholders are Mr. Wang Shizhong, Mr. Ye Kangshun, Mr. Wang Xiuchun, Ms. Zhou Meng, Mr. Wang Shiqin, Mr. Wang Likai ("**Controlling Shareholders**"), who are parties acting collectively and have been controlling the group companies since their incorporation.

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The preparation of the consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements will be disclosed in the 2022 annual report.

(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)”), and
- 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.

(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

3 SEGMENT INFORMATION

(a) Description of segments and principal activities

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

- (i) Marine construction, including infrastructure construction of ports, waterway engineering and other services; and
- (ii) Municipal public construction, including construction of public infrastructure within cities, urban greening and construction of buildings.

The segment results represent the gross profit of marine construction and municipal public construction.

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

(b) Segment results and other information

The segment information for the year ended 31 December 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			3,981
Other gains — net			13,260
Finance costs — net			(21,197)
Profit before income tax			40,121
Income tax expense (<i>Note 4</i>)			(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	(10,066)	(18,675)	(28,741)

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

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

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

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

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

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

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

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
	<i>RMB'000</i>	<i>RMB'000</i>
Customer A	<u>358,740</u>	<u>424,323</u>

(d) Segment assets by territory

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

	As at 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Mainland China	78,677	89,474
Southeast Asia	<u>11,015</u>	<u>11,492</u>
Total	<u>89,692</u>	<u>100,966</u>

(e) **Contract assets and liabilities**

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

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

4 INCOME TAX EXPENSE

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

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax	18,837	16,546
Deferred income tax	(5,814)	(5,566)
	<hr/>	<hr/>
Income tax expense — net	13,023	10,980
	<hr/> <hr/>	<hr/> <hr/>

(a) Cayman Islands profits tax

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

(b) British Virgin Islands (“BVI”) profits tax

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

(c) Hong Kong profits tax

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

(d) PRC corporate income tax (“CIT”)

The Group’s subsidiaries in the PRC are subject to PRC CIT which is calculated based on the applicable tax rate of 25% (2021: 25%) on the assessable profits of the subsidiaries in accordance with PRC tax laws and regulations, except for two 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.

(e) Brunei income tax

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

(f) Indonesia income tax

One of the Company's subsidiaries incorporated in Indonesia is subject to Indonesia income tax. Indonesia income tax is charged through a system of withholding taxes. The customers of the Group are required to withhold final income tax for construction services and the banks are required to withhold final income tax on interest income from bank deposits. For the years ended 31 December 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 from bank deposits, according to respective Indonesia income tax laws and regulations.

5 BASIC AND DILUTED EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of the basic earnings per share is based on the profit for the year attributable to the Shareholders of the Company and the weighted average number of ordinary shares in issue during the year, as adjusted to exclude the shares repurchased under the share award scheme during the years ended 31 December 2022 and 2021.

	Year ended 31 December	
	2022	2021
Profit attributable to the Shareholders of the Company (<i>RMB'000</i>)	27,098	47,062
Weighted average number of ordinary shares in issue (<i>thousands</i>)	819,008	819,008
Total basic earnings per share attributable to the ordinary equity holders of the Group (<i>RMB cents</i>)	<u>3.31</u>	<u>5.75</u>

(b) Diluted earnings per share

Diluted earnings per share is of the same amount as the basic earnings per share as there was no potentially dilutive ordinary share outstanding as at 31 December 2022 and 2021.

6 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	(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	(53,955)	(23,335)
Retention receivables — net	229,094	229,997
Bills receivables (i)	75,113	26,810
Long-term trade receivables (iii)	47,156	50,874
Less: allowance for impairment of long-term trade receivables	(3,099)	(1,750)
Long-term trade receivables — net	44,057	49,124
Other receivables	69,339	51,161
Prepayments	118,066	89,363
Prepaid taxation	2,865	1,500
	1,529,134	1,468,619
Less: non-current portion		
Retention receivables (ii)	(76,213)	(102,030)
Long-term trade receivables (iii)	(40,463)	(45,574)
Other receivables	(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 receivable with a total net book amount of RMB6,001,000 were pledged as collateral for the Group's bank borrowings (2021: Nil).

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
	<i>RMB'000</i>	<i>RMB'000</i>
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
	<u>1,142,850</u>	<u>1,133,684</u>

- (ii) Retention receivables represent amounts due from customers upon completion of the free maintenance period of the construction services, which normally lasts from one to five years, and the maintenance cost is usually immaterial during that period. In the consolidated statement of financial position, retention receivables are classified as current assets if they are expected to be received in one year or less. If not, they are presented as non-current assets. The ageing of the retention receivables is as follows:

	As at 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
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
	<u>283,049</u>	<u>253,332</u>

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

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

As at 31 December 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).

7 TRADE AND OTHER PAYABLES

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Trade payables (<i>i</i>)	1,469,417	1,579,958
Bills payables (<i>i</i>)	13,000	—
Retention payables (<i>ii</i>)	204,054	194,899
Long-term payables (<i>iii</i>)	292,705	391,175
Payroll and social security	18,589	19,927
Other payables	142,200	98,515
Dividend payables	400	—
Other tax liabilities excluding income tax liabilities	153,534	151,597
	<u>2,293,899</u>	<u>2,436,071</u>
Less: non-current portion		
Retention payables (<i>ii</i>)	(95,570)	(107,118)
Long-term payables (<i>iii</i>)	(95,640)	(112,608)
Other payables	(23,970)	(40,401)
	<u>(215,180)</u>	<u>(260,127)</u>
Current portion	<u><u>2,078,719</u></u>	<u><u>2,175,944</u></u>

- (i) The Group's trade and bills 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
	<i>RMB'000</i>	<i>RMB'000</i>
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
	<u>1,482,417</u>	<u>1,579,958</u>

- (ii) Retention payables represent amounts due to suppliers upon completion of the free maintenance period of the construction services, which normally lasts from one to five years. In the consolidated statement of financial position, retention payables are classified as current liabilities if they will be required to be paid in one year or less. If not, they are presented as non-current liabilities. The ageing of the retention payables is as follows:

	As at 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	53,002	19,786
1 to 5 years	104,758	119,636
Over 5 years	46,294	55,477
	<u>204,054</u>	<u>194,899</u>

(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
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	97,252	139,884
1 to 5 years	130,085	172,873
Over 5 years	65,368	78,418
	<u>292,705</u>	<u>391,175</u>

8 DIVIDENDS

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.

9 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.

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	<u>862</u>	<u>150</u>

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	<u>—</u>	<u>1,932</u>

MANAGEMENT DISCUSSION AND ANALYSIS

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

Business Review

The Group 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 used raw materials and consumables 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:

- 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.

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.

Employees and remuneration policies

As of 31 December 2022, the Group had a total of 557 full-time 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.

Purchase, sale or redemption of listed securities

During the Reporting Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Model code for securities transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries to all Directors, all Directors confirm that they have fully complied with the relevant requirements set out in its own code of conduct during the Reporting Period.

Corporate Governance Code

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the shareholders and to enhance corporate value and accountability. The Company has applied the principles of the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. For the Reporting Period, the Company has complied with all applicable code provisions under the CG Code in force during the year.

Audit Committee

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

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

Scope of Work of PricewaterhouseCoopers

The figures in respect of the Group’s consolidated statement of comprehensive income and consolidated statement of financial position and the related notes thereto for the year ended 31 December 2022 as set out in this announcement have been agreed by the Group’s auditor, PricewaterhouseCoopers, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

Publication of Annual Results and Annual Report

This annual results announcement is published on the website of HKEXnews at <http://www.hkexnews.hk> and on the website of the Company at <http://www.shbt-china.com>.

The 2022 annual report containing all the information required by the Listing Rules will be dispatched to the Shareholders and published on the above websites in due course.

Definitions

2023 AGM	the forthcoming annual general meeting of the Company to be held on Thursday, 15 June 2023
Audit Committee	the audit committee of the Company
Benteng Brunei	Pahaytc & Benteng JV Sdn Bhd, a company incorporated under the laws of Brunei with limited liability in January 2016
Benteng Indonesia	PT. Shanghai Third Harbor Benteng Construction and Engineering, a company incorporated under the laws of Indonesia on 16 September 2016 and obtained its legal entity status on 21 September 2016
BN\$ or BND	Brunei Dollars, the lawful currency of Brunei
Board	the board of Directors of the Company
Company	Watts International Maritime Company Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange
COVID-19	the outbreak of the Coronavirus Disease 2019
Director(s)	director(s) of the Company
Group	the Company and its subsidiaries from time to time
HK\$ or HK dollars	Hong Kong dollars, the lawful currency of Hong Kong
IDR	the Indonesian Rupiah, the lawful currency of Indonesia
Listing	the listing of the Company's shares on the main board of the Stock Exchange on 19 November 2018
Listing Rules	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time

Major Currencies	RMB, HK\$, BN\$, IDR and US\$, the major currencies used by the Group in conducting its business
PRC or China	the People's Republic of China, but for the purpose of this announcement only and, unless the context otherwise requires, excluding Hong Kong Special Administrative Region of the People's Republic of China, Macau Special Administrative Region of the People's Republic of China and China Taiwan
Prospectus	the prospectus of the Company dated 30 October 2018
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
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 a wholly-owned subsidiary of the Company
Shanghai Municipal Group	Shanghai Municipal and its subsidiaries
Share(s)	ordinary shares of HK\$0.01 each in the share capital of the Company
Shareholder(s)	holder(s) of the Shares
Stock Exchange	The Stock Exchange of Hong Kong Limited
Third Harbor Maritime	Shanghai Third Harbor Benteng Maritime Engineering Co., Ltd. (上海三航奔騰海洋工程有限公司), established under the laws of the PRC as a limited liability company on 14 August 2017, and a wholly-owned subsidiary of our Company

US\$, USD or US dollars	U.S. dollars, the lawful currency of U.S.
Watts Environmental	Shanghai Watts Environmental Technology Co., Ltd. (上海華滋環境科技有限公司), a limited liability company established under the laws of the PRC on 8 July, 2020 and a wholly-owned subsidiary of Third Harbor Maritime
Watts Gallop Construction	Watts Gallop Construction Engineering Group Co., Ltd. (華滋奔騰建工集團有限公司), a limited liability company established under the laws of the PRC on 10 December 1999, a wholly-owned subsidiary of Shanghai Municipal

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

Shanghai, 28 March 2023

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