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

Annual Report

2018

CONTENTS

Corporate Information

Directors

Executive directors

Mr. Wang Shizhong (王士忠)
(Chairman up until 27 March 2019)
Mr. Wang Xiuchun (王秀春)
(Chairman with effect from 27 March 2019)
Ms. Wan Yun (萬雲)
(Chief executive officer with effect from 27 March 2019)
Mr. Wang Lijiang (王利江)
(Joint company secretary)
Ms. Olive Chen

Independent non-executive directors

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

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)
Mr. Wong Yu Kit (黃儒傑)

Authorised representatives

Ms. Wan Yun (萬雲)
Mr. Wang Lijiang (王利江)

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

Place of business in Hong Kong

40th Floor, Sunlight Tower
No. 248 Queen's Road East
Wanchai
Hong Kong

Auditor

PricewaterhouseCoopers
22/F, Prince's Building
Central
Hong Kong

Legal adviser as to Hong Kong law

Eversheds Sutherland
21/F Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

Compliance adviser

Orient Capital (Hong Kong) Limited
Rooms 1, 1A, 6–8, 27/F &
Rooms 2803–07, 28/F
Wing On House
71 Des Voeux Road Central
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
Shops 1712–1716
17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
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 RMB1,489.7 million

Dear Shareholders,

On behalf of the board of directors (the "**Director(s)**") (the "**Board**") of Watts International Maritime Engineering 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 2018.

The Company was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited on 19 November 2018 (the "**Listing**"). The Board believes that the Listing has enhanced the Company's image and reputation, thereby consolidating and expanding the Company's edge and status in the industry. It will also enhance our possibility in securing big projects as well as increase the Company's business breadth and depth through carrying out suitable mergers and acquisitions in the market. At the same time, it has helped us maintain sufficient working capital and cash flow to meet project funding needs, and meet capital needs of procurement of construction equipment and engineering vessels.

As one of China's most outstanding non-state-owned companies which provide general contracting services of port and waterway construction, the Group has accumulated over 20 years of rich experience in operation, enabling us to be equipped with in-depth industry expertise and strong technological capabilities. By providing high-quality port and waterway engineering services, we have been recognised by the industry, having received various awards and qualifications. For instance, we were awarded the Excellent Construction Enterprise of National Water Transportation Construction Project by the China Water Transportation Construction Industry Association from 2011 to 2018 consecutively. Our project of SPIC multi-cogeneration gas stations 2*390MW in Hengqin Island, Zhuhai was awarded the National Quality Project Award of 2016–2017 issued by the China Association of Construction Enterprise Management in 2016.

For the year ended 31 December 2018, it was recorded that the Group's revenue was approximately RMB1,489.7 million, representing an increase of approximately 5.5% when compared to that of 2017. The profit for the year (after deducting the listing expenses of approximately RMB19.8 million in the year) amounted to approximately RMB104.1 million, representing an increase of approximately 19.2% when compared to that of 2017. The growth of profit for the year was mainly from the growth in our overseas (Southeast Asia) construction service business. In 2018, our revenue in the Southeast Asian market was approximately RMB537.8 million, representing an increase of approximately 21% when compared to that of 2017. Through our devoted efforts in overseas (Southeast Asia) markets over the past few years, we have achieved good reputation.

In terms of business strategy, the Group will leverage on the Listing to further consolidate and develop port and waterway construction business in China as well as expand into the overseas construction market. Currently, the Group focuses on business development in the Southeast Asian region. In the future, it will gradually form a layout where it shall attach equal importance to domestic and overseas markets with organic combination. Meanwhile, if the condition then allow, the Group will conduct mergers and acquisitions. Considering the integration of internal and external resources through mergers and acquisitions, the Group shall become an integrated service provider for design and construction contracting (EPC). In addition, the Group is considering the expansion of its scope of business by extending from offshore engineering to onshore engineering construction services, and striving to create a new arena for business development.

Looking forward, the Board remains cautious but optimistic about the long-term prospect of the port and waterway engineering construction industry. The Group will seize business opportunities in construction brought by the Beijing – Tianjin – Hebei Region integrated development, Yangtze River Economic Zone, Xiong'an New Area, Guangdong – Hong Kong – Macao Greater Bay Area and China's Belt and Road Initiative. With its professional and comprehensive construction vessels and equipment, its veteran management team and its outstanding performance in engineering construction projects for over 20 years, the Company will secure more business and profits with products and services of better quality.

Finally, on behalf of the Board, I would like to express my wholehearted gratitude to the Company's management team, its employees, suppliers, sub-contractors, other business partners, shareholders as well as clients.

Best wishes!
Wang Shizhong (王士忠)
Chairman[(1)]

27 March 2019

(1) Wang Shizhong (王士忠) resigned from his position as the Chairman with effect from 27 March 2019 and Wang Xiuchun (王秀春) has been appointed as the Chairman with effect from 27 March 2019.

Management Discussion and Analysis

The Group provides port, waterway and marine engineering business, including infrastructure construction of ports and waterway engineering services.

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 19 November 2018 (the "**Listing Date**").

Industry Overview

Port, waterway and marine engineering work refers to the construction and installation of structures and facilities in river and sea areas. It can be divided into three main segments, namely: (i) port infrastructure; (ii) waterway engineering; and (iii) marine engineering.

As disclosed in the prospectus of the Company dated 30 October 2018 (the "**Prospectus**"), it is projected that the market size of the People's Republic of China (the "**PRC**") port, waterway and marine engineering market in terms of revenue will grow from approximately RMB98.8 billion in 2012 to RMB113.6 billion in 2022, indicating a compound annual growth rate ("**CAGR**") of approximately 3.9% from 2012 to 2022 while that of Southeast Asia port is projected to increase from approximately USD7.5 billion in 2012 to approximately USD12.7 billion in 2022, indicating a CAGR of approximately 8.9% from 2012 to 2022. The Chinese state-owned contractors account for approximately 90% market share of the PRC port, waterway and marine engineering market in terms of revenue. As at the end of 2018, there were only 12 non-state-owned contractors in the PRC which have obtained the first-grade general contractor qualification certificate for conducting port, waterway and marine engineering business in the PRC. In terms of revenue in 2017, we are the largest non-state-owned port, waterway and marine engineering company in the PRC and at the same time, we are also the second largest port, waterway and marine engineering company among all Chinese state-owned and non-state-owned companies in Southeast Asia.

Business Review

In 2018, we continued to focus on the construction of port and waterway engineering work, and carried out extensive construction work in coastal areas such as Fujian, Zhejiang, Shanghai, Jiangsu, Shandong and Hebei, and areas along the Yangtze River such as Jiangsu, Anhui and Hubei in the PRC, as well as Brunei, Indonesia and other countries in Southeast Asia.

In 2018, we continued to adhere to the business philosophy of "Scientific Management, People Orientation, Operational Integrity and Social Contribution", the corporate spirit of "Constant pursuit for improvement with accumulating daily progress for the corporate's healthy growth", and the quality policy of "Winning Trust with Quality and Pursuing for Excellence", and strictly implemented standard in regards to ISO 9001: 2015, ISO 14001: 2015 and OHSAS 18001–2007, with a view to drive technological advancement with talents, to occupy the market with quality, and to win customers with reputation, to provide domestic and foreign customers with high-quality engineering construction services for port and waterway engineering work.

Our key advantages and core competitiveness over its competitors:

Advanced qualification. We are one of the few non-state owned enterprises possessing the first-grade general contractor qualification certificate for conducting port, waterway and marine engineering business in the PRC which gives access to main segment markets and allows the Company to compete with the top players in the market.

Differentiation and "Going-out" strategy. We have set clear development strategies to differentiate our competitive advantage against large-scale competitors and is one of pioneers to expand business to Brunei and Indonesia following One Belt One Road Initiative, which has provided the Company with tremendous business opportunities in the Southeast Asian markets.

Management team. We have an experienced and high calibre management team with a proven track record, and our management is more flexible and efficient.

Extensive and strong customer resources. The proven track record and extensive experience have enabled us to build a strong reputation in the industry. Through years of operation, we have established stable business relationship with various leading Chinese state-owned enterprises, public and private companies.

In 2018, our subsequent project and auxiliary building project of Shanghai Wusongkou International Cruise Terminal won the Shanghai Water Transport Quality Engineering Award.

For the year ended 31 December 2018, our revenue was approximately RMB1,489.7 million, representing an annual growth of 5.5% as compared with RMB1,412.0 million for the year ended 31 December 2017.

Future Plans and Prospects

We believe that the future development of the industry in the PRC will mainly be driven by development of specialised wharfs, implementation of land reclamation programme, new energy construction, upgrade and expansion of existing port facilities, large-tonnage ports construction, and development of smart water transport system. At the same time, the economic development in Southeast Asia and the construction of the One Belt One Road Initiative will drive the market demand and infrastructure upgrade of the ports and waterways of Southeast Asian countries. In the face of a growing demand for opening and cooperation, our principal future strategies are as follows:

- Further strengthen our leading market position in the port, waterway and marine engineering industry in the PRC.

- Continue to capture growing business opportunities in Southeast Asia from China's One Belt One Road Initiative and enhance our international reputation; and closely follow and keep up-to-date with phase II of the Brunei PMB Island project, and in particular, actively explore and expand the Southeast Asian markets such as the Indonesian market.

- Continue to focus on operational efficiency, enlarge our scale of operation and recruit talents.

- Pursue strategic cooperation or acquisition to achieve vertical business integration and become an integrated marine engineering service provider.

Financial Review

Revenue

The Group has been operating in core and specialised areas of the port, waterway and marine engineering industry, with port infrastructure as its principal business. Throughout the years, we have gradually expanded our business into the Yangtze River Delta, Pearl River Delta, and Central and Northern China. In 2016, we also became one of the pioneers in the PRC to set foot in Southeast Asia by branching out to Brunei and Indonesia following China's One Belt One Road Initiative.

In 2018, the Group's main focus was to provide port infrastructure and waterway works and/or services in the PRC and Southeast Asia and to generate revenue from such provision. The Group's revenue from continuing operations was RMB1,489.7 million, representing an increase of approximately 5.5% compared with that of 2017. Revenues from the PRC and Southeast Asia in 2018 were RMB951.9 million and RMB537.8 million, respectively.

The recognition of the Group's revenue largely depends on the progress/phase of the project. The increase in revenue for the year was primary due the successful implementation of our development strategy. The revenue from Southeast Asia increased by 21.3% compared with that of 2017 to RMB537.8 million.

Cost of sales and profits from main operations

Cost of sales in 2018 was RMB1,299.4 million, representing an increase of 3.7% from RMB1,252.8 million in 2017. In 2018, cost of sales incurred in the PRC and Southeast Asia was RMB855.3 million and RMB444.0 million respectively, representing a decrease of 2.2% and an increase of 17.5% respectively compared with that of the previous year. Cost of sales mainly consists of the cost of used raw materials and consumables, subcontracting costs, direct labour cost and depreciation of property, plant and equipment. In 2018, the cost of raw materials and consumables used and direct labor costs increased by 11.2% and 25.6% respectively, while the cost of subcontracting decreased by 3.8%.

The Group's gross profit from continuing operations increased steadily with the increase in revenue. In 2018, the Group's consolidated profit from main operations was RMB190.3 million, an increase of 19.6% from RMB159.1 million in 2017. The increase mainly came from the gross profit from Southeast Asia which was RMB93.8 million, an increase of 43.1% from RMB65.5 million in 2017.

Operating profit from continuing operations in 2018 was RMB129.9 million, an increase of 12.7% from RMB115.3 million in 2017, mainly due to the growth in gross profit gained from the port infrastructure projects in Southeast Asia.

Administrative expenses

The administrative expenses of the Group in 2018 was RMB51.3 million, representing an increase of 33.2% compared to RMB38.5 million in 2017, primarily due to the increase of RMB15.2 million in the listing expenses of the Company in 2018.

Income tax expense

The Group's income tax expense in 2018 was RMB28.4 million, representing an increase of 9.4% compared to RMB26.0 million in 2017, primarily due to the increase in profit before tax from the PRC and Southeast Asia.

Property, plant and equipment

In 2018, the Group additionally purchased property, plant and equipment of RMB3.9 million, of which were primarily new machinery and equipment purchased for construction in Indonesia.

Trade and other receivables

The Group's net trade and other receivables increased to RMB1,162.7 million as at 31 December 2018 (as at 31 December 2017: RMB991.3 million), which mainly comprised of 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 2018 was mainly due to the increase in progress receivables on projects newly commenced in the PRC and Indonesia in the second half of 2018. The Group has assessed the expected credit losses and has made proper provisions for impairment losses.

Trade and other payables

The Group's trade and other payables increased to RMB1,515.8 million as at 31 December 2018 (as at 31 December 2017: RMB1,122.0 million), mainly from the procurement and subcontracting items for the newly commenced projects were not yet due for payment.

Current assets, capital structure, and gearing ratio

The Group maintained a healthy liquidity position with net current asset balance and net cash of approximately RMB328.9 million (as at 31 December 2017: RMB594.7 million) and RMB385.9 million (as at 31 December 2017: RMB122.3 million), respectively as at 31 December 2018. The Group's gearing ratio (calculating by dividing total liabilities by total assets) as at 31 December 2018 was 74.5% (as at 31 December 2017: 65.7%). The increase in the gearing ratio in 2018 was mainly due to the increase in trade payables for projects newly commenced in the PRC and Indonesia in the second half of 2018. The Group had no bank borrowings in 2018.

Foreign exchange

Operations of the Group are mainly conducted in Chinese Renminbi ("**RMB**"), Hong Kong dollars ("**HK$**"), Brunei dollars ("**BN$**"), United States dollars ("**US$**") and Indonesian Rupiahs ("**IDR**") (collectively, "**Major Currencies**"). The Group did not adopt any hedging policy and the Directors considered that the exposure to foreign exchange risks can be mitigated by using the Major Currencies (i) as principal currencies for contract entered by and between the Group and its customers and (ii) to settle payments to our suppliers and operating expenses where possible. In the event that settlement from the Group's customer are received in a currency other than the Major Currencies, such currency will be retained for payment of operating expenditures when necessary and the remaining amount will be converted to HK$ or US$ promptly.

Capital expenditures and commitments

The Group generally finances its capital expenditures by cash flows generated from its operation, and the net proceeds from the Listing provide an additional source of funding to meet its capital expenditure plan.

In 2018, the Group paid RMB0.7 million for the purchase of machinery and equipment used for construction. As at 31 December 2018, the Group had no major capital commitments.

Use of proceeds

The Group's net proceeds from the Listing were approximately HK$202.9 million. As at the date of this Annual Report, the utilisation of net proceeds raised by the Group from the Listing is as below,

	Estimated use of proceeds *HK$ million*	**Utilised up to the date of this annual report** *HK$ million*
Funding our capital needs and cash flow under our existing projects in the PRC and Southeast Asia	65.5	12.3
Purchasing new vessels and construction equipment	35.7	—
Recruiting talent	13	—
Strategic equity investment	68.8	—
General working capital	19.9	19.9
	202.9	32.2

Material acquisition and disposal of subsidiaries and associates and joint ventures

Since Listing Date and up to 31 December 2018 (the "**Period**"), the Group had no material acquisitions or disposals of subsidiaries, associates and joint ventures.

Significant investment held

During the year ended 31 December 2018, the Group held no significant investment.

Charges on assets

As at 31 December 2018, the Group had no charges on assets.

Biographical Details of Directors and Senior Management

Board of Directors

Our Board currently consists of eight Directors, comprising five executive Directors 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 Shizhong (王士忠), aged 54, was appointed as an executive Director on 20 December 2017. He was the chairman of the Board up until his resignation which became effective on 27 March 2019. Mr. Wang joined the Group in November 2003 and is primarily responsible for overall management and strategic planning. Mr. Wang is a director of a number of subsidiaries of the Group. From December 1987 to December 1999, Mr. Wang served as a general manager at Zhejiang Gallop Construction and Engineering Co., Ltd. (浙江奔騰建設工程有限公司) (the "**Zhejiang Gallop Construction**") (formerly known as Fuyang Municipal Engineering Company (富陽市市政工程公司)). From December 1999 to May 2004, he was the chairman of Zhejiang Gallop Construction and Engineering Co., Ltd. (浙江奔騰建設工程有限公司). From May 2004 to December 2007, Mr. Wang was the chairman of Shanghai Third Harbor Benteng Construction and Engineering Co., Ltd. (the "**Third Harbour Construction**", 上海三航奔騰建設工程有限公司). Since November 2003, he has been the chairman of Shanghai Watts Gallop Holding Group Co., Ltd. (the "**Watts Gallop**", 上海华滋奔騰控股集團有限公司) and Zhejiang Watts Gallop Real Estate Development Co., Ltd. (浙江华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 People's Republic of China (the "**PRC**") in July 1987.

Mr. Wang is the uncle of Mr. Wang Lijiang (王利江), an executive Director, and the brother of Mr. Wang Shiqin (王士勤), a controlling shareholder of the Company.

Mr. Wang Xiuchun (王秀春), aged 51, was appointed as an executive Director on 9 April 2018. He is currently the chairman of the Board (appointed on 27 March 2019). Mr. Wang Xiuchun is a distant relative of Mr. Wang Shizhong (王士忠). Mr. Wang Xiuchun joined the Group in January 2002 and is primarily responsible for day-to-day business operation. Mr. Wang Xiuchun is a director of a number of subsidiaries of the Group. From January 1993 to December 1999, Mr. Wang Xiuchun served at Zhejiang Gallop Construction as a construction team member and project manager, respectively. 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. (上海华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 40, was appointed as our executive Director on 9 April 2018. She is currently our chief executive officer (appointed on 27 March 2019). Ms. Wan joined our Group in January 2010 and is primarily responsible for accounting and financial management. Ms. Wan is a director of a number of subsidiaries of our 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 the China Agricultural University (中國農業大學) in the PRC in July 2002.

Mr. Wang Lijiang (王利江), aged 31, 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). Mr. Wang Lijiang joined the Group in March 2014 and is primarily responsible for the overall administration. 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 Offshore & Engineering Co., Ltd. (江蘇华滋海洋工程有限公司). From February 2016 to February 2018, he also served as a 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 the United Kingdom in November 2011.

Mr. Wang Lijiang is the son of Mr. Wang Shiqin (王士勤), a controlling shareholder of the Company.

Ms. Olive Chen, aged 32, was appointed as an executive Director on 18 April 2018. Ms. Olive Chen joined the Group in April 2018 and is primarily responsible for the general business development and client relations of the Group. Ms. Olive Chen is a director of Shanghai Shanyu Construction and Engineering Co., Ltd., a subsidiary of the Group. From September 2011 to January 2014, Ms. Olive Chen worked as the business manager and the real estate project manager in Liqin Investment Co., Ltd. (力勤投資有限公司), primarily responsible for project team establishment and management, and assisting on project risk management. Since January 2013, Ms. Olive Chen has been a director of Worldlink Resources Limited, a pre-IPO investor of the Company, and is primarily responsible for procuring iron ore in Australia for various steel mills in the PRC which includes various business liaison and negotiations on business contracts. Since May 2017, Ms. Olive Chen has also become the general manager of Worldlink Resources Limited, and is responsible for its overall operation and investment in the PRC.

Ms. Olive Chen obtained her bachelor of arts with a major in art design from the Central Academy of Fine Arts (中央美術學院) in the PRC in June 2011, and obtained her master of business administration from Columbia University in the United States in May 2017.

Independent Non-executive Directors

Mr. Sun Dajian (孫大建), aged 64, was appointed as our independent non-executive Director on 19 October 2018. Mr. Sun is also the chairman of the audit committee of the Company and a member of each of the nomination and remuneration committee of the Company. 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) in the PRC. From May 1990 to September 2000, Mr. Sun worked as a certified accountant at Dahua Accountants Firm (大華會計師事務所). From September 2000 to January 2014, Mr. Sun successively served as the deputy chief accountant, the chief accountant, and the financial director of 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 subsequently became the chief financial officer. From September 2014 to April 2017, Mr. Sun worked as a certified public accountant at the Shanghai branch of Zhongxinghua Certified Public Accountants LLP. 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 also served as an independent non-executive director and a member of the audit committee of Shanghai Jin Jiang International Hotels (Group) Company Limited, a hospitality services provider listed on the Hong Kong Stock Exchange (stock code: 02006), from November 2006 to September 2015.

Mr. Sun has held the following positions in the following companies listed on the Shenzhen Stock Exchange:

Date	Name of listed company	Stock code	Principal business activities	Responsibilities
Since August 2014	Zhejiang Haers Vacuum Containers Co., Ltd.	002615	Manufacture and sale of stainless-steel vacuum containers	Independent director
Since November 2015	Shanghai SK Petroleum & Chemical Equipment Corporation Ltd.	002278	Research and development, and manufacturing of petroleum and chemical equipment	Independent director
March 2015 to March 2018	Shanghai Fortune Techgroup Co., Ltd.	300493	Distribution of semiconductors	Independent director

Mr. Sun has held the following positions in the following companies listed on the Shanghai Stock Exchange:

Date	Name of listed company	Stock code	Principal business activities	Responsibilities
Since December 2015	Shanghai Jahwa United Co., Ltd.	600315	Production and sale of cosmetics, personal protection items and cleaning supplies	Independent director
Since January 2016	L&K Engineering (Suzhou) Co., Ltd.	603929	Provider of engineering services, design, construction and operation of sterilised systems and equipment	Independent director

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

Mr. How Sze Ming (侯思明), aged 42, 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 of the Company. Mr. How has over 15 years of experience in investment banking and business assurance industries. From July 2001 to January 2016, Mr. How worked as a senior associate in the Assurance and Business Advisory Department of PricewaterhouseCoopers, the corporate finance executive of Tai Fook Securities Company Limited (now known as Haitong International Securities Company Limited), the assistant manager at Tai Fook Capital Limited (now known as Haitong International Capital Limited), the assistant vice president of CCB International Capital Limited, the vice president in the Investment Banking Division of ICEA Capital Limited, the assistant vice president in the Investment Banking Division of ICBC International Holding Limited, the managing director of the Investment Banking Department of CMB International Capital Corporation Limited, the managing director of Zhaobangji International Capital Limited (now known as Well Link International Capital Limited), responsible for performing assurance, business advisory, corporate finance advisory, etc. Mr. How is currently the managing director/co-head of corporate finance of Southwest Securities (HK) Capital Limited, a company principally engaged in investment banking and advisory, where he is responsible for corporate finance advisory work.

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), Forgame Holdings Limited (Stock Code: 484), Shanghai Zendai Property Limited (Stock Code: 755), 1957& Co. (Hospitality) Limited (Stock Code: 8495). In the past three years, Mr. How was an independent non-executive director of the following listed companies, QPL International Holdings Limited (Stock Code: 243) and Million Stars Holdings Limited (Stock Code: 8093, formerly known as Odella Leather Holdings Limited).

Mr. How graduated from the Chinese University of Hong Kong in Hong Kong with a bachelor of business administration degree 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 51, was appointed as an independent non-executive Director on 19 October 2018. Mr. Wang is also the chairman of the nomination committee of the Company and a member of each of the audit committee and the remuneration committee of the Company. 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 the 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 the Shanghai Finance University (上海金融學院). Since June 2016, Mr. Wang Hongwei has been a professor at Shanghai Lixin University of Accounting and Finance (上海立信會計金融學院). Since February 2017, Mr. Wang Hongwei has been an independent director of Bank of Hangzhou Co., Ltd. (杭州銀行股份有限公司), which is listed on the Shanghai Stock Exchange (Stock Code: 600926) and principally engages in the business of providing various financial services.

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. Sha Yichun (沙益春), aged 39, was our chief executive officer up until 27 March 2019. He was re-designated as our deputy executive officer with effect from 27 March 2019. He serves as the chief executive officer of Shanghai Third Harbor Benteng Maritime Engineering Co., Ltd. (the "**Third Harbor Maritime**", 上海三航奔騰海洋工程有限公司) and a director of Benteng Brunei, primarily responsible for our day-to-day business operations. Mr. Sha joined our Group in August 2001 and is a director and/or senior management member of a number of subsidiaries of our Group. From August 2001 to February 2002, he worked as a project technician of First Engineering Company of Third Harbor Bureau (第三航務工程局第一工程公司) (currently known as Third Harbor Construction). From January 2002 to August 2017, Mr. Sha assumed various positions in the project department of Third Harbor Construction, including project deputy manager, project technical director, project chief engineer, and general manager.

Mr. Sha obtained his diploma in harbour and waterway engineering from Southeast University (東南大學) in the PRC in June 2001, and his diploma in engineering management from Tongji University (同濟大學) in the PRC in July 2008 by distant learning.

Mr. Ye Sheng (葉盛), aged 38, was appointed as our chief financial officer with effect from 27 March 2019. He joined our 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 our 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 graduated from Shanghai University of Finance and Economics (上海財經大學) in the PRC in July 2003 where he obtained his bachelor's degree in management with a major in accounting (international accounting). He is also a certified public accountant in the PRC.

Mr. Wang Xifeng (王喜鋒), aged 40, is a deputy general manager of Third Harbor Maritime (三航奔騰海洋) and a director of PT. Shanghai Third Harbor Benteng Construction and Engineering ("**Benteng Indonesia**"), primarily responsible for overseeing our business operations in Indonesia. Mr. Wang Xifeng has joined our Group since October 2004. From October 2004 to July 2015, Mr. Wang Xifeng worked in the engineering department in Third Harbor Construction, primarily responsible for the construction management of the project site. From August 2015 to August 2017, Mr. Wang Xifeng was the assistant to the general manager of Third Harbor Construction, primarily responsible for the establishment and operation of Benteng Indonesia. Since September 2017, Mr. Wang Xifeng has been the deputy general manager of Third Harbor Maritime, concurrently serving as a director of Benteng Indonesia, primarily responsible for the management of the Benteng Indonesia and the operation of the business of our Group in the Indonesian market.

Mr. Wang Xifeng obtained his diploma in business administration from Zhejiang University of Technology (浙江工業大學) in the PRC in June 2004.

Mr. Tang Liang (唐亮), aged 34, was the deputy general manager of Third Harbor Maritime and a director of Pahayta & Benteng JV Sdn Bhd ("**Benteng Brunei**"), primarily responsible for overseeing our business operation in Brunei. Mr. Tang joined our Group in July 2006. Mr. Tang was also a director of a number of subsidiaries of our Group (resigned from all of the above-mentioned positions on 31 January 2019). From July 2006 to March 2015, Mr. Tang has served in various positions at Third Harbor Construction, including project department construction member and technician, project manager and project chief engineer, manager of the engineering department, and assistant to the general manager, primarily responsible for production management. From March 2015 to August 2017, Mr. Tang was the deputy general manager of Third Harbor Construction, where he was responsible for the overall management of our business operations in Brunei.

Mr. Tang obtained his bachelor in engineering, majoring in harbour, waterway and marine engineering from the Jiangsu University of Science and Technology (江蘇科技大學) in the PRC in June 2006.

Mr. Zhang Hanchun (張寒春), aged 44, was appointed as the deputy general manager of Third Harbor Maritime and a director of Benteng Brunei on 31 January 2019 of which he was primarily responsible for overseeing our business operation in Brunei. Mr. Zhang joined our Group in August 2001. From August 2001 to December 2018, Mr. Zhang assumed various positions in Third Harbor Construction, of which included project deputy manager of the material and equipment department, project manager, manager of the engineering department, and assistant general manager.

Mr. Zhang obtained his bachelor in management engineering from Beijing Wuzi University (北京物資學院) in the PRC in June 1997.

Joint company secretaries

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

Mr. Wong Yu Kit (黃儒傑) was appointed on 23 May 2018 as one of the joint company secretaries of our Company. Mr. Wong is currently an assistant vice president with SWCS Corporate Services Group (Hong Kong) Limited (方圓企業服務集團(香港)有限公司), a professional service provider specialising in corporate services. Mr. Wong has over 10 years of experience in the corporate services field.

Mr. Wong has obtained a bachelor's degree in business administration and management from the University of Huddersfield and a master's degree in corporate governance from the Open University of Hong Kong (香港公開大學). Mr. Wong is an associate member of The Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom.

The Board is pleased to present its report and the audited financial statements of the Group for the year ended 31 December 2018.

Share offer

The Company was incorporated on 20 December 2017 as an exempted company with limited liability under the Cayman Islands Company Law. The Company's shares were listed on the Main Board of the Stock Exchange on 19 November 2018.

Principal place of business and principal activities

We have been operating in core and specialised areas of the port, waterway and marine engineering industry, primarily focusing on port infrastructure and waterway engineering. Our port infrastructure work primarily includes port infrastructure and waterway engineering projects. Our principal place of business and headquarters in the PRC are at 5/F, Tower 17, 2816 Yixian Road, Baoshan District, Shanghai, the PRC. Our principal place of business in Hong Kong is at 40th Floor, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong.

Business review and results

The Group's business review for the year ended 31 December 2018 is set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of the Annual Report. The Company's future business development discussion is set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of the Annual Report. The key financial performance indicators used in the Group's performance analysis for the year are set out in the section headed "Financial Summary" of the Annual Report. The Group's results for the year ended 31 December 2018 are set out in the section headed "Consolidated Statement of Comprehensive Income" of the Annual Report. There are no important events affecting the Group which have occured since the end of the financial year ended 31 December 2018. Discussions on the Group's compliance with relevant laws and regulations which have a significant impact on the Group and relationship with its employees, customers and suppliers are contained in the environmental, social and governance report 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

In accordance with the dividend policy mentioned above, the Board has decided not to recommend payment of a final dividend for the year ended 31 December 2018.

In essence, the decision to declare dividend or not is to balance the interests of (i) allowing the shareholders to share results of the Company; and (ii) the needs for the Company to reserve sufficient cashflows to invest for further expansion when the opportunities come.

In reaching this decision, the Board particularly considered that (i) there is a need for continued expansions in order to further enlarge market share coupled with the fact that (ii) the financial condition in relation to the liquidity of the Company is not more than sufficient in light of the expansion plans foresaw, details of which are as follows:

(1) Continue to capture growing business opportunities in Southeast Asia

The Company is one of the pioneers in the PRC to set foot in Southeast Asia by expanding its business in Brunei and Indonesia following China's Belt and Road Initiative. We believe that the introduction of China's Belt and Road Initiative will continue to provide us with tremendous business opportunities in the Southeast Asian markets. Leveraging our diversified and extensive experience and reputation gained over various significant port, waterway and marine engineering projects in the PRC and Southeast Asia, we continue to capture growing business opportunities in Southeast Asia and closely follow and keep up-to-date opportunities, e.g. phase II of the Brunei island project, in particular, actively explore and expand the Southeast Asian markets. Considering that the precise contract value and payment condition will depend on the actual circumstances surrounding the tender, the Board is of the view that it is in the interests of the Company and shareholders as a whole to reserve sufficient cashflows to capture such exciting opportunities presented.

(2) Financial conditions

As at 31 December 2018, the Company's net current assets are RMB328.9 million. After deducting the net funds raised from the Company's initial public offering, the increase in net current assets is not significant considering the size of operations of the Company.

On the other hand, as at 31 December 2018, the Company's trade receivables and trade payables are approximately RMB975 million and approximately RMB1,036 million, respectively, both of which have increased significantly to a similar extent. The Company's clients are mainly state owned enterprises or reputational public and private companies, the collection periods from these clients are generally longer. As such, the Company needs to retain sufficient operational capital so as to maintain normal operations of its business.

In conclusion, having considered (i) the circumstances surrounding the Company's future potential projects, (ii) the fact that net current assets did not increase significantly and (iii) financial positions of trade receivables and trade payables as at 31 December 2018, the Board does not recommend payment of a final dividend for the year ended 31 December 2018.

Closure of Register of Members

For the purpose of determining the identity of the shareholders of the Company entitled to attend and vote at the forthcoming annual general meeting of the Company to be held on Tuesday, 18 June 2019 (the "**2019 AGM**"), the register of members of the Company will be closed from Thursday, 13 June 2019 to Tuesday, 18 June 2019, both days inclusive, during the period no transfer of shares will be registered. In order to be qualified for attending and voting at the annual general meeting, all transfer documents accompanied by the relevant certificates must be lodged with the Company's branch 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 Wednesday, 12 June 2019.

Use of proceeds from listing

The Group's net proceeds from the Listing was approximately HK$202.9 million. During the period from the Listing Date and up to the date of this Annual Report, the use of proceeds was in line with the usage disclosed in the Prospectus as follows,

	Estimated use of proceeds *HK$ million*	Utilised up to the date of this annual report *HK$ million*
Funding our capital needs and cash flow under our existing projects in the PRC and Southeast Asia	65.5	12.3
Purchasing new vessels and construction equipment	35.7	—
Recruiting talent	13	—
Strategic equity investment	68.8	—
General working capital	19.9	19.9
	202.9	32.2

Major customers and suppliers

For the year ended 31 December 2018, our revenue generated from our top five customers amounted to approximately RMB729.0 million, representing approximately 48.9% of our total revenue for the same period, while our revenue generated from our largest customer amounted to approximately RMB306.7 million, representing approximately 20.6% of our total revenue for the same period.

The table below sets out the details of our major customers for the year ended 31 December 2018:

Name of customer	Major work or services provided to the customer	Approximate amount of revenue attributable to the customer (RMB in million)	Approximate % of our total revenue	Background of the customer	Principal business of the customer/ primary location	Approximate year(s) of business relationship as at 31 December 2018
Customer A*	Port infrastructure	306.7	20.6%	State-owned enterprise	Port infrastructure, waterway engineering, port equipment installation and prefabricated concrete/PRC, Indonesia	18
Customer B	Port infrastructure	175.9	11.8%	Private company	Petrochemical engineering and equity investment business/Brunei	4
Customer C	Port infrastructure	87.7	5.9%	State-owned enterprise	Construction of petrochemical plant as well as import and export of industrial products/Brunei	1

Name of customer	Major work or services provided to the customer	Approximate amount of revenue attributable to the customer (RMB in million)	Approximate % of our total revenue	Background of the customer	Principal business of the customer/ primary location	Approximate year(s) of business relationship as at 31 December 2018
Customer D	Port infrastructure	81.1	5.4%	State-owned enterprise	Development, construction, operation and management of marinas, yacht clubs and related supporting facilities/PRC	4
Customer E	Port infrastructure	77.6	5.2%	Private company	Construction of port engineering projects/PRC	6

Note:

* Customer A is the largest port infrastructure company in the PRC. We have conducted a number of port and waterway projects and/or services with different subsidiaries and/or associated companies of Customer A for 18 consecutive years. The revenue attributable to Customer A is aggregated with revenue from its subsidiaries and/or associated companies.

Backlog of our projects

During the year ended 31 December 2018, we completed 22 contracts with original contract value of RMB1,312.2 million and we also entered into 47 new contracts with original contract value of RMB2,193.6 million. As at 31 December 2018, we have 43 contracts on hand with original contract value of RMB3,238.3 million and aggregate value of RMB1,504.8 million in our backlog.

Suppliers of raw materials

For the year ended 31 December 2018, purchase from our largest raw material supplier amounted to approximately RMB104.2 million, representing approximately 16.0% 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 RMB294.1 million, representing approximately 45.2% of our total cost of raw materials and consumables used for the same period. As at 31 December 2018, we had more than 430 qualified raw material suppliers and on average three years of business relationship with all of our top five suppliers of raw materials in the PRC.

The table below sets out the details of our major suppliers for the year ended 31 December 2018:

Name of supplier	Major raw materials procured from the supplier	Amount of raw materials and consumables used purchased from the supplier (RMB in million)	Approximate % of our total raw materials and consumables used	Background of the supplier	Principal business of the supplier	Approximate year(s) of business relationship as at 31 December 2018
Supplier A	Tube piles	104.2	16.0%	Private company	Metal materials, construction materials	3
Supplier B	Cement	71.8	11.0%	Private company	Cement	2
Supplier C	Sand and rock	46.7	7.2%	Private company	Sand and rock	3
Supplier D	Sand and rock, cement	39.7	6.1%	Private company	Cement, sand and rock	6
Supplier E	Prefabricated component	31.7	4.9%	Private company	Prefabricated component	4

For the year ended 31 December 2018, our subcontracting costs to the top five subcontractors amounted to approximately RMB175.6 million, representing approximately 30.4% of our total subcontracting costs for the same period, while the subcontracting cost to our largest subcontractor amounted to approximately RMB44.8 million, representing approximately 7.8% of our total subcontracting costs for the same period. As at 31 December 2018, we had more than 170 qualified subcontractors and on average eight years of business relationship with our top five subcontractors in the PRC.

The table below sets out the details of our major subcontractors for the year ended 31 December 2018:

Name of subcontractor	Major services procured from the subcontractor	Approximate amount of subcontracting costs incurred to the subcontractor (RMB in million)	Approximate % of our total subcontracting costs	Background of the subcontractor	Principal business of the subcontractor	Approximate year(s) of business relationship as at 31 December 2018
Subcontractor A	Structural subcontracting	44.8	7.8%	Private company	Water conservancy engineering, construction engineering	12
Subcontractor B	Structural subcontracting	40.9	7.1%	State-owned enterprise	Port infrastructure, waterway engineering, port equipment installation and prefabricated concrete	18
Subcontractor C	Waterway engineering subcontracting	35.2	6.1%	Private company	Waterway engineering, construction of river regulation engineering, dredging of ports, installation of port equipment	7

Name of subcontractor	Major services procured from the subcontractor	Approximate amount of subcontracting costs incurred to the subcontractor (RMB in million)	Approximate % of our total subcontracting costs	Background of the subcontractor	Principal business of the subcontractor	Approximate year(s) of business relationship as at 31 December 2018
Subcontractor D	Infrastructure subcontracting and structural subcontracting	27.7	4.8%	Private company	Building construction engineering, municipal engineering, road engineering, hydraulic and hydropower engineering	3
Subcontractor E	Infrastructure subcontracting and structural subcontracting	27.0	4.6%	Private company	Construction engineering, mining engineering, municipal engineering, mechanical and electrical engineering, hydraulic and hydropower engineering	4

During the Period, 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 of the Company) had interests in the five largest suppliers or customers or subcontractors of the Company.

Property, plant and equipment

Details of the movements in the property, plant and equipment of the Group during the year ended 31 December 2018 are set out in Note 14 to the consolidated financial statements of this Annual Report.

Subsidiaries

Particulars of the names, principal activities and place of operation, places of incorporation/ establishment and issued and paid-in share capital of the principal subsidiaries of the Company as at 31 December 2018 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 four financial years is set out on page 164 under the section headed "Financial Summary" of this Annual Report. Since the Company's shares were listed on 19 November 2018, and the Group's financial information for the year ended 31 December 2014 was not published, so the summary only covers the last four financial years rather than five financial years. The summary does not form part of the audited consolidated financial statements.

Financial statements

The financial position of the Group for the year ended 31 December 2018 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 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 2018 are set out in Note 21 to the consolidated financial statements of this Annual Report.

Capital structure

The Group generally allocates funds for its operations through internal generated funds. The cash and bank balances as at 31 December 2018 were RMB386.0 million (as at 31 December 2017: RMB130.3 million).

The Group's total equity as at 31 December 2018 was RMB532.2 million (as at 31 December 2017: RMB607.5 million). The Group's current assets as at 31 December 2018 were RMB1,828.7 million (as at 31 December 2017: RMB1,565.9 million) and its current liabilities were RMB1,499.8 million (as at 31 December 2017: RMB971.2 million). The current ratio was 1.2 (as at 31 December 2017: 1.6).

The Group monitors capital on the basis of the gearing ratio which was calculated by dividing total borrowings by total assets. As there were no borrowings for the years ended 31 December 2018 and 2017, the capital risk is relatively low.

Distributable reserves

Details of the movements in the reserves of the Group during the year ended 31 December 2018 are set out in the section headed "Consolidated Statement of Changes in Equity" of this Annual Report. As at 31 December 2018, the Company's reserves available for distribution, calculated in accordance with the provision of the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) ("**Companies Law**") of the Cayman Island, amounted to RMB322,551,000. Under the Companies Law, 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.

Contingent liabilities

As at 31 December 2018, the Group had no significant contingent liabilities.

Bank borrowings

As at 31 December 2018, the Group had no bank borrowings and other borrowings.

Material investment, acquisition and disposal

During the Period, the Group had no material investment, acquisition and disposal.

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 and Brunei dollar, as certain purchase and sales of the Group is denominated in US$ and BN$. The Group also has certain amounts cash and bank balances denominated in HK dollar and US$, of 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 since 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.

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) (Note 1, 3, 6)	51	Chairman & executive director	9 April 2018
Mr. Wang Shizhong (王士忠) (Note 1, 4, 6)	54	Executive director	20 December 2017
Ms. Wan Yun (萬雲) (Note 5)	40	Executive director & chief executive	9 April 2018
Mr. Wang Lijiang (王利江) (Notes 1, 2)	31	Executive director	9 April 2018
Ms. Olive Chen	32	Executive director	18 April 2018
Mr. Wang Hongwei (王洪衛)	51	Independent non-executive director	19 October 2018
Mr. How Sze Ming (侯思明)	42	Independent non-executive director	19 October 2018
Mr. Sun Dajian (孫大建)	64	Independent non-executive director	19 October 2018

Notes:

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

2. Mr. Wang Lijiang (王利江) is the son of Mr. Wang Shiqin, a Controlling Shareholder.

3. Mr. Wang Xiuchun (王秀春) has been appointed as the Chairman with effect from 27 March 2019.

4. Mr. Wang Shizhong (王士忠) was the Chairman up until 27 March 2019.

5. Ms. Wan Yun (萬雲) was appointed as chief executive officer with effect from 27 March 2019.

6. 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) (the "**Acting-in-concert Confirmation**"), 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. (上海华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 if an unanimous vote could not be reached.

The Company has received the annual confirmation of independence issued 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 Shizhong and Mr. Wang Lijiang will retire by rotation at the 2019 AGM and, be eligible to offer themselves for re-election.

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 or appointments

Each of our Directors has entered into a service contract or an appointment letter (as the case may be) with the Company for an initial fixed term of three years commencing on the Listing Date.

None of the Directors who are proposed for re-election at the 2019 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 in the section headed "Continuing Connected Transactions", there is no transaction, arrangement or contract that is significant in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a person who at any time in the Period was a Director or his or her connected entity had, directly or indirectly, a material interest subsisted at any time during the Period or at the end of the Period.

Management contract

For the year ended 31 December 2018, 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 at 31 December 2018, the Group had a total of 264 employees. Third Harbor Maritime had a total of 140 employees, PT. Shanghai Third Harbor Benteng Construction and Engineering had a total of 55 employees (including 8 Chinese employees who are appointed by Third Harbor Maritime and of whom have entered into employment contracts with Third Harbor Maritime of which we have purchased the relevant insurance in both China and Indonesia), and Pahaytc & Benteng JV Sdn Bhd had a total of 69 employees (including 13 Chinese employees who are appointed by Third Harbor Maritime and of whom have entered into employment contracts with Third Harbor Maritime, we have purchased the relevant insurance in China). Our employees have been paid remuneration in accordance with relevant laws and regulations in China, Indonesia and Brunei. The Company pays appropriate salary and bonuses with reference to actual practice. Other related benefits include pensions, medical insurance, unemployment insurance and housing allowances.

The remuneration committee has been established to provide recommendations to the Board on the overall remuneration policy and structure of the Group's Directors and senior management, review the remuneration and ensure that no Directors have determined their own remuneration.

Remuneration to the Directors and the five highest paid individuals

Details of the remuneration to the Company's Directors and five highest paid individuals are set out in Note 32 and Note 9 to the consolidated financial statements.

Change in information of Directors

Below are the changes in Director's information required to be disclosed pursuant to Rule 13.51B (1) of the Listing Rules.

1. Following the appointment of Mr. Wang Xiuchun as the chairman of the Board with effect from 27 March 2019, upon the recommendation of the remuneration committee of the Company (the "**Remuneration Committee**") and the approval of the Board, Mr. Wang Xiuchun's annual emolument was adjusted to RMB580,000 and a discretionary bonus as may be determined by the Board;

2. Following the resignation of Mr. Wang Shizhong as the chairman of the Board with effect from 27 March 2019, upon the recommendation of the Remuneration Committee and the approval of the Board, Mr. Wang Shizhong's annual emolument was adjusted to RMB350,000 and a discretionary bonus as may be determined by the Board;

3. Following the appointment of Ms. Wan Yun as the chief executive officer of the Company, upon the recommendation of the Remuneration Committee and the approval of the Board, Ms. Wan Yun's annual emolument was adjusted to RMB500,000 and a discretionary bonus as may be determined by the Board.

Resignation of Senior Management

As disclosed in the announcement of the Company dated 30 January 2019, Mr. Tang Liang（唐亮）tendered his resignation as Deputy General Manager of Third Harbor Maritime and director of Benteng Brunei as he would like to devote more time to his other businesses, with effect from 31 January 2019.

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

As at 31 December 2018, 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 Securities and Futures Ordinance ("**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 Shizhong (王士忠)(3)	Interest in a controlled corporation	315,467,967	38.22%
	Interest held jointly with another person	104,324,869	12.64%
Ms. Olive Chen(4)	Interest in a controlled corporation	55,714,444	6.75%

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 at 31 December 2018.

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) and Mr. Wang Xiuchun (王秀春) are deemed to be interested in each other's interest in the Shares.

4. Worldlink Limited is beneficially and wholly-owned by Ms. Olive Chen is deemed to be interested in the 55,714,444 Shares held by Worldlink Resources Limited.

Save as disclosed above, as at 31 December 2018, 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 as defined under Part XV of the SFO which would have to be notified to the Company and the Stock Exchange 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 at 31 December 2018, 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	12.64%
	Interest held jointly with another person	315,467,967	38.22%
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%
Mr. Wang Likai (王利凱)(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%
Worldlink Resources Limited(7)	Beneficial Owner	55,714,444	6.75%

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 at 31 December 2018.

3. HuaZi Holding Limited is beneficially and wholly owned by Mr. Wang Shizhong. By virtue of the SFO, Mr. Wang Shizhong 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 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.

7. Worldlink Resources Limited is beneficially and wholly owned by Ms. Olive Chen. By virtue of the SFO, Ms. Olive Chen is deemed to be interested in the Shares held by Worldlink Resources Limited.

Save as disclosed above, as at 31 December 2018, 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 the 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 experience 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 to the consolidated financial statements.

Purchase, sale or redemption of listed securities

During the 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 (the "**Share Option Scheme**") pursuant to the written resolutions of the then Shareholders on 19 October 2018.

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 our 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

Persons 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 our 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 our 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.

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. **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:

(a) the nominal value of Share;

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

(c) 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.

7. **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:

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

(b) 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 commencement of listing of shares of the Company on 19 November 2018 and up to the date of this report.

Continuing connected transactions

As disclosed in the Prospectus, the following transactions of the Group constituted continuing connected transactions for the Group for the year ended 31 December 2018. All capitalized terms used in this section shall have the same meaning defined in the Prospectus, unless otherwise specified.

Non-exempt continuing connected transactions

(1) Master Procurement Agreement

Reasons for the Master Procurement Agreement and its Pricing Policy

On 19 October 2018, the Company entered into an agreement with Watts Gallop in order to govern the procurement of such raw materials (the "Master Procurement Agreement"). Pursuant to the Master Procurement Agreement, we may procure raw materials, primarily including steel and PHC tube piles (the "Procured Raw Materials"), from Watts Gallop for a term commencing from the Listing Date to 31 December 2020, and the Master Procurement Agreement will be automatically renewed for a successive period of three years thereafter unless terminated, among other matters, by either party with not less than 30 business days' prior written notice, subject to compliance with the Listing Rules. It is expected that separate definitive procurement agreements will be entered into between members of the Group and Watts Gallop to set out specific terms and conditions of specific transactions pursuant to the principal terms stipulated in the Master Procurement Agreement.

The Procured Raw Materials purchased from Watts Gallop are primarily used in our port infrastructure projects in the ordinary and usual course of our business. With years of stable and long-term business relationship between the Group and Watts Gallop and Watts Gallop's experience in the supply of the Procured Raw Materials, the Directors believe that Watts Gallop is able to provide us with quality Procured Raw Materials at competitive prices and terms in the open market.

In addition, we had also purchased Procured Raw Materials from Watts Gallop prior to the Track Record Period. Hence, Watts Gallop is familiar with our business needs, quality standards and operation requirements through the long-term cooperation with us. When compared to the similar Procured Raw Materials offered by Independent Third Parties, the prices and terms offered by Watts Gallop are fair and reasonable, and are comparable to or better than those offered by Independent Third Parties. Accordingly, the Directors are of the view that it is in the interests of the Company and the Shareholders as a whole to enter into the Master Procurement Agreement. Nevertheless, the Directors consider that based on our historical purchase amount and nature of the raw materials we purchased from Watts Gallop during the Track Record Period, we were able to purchase such Procured Raw Materials with similar quality standards and business terms from other Independent Third Parties easily, and hence, we have no reliance on Watts Gallop.

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

For our procurement of raw materials during the Track Record Period, the prices are set through public tendering and bidding process, which there must be at least two bidders who are Independent Third Parties attending our tendering and bidding process. We will take into consideration factors including, but not limited to, the bidders' sufficient licenses and qualifications, business scale and capacities and their respective track record. We will also make reference to the prevailing market terms and prices.

Annual Caps

The Directors estimate that the maximum amount in respect of the transactions contemplated under the Master Procurement Agreement will not exceed approximately RMB15.2 million, RMB21.6 million and RMB26 million for the three years ending 31 December 2018, 2019 and 2020, respectively.

There was no transaction under the Master Procurement Agreement for the year ended 31 December 2018.

Implications under the Listing rules

As Watts Gallop was owned as to 56% by Mr. Wang Shizhong and therefore is an associate of Mr. Wang Shizhong within the meaning of the Listing Rules. Since one or more of the applicable percentage ratios for the transactions contemplated under the Master Procurement Agreement are more than 0.1% and all the applicable percentage ratios are less than 5%, these transactions are qualified under Rule 14A.76(2) of the Listing Rules as continuing connected transactions exempt from independent shareholders' approval requirement.

(2) Contractual Arrangement

Reasons for the Contractual Arrangement

We are primarily engaged in the port, waterway and marine engineering industries 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 at 31 December 2018, 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.

Risk relating to the Contractual Arrangement

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

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

- We rely on the Contractual Arrangement 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 Arrangement

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

- The Contractual Arrangement 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 Arrangement 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 Arrangement.

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 PTBB under the Contractual Arrangements.

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

Summary of main terms of the Contractual Arrangement

Below is a summary of main terms of the Contractual Arrangement. 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 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 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 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

As disclosed in the Prospectus, 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 Arrangement are set out as follows:

	Year ended 31 December 2018 *RMB'000*
Revenue	107,780
Profit for the year	8,970

	As at 31 December 2018 *RMB'000*
Total assets	96,399

For the year ended 31 December 2018, the revenue and profit for the year subject to the Contractual Arrangement amounted to approximately 7.2% and 8.6% of the revenue and profit for the year of the Group. As at 31 December 2018, the total assets subject to the Contractual Arrangement amounted to approximately 4.6% of the total assets of the Group.

During the year ended 31 December, no dividends or other distributions have been made by Benteng Indonesia to the holders of the remaining shareholding interests.

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 Arrangement

Save as otherwise disclosed in the Prospectus and this Report, the Contractual Arrangement has not been supplemented or modified since the date of execution of all such Contractual Arrangement.

Unwinding the Contractual Arrangement

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 Arrangement 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 an 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 Arrangement 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.

Confirmation from independent non-executive directors

The independent non-executive Directors have reviewed the Master Procurement Agreement and Contractual Arrangements, and confirmed that:

(i) the transactions carried out under the Master Procurement Agreement and Contractual Arrangements during the year was entered into in the ordinary and usual course of business of the Group;

(ii) the transactions carried out under the Master Procurement Agreement and Contractual Arrangements during the year was entered into on normal commercial terms or better;

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

(iv) there was no transaction carried out or entered into under the Master Procurement Agreement during the year;

(v) 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 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;

(vi) 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 which are not otherwise subsequently assigned or transferred to the Group; and

(vii) no new contracts were entered into, renewed or reproduced between 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. The Auditor has issued its unqualified letter containing its finding and conclusion in respect of no dividends or other distributions have been made by Benteng Indonesia to the holders of the remaining shareholding interests.

Related party transactions

Details of the related party transactions undertaken by the Group are set out in Note 29 to the consolidated financial statements. Such related party transactions were either not regarded as connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules, or where they were connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules, which were exempt from reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Pre-emptive right

There are no provisions 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, the Company's 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 Company's controlling shareholders (collectively referred to as the "**Covenantors**") have irrevocably and unconditionally, jointly undertaken to the Company (for itself and on behalf of all members 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 the restricted business. The details of the Deed of Non-Competition are set out in the section headed "Relationship with Controlling Shareholders" of the Prospectus dated 30 October 2018. The Company has received confirmations from each of the covenants confirming that they have complied with the undertakings under the Deed of Non-Competition during the entire period under review.

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 period under review.

Directors' interests in competing business

During the year ended 31 December 2018, 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 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 2018 and up to the date of this Annual Report, save for those disclosed in the Prospectus, 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 2018 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 and marine 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 and waterway 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 are included 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 section headed "Share Option Scheme", no equity-linked agreements were entered into by the Company during the year ended 31 December 2018 or have subsisted as at 31 December 2018.

Permitted Indemnity Provision

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

Charitable donations

For the year ended 31 December 2018, the Group's charitable and other donations totalled approximately HK$1.02 million.

Events after 31 December 2018

There were no material subsequent events undertaken by the Company or by the Group after 31 December 2018.

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 2018.

Sufficiency of public float

Based on information publicly available to the Company and to the best knowledge of the Directors, during the period from the Listing Date and up to latest practicable date prior to the date of issuance of this Annual Report, the Company has maintained sufficient public float since the Listing Date required under the Listing Rules.

Auditor

PricewaterhouseCoopers has been appointed as auditor of the Company. PricewaterhouseCoopers shall retire at the conclusion of the 2019 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 2019 AGM. PricewaterhouseCoopers has audited the consolidated financial statements of the Group for the year ended 31 December 2018.

There has been no change of auditor since the incorporation of the Company.

By order of the Board

Watts International Maritime Engineering Limited
Wang Shizhong (王士忠)
Chairman[1] *and Executive Director*

Shanghai, 27 March 2019

(1) Wang Shizhong (王士忠) resigned from his position as the Chairman with effect from 27 March 2019 and Wang Xiuchun (王秀春) has been appointed as the Chairman on the same day.

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. Since the Listing Date and up to 31 December 2018, the Company has complied with all applicable code provisions under the CG Code.

The Board

Board composition

As at the date of the Annual Report, the Board is comprised of the following Directors, including five executive Directors: Mr. Wang Xiuchun (王秀春), Mr. Wang Shizhong (王士忠), Ms. Wan Yun (萬雲), Mr. Wang Lijiang (王利江) and Ms. Olive Chen, 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 (effect from 27 March 2019), and Ms. Wan Yun (萬雲) is the chief executive officer of the Company (effect from 27 March 2019).

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 (effect from 27 March 2019), and Ms. Wan Yung (萬雲) is the chief executive officer of the Company (effect from 27 March 2019).

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 the bylaws. The Board is also responsible for the development, review and monitoring of the Group's policies and procedures in corporate governance and 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 rules.

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 "**Audit Committee**"), the remuneration committee (the "**Remuneration Committee**") and a nomination committee (the "**Nomination Committee**"). The Board has assigned responsibilities to the Board committees in accordance with their respective scopes of powers and functions.

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.

Independence of independent non-executive Directors

From the Listing Date and up to the date of this Annual Report, the Company has always 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.

As at the date of this Annual Report, 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 Company's legal advisors before the listing of the Company.

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.

From the Listing Date and up to the date of this Annual Report, only one Board meeting was held, while no general meeting was held.

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 his/her 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 Committee

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.

Since the Company was listed on the Main Board of the Stock Exchange on 19 November 2018, and the Audit Committee was established on 19 October 2018, the Audit Committee has yet to hold any meeting during the year ended 31 December 2018. From the Listing Date to the date of this Annual Report, a total of 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 2018;
- proposed re-appointment of the auditor in 2019;
- risk management and internal control systems and their effectiveness;

- whether the internal audit function is effective; and
- continuing connected transactions of the Group for the year ended 31 December 2018.

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 adapted the second model as described in paragraph B.1.2(c) 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 is 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.

Since the Company was listed on the Main Board of the Stock Exchange on 19 November 2018, and the Remuneration Committee was established on 19 October 2018, the Remuneration Committee has yet to hold any meeting during the year ended 31 December 2018. From the Listing Date to the date of this Annual Report, one Remuneration Committee meeting was held. All members of the Remuneration Committee attended the meeting of the Remuneration Committee held on 27 March 2019 in person, and at the meeting, the following matters were discussed, reviewed, evaluated or/and deliberated:

- 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.

Since the Company was listed on the Main Board of the Stock Exchange on 19 November 2018, and the Nomination Committee was established on 19 October 2018, the Nomination Committee did not hold any meeting during the year ended 31 December 2018. From the Listing Date to the date of this Annual Report, there was a total of one meeting of the Nomination Committee held. All members of the Nomination Committee attended in person in the meeting of the Remuneration Committee held on 27 March 2019, and at the meeting, the following matters were discussed and deliberated:

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

1. The Nomination Committee makes recommendation(s) to the Board.
2. The Board considers the individual(s) recommended by the Nomination Committee, having due regard to the Board diversity policy.
3. 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

1. 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.
2. The Nomination Committee makes recommendation(s) to the Board.
3. The Board considers each retiring Director recommended by the Nomination Committee having due regard to the Board diversity policy.
4. 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 this policy in due course to ensure its effectiveness.

Board diversity policy

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.

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 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 up to the date of this Annual Report is set out in the table below:

	Attendance Record					
Name of Director	Board meetings	General meetings	Audit Committee meetings	Remuneration Committee meetings	Nomination Committee meetings	Training regarding compliance with the Listing Rules
Number of meetings held up to the date of this Annual Report	1	0	2	1	1	
Executive Directors						
Mr. Wang Shizhong (王士忠)	1	—	NA	NA	NA	✓
Mr. Wang Xiuchun (王秀春)	1	—	NA	NA	NA	✓
Ms. Wan Yun (萬雲)	1	—	NA	NA	NA	✓
Mr. Wang Lijiang (王利江)	1	—	NA	NA	NA	✓
Ms. Olive Chen	1	—	NA	NA	NA	✓
Independent Non-executive Directors						
Mr. Sun Dajian (孫大建)	1	—	2	1	1	✓
Mr. How Sze Ming (侯思明)	1	—	2	1	1	✓
Mr. Wang Hongwei (王洪衛)	1	—	2	1	1	✓

Remuneration of Directors and senior management

Details of the remuneration of the Directors and senior management are set out in Note 32 and 29 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 2018 which has been mentioned in the independent auditor's report on page 79.

The management has provided to the Board such explanation and information as 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, positions 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 has 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 offers should be property 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 2018. 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 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 2018, 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*
Auditing services	
Auditing services regarding the Group's 2018 financial statements	2,400
Audit-related services as the reporting accountant relating to the Listing	4,300
Non-auditing services(1)	330

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

Joint company secretaries

Mr. Wang Lijiang (王利江) and Mr. Wong Yu Kit (黃儒傑) act as the joint company secretaries of the Company.

Biographical details of Mr. Wang and Mr. Wong are set out in the section headed "Biographical Details of Directors and Senior Management" in this Annual Report.

Mr. Wong serves as the 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 is the main contact of Mr. Wong in the Company.

Both Mr. Wang and Mr. Wong 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 2018.

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' liability insurance for its Directors. 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 of the Company confirms that they have fully complied with the relevant requirements set out in its own code of conduct during the 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 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.

Constitutional documents

According to the resolution adopted by the shareholders on 19 October 2018, the amended and restated memorandum of association has been adopted with effect from the resolution date, and the Articles of Association have been adopted with effect from the Listing Date. Relevant information is available on the websites of the Stock Exchange and the Company.

Investors' relationship

From the Listing Date to the date of this Annual Report, 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).

1. About the Report

Watts International Maritime Engineering Limited (the "**Company**", Stock Code 2258) hereby issues the 2018 Environmental, Social and Governance Report ("**ESG report**") of the Company and its subsidiaries (the "**Group**"). This is the first time for the Group to disclose its ESG report. The report demonstrates the purpose, practice, measures and impacts in sustainable development and social responsibility of the Group to stakeholders with respect to the environment and the society.

For corporate governance information of the Group, please refer to the "Corporate Governance Report" included in the Annual Report of the Company for the year ended 31 December 2018.

1.1. Reporting scope

The environmental key performance indicators ("**KPIs**") disclosed in this report mainly cover the Group's Shanghai headquarters, other information relates to the Company and its subsidiaries, including the Group's main business (port infrastructure work such as wharf construction, breakwaters and revetment construction and land yard construction, and waterway engineering work such as waterway dredging and improvement and land reclamation) for the period from 1 January 2018 to 31 December 2018.

1.2. Reporting Principles

In line with the "Environmental, Social and Governance Reporting Guide" (the "**ESG Guide**") in Appendix 27 to the Main Board Listing Rules of Hong Kong Exchanges and Clearing Limited ("**HKEx**"), this Report discloses the environmental and social impacts of the Company's businesses and operations.

✓ "Materiality": the Group determines material ESG issues by stakeholder engagement and materiality assessment;

✓ "Quantitative": the Report states the Group's environmental KPIs on a quantitative basis;

✓ "Balance": the Report provides an unbiased picture of the Group's environmental and social performance; and

✓ "Consistency": the Report is the Group's first ESG report. The relevant disclosure methodology is well defined and will be consistent in following years.

1.3. ESG Governance

The Group understands the importance of the enhancement of its environmental and social benefits to its sustainable operation and has incorporated ESG risks and opportunities into the Group's business strategy to guide the Group's daily operations.

The board of directors (the "**Board**") supports the Group's commitment to its corporate social responsibility and assumes full responsibility for the Group's environmental, social and governance strategies and reporting. The Board is responsible for evaluating and determining the Group's ESG-related risks, and ensuring that appropriate and effective ESG risk management and internal control systems are in place. The Board regularly reviews the Group's ESG performance and approves the annual ESG report.

The management of the Group is responsible for implementing the ESG risk management and internal control systems, reporting to the Board on ESG-related risks and opportunities, and confirming whether the ESG-related systems are valid.

In order to holistically carry out ESG work, the Group has formed an ESG working group. In the working group, the heads of different departments are directly engaged, and specific personnel are assigned to be in charge of ESG affairs of whom would who report the progress of ESG management and ensure the implementation of ESG work.

The Group adheres to the sustainable development strategy and is committed to providing customers with quality port, waterway and maritime engineering services. The Group sets ESG strategy based on the core principle of sustainable development of which provides guidance on ESG management in the ordinary course of business, and regularly reviews corporate social responsibility policies and strategies to ensure that the content is applicable to the Group's business.

1.4. Stakeholders Engagement

The Group actively communicates with core stakeholders and establishes a diverse and smooth communication channel to learn opinions and suggestions from stakeholders on the Group's sustainable development performance and development strategy. The stakeholders of the Group include government and regulators, shareholders, clients, suppliers, employees and the society, etc.

Stakeholder	Expectations and requirements	Communications and responses
Government and regulators	• Implementing the policies and regulatory rules of the government • Operating by the law • Paying tax according to the law • Advocating employment	• Daily management • Work meeting • Supervision and inspection
Shareholders	• Earning returns on investment • The status of the 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 • Improvement 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	• Salaries and welfare • Healthy and safe working environment • Fair opportunity for promotion and development	• Compensation management system • Smooth internal communication channel • Complete staff training system • Healthy and safe working environment
Society	• Enhancing public benefit • Facilitating the harmonious development of the community	• Participating in social charity
Environment	• Environment protection • Improving the energy consumption efficiency	• Concerning environment protection • Energy conservation and emission reduction

1.5. Materiality Assessment

Based on the ESG Guide, the Group has constructed an ESG materiality assessment model to identify, screen and evaluate issues that have critical impact on the Group and its stakeholders through research on internal stakeholders and considering concerns of external stakeholders.

2. Environmental

In compliance with relevant laws and regulations of places where the Group operates of which include the *Environmental Protection Law of the People's Republic of China, etc.*, the Group establishes and improves the environmental management system in accordance with the *Environmental Management System — Requirements (GB/T24001 and ISO14001)*. The Group sticks to the principle of "green growth, harmonious cooperation and mutual benefits", continuously improves the environmental management system, and strives to reduce pollution emissions and resource consumption in production and operation activities.

Certificate of environmental management system of a subsidiary

2.1. Emissions

The Group's emissions mainly comprise of dust and waste water generated in construction activities, nitrogen oxide ("**NOx**"), sulfur dioxide ("**SO_2**"), particulate matter ("**PM**") and greenhouse gas emissions from combustion of gasoline/diesel, greenhouse gas emissions from electricity consumption, and non-hazardous wastes such as construction wastes and domestic wastes.

In compliance with laws and regulations of places where the Group operates of which include the *Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution, Law of the People's Republic of China on the Prevention and Control of Water Pollution, Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste*, etc., the Group has strictly implemented relevant emission reduction policies and standards, and continuously promoted emission reduction work. The Group:

✓ controls the emission in the production process and promotes low-energy, pollution-free, high-efficiency technology, equipment and products;

✓ takes into consideration the environmental impact in project planning and the design of work method statements;

✓ prepares the environmental protection management plan for the project;

✓ hardens the ground, regularly sprays water onto the ground, and rinses the chassis and tyres of engineering vehicles upon the request of the owner to reduce dust;

✓ builds a sedimentation tank to filter out the dirt in the waste rinsing water;

✓ proactively promotes energy-saving work to reduce greenhouse gas emission;

✓ equips all of the Group's vessels with fuel leakage defence equipment for suppressing the spread of floating fuel spills in case of leakage;

✓ sorts 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;

✓ dumps wastes at the place specified by the owner; and

✓ ensures that emissions generated in the construction are managed and disposed of by the owner.

The Group requests other parties involved in the construction to enter into an *Environmental Protection Agreement* along side their subcontract and carry out environmental protection work effectively in line with the Group's requirements.

During the reporting period, The Group's emissions are shown as below:

Emissions[1]

NOx emissions (kg)[2]	301.28
SO_2 emissions (kg)[2]	0.55
PM emissions (kg)[2]	28.87
Scope 1: Direct greenhouse gas emissions (tCO_2e)[3]	79.41
Scope 2: Energy indirect greenhouse gas emissions (tCO_2e)[3]	73.91
Total greenhouse gas emissions (tCO_2e)[3]	153.32
Intensity of greenhouse gas emissions (tCO_2e per person)[3]	2.19
Total non-hazardous wastes (tons)[1]	7.60
Intensity of non-hazardous wastes (tons per person)[1]	0.12

Note:

1. Most of the waste water 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 Report only discloses figures of the domestic waste generated in the Group's Shanghai headquarters;

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

3. The Report only discloses the greenhouse gas emissions generated from the use of gasoline/diesel by vehicles owned by the Group's Shanghai headquarters and the electricity used by the Shanghai headquarters; the greenhouse gas emission data is presented in carbon dioxide equivalent and measured 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.

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

2.2. Use of Resources

The Group is well aware of the importance of environmental protection and resource saving for sustainable development of the Company; thus, in compliance with relevant laws and regulations of places where the Group operates of which include the *Energy Conservation Law of the People's Republic of China*, etc., the Group promotes a series of measures: promoting green concept and continuously improving energy performance; enhancing the utilisation efficiency of energy, water, and materials; actively promoting green office; reducing travel costs and resource consumption of conferences through video communication; and adhering to paperless office to build a low-carbon and environmentally-friendly office environment.

At the same time, the Group trains its employees to enhance their awareness of energy conservation and emission reduction and encourages employees to save energy at work.

The Group's green office measures are as follows:

Management measures of solid waste

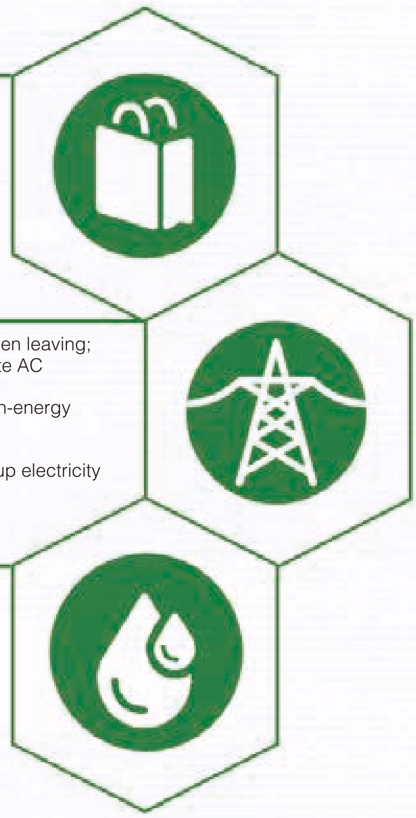
- ✓ Promote paperless office, minimising copying and printing of documents, and advocating double-sided printing and waste paper recycling to reduce the producing of non-hazardous wastes;
- ✓ Boost the recycle and reuse of non-hazardous wastes

Management measures of energy

- ✓ Energy saving for lighting devices: Make full use of natural lights and turn off lights when leaving;
- ✓ Energy saving for air conditioners: Make full use of natural wind and setting a moderate AC temperature in summers and winters;
- ✓ Reduction of energy consumption in stand-by mode: Accelerate the elimination of high-energy consumption equipment and putting the purchase and use of energy-saving and environmentally-friendly equipment in priority;
- ✓ Accurate measurement: Keep accurate records of electricity consumption by setting up electricity consumption standard and strengthening monitoring.

Management measures of water resource

- ✓ Carry out daily maintenance of water-using equipment to prevent leaking;
- ✓ Keep accurate records of water consumption by setting up water consumption standard and strengthening monitoring over exceptional water usage data.



During the reporting period, the Group's use of resources are shown as follows:

Use of Resources[1, 2]

Total direct energy consumption (MWh)[1]	324.81
Total indirect energy consumption (MWh)	105.06
Total energy consumption (MWh)	429.87
Intensity of energy consumption (MWh per person)	6.14
Total water consumption (tons)	632
Intensity of total water consumption (tons per person)	9.03

Note:

1. Most of the gasoline/diesel and electricity used in the construction site of the Group are provided by the Project owner; therefore, the Group cannot collect all energy usage data. As a result, the report only discloses the volume of gasoline/diesel used by vehicles owned by the Group's Shanghai headquarters and the electricity used by its Shanghai headquarters; the total volume of energy consumption is calculated in accordance with *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. As the Group does not use packaging materials in its operation, KPI A2.5 on total packaging material used for finished products is not applicable.

2.3. Environment and Natural Resources

The environmental impact of the Group in its operations also include construction noise and impact on the local ecological environment.

In compliance with relevant laws and regulations of places where the Group operates of which include *Law of the People's Republic of China on Prevention and Control of Pollution From Environmental Noise, Emission Standard for Community Noise*, etc., the Group strictly controls noise at its construction site through establishing a management system, enhancing noise-preventing awareness among all staff on site, using weak-noise/noise-reduction machineries when possible and setting an enclosed machinery operation shed for noisy machineries on site to block the transmission of strong noise. Besides, the Group require subcontractors to take measures so as to ensure that noise for boundary of construction site does not exceed the limit.

In order to protect the local ecological environment, the Group strictly follows the project design and requirements of the project owner, strictly controls the range of construction, reduces pollutant emissions, and attaches great importance on the protection of the natural environment and biodiversity in the project operation area.

3. Social

3.1. Employee Relation

In compliance with relevant laws and regulations of places where the Group operates of which include the *Labour Law of the People's Republic of China and the Labour Contract Law of the People's Republic of China*, etc., the Group formulated the *Human Resources and Compensation Management Policy*, which standardises recruitment, promotion, assessment, termination and compensation calculation of employees in detail.

- ***Recruitment and dismissal***

  Based on business development needs and in accordance with principles of openness, fairness, competition and selection, the Group introduced various talents who met job requirements and recognised the Group's culture through campus recruitment and online recruitment. The Group enters into *Labour Contract* with formal employees, of which stipulates obligations and rights of both parties and elaborates on conditions and procedures for terminating the employment relationship.

- ***Working hours and holidays***

  Based on national laws, regulations and related policies and considering industry characteristics, the Group formulated the *Attendance and Leave Policy* of which stipulates various rest periods enjoyed by employees of which include weekends, statutory holidays, personal leave, sick leave, work injury leave, marriage leave, bereavement leave, maternity leave and breastfeeding leave, annual leave, as well as other statutory holidays in China.

  The Group also formulated the *Leave Policy for Project Departments*, which stipulates that if the company's branches, subsidiaries and project departments are subject to continuous operations or suspension as a result of seasonal climate factors, working hours can be adjusted in due time according to the comprehensive working hour system by week, month, quarter or year.

- ***Compensation and benefits***

  Following the principle of "distribution according to work and equal pay for equal work", the Group formulated the *Compensation Management Policy* and the *Promotion Management Policy*, which stipulates that employee compensation consists of basic salary, post salary and performance bonus. Competitive Compensation in the market is provided according to job requirements and employee's contributions, so as to establish a fair and reasonable distribution system and a scientific and effective incentive mechanism. In addition, the Group assesses its employees' comprehensive performance at the end of each year, and distributes performance bonuses to them according to their assessment. The assessment results are also used as an important basis for job adjustment to continuously optimise the human resources team.

The Group strictly abides by relevant laws and regulations to provide employees with social insurance of which include basic pension insurance, basic medical insurance, unemployment insurance, work injury insurance and maternity insurance, as well as related benefits such as housing funds and group accident insurance; and complies with relevant laws and regulations of the country where it operates so as to provide relevant social insurance for local employees. In addition, the Group provides its employees with high temperature allowance in summer and festival allowance in the Spring Festival and Mid-Autumn Festival.

- ***Employees' activities***

  The Group provides a wide range of activities for its employees of which greatly enriches their lives.

In June 2018, employees were organised to participate in the 2nd "New Songnan" Cup Staff Badminton Match

- ***Anti-discrimination***

  The Group recruits talents according to the principles of fairness, impartiality and openness and selects outstanding ones under the same conditions. It also strictly abides by the laws and regulations of the state and local governments, without discriminating against any employees due to their personal characteristics such as race, gender, colour, age, family background, national tradition, religion, physical fitness and original nationality such that they could enjoy fair treatment in all aspects of recruitment, working, salary, training, promotion and compensation, and can have equal employment opportunities.

3.2. Health and Safety

Certificate of occupational health and safety management system of a subsidiary

The Group attaches great importance to occupational health and safety. In compliance with relevant laws and regulations at places where the Group operates such as 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*. The Group formulated a series of safety management policies of which include the *Responsibility Policy of Work Safety*, the *Inspection Policy of Work Safety*, the *Fund guarantee Policy of Work Safety* and the *Reporting and Disposition Policy of Production Safety Accidents* to provide employees with a safe and healthy work environment.

The Group adheres to the principle of "people-oriented, safe development, safety first, precaution crucial and comprehensive treatment", and insists on strengthening work safety awareness and implementing requirements of safety management entities so as to build a sound management system in accordance with the *Occupational Health and Safety Management System — Requirements* (GB/T28001–2011/ OHSAS 18001:2007).

The Group's initiatives in promoting health and safety include the following aspects:

✓ Providing employees with education and training regarding occupational safety and health to develop their awareness;

✓ Providing "comprehensive mutual security program — class A" insurance for employees, which covers six benefits including "in-hospital supplementary medical scheme for in-service staff", "hospitalisation deduction standard subsidy for in-service staff", "inpatient subsidy scheme (per day)", "special serious disease coverage", "special serious disease coverage for women" and "accidental injury and severe disability coverage";

✓ Regularly arranging physical examination for employees; and

✓ Requiring the project manager at a project construction site, as the person primarily responsible for safety, to sign a "safety agreement", and the Group's safety department regularly patrols on the site;

✓ Organise work safety training;

✓ Requiring the entering into of a *Safety Management Agreement* when entering into a contract with a subcontractor, requiring the subcontractor to commit to in safety management.

Safety warnings at the project construction site


Safety training

Case: Emergency plan training and rescue drill for overboard accidents

In November 2018, the Group's Xiangshangang Wharf Project Department organised an emergency plan training and rescue drill for overboard accidents to cultivate practical skills for man overboard and rescue, employees clearly recognised on how to deal with emergency situations of man overboard and have had improved ability to deal with emergencies.

3.3. Development and Training

The Group developed the *Annual Training Plan* every year, which is used to plan employees' education and training on quality control, laws and regulations, and safe operation. The Group is committed to improving its staff training system. Through a combination of external training and internal training, it provides employees with continuous learning and development opportunities, and finally achieves the common growth of employees and the Company.

Internal training: Regularly organising training on technology and quality, and requiring relevant employees to participate;

External training: For employees who need external professional training and certificates on construction, quality, safety, etc., they will get assigned to professional institutions to attend external training, participate in examination and obtain professional certificates.

3.4. Labour Standards

In compliance with relevant laws and regulations where the Group operates such as *Labour Law of the People's Republic of China, Provisions on the Prohibition of Using Child Labour*, etc., the Group checks the employees' academic certificates and identity cards when they are employed, so as to eliminate the use of child labour.

The Group clearly specifies in its Labour Contracts that statutory working hours are strictly followed and overtime hours are controlled so as to guarantee employees' rest and physical and mental health, as well as prevent forced labour.

3.5. Partners

The Group has formulated a series of supplier investigation and access systems, such as the *Procedures on Management of Related Parties*, the *Form for Review of New Suppliers* and the *Form for Assessment of Suppliers at the End of the Year*.

In addition to quality assessment, the Group also pays attention to the environmental and occupational health and safety performance of suppliers when selecting suppliers, requiring suppliers to use equipment featuring energy conservation, consumption reduction, no or less pollution and high safety protection performance. Suppliers that have experienced major environmental pollution and major environmental accidents, as well as occupational diseases and major safety accidents without taking corrective actions are rejected.

After being selected by the Group, the suppliers are required to enter into the *Environmental Protection Agreement*, the *Safety Management Agreement* and the *Integrity Construction Agreement* to jointly fulfil their commitments in environmental protection as well as safety and social responsibility.

3.6. Product Responsibility


WSF
世标认证
认 证 证 书
上海三航奔腾海洋工程有限公司
世标认证
ISO9001
CNAS

Certificate of quality management system of a subsidiary

In compliance with relevant laws and regulations of places where the Group operates such as *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*, etc., the Group is committed to providing professional engineering services to cross-industry customers in different regions.

In order to implement the Company's quality-oriented policies and the national quality management regulations of construction projects, the Group formulates quality management regulations such as the *Methods on Management of Technology Quality*, the *Standards for Management of Technology Quality* and *the Methods on Management of Corporate Quality Objectives*, to provide guidance, supervision, inspection and services for project quality and ensure quality and safety of the Group's construction services.

In accordance with the *Quality Management System* — Requirements (GB/T19001–2016/ ISO9001:2015) and the *Code for Quality Management Of Engineering Construction Enterprises* (GB/T50430–2007), the Group has built a sound management system and continuously reviews and improves it by developing and implementing improvement measures, and enhancing quality management performance.

The Group has established a sound intellectual property management system and related control procedures in accordance with the *Patent Law of the People's Republic of China and* the *Enterprise Intellectual Property Management Standards* and standardises the patent management work. The Group actively encourages its employees to improve on project quality and innovate continuously, and formulates the *Incentive Measures of the Company for Projects Wining Quality Award* to further mobilise the employees' work motivation.

As at 31 December 2018, the Group had a total of 4 patents.

3.7. Anti-corruption

In compliance with relevant laws and regulations of places where the Group operates such as *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 and the Interim Provisions on Signing the Integrity Agreement between the Contracting Parties of Shanghai Construction Projects*, etc., the Group explicitly prohibits employees from bribery, extortion, fraud and money laundering in their work through it *Corruption Prevention Policy, Human Resources and Wages Management Policy and Labour Contract*.

In order to avoid unlawful profit-making activities which are in violation of laws or other disciplines, the partners are required to enter into a *Integrity Construction Agreement* when entering into the commercial cooperation contract with the Group, so as to regulate activities of both parties.

The Group regularly organises education, training and promotion of anti-corruption for directors, supervisors, managers and all employees. It also asks major partners who have business transactions with the Group to participate in the training so as to ensure the effective implementation of the anti-corruption policy. The Group also setted up a reporting hotline, reporting e-mails, etc., and have established a sound channel for reporting corruption. Employees who violate the anti-corruption policy will be punished accordingly and those involved in a crime may even be transferred to judicial authorities.

3.8. Public Benefits and Charities

The Group formulated the *Methods* on *Management of Charity and Public Benefit Activities* to standardise charitable activities and actively participates in various public benefit activities to fulfil the social responsibilities of the Company as a corporate citizen.

In 2018, the Group participated in the following charitable activities:

✓ In June 2018, the staff representatives and labour union of Shanghai branch of the Group visited the elderly living alone and made them feel warm;

✓ In September 2018, an earthquake of magnitude 7.4 occurred in Palu Region of Central Sulawesi, Indonesia. The Group made a number of donations to the earthquake stricken area through Indonesian Branch of China Communications Construction to help post-disaster reconstruction;

✓ In October 2018, the Group donated to Hong Kong public welfare fund for charity; and

✓ In November 2018, the labour union of the Group bought poverty relief products to help and support the poverty alleviation in the region.

pwc 羅兵咸永道

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

Opinion

What we have audited

The consolidated financial statements of Watts International Maritime Engineering Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 82 to 163, which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- 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 a summary of significant accounting policies.

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 2018, 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 the 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 and contract assets

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition Refer to note 2.19 in the summary of significant accounting policies, note 4(d) and 5 to the consolidated financial statements. The Group derives its revenues from marine construction services which amounted to approximately RMB1,489.7 million for the year ended 31 December 2018. Revenue is recognised over the period in which the marine 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 the large volume of revenue transactions in many different locations and significant audit effort spent.	Our procedures in relation to revenue recognition of marine construction services include: — 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 acknowledged 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 agreed with 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 amount with the revenue breakdown; and

Key Audit Matter	How our audit addressed the Key Audit Matter
	(b) benchmarked 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 amount 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 of these projects. We found that the Group's revenue from marine 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 and contract assets Refer to note 2.9 and 2.12 in the summary of significant accounting policies, note 3.1, 4(c), 5(e) and 18 to the consolidated financial statements. As at 31 December 2018, trade receivables, retention receivables and contract assets of the Group amounted to RMB975.5 million, RMB139.8 million and RMB454.9 million, while the impairment provision of which amounted to RMB6.8 million, RMB0.1 million and RMB2.4 million, respectively. The impairment of trade receivables, retention 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 and contract assets as a key audit matter due to the significant management's judgements and estimates involved in the impairment assessment.	Our procedures in relation to management's assessment on the impairment of trade receivables, retention receivables and contract assets included: — We understood, evaluated and validated the credit control procedures, including periodic review of aging of trade receivables, retention receivables and contract assets, and the management approval of the provision proposed on the receivables and contract assets. — We tested, on a sample basis, the accuracy of ageing profile on trade receivables, retention 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 and contract assets, and corroborated management's assessment against relevant supporting evidence, including subsequent settlements, credit history and financial capability of these customers. — For those trade receivables, retention receivables and contract assets that were not assessed individually, we assessed the appropriateness of the Group's grouping by considering the credit risk. — We evaluated the reasonableness of the default rates of different groups by considering the actual losses recorded during the prior and current financial years. — We evaluated 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 and expected behaviour including method of payments or payments period. We found that the judgements and estimates adopted by management in the assessment of impairment of trade receivables, retention 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 the information included in corporate information, chairman's statement, management discussion and analysis, biographical details of directors and senior management, report of the directors, corporate governance report and environmental, social and governance report (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and financial summary, which is 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 financial summary, 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, related safeguards.

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, 27 March 2019

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	Note	Year ended 31 December 2018 RMB'000	2017 RMB'000
Revenue	5	**1,489,656**	1,411,968
Cost of sales	5, 8	**(1,299,355)**	(1,252,831)
Gross profit		**190,301**	159,137
Selling and distribution expenses	8	**(2,981)**	(2,184)
Administrative expenses	8	**(51,259)**	(38,478)
Net impairment losses on financial assets	3.1(b)	**(8,675)**	(5,713)
Other operating expenses	8	**(332)**	(437)
Other income	6	**2,396**	2,401
Other gains — net	7	**419**	539
Operating profit		**129,869**	115,265
Finance income	10	**2,986**	391
Finance costs	10	**(341)**	(2,543)
Share of net profit of associates accounted for using the equity method	13b	**—**	173
Profit before income tax		**132,514**	113,286
Income tax expense	11	**(28,448)**	(26,012)
Profit for the year		**104,066**	87,274
Other comprehensive income			
Items that may be reclassified to profit or loss			
Currency translation differences	22	**866**	(173)
Other comprehensive income for the year net of tax		**866**	(173)
Total comprehensive income for the year attributable to the Shareholders of the Company		**104,932**	87,101
Earnings per share for profit attributable to the Shareholders of the Company (expressed in RMB cents per share):			
— Basic earnings per share	12	**16.18**	14.10
— Diluted earnings per share	12	**16.18**	14.10

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 2018

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
ASSETS			
Non-current assets			
Contract assets	5	**182,635**	97,085
Property, plant and equipment	14	**75,917**	82,646
Intangible assets	15	**489**	343
Trade and other receivables	18	**1,965**	13,848
Deferred tax assets	25	**—**	12,093
		261,006	206,015
Current assets			
Contract assets	5	**269,905**	138,005
Inventories	17	**12,113**	5,730
Trade and other receivables	18	**1,160,689**	977,413
Amounts due from shareholders	29	**—**	294,484
Financial assets at fair value through profit or loss	19	**—**	20,000
Restricted cash	20	**77**	8,024
Cash and cash equivalents	20	**385,890**	122,264
		1,828,674	1,565,920
Total assets		**2,089,680**	1,771,935
EQUITY			
Capital and reserves			
Share capital	21	**7,303**	8
Share premium	21	**322,551**	—
Other reserves	22	**12,876**	119,870
Retained earnings	23	**189,485**	487,618
Total equity		**532,215**	607,496

Consolidated Statement of Financial Position (Continued)

As at 31 December 2018

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
LIABILITIES			
Non-current liabilities			
Trade and other payables	24	48,457	181,450
Deferred tax liabilities	25	9,258	11,760
		57,715	193,210
Current liabilities			
Trade and other payables	24	1,467,366	940,508
Income tax payables		27,623	7,038
Contract liabilities	5	4,761	23,683
		1,499,750	971,229
Total liabilities		1,557,465	1,164,439
Total equity and liabilities		2,089,680	1,771,935

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

The financial statements on pages 82 to 163 were approved by the Board of Directors on 27 March 2019 and were signed on its behalf.

Director

Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

		Attribute to the Shareholders				
	Note	**Share capital** *RMB'000*	**Share premium** *RMB'000*	**Other reserves** *RMB'000*	**Retained earnings** *RMB'000*	**Total** *RMB'000*
Balance at 1 January 2017		—	—	(118)	407,366	407,248
Comprehensive income						
Profit for the year	23	—	—	—	87,274	87,274
Currency translation differences	22	—	—	(173)	—	(173)
Total comprehensive income		—	—	(173)	87,274	87,101
Appropriation to statutory reserve	22	—	—	39	(39)	—
Deemed distribution to shareholders	23	—	—	—	(6,983)	(6,983)
Contribution from shareholders	21,22	8	—	120,122	—	120,130
Balance at 31 December 2017		8	—	119,870	487,618	607,496
Comprehensive income						
Profit for the year	23	—	—	—	104,066	104,066
Currency translation differences	22	—	—	866	—	866
Total comprehensive income		—	—	866	104,066	104,932
Appropriation to statutory reserve	22	—	—	5,855	(5,855)	—
Contribution from shareholders	21,22	14	123,124	8,725	—	131,863
Distribution to shareholders	22	—	—	(122,440)	—	(122,440)
Deemed distribution to shareholders	23	—	—	—	(396,344)	(396,344)
Capitalisation of shares	21	5,456	(5,456)	—	—	—
Issue of shares by share offer, net of share issuing expenses	21	1,825	204,883	—	—	206,708
Balance at 31 December 2018		**7,303**	**322,551**	**12,876**	**189,485**	**532,215**

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 2018

	Note	Year ended 31 December 2018 RMB'000	2017 RMB'000
Cash flows from operating activities			
Cash generated from operations	27(a)	**145,385**	20,897
Income tax paid		**(9,914)**	(20,518)
Net cash generated from operating activities		**135,471**	379
Cash flows from investing activities			
Purchase of property, plant and equipment		**(702)**	(26,048)
Purchase of intangible assets		**(323)**	—
Purchase of financial assets at fair value through profit or loss		**—**	(20,000)
Proceeds from sale of financial assets at fair value through profit or loss		**20,215**	—
Proceeds from disposal of property, plant and equipment	27(b)	**—**	1,647
Proceeds from disposal of interest in associates		**—**	7,737
Interest received		**2,669**	391
Advance granted to a related party		**—**	(10,766)
Net (increase)/decrease of amounts due from shareholders		**(89,708)**	50,458
Net cash (used in)/generated from investing activities		**(67,849)**	3,419
Cash flows from financing activities			
Proceeds from issuance of shares upon listing	21(e)	**222,602**	—
Listing expenses paid in respect of share issuance		**(14,133)**	—
Contribution from shareholders	21,22	**131,863**	120,130
Distribution to shareholders relating to the Reorganisation	22	**(122,440)**	—
Repayments of amounts due to a related party		**—**	(628)
Distribution to shareholders relating to novation of Reorganisation (as defined in Note 1.2(2))		**(22,670)**	(6,983)
Net cash generated from financing activities		**195,222**	112,519
Net increase in cash and cash equivalents		**262,844**	116,317
Cash and cash equivalents at beginning of the financial year		**122,264**	6,193
Effects of exchange rate changes on cash and cash equivalents		**782**	(246)
Cash and cash equivalents at the end of year	20	**385,890**	122,264

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

1 GENERAL INFORMATION AND REORGANISATION

1.1 General information

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

The Company, an investment holding company, and its subsidiaries (together, "**the Group**") provide port, waterway and marine engineering business, including infrastructure construction of ports and waterway engineering services (the "**Listing Business**"). 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.

Prior to the completion of the reorganisation as described in Note 1.2 below (the "**Reorganisation**"), the Listing Business was principally operated in Mainland China and Southeast Asia through companies managed and controlled by the Controlling Shareholders.

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 27 March 2019.

1.2 Reorganisation

Immediately prior to the Reorganisation (as defined below), the Listing Business was carried out through Shanghai Third Harbor Benteng Construction and Engineering Co., Ltd. ("**Third Harbor Construction**"), a wholly-owned subsidiary of Shanghai Watts Gallop Holding Group Co., Ltd., Shanghai Third Harbor Benteng Maritime Engineering Co., Ltd. ("**Third Harbor Maritime**"), Pahaytc & Benteng JV Sdn Bhd ("**Benteng Brunei**") and PT. Shanghai Third Harbor Benteng Construction and Engineering ("**Benteng Indonesia**") (collectively, the "**Operating Companies**"), which were controlled by Controlling Shareholders. During the years ended 31 December 2018 and 2017, Third Harbor Construction was also engaged in property leasing and trade service business (the "**Excluded Business**").

In preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited, the Group underwent a reorganisation (the "**Reorganisation**"), pursuant to which the Listing Business were transferred to the Company. The Reorganisation involved the following steps:

1 GENERAL INFORMATION AND REORGANISATION (Continued)

1.2 Reorganisation (Continued)

(1) On 14 August 2017, Third Harbor Maritime, a company with limited liability, was established under the laws of the PRC. The registered capital of Third Harbor Maritime was RMB120,000,000 and fully paid by Third Harbor Construction.

(2) On 30 November 2017, certain assets and liabilities, mainly including Property, Plant and Equipment ("**transferred assets**") of the infrastructure construction of port, waterway and marine engineering business (the "**Included Business**") of Third Harbor Construction, were transferred to Third Harbor Maritime through Business and Asset Transfer Agreements dated on the same day (the "**Business and Asset Transfer Agreements**") with a total consideration of approximately RMB6,983,000. The consideration was settled on 30 November 2017 and was recognised as a deemed distribution to shareholders in the consolidated statement of changes in equity.

On 6 July 2018, Third Harbor Construction and Third Harbor Maritime entered into a supplemental agreement to the Business and Asset Transfer Agreements (the "**Novation Agreement**"), pursuant to which certain assets and liabilities, including trade and other receivables, trade and other payables and contract assets relating to the Listing Business were transferred to Third Harbor Maritime from Third Harbor Construction at a consideration of approximately RMB155,005,000 on 1 December 2017. The consideration was determined with reference to the carrying amount of the net trade and other receivables, trade and other payables and contract assets as at 30 November 2017. Taking into account of settlement or payment of these receivables collected and payables settled by Third Harbor Construction from 1 December 2017 to the completion of the Novation Agreement, the final settlement amount for such novation and transfer under the Novation Agreement is approximately RMB22,670,000. The settlement of the consideration is recognised as a deemed distribution to shareholders.

By the completion date of the Reorganisation, assets and liabilities of Listing Business which were not transfer to the Group mainly include amounts due from shareholders, deferred tax assets and restricted cash amounted to approximately RMB396,344,000, and were accounted for as a deemed distribution to the Shareholders.

(3) On 30 November 2017 and 1 December 2017, Shanghai Shanyu Construction and Engineering Co., Ltd. ("**Shanghai Shanyu**") and Shanghai Yubo Construction and Engineering Co., Ltd. ("**Shanghai Yubo**") were established in the PRC with limited liability under the laws of the PRC and were direct wholly-owned subsidiaries of Third Harbor Construction respectively. On 29 March 2018, Worldlink Resources Limited ("**Worldlink**"), a company incorporated under the laws of Hong Kong with limited liability, acquired approximately 2% of equity interest amounted to RMB2,440,000 in Shanghai Shanyu through capital injection agreement with Third Harbor Construction and thereafter Shanghai Shanyu became a sino-foreign joint venture.

1 GENERAL INFORMATION AND REORGANISATION (Continued)

1.2 Reorganisation (Continued)

(4) (i) On 8 December 2017, HuaZi Holding Limited ("**HuaZi Holding**") was incorporated in the British Virgin Islands (the "**BVI**") with limited liability. Upon incorporation, Mr.Wang Shizhong subscribed for entire equity interest in HuaZi Holding at a subscription price of US$1 per share.

(ii) On 8 December 2017, Ye Wang Zhou Holding Limited ("**Ye Wang Zhou Holding**") was incorporated in the BVI with limited liability. Upon incorporation, Mr.Ye Kangshun, Mr.Wang Xiuchun, Ms.Zhou Meng, Mr.Wang Shiqin and Mr.Wang Likai ("**Ye Wang Zhou Holding Shareholders**") subscribed for 46.76%, 32.40%, 8.10%, 7.34% and 5.40% of equity interest, respectively, in Ye Wang Zhou Holding at a subscription price of US$1 per share.

(iii) On 8 December 2017, HZ&BT Development Holding Limited ("**HZ&BT Development Holding**") was incorporated in the BVI with limited liability. Mr.Li Hongwei, Mr.Li Weifei, Mr.Huang Guanming, Mr.Tang Jinxin, Mr.Pan Xinfa, Ms.Zhu Weier, Mr.Shen Jianli, Mr.Jin Yuhuan, Mr.Yan Xinsheng, Mr.Lu Yang, Ms.Wan Yun, Ms.Zhu Qiulian, Mr.Xu Mingsong and Mr.Chen Yan (the "**HZ&BT Development Holding Shareholders**") subscribed for 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% of equity interest, respectively, in HZ&BT Development Holding at a subscription price of US$1 per share.

(5) On 14 December 2017, Shanghai Xingning Construction and Engineering Co., Ltd. ("**Shanghai Xingning**") was established in the PRC with limited liability under the laws of the PRC and is a direct wholly-owned subsidiary of Third Harbor Construction.

(6) On 20 December 2017, the Company was incorporated in the Cayman Islands with an authorised ordinary share capital of HK$380,000 divided into 38,000,000 shares of HK$0.01 each. On the same date, one Share was allotted and issued, credited as fully-paid, to Harneys Fiduciary (Cayman) Limited, the Company's initial subscriber who is an independent third party, which was subsequently transferred to HuaZi Holding on the same date. On the same date, shares represents 56%, 18.52% and 25.48% of the equity interest of the Company were issued to HuaZi Holding, Ye Wang Zhou Holding and HZ&BT Development Holding, respectively.

(7) (i) On 23 January 2018, Shanghai Xingning acquired the entire equity interest of Third Harbor Maritime.

(ii) On 24 January 2018, Shanghai Yubo acquired the entire equity interest of Shanghai Xingning.

(iii) On 30 January 2018, Shanghai Shanyu acquired the entire equity interest of Shanghai Yubo.

1 GENERAL INFORMATION AND REORGANISATION (Continued)

1.2 Reorganisation (Continued)

(8) On 5 January 2018, HuaZi Rosely Limited ("**HuaZi Rosely**"), Maritime Vansun Limited ("**Maritime Vansun**") and Engineering Prosper Limited ("**Engineering Prosper**") were incorporated in the BVI with limited liability and were wholly-owned by the Company. On 5 January 2018, the Company subscribed for the entire equity interest in HuaZi Rosely, Maritime Vansun and Engineering Prosper respectively.

(9) (i) On 8 February 2018, Royal Karry HK Engineering Limited ("**Royal Karry**") was incorporated in Hong Kong with a share capital of HK$1 comprising 1 ordinary shares which is wholly-owned by HuaZi Rosely.

(ii) On 11 April 2018, the Company, HuaZi Holding, Ye Wang Zhou Holding, HZ&BT Development Holding, Mr.Wang Shizhong, Ye Wang Zhou Holding Shareholders, HZ&BT Development Holding Shareholders and Worldlink entered into a subscription agreement pursuant to which Worldlink subscribed for 180,000 new shares representing 9.00% of the total issued share capital of the Company in the consideration of US$9,584,744.54 (equivalent to approximately RMB60,000,000) as enlarged by the subscription. Upon completion of this step, the issued share capital of the Company is owned as to 50.9600%, 16.8532%, 23.1868% and 9.0000% by HuaZi Holding, Ye Wang Zhou Holding, HZ&BT Development Holding and Worldlink, respectively. The consideration was fully paid and settled.

(10) On 1 May 2018, Royal Karry entered into an share transfer agreement with Third Harbor Construction and Worldlink, pursuant to which Royal Karry agreed to acquire approximately 98% and 2% of the issued share capital in Shanghai Shanyu from Third Harbor Construction and Worldlink respectively, at a consideration of US$18,901,805.12 (equivalents to approximately RMB120,000,000) and US$384,336.71 (equivalent to approximately RMB2,440,000) respectively, based on the paid-up registered capital at Shanghai Shanyu as at 31 March 2018, with reference to its then net asset value. The consideration was settled on 15 May 2018. Upon completion of this step, Shanghai Shanyu became an indirect wholly-owned subsidiary ("**Shanghai Shanyu WFOE**") of the Company and the consideration paid would be accounted as a deemed distribution to shareholders.

(11) Pursuant to the relevant laws and/or regulation in Brunei, 1% equity interest of Benteng Brunei was held by Pahaytc Sdn Bhd, an independent third party in Brunei, for and on behalf of Third Harbor Construction through nominee agreement and separate trust arrangement. The terms in the agreements bind that the management powers, voting rights and the economic benefits are all belong to Third Harbor Construction. Third Harbor Construction is able to effectively control, recognise and receive all the economic benefit of the business and operations of Benteng Brunei. Accordingly, Third Harbor Construction controlled the entire equity interest of Benteng Brunei through the nominee agreement and separate trust arrangement.

1 GENERAL INFORMATION AND REORGANISATION (Continued)

1.2 Reorganisation (Continued)

On 19 April 2018, Mr.Tang Liang transferred 99% of equity interest of Benteng Brunei to Maritime Vansun based on the net asset value of Benteng Brunei. On the same date, Third Harbor Construction has transferred the control of the remaining 1% of the equity interest to Maritime Vansun by new nominee agreement and separate trust arrangement. Pahaytc Sdn Bhd has acknowledged to hold the 1% of the equity interest in Benteng Brunei for and on behalf of Maritime Vansun. As such, Maritime Vansun was the 100% beneficial owner of Benteng Brunei.

(12) Pursuant to the relevant and regulations in Indonesia, 33% equity interest of Benteng Indonesia are held by PT. Indo Panshi Bumi ("**PTPB**"), an independent third party in Indonesia. Third Harbor Construction has entered into a series of contractual arrangements ("**Contractual Arrangement**") with the PTPB to consolidate control over and derive the economic benefits and risks from the remaining 33% of the equity interest in Benteng Indonesia. The Contractual Arrangements consist of (i) cooperation agreements; (ii) loan agreement; (iii) pledge of shares agreements; (iv) assignment of rights to dividends agreements; (v) option agreements; (vi) power of attorney to sell agreement; (vii) power of attorney to vote agreement. The terms of these underlying arrangements provide that the management powers, voting rights and the economic benefits of Benteng Indonesia all belong to Third Harbor Construction. Accordingly, Third Harbor Construction controlled the entire equity interest of Benteng Indonesia through the contractual arrangements.

On 26 April 2018, Third Harbor Construction has transferred 67% of the equity interest of Benteng Indonesia to Engineering Prosper based on the net asset value of Benteng Indonesia. On the same date, Third Harbor Construction, PTPB, Benteng Indonesia and Engineering Prosper have entered into a series of new contractual arrangements and effectively transferred the control of the 33% of the equity interest, which is held by PTPB to Engineering Prosper. As such, based on the series of new contractual arrangements entered into between Third Harbor Construction, Engineering Prosper and PTPB, Benteng Indonesia is effectively wholly owned by Engineering Prosper.

Upon completion of the Reorganisation, a total amount of approximately RMB518,784,000 was recognised as a distribution/deemed distribution to shareholders in the consolidated statement of changes in equity, and the Company became the holding company of the companies comprising the Group.

(13) In connection with the Listing, 206,350,000 shares of HK$0.01 each were issued at the offer price of HK$1.22 with gross proceeds of HK$251,747,000 (equivalent to approximately RMB222,602,000). Approximately RMB1,825,000 was credited to the share capital account and RMB204,883,000 (net of share issuing expenses of approximately RMB15,894,000) was credited to the share premium account.

1 GENERAL INFORMATION AND REORGANISATION (Continued)

1.3 Basis of presentation

Immediately prior to the Reorganisation, the Listing Business has been conducted through the Operating Companies. Pursuant to the Reorganisation, the Listing Business is transferred to and held by the Company. The Company and the newly incorporated companies have not been involved in any other business prior to the Reorganisation and do not meet the definition of a business. The Reorganisation is merely a reorganisation of the Listing Business with no change in management of such business and the Controlling Shareholders of the Listing Business remain the same. Accordingly, the Group resulting from the Reorganisation is regarded as a continuation of the Listing Business conducted through the Company, with the assets and liabilities of the Group recognised and measured at the carrying amounts of the Listing Business for all periods presented.

The financial information of the Included Business of Third Harbor Construction for the year ended 31 December 2017 was included in the following manner:

(i) Transactions and balances of Third Harbor Construction specifically identified as relating to the Included Business were combined in the consolidated financial statements, while those specifically identified as relating to the Excluded Business were not included in the financial information;

(ii) Cash and cash equivalents which were general in nature and not specifically identifiable as being part of any business under Third Harbor Construction were not allocated to the consolidated financial statements of the Group and remained in the Excluded Business of Third Harbor Construction according to legal title of entities since the bank account would be retained by Third Harbor Construction after the business transfer and segregation. As the balance of cash and cash equivalent of Third Harbor Construction were all allocated to Excluded Business, the cash and cash equivalents of Included Business of Third Harbor Construction are presented as "Amounts due from shareholders" in the consolidated financial statements on 31 December 2017. The net increase/decrease of amount due from shareholders are included in the "Cash flows from investing activities" in the consolidated statement of cash flows. As at the completion date of Reorganisation, such "Amounts due from shareholders" are accounted for as a deemed distribution to the Shareholders;

(iii) Bank borrowings which was not contractually and specifically identifiable as being part of any business under Third Harbor Construction since the financing was obtained for funding Excluded Business and hence such bank borrowings would not be assumed by the Included Business and were not allocated to the consolidated financial statements of the Group and remained in the Excluded Business of Third Harbor Construction according to legal title of entities;

(iv) Finance cost relating to Bank borrowings which were not specifically identified as being part of Included Business under Third Habour Construction were not allocated to the consolidated financial statements of the Group and remained in the Excluded Business of Third Harbor Construction;

1 GENERAL INFORMATION AND REORGANISATION (Continued)

1.3 Basis of presentation (Continued)

(v) Current and deferred income taxes on profit attributable to the Included Business were calculated using local tax rate during the year ended 31 December 2017 in accordance with Group's accounting policies; and

(vi) Inter-company transactions, balances and unrealised gains/losses on transactions between the companies now comprising the Group are eliminated on combination.

(vii) By the completion date of the Reorganisation, assets and liabilities of Included Business which are not transferred to the Group mainly include amounts due from shareholders, deferred tax assets and restricted cash, are accounted for as a deemed distribution to the Shareholders.

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 ("**HKFRS**") and the disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. They have been prepared on a historical cost basis, except for certain financial assets and liabilities (including derivative instruments) which were measured at fair value.

The preparation of the consolidated financial statements in conformity with HKFRS 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.

HKFRS 9 'Financial instruments' and HKFRS 15 'Revenue from contracts with customers' are effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group has applied HKFRS 9, HKFRS 15 and other new and amended standards effective for annual periods beginning on or after 1 January 2018, consistently throughout the years ended 31 December 2018 and 2017.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

New standards and interpretations not yet adopted

The following certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group.

		Effective for annual periods beginning on or after
HKFRS 16	Leases	1 January 2019 (a)
HK (IFRIC) 23	Uncertainty over income tax treatments	1 January 2019
HKFRS 9 (Amendments)	Prepayment features with negative compensation	1 January 2019
HKAS 28 (Amendments)	Long-term interests in associates and joint venture	1 January 2019
HKAS 19 (Amendments)	Plan amendment, curtailment or settlement	1 January 2019
Annual Improvements to HKFRS Standards 2015–2017 Cycle		1 January 2019
Amendments to HKFRS 3	Definition of business	1 January 2020
Amendments to HKAS 1 and HKAS 8	Definition of material	1 January 2020
HKFRS 17	Insurance contracts	1 January 2021
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

(a) HKFRS 16 Leases

The Group's assessment of the impact of HKFRS 16 Leases is set out below.

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

New standards and interpretations not yet adopted (Continued)

(a) *HKFRS 16 Leases (Continued)*

Impact

The management reviewed all of the Group's leasing arrangements over the year in light of the new lease accounting rules in HKFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of approximately RMB2,740,000. Of these commitments, approximately RMB2,102,000 relating to short-term leases which will be recognised on a straight line basis as expense in profit or loss.

For the remaining lease commitments, the Group expects to recognise right-of-use assets of approximately RMB593,000 on 1 January 2019, lease liabilities of RMB593,000 (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018).

The Group expects that profit before income tax will not be significantly impacted for the year ending 31 December 2019 as a result of adopting the new rules.

Operating cash flows will increase and financing cash flows will decrease by approximately RMB403,000 as repayment of the lease liabilities will be classified as cash flows from financing activities.

However, the Group is still in the progress of assessing what other adjustments if any are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options.

The Group's activities as a lessor were not material and hence the Group does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

Date of adoption by Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

Apart from HKFRS 16, there are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

(i) *Business combination under common control*

The consolidated financial statements incorporates the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been consolidated from the date when the combining entities or businesses first came under the control of the controlling parties.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in consideration for goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of comprehensive income includes the results of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control, where there is shorter period, regardless of the date of the common control combination. The consolidated financial statements includes the entities that were managed by management of the Listing Business during the years presented. These entities were consolidated with all intra-group balances and transactions eliminated with the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Principles of consolidation and equity accounting (Continued)

(a) Subsidiaries (Continued)

(ii) Consolidation

Except for the Reorganisation, 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, the equity interests issued by the Group, and 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.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS. Acquisition-related costs are expensed as incurred.

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 re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Principles of consolidation and equity accounting (Continued)

(a) Subsidiaries (Continued)

(ii) Consolidation (Continued)

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

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Gains or losses on disposals to non-controlling interests are also recorded in equity. 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, joint venture 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. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(iii) 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.

When 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 2.8.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Principles of consolidation and equity accounting (Continued)

(a) Subsidiaries (Continued)

(iv) Changes in ownership interests

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 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.

2.4 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 management which is the chief operating decision maker, consists of the executive directors.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 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 — net".

(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)

2.6 Property, plant and equipment

All property, plant and equipment 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
• Office supplies and electronic equipment	3–5 years
• Transport equipment	3–5 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 2.8).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated statement of comprehensive income. When revalued assets are sold, it is Group policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 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) Computer software

Acquired computer software is capitalised on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortised over the estimated useful life of 5 years.

2.8 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.

2.9 Financial assets

(a) Classification

The Group classifies its financial assets in the following categories:

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Financial assets (Continued)

(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:

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 — 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 — 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 — 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 — net" in the period in which it arises.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Financial assets (Continued)

(c) *Measurement* (Continued)

(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 — 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 3.3(b).

(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 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 new expected credit loss model:

- trade and retention receivables for providing construction services
- contract assets relating to construction contracts
- cash and cash equivalents
- restricted cash
- other receivables

While cash and cash equivalents, restricted cash and other receivables are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Financial assets (Continued)

(d) *Impairment* (Continued)

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.

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.

2.10 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.

2.11 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 the estimated costs necessary to make the sale.

2.12 Trade receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection of trade and other 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. See Note 2.9 for further information about the Group's accounting for trade receivables and Note 3 for a description of the Group's impairment policies.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 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.

2.14 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.

2.15 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 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, and the long-term payables are measured at amortised cost using the effective interest method, which is used to calculate the discount amounts. Management reassesses the payment period at each balance sheet date.

2.16 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 and associates 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 Current and deferred income tax (Continued)

(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. 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.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 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.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 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 two years after completion of construction. The Group's retention money are collected after the warranty period. During the years ended 31 December 2018 and 2017, 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.

2.19 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.

When control of 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Revenue recognition (Continued)

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 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, including the services of infrastructure construction of ports and waterway engineering.

The progress towards complete satisfaction of performance obligation is measured in output method based on direct measurements of the value of units delivered or surveys of work performed. The payment terms differed for different customers due to the variety of projects. Most of the payment is payable according to the stage of construction with credit term of 30 to 60 days, while 20% to 30% of payments will be payable upon the completion of the construction and such portion of payment is 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; 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 and the Group make efforts to collect the receivables and timely monitor the credit risk.

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. The costs of subcontracting 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)

2.20 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

2.21 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.

2.22 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.

2.23 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Interest income

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$**") and Brunei dollar ("**BN$**"), as certain purchase and sales of the Group is denominated in US$ and BN$. The Group also has certain amounts cash and bank balances denominated in HK dollar ("**HK$**") and 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 2018, if RMB had strengthened/weakened by 5% against the US$, BN$ and HK$ with all other variables held constant, the total profit for the year would have been RMB10,214,000 lower/higher (2017: RMB770,000 higher/lower), mainly as a result of foreign exchange losses/gains on translation of US$, BN$ and HK$ denominated cash and cash equivalents, trade and other receivables and trade and other payables.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(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. The Group has not used any financial instrument to hedge its exposure to cash flow and fair value interest rate risks.

(b) Credit risk

Credit risk arises from restricted cash, cash and cash equivalents, trade and other 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 highly 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.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets

The Group has several types of financial assets that are subject to the expected credit loss model, while they have no significant impact on the financial statements, except for the following ones:

- Trade and retention receivables from providing maritime construction service
- Contract assets relating to maritime construction contracts.

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 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.

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. The customers of certain long ageing trade and retention receivables are related to some large projects with duration over one year. Since these customers have strong financial ability with low credit risk, and historically and subsequently, there was rare actual default for these receivables. As at 31 December 2018 and 2017, the Group has assessed that the expected loss rate for such trade and retention receivables was immaterial. No loss allowance provision for trade receivables, retention receivables and contract assets of approximately RMB302,216,000 and RMB179,914,000 relating to such customers was recognised as at 31 December 2018 and 2017.

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 and the payment is not due. The expected loss rate of contract assets is assessed to be 0.53% (2017: 0.28%) which is the same as that of trade receivables past due up to one year. As at 31 December 2018 and 2017, the loss allowance for provision for contract assets was approximately RMB2,405,000 and RMB660,000.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Individually impaired trade receivables and retention receivables are relating 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. The fair value of individually impaired trade receivables and retention receivables were nil. For the year ended 31 December 2018, no individually impaired trade and retention receivables were identified (2017: RMB41,155,000).

To measure the expected credit losses of the remaining trade and retention receivables, trade receivables and retention receivables have been considered on credit risk characteristics and the days past due. The loss allowance provision as at 31 December 2018 and 2017 is determined as follows, the expected credit losses below also incorporated forward-looking information.

	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 2018					
Expected loss rate	0.53%	1.41%	8.03%	29.16%	
Gross carrying amount (excluding receivables assessed individually)	381,387	299,997	20,666	6,290	708,340
Loss allowance provision	2,016	4,231	1,660	1,834	9,741
Impact on allowance provision relating to novation of Reorganisation	(1,493)	(440)	(714)	(295)	(2,942)
Total loss allowance provision	523	3,791	946	1,539	6,799

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (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*
Retention receivables					
At 31 December 2018					
Expected loss rate	2.03%	2.23%	3.80%	12.89%	
Gross carrying amount (excluding receivables assessed individually)	6,033	88,975	8,887	6,968	110,863
Loss allowance provision	122	1,983	338	899	3,342
Impact on allowance provision relating to novation of Reorganisation	(1,352)	(665)	(732)	(456)	(3,205)
Total loss allowance provision	(1,230)	1,318	(394)	443	137

	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 2017					
Expected loss rate	0.28%	0.89%	6.17%	38.40%	
Gross carrying amount (excluding receivables assessed individually)	533,064	49,482	11,566	768	594,880
Loss allowance provision	1,493	440	714	295	2,942
Individually impaired receivables	—	—	2,103	19,622	21,725
Total loss allowance provision	1,493	440	2,817	19,917	24,667

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (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
Retention receivables					
At 31 December 2017					
Expected loss rate	1.46%	1.68%	3.34%	8.43%	
Gross carrying amount (excluding receivables assessed individually)	92,625	39,601	21,916	5,404	159,546
Loss allowance provision	1,352	665	732	456	3,205
Individually impaired receivables	—	—	—	19,430	19,430
Total loss allowance provision	1,352	665	732	19,886	22,635

The loss allowance provision for trade receivables, retention receivables and contract assets as at 2018 and 2017 reconciles to the opening loss allowance for that provision is as follows:

	Trade receivables RMB'000	Retention receivables RMB'000	Contract assets RMB'000	Total RMB'000
At 1 January 2017	24,186	16,962	1,101	42,249
Provision for/(reversal of) loss allowance recognised in consolidated statement of comprehensive income	481	5,673	(441)	5,713
At 31 December 2017	24,667	22,635	660	47,962
Provision for loss allowance recognised in consolidated statement of comprehensive income	6,799	137	1,739	8,675
Net-off impact relating to novation of reorganisation *(Note 1.2(2))*				
— individually impaired	(21,725)	(19,430)	—	(41,155)
— collectively impaired	(2,942)	(3,205)	—	(6,147)
Currency translation differences	—	—	6	6
At 31 December 2018	6,799	137	2,405	9,341

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

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

(ii) Impairment of financial assets (Continued)

The Group adopts general approach for expected credit losses of other receivables and considers it has not significant 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 of 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.

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

During the years ended 31 December 2018 and 2017, the following losses were recognised in profit or loss in relation to impaired financial assets:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Impairment losses		
— movement in loss allowance for trade receivables, retention receivables and contract assets	**8,675**	5,713
Net impairment losses on financial and contract assets	**8,675**	5,713

Impairment losses on trade receivables, retention 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 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) 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.

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*	Total contractual cash flows *RMB'000*
At 31 December 2017				
Trade and other payables	900,698	167,361	14,202	1,082,261
At 31 December 2018				
Trade and other payables	**1,409,959**	**27,919**	**20,901**	**1,458,779**

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

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 debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total equity. As there was no borrowings for the years ended 31 December 2018 and 2017, the capital risk was relatively low.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation

(a) 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 2017					
Financial assets at fair value through profit or loss	19	—	—	20,000	20,000

The Group purchased a bank wealth management product with guaranteed principal and floating return of investment in December 2017 and disposed the products in 2018.

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.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

(b) 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 who 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.

The level 3 instrument of the Group is investments in a wealth management product. As the instrument 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.

The Group used discounted cash flows approach to value the fair value of the instrument as at year end, which is approximately to the cost. The fair value changes of the instrument is immaterial due to the short period and low expected return rate. Accordingly, the sensitivity to changes in unobservable inputs is not material.

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 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 trade receivables, retention receivables and contract assets

The Group's management determines the provision for impairment of trade receivables, retention 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 to conditions. 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 fulfilment 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**"). The Requests reflect progress towards complete satisfaction of performance obligation, which is measured based on direct measurements of the value of units delivered or surveys 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 engineering quantity 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 consider 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. The Group does not consider the arrangement with customers have significant financing component. The Group has, therefore, recognised revenue on the requests over the period during which the services are rendered and transferred to customers.

(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 determine the payment periods according to payment schedule in the contracts with suppliers, and the long-term payables is measured at amortised cost using the effective interest method. Management reassesses the payment period 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) Ports infrastructure; and

(ii) Waterway engineering.

The segment results represent the gross profit of the ports infrastructure and waterway engineering.

The amounts provided to the management with respect to total assets, total liabilities and capital expenditure are measured in a manner consistent with that of consolidated financial statements. The management reviews the total assets, total liabilities and capital expenditure at Group level, therefore no segment information of total assets, total liabilities and capital expenditure information was presented.

5 SEGMENT INFORMATION (Continued)

(b) Segment results and other information

The revenue from external parties is measured in the same way as in the consolidated statement of comprehensive income.

The segment information for the year ended 31 December 2018 is as follows:

	Year ended 31 December 2018		
	Ports infrastructure RMB'000	Waterway engineering RMB'000	Total RMB'000
Revenue	1,380,143	109,513	1,489,656
Cost of sales	(1,198,095)	(101,260)	(1,299,355)
Segment results	182,048	8,253	190,301
Unallocated item:			
Selling and distribution expenses			(2,981)
Administrative expenses			(51,259)
Net impairment losses on financial assets *(Note 3.1)*			(8,675)
Other operating expenses			(332)
Other income *(Note 6)*			2,396
Other gains — net *(Note 7)*			419
Finance income — net *(Note 10)*			2,645
Profit before income tax			132,514
Income tax expense *(Note 11)*			(28,448)
Profit for the year			104,066
Segment items included:			
Depreciation and amortisation	(10,099)	(801)	(10,900)
Net impairment losses on financial assets	(8,359)	(316)	(8,675)

5 SEGMENT INFORMATION (Continued)

(b) Segment results and other information (Continued)

The segment information for the year ended 31 December 2017 is as follows:

	Year ended 31 December 2017		
	Ports infrastructure *RMB'000*	Waterway engineering *RMB'000*	Total *RMB'000*
Revenue	1,362,268	49,700	1,411,968
Cost of sales	(1,206,721)	(46,110)	(1,252,831)
Segment results	155,547	3,590	159,137
Unallocated item:			
Selling and distribution expenses			(2,184)
Administrative expenses			(38,478)
Net impairment losses on financial assets *(Note 3.1)*			(5,713)
Other operating expenses			(437)
Other income *(Note 6)*			2,401
Other gains — net *(Note 7)*			539
Finance costs — net *(Note 10)*			(2,152)
Share of net profit of associates *(Note 13b)*			173
Profit before income tax			113,286
Income tax expense *(Note 11)*			(26,012)
Profit for the year			87,274
Segment items included:			
Depreciation and amortisation	(9,279)	(339)	(9,618)
Net impairment losses on financial assets	(5,373)	(340)	(5,713)

5 SEGMENT INFORMATION (Continued)

(c) Revenue from external customers

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

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Mainland China		
Ports infrastructure		
Revenue	**842,372**	918,785
Cost of sales	**(754,084)**	(828,775)
	88,288	90,010
Waterway engineering		
Revenue	**109,513**	49,700
Cost of sales	**(101,260)**	(46,110)
	8,253	3,590
Southeast Asia		
Ports infrastructure		
Revenue	**537,771**	443,483
Cost of sales	**(444,011)**	(377,946)
	93,760	65,537

Non-current assets, other than non-current receivables, contract assets and deferred tax assets, by territory:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Mainland China	**51,565**	55,756
Southeast Asia	**24,841**	27,233
Total	**76,406**	82,989

5 SEGMENT INFORMATION (Continued)

(c) Revenue from external customers (Continued)

The breakdown of individual customer's revenue exceeds 10% of the Group's total revenue for the years ended 31 December 2018 and 2017 is as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Ports infrastructure		
Customer A	**179,184**	*
Customer B	**175,869**	251,590
Customer C	*****	216,163
Customer D	**—**	306,764

* represents that the amount of revenue from such customer is less than 10% of the total revenue for that year.

(d) Disaggregation of revenue from contracts with customers

The Group derives revenues from the transfer of services over time for both segments.

(e) Contract assets and liabilities

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

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Contract assets		
Current portion		
Ports infrastructure	**254,828**	137,923
Waterway engineering	**16,514**	470
Less: allowance for impairment of contract assets *(Note 3.1)*	**(1,437)**	(388)
	269,905	138,005
Non-current portion		
Ports infrastructure	**178,421**	96,884
Waterway engineering	**5,182**	473
Less: allowance for impairment of contract assets *(Note 3.1)*	**(968)**	(272)
	182,635	97,085
Total contract assets	**452,540**	235,090
Contract liabilities		
Ports infrastructure	**4,761**	23,683
Total contract liabilities	**4,761**	23,683

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 customer. 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 fluctuated 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 pay consideration but before the Group renders the service to the customer.

Due to the completion of the construction, RMB3,451,000 and RMB162,562,000 of contract assets were transferred to trade receivables, while RMB1,606,000 and RMB71,529,000 of contract assets were transferred to retention receivables during the years ended 31 December 2018 and 2017.

(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 2018 and 2017 relates to carried-forward contract liabilities.

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Ports infrastructure	**23,683**	14,339

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 2018 and 2017.

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Ports infrastructure	**1,342,063**	1,021,701
Waterway engineering	**41,340**	24,320
	1,383,403	1,046,021

Management expects that 55% of the transaction price allocated to the unsatisfied contracts as at 31 December 2018 will be recognised as revenue before 31 December 2019, 24% will be recognised as revenue before 31 December 2020, 11% will be recognised as revenue before 31 December 2021, the remaining 10% will be recognised as revenue before 31 December 2022.

6 OTHER INCOME

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Rental income	**1,934**	1,634
Sales of raw materials	**412**	767
Others	**50**	—
	2,396	2,401

7 OTHER GAINS — NET

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Gains on receivables transferred under Novation Agreement *(Note 18(vi))*	**2,405**	—
Net foreign exchange (losses)/gains *(Note 27(a))*	**(1,240)**	380
Donations	**(883)**	—
Net gains on disposal of financial assets at fair value through profit or loss *(Note 27(a))*	**215**	—
Net (losses)/gains on disposal of property, plant and equipment *(Note 27(a))*	**(78)**	332
Losses on disposal of investment in associates *(Note 27(a))*	**—**	(173)
	419	539

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	
	2018	2017
	RMB'000	*RMB'000*
Subcontracting costs	**577,708**	600,797
Raw materials and consumables used	**651,267**	585,848
Wages and salaries, social welfare and benefits, including directors' emoluments *(Note 9)*	**41,923**	38,250
Operating lease expenses	**20,299**	22,501
Listing expenses	**19,797**	4,559
Depreciation of property, plant and equipment *(Note 14)*	**10,723**	9,478
Auditors' remuneration		
- Audit services	**2,400**	—
- Non-audit services	**330**	—
Amortisation of intangible assets *(Note 15)*	**177**	140
Taxes and surcharges	**504**	1,644
Other expenses	**28,799**	30,713
	1,353,927	1,293,930

9 EMPLOYEE BENEFIT EXPENSES

(a) Employee benefit expenses

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Salaries, wages and allowances	**35,430**	33,359
Pension costs	**2,497**	2,483
Bonuses	**3,996**	2,408
Total employee benefit expenses	**41,923**	38,250

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include one director whose emoluments are reflected in the analysis presented in Note 32 during the years ended 31 December 2018 and 2017. The emoluments paid to the remaining four individuals for the years ended 31 December 2018 and 2017 are as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Salaries, wages and allowances	**677**	733
Pension costs	**169**	212
Bonuses	**396**	559
Total employee benefit expense	**1,242**	1,504

The number of highest paid non-director individuals, whose remuneration for the years ended 31 December 2018 and 2017 fell within the following bands:

	Year ended 31 December	
	2018	2017
Emolument bands HK$100,000 to HK$1,000,000	**4**	4

During the years ended 31 December 2018 and 2017, no emoluments were paid to any of the directors or the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

10 FINANCE INCOME AND COSTS

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Finance income		
— Interest income derived from cash and bank and other financial instruments	**2,986**	391
Finance costs:		
— Unwinding of discount of long-term payables *(i)*	**(341)**	(2,543)
Finance income/(costs) — net	**2,645**	(2,152)

(i) The financial cost of unwinding of discount of long-term payables was measured at amortised cost.

11 INCOME TAX EXPENSE

(a) Income tax expense

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

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Current income tax	**30,499**	27,211
Deferred income tax *(Note 25)*	**(2,051)**	(1,199)
Income tax expense — net	**28,448**	26,012

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the entity operates.

(i) Cayman Islands profit tax

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

(ii) BVI profits tax

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

11 INCOME TAX EXPENSE (Continued)

(a) Income tax expenses (Continued)

(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 2018 and 2017.

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

The Company's subsidiaries incorporated in Mainland China are subject to PRC income tax. The applicable CIT tax rate is 25% for the years ended 31 December 2018 and 2017.

(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 the years ended 31 December 2018 and 2017.

(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 2018 and 2017, income tax was provided at the rate of 4% on the construction revenue before 31 October 2017 and 3% for the two months ended 31 December 2017 and for the year ended 31 December 2018, and income tax of 20% was provided on the interest income from bank deposits, according to respective Indonesia income tax laws and regulations.

(b) Numerical reconciliation of income tax expense to prima facie tax payable

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	
	2018	2017
	RMB'000	*RMB'000*
Profit before income tax	**132,514**	113,286
Tax calculated at applicable tax rates	**28,276**	25,529
Income not subject to profits tax	**—**	(43)
Expenses not deductible for tax purpose	**173**	526
Tax losses for which no deferred income tax asset was recognised	**(1)**	—
	28,448	26,012

11 INCOME TAX EXPENSE (Continued)

(b) Numerical reconciliation of income tax expense to prime facie tax payable (Continued)

During the years ended 31 December 2018 and 2017, 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 as at 31 December 2018 and 2017 in the foreseeable future.

Tax losses amounting to approximately RMB3,000 will expire in 2023.

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.

The weighted average number of ordinary shares used for such purpose has been retrospectively adjusted for the effects of the issue of shares in connection with the Reorganisation and the capitalisation issue of ordinary shares, both completed during the year ended 31 December 2018.

	2018	2017
Profit attributable to the Shareholders of the Company (RMB'000)	**104,066**	87,274
Weighted average number of ordinary shares in issue (thousands)	**643,360**	619,050
Total basic earnings per share attributable to the ordinary equity holders of the Group (RMB cents)	**16.18**	14.10

(b) Diluted earnings per share

Diluted earnings per share is of the same amount as the basic earnings per share as there were no potentially dilutive ordinary share outstanding as at 31 December 2018 and 2017.

13a SUBSIDIARIES

As at 31 December 2018, the Company had direct and indirect interests in the following subsidiaries:

Name of entity	Place of incorporation/ establishment/ 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 ("**HuaZi Rosely**")	BVI, limited liability company	5 January 2018	US$1	100%	Investment holding, BVI
Maritime Vansun Limited ("**Maritime Vansun**")	BVI, limited liability company	5 January 2018	US$1	100%	Investment holding, BVI
Engineering Prosper Limited ("**Engineering Prosper**")	BVI, limited liability company	5 January 2018	US$1	100%	Investment holding, BVI
Royal Karry HK Engineer Limited ("**Royal Karry**")	HK, limited liability company	8 February 2018	HK$1	100%	Investment holding, HK
Shanghai Shanyu Construction and Engineering Co., Ltd. ("**Shanghai Shanyu WFOE**")	PRC, wholly foreign owned enterprise	30 November 2017	RMB122,440,000	100%	Investment holding, PRC
Shanghai Yubo Construction and Engineering Co., Ltd. ("**Shanghai Yubo**")	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**")	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

13b INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The Group had interests in two private companies as at 1 January 2017, which were individually immaterial associates in the opinion of the directors, and were accounted for using the equity method. The Group sold its interests in two private companies in November 2017.

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Aggregate carrying amount of individually immaterial associates	**—**	—
Aggregate amounts of the Group's share of:		
Profit for the year	**—**	173
Total comprehensive income	**—**	173

14 PROPERTY, PLANT AND EQUIPMENT

	Office supplies and electronic equipment	Industrial machinery and equipment	Transport equipment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2017				
Cost	5,703	115,365	14,359	135,427
Accumulated depreciation	(5,204)	(51,979)	(10,872)	(68,055)
Net book amount	499	63,386	3,487	67,372
Year ended 31 December 2017				
Opening net book amount	499	63,386	3,487	67,372
Additions	161	24,267	1,768	26,196
Disposals	(177)	(661)	(477)	(1,315)
Depreciation charge	(146)	(8,349)	(983)	(9,478)
Currency translation differences	(3)	(131)	5	(129)
Closing net book amount	334	78,512	3,800	82,646

14 PROPERTY, PLANT AND EQUIPMENT (Continued)

	Office supplies and electronic equipment RMB'000	Industrial machinery and equipment RMB'000	Transport equipment RMB'000	Total RMB'000
At 31 December 2017				
Cost	2,241	129,650	6,895	138,786
Accumulated depreciation	(1,907)	(51,138)	(3,095)	(56,140)
Net book amount	334	78,512	3,800	82,646
Year ended 31 December 2018				
Opening net book amount	**334**	**78,512**	**3,800**	**82,646**
Additions	**277**	**3,598**	**—**	**3,875**
Depreciation charge	**(117)**	**(9,244)**	**(1,362)**	**(10,723)**
Disposals	**—**	**(78)**	**—**	**(78)**
Currency translation differences	**(59)**	**240**	**16**	**197**
Closing net book amount	**435**	**73,028**	**2,454**	**75,917**
At 31 December 2018				
Cost	**2,459**	**130,952**	**6,917**	**140,328**
Accumulated depreciation	**(2,024)**	**(57,924)**	**(4,463)**	**(64,411)**
Net book amount	**435**	**73,028**	**2,454**	**75,917**

During the years ended 31 December 2018 and 2017, the amounts of depreciation expenses charged to "Cost of sales" and "Administrative expenses" are as follows:

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Cost of sales	**9,420**	8,326
Administrative expenses	**1,303**	1,152
	10,723	9,478

15 INTANGIBLE ASSETS

	Licences RMB'000	Computer software RMB'000	Total RMB'000
At 1 January 2017			
Cost	100	650	750
Accumulated amortisation	(39)	(228)	(267)
Net book amount	61	422	483
Year ended 31 December 2017			
Opening net book amount	61	422	483
Amortisation charge	(10)	(130)	(140)
Closing net book amount	51	292	343
At 31 December 2017			
Cost	100	650	750
Accumulated amortisation	(49)	(358)	(407)
Net book amount	51	292	343
Year ended 31 December 2018			
Opening net book amount	**51**	**292**	**343**
Additions	**—**	**323**	**323**
Amortisation charge	**(11)**	**(166)**	**(177)**
Closing net book amount	**40**	**449**	**489**
At 31 December 2018			
Cost	**100**	**973**	**1,073**
Accumulated amortisation	**(60)**	**(524)**	**(584)**
Net book amount	**40**	**449**	**489**

Amortisation charges of intangible assets were charged to "Administrative expenses" in the consolidated statement of comprehensive income.

16 FINANCIAL INSTRUMENTS BY CATEGORY

The Group holds the following financial instruments:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Financial assets		
Financial assets at amortised cost		
— Trade and other receivables excluding prepayments and prepaid taxation	**1,159,217**	980,295
— Cash and cash equivalents *(Note 20)*	**385,890**	122,264
— Restricted cash *(Note 20)*	**77**	8,024
— Amounts due from shareholders *(Note 32)*	**—**	294,484
Financial assets at fair value through profit or loss *(Note 19)*	**—**	20,000
Total	**1,545,184**	1,425,067

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Financial liabilities		
Liabilities at amortised cost		
— Trade and other payables excluding non-financial liabilities	**1,458,113**	1,080,426
Total	**1,458,113**	1,080,426

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.

17 INVENTORIES

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Raw materials	**12,113**	5,730

During the year ended 31 December 2018 and 2017, the cost of inventories recognised as an expense and included in "Cost of sales" was RMB651,267,000 and RMB585,848,000 respectively. There were no provision for or reversal of write-down of inventories during the years ended 31 December 2018 and 2017.

18 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Trade receivables *(i)*	**975,482**	780,382
Less: allowance for impairment of trade receivables *(iv,vi)*	**(6,799)**	(24,667)
Trade receivables — net *(i)*	**968,683**	755,715
Retention receivables *(ii)*	**139,790**	195,113
Less: allowance for impairment of retention receivables *(iv,vi)*	**(137)**	(22,635)
Retention receivables — net *(ii)*	**139,653**	172,478
Bills receivables *(i)*	**11,669**	1,710
Other receivables *(iii)*	**39,212**	50,392
Prepayments	**3,437**	2,609
Prepaid taxation	**—**	8,357
	1,162,654	991,261
Less: non-current portion		
Retention receivables *(ii)*	**(1,965)**	(13,848)
Current portion	**1,160,689**	977,413

(i) The Group's revenues are generated through marine construction services and settlements are made in accordance with the terms specified in the contracts governing the relevant transactions. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, certain customers may have large trade receivables balances, there may be concentration of credit risk. The customers of certain long ageing trade and retention receivables are related to some large projects and the customers have strong financial capacity with low credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances.

18 TRADE AND OTHER RECEIVABLES (Continued)

The carrying amounts of trade and retention receivables approximate their fair value as at 31 December 2018 and 2017.

As at 31 December 2018 and 2017, the ageing analysis of the trade and bills receivables based on the payment requests or demand notes of customers is as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Within 3 months	**452,867**	455,957
4 to 6 months	**139,889**	77,384
7 to 12 months	**28,513**	74,549
1 to 2 years	**310,369**	85,940
2 to 3 years	**21,525**	50,793
Over 3 years	**33,988**	37,469
	987,151	782,092

(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 two 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	
	2018	2017
	RMB'000	*RMB'000*
Within 1 year	**6,033**	92,625
1 to 2 years	**90,379**	40,901
2 to 3 years	**25,902**	35,112
3 to 4 years	**14,439**	5,440
4 to 5 years	**491**	5,820
Over 5 years	**2,546**	15,215
	139,790	195,113

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

18 TRADE AND OTHER RECEIVABLES (Continued)

(iii) Other receivables mainly represent tender and performance deposits due from customers. These tender deposits are usually returned after the biding process, which may last approximately three months. Certain other receivables represent the reimbursed expenses paid on behalf of related parties (Note 29 (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.

(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 have been included in "Net impairment losses on financial assets" in the consolidated statement of comprehensive income.

(v) The carrying amounts of the Group's trade receivables, bills receivables, retention receivables and other receivables are denominated in the following currencies:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
RMB	**1,074,091**	872,690
BN$	**51,182**	58,084
US$	**21,783**	46,972
Indonesian Rupiah ("IDR")	**12,161**	2,549
	1,159,217	980,295

(vi) On 6 July 2018, Third Harbor Construction and Third Harbor Maritime entered into the Novation Agreement, pursuant to which certain assets and liabilities, including trade and other receivables, trade and other payables and contract assets relating to the Listing Business were transferred to Third Harbor Maritime from Third Harbor Construction. The consideration was determined with reference to the carrying amount of the net trade and other receivables, trade and other payables and contract assets. Accordingly, the trade and other receivables recorded by Third Harbor Maritime under the Novation Agreement has taken into account the effect of the allowance for impairment of trade and other receivables of RMB47,302,000 previously recorded by Third Harbor Construction.

Subsequently, when the actual cash collection of the above trade and other receivables exceeds the amount recorded by the Third Harbor Maritime, the difference is recognised in "Other gains — net" (Note 7).

19 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	
	2018	2017
	RMB'000	*RMB'000*
Current assets		
Bank finance products	**—**	20,000

20 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Cash on hand	**41**	273
Cash at bank	**385,926**	130,015
Less: Restricted cash *(Note i)*	**(77)**	(8,024)
	385,890	122,264

Cash at bank and on hand are denominated in the following currencies:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
HK$	**210,215**	—
US$	**99,173**	550
RMB	**48,416**	99,948
BN$	**11,759**	8,978
IDR	**16,404**	20,812
	385,967	130,288

The restricted cash represents the following balances:

(i) As at 31 December 2018, deposits at bank of RMB77,000 was pledged as security for project expenditure.

As at 31 December 2017, deposits at bank of RMB4,344,000, RMB2,874,000 and RMB806,000, respectively, were pledged as security for litigation, issuance of letter of guarantee and sending expatriates respectively.

21 SHARE CAPITAL AND PREMIUM

	Number of ordinary shares	Amount		
		Equivalent nominal value of ordinary share RMB'000	Share premium RMB'000	Total RMB'000
Authorised:				
At 20 December 2017 (date of incorporation) *(a)*	38,000,000	321	—	321
Increase in authorized share capital *(d)*	9,962,000,000	88,177	—	88,177
	10,000,000,000	88,498	—	88,498
Issued:				
Issued and paid on 20 December 2017 (date of incorporation) and balances as at 31 December 2017 *(a)*	910,000	8	—	8
Shares issued pursuant to the Reorganisation	1,746,836	14	123,124	123,138
— Contribution from shareholders *(b)*	1,090,000	9	123,124	123,133
— Acquisition of subsidiaries by issuing shares *(c)*	656,836	5	—	5
Shares to be issued pursuant to capitalisation *(d)*	616,393,164	5,456	(5,456)	—
New shares issued pursuant to Listing *(e)*	206,350,000	1,825	204,883	206,708
Balance as at 31 December 2018	825,400,000	7,303	322,551	329,854

The total number of authorised share capital of the Company comprised 825,400,000 ordinary shares with a par value of HK$0.01 each as at 31 December 2018.

(a) On 20 December 2017, the Company's authorised share capital of HK$380,000 was divided into 38,000,000 shares with a par value of HK$0.01 each. Upon incorporation, one share was allotted and issued, credited as fully-paid, to Harneys Fiduciary (Cayman) Limited, our Company's initial subscriber and an independent third party. On the same date, additional 910,000 shares of HK$0.01 each were allotted and issued to Huazi Holding, Ye Wang Zhou Holding, and HZ&BT Development Holding respectively, and credited as fully paid. The nominal value of the shares issued amounted to HK$9,100 (equivalent to approximately RMB8,000) was accounted as the share capital of the Company.

21 SHARE CAPITAL AND PREMIUM (Continued)

(b) On 10 April 2018 and 11 April 2018, the Company issued and allotted 1,090,000 shares to Huazi Holding, Ye Wang Zhou Holding, HZ&BT Development Holding and Worldlink, all credited as fully paid with a total consideration of approximately RMB123,133,000. The nominal value of the shares issued amounted to HK$10,900 (equivalent to approximately RMB8,700) was accounted as the share capital of the Company. Meanwhile, the remaining contribution amounted to RMB123,124,000 was accounted as share premium of the Company.

(c) Pursuant to the Reorganisation and as consideration for the acquisition by the Company of the entire issued share capital of Benteng Brunei and Benteng Indonesia, the Company allotted and issued an aggregate of 656,836 shares in its share capital, all credited as fully paid. The nominal value of the shares issued amounted to approximately HK$6,500 (equivalent to approximately RMB5,200).

(d) On 19 October 2018, the authorised share capital of the Company was HK$100,000,000 divided into 10,000,000,000 shares and the Company issued a number of 616,393,164 of the capitalisation shares, credited as fully paid to HuaZi Holding, Ye Wang Zhou Holding and HZ&BT Development Holding and Worldlink, by way of capitalisation of approximately HK$6,164,000 (equivalent to approximately RMB5,456,000) standing to the credit of the company's share premium account.

(e) On 19 November 2018, the Company issued 206,350,000 new ordinary shares of HK$0.01 each at HK$1.22 per share in connection with the Listing and at the commencement of the Listing on the same date. The gross proceeds raised from the Listing is approximately HK$251,747,000 (equivalent to approximately RMB222,602,000). Approximately RMB1,825,000 was credited to the share capital account and RMB204,883,000 (net of share issuing expenses of approximately RMB15,894,000) was credited to the share premium account.

22 OTHER RESERVES

	Other reserves			
	Statutory reserve RMB'000 Note (a)	Capital reserve RMB'000	Exchange reserve RMB'000 Note (c)	Total RMB'000
Balance as at 1 January 2017	—	—	(118)	(118)
Appropriation to statutory reserve	39	—	—	39
Currency translation differences	—	—	(173)	(173)
Contribution from shareholders *(Note (b))*	—	120,122	—	120,122
Balance as at 31 December 2017	39	120,122	(291)	119,870
Appropriation to statutory reserve	5,855	—	—	5,855
Currency translation differences	—	—	866	866
Contribution from shareholders *(Note (b))*	—	8,725	—	8,725
Distribution to shareholders relating to the Reorganisation *(Note 1.2(10))*	—	(122,440)	—	(122,440)
Balance as at 31 December 2018	5,894	6,407	575	12,876

(a) Statutory reserve comprise statutory surplus reserve of the subsidiary companies in the Mainland China. The Company's subsidiaries incorporated in the Mainland China are required to make appropriations to statutory reserve 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) The contribution from shareholder of the Group represents the difference between the share capital of the subsidiaries acquired pursuant to the Reorganisation over nominal value of the share capital of the Company issued in exchange thereof.

(c) 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.

23 RETAINED EARNINGS

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
At beginning of the year	**487,618**	407,366
Profit for the year	**104,066**	87,274
Appropriation to statutory reserve	**(5,855)**	(39)
Deemed distribution to shareholders *(Note 1.2(2))*	**(396,344)**	(6,983)
At end of the year	**189,485**	487,618

24 TRADE AND OTHER PAYABLES

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Trade payables*(i)*	**1,036,321**	645,118
Bills payables *(i)*	**1,500**	9,219
Retention payables *(ii)*	**121,249**	117,524
Long-term payables *(iii)*	**275,939**	293,162
Payroll and social security	**6,112**	4,581
Other tax liabilities excluding income tax liabilities	**51,598**	36,951
Other payables	**23,104**	15,403
	1,515,823	1,121,958
Less: non-current portion		
Retention payables *(ii)*	**(38,655)**	(48,630)
Long-term payables *(iii)*	**(9,802)**	(132,820)
	(48,457)	(181,450)
Current portion	**1,467,366**	940,508

24 TRADE AND OTHER PAYABLES (Continued)

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

As at 31 December 2018 and 2017, the ageing analysis of the trade and bills payables based on the payment requests or demand notes is as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Within 3 months	**410,269**	239,998
4 to 6 months	**181,530**	149,227
7 to 12 months	**106,547**	145,966
1 to 2 years	**251,139**	71,331
2 to 3 years	**55,953**	25,860
Over 3 years	**32,383**	21,955
	1,037,821	654,337

(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 two years. In the consolidated 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	
	2018	2017
	RMB'000	*RMB'000*
Within 1 year	**27,820**	51,323
1 to 5 years	**83,787**	59,029
Over 5 years	**9,642**	7,172
	121,249	117,524

24 TRADE AND OTHER PAYABLES (Continued)

(iii) Long-term payables represent amounts due to suppliers for certain construction services with unbilled payables and the expected billing periods are over one year. 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 of the long-term payables is as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Within 1 year	**66,732**	151,611
1 to 5 years	**191,092**	133,416
Over 5 years	**18,115**	8,135
	275,939	293,162

(iv) 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	
	2018	2017
	RMB'000	*RMB'000*
RMB	**1,297,696**	978,084
BN$	**104,960**	74,304
IDR	**28,636**	6,527
US$	**26,821**	21,511
	1,458,113	1,080,426

25 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 taxed 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	
	2018	2017
	RMB'000	*RMB'000*
Deferred tax assets:		
— Deferred tax assets to be recovered within 12 months	**—**	—
— Deferred tax assets to be recovered after more than 12 months	**—**	12,093
Deferred tax liabilities:		
— Deferred tax liabilities to be recovered within 12 months	**(1,011)**	(1,241)
— Deferred tax liabilities to be recovered after more than 12 months	**(8,247)**	(10,519)
	(9,258)	(11,760)
Deferred tax (liabilities)/assets — net	**(9,258)**	333

The movement of the deferred income tax account is as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
At beginning of year	**333**	(874)
Credited to consolidated statement of comprehensive income *(Note 11)*	**2,051**	1,199
Deemed distribution to shareholders *(Note 1.2(2))*	**(11,642)**	—
Currency translation differences	**—**	8
At end of year	**(9,258)**	333

25 DEFERRED INCOME TAX (Continued)

(a) Deferred tax assets

The movement in deferred tax assets and liabilities during the years ended 31 December 2018 and 2017, without taking consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Allowance for impairment of trade and retention receivables and contract assets *RMB'000*	Tax losses *RMB'000*	Others *RMB'000*	Total *RMB'000*
At 1 January 2017	10,549	1,217	223	11,989
Credited/(charged) to the consolidated statement of comprehensive income	1,277	(1,225)	44	96
Currency translation differences	—	8	—	8
At 31 December 2017	11,826	—	267	12,093
Credited to the consolidated statement of comprehensive income	1,511	—	105	1,616
Deemed distribution to shareholders *(Note 1.2(2))*	(11,826)	—	(267)	(12,093)
At 31 December 2018	1,511	—	105	1,616

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.

25 DEFERRED INCOME TAX (Continued)

(b) Deferred tax liabilities

	Property, plant and equipment *RMB'000*	Long-term payables *RMB'000*	Total *RMB'000*
At 1 January 2017	(12,195)	(668)	(12,863)
Credited to the consolidated statement of comprehensive income	894	209	1,103
At 31 December 2017	(11,301)	(459)	(11,760)
Credited/(charged) to the consolidated statement of comprehensive income	**635**	**(200)**	**435**
Deemed distribution to shareholders *(Note 1.2(2))*	**—**	**451**	**451**
At 31 December 2018	**(10,666)**	**(208)**	**(10,874)**

26 DIVIDENDS

No dividend was approved nor paid out by the Company and the Group during the years ended 31 December 2018 and 2017.

27 CASH GENERATED FROM OPERATIONS

(a) Cash generated from operations

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Profit before income tax	**132,514**	113,286
Adjustments for:		
— Depreciation of property, plant and equipment *(Note 14)*	**10,723**	9,478
— Amortisation of intangible assets *(Note 15)*	**177**	140
— Net losses/(gains) on disposal of property, plant and equipment *(Note 7)*	**78**	(332)
— Net gains on disposal of financial assets through profit or loss *(Note 7)*	**(215)**	—
— Losses on disposal of investment in associates *(Note 7)*	**—**	173
— Provision for impairment of receivables and contract assets *(Note 3)*	**8,675**	5,713
— Finance (income)/costs — net *(Note 10)*	**(2,645)**	2,152
— Net foreign exchange losses/(gains) *(Note 7)*	**1,240**	(380)
— Share of profit from investments accounted for using equity method *(Note 13b)*	**—**	(173)
— Decrease in restricted cash	**729**	16,637
— Increase in inventories	**(6,383)**	(3,053)
— (Increase)/decrease in contract assets	**(219,195)**	157,594
— (Decrease)/increase in contract liabilities	**(18,922)**	9,344
— Increase in trade and other receivables	**(185,074)**	(229,351)
— Increase/(decrease) in trade and other payables	**423,683**	(60,331)
Cash generated from operations	**145,385**	20,897

(b) Proceeds from disposal of property, plant and equipment

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Net book amount for disposals *(Note 14)*	**78**	1,315
Net (losses)/gains on disposal of property, plant and equipment *(Note 7)*	**(78)**	332
Proceeds from disposal of property, plant and equipment	**—**	1,647

27 CASH GENERATED FROM OPERATIONS (Continued)

(c) Reconciliation of liabilities arising from financing activities

	Other assets	Liabilities from financing activities	
	Cash and cash equivalents	Amounts due to a related party	Total
	RMB'000	*RMB'000*	*RMB'000*
Net debt as at 1 January 2017	6,193	(628)	5,565
Cash flows	116,317	628	116,945
Foreign exchange adjustments	(246)	—	(246)
Net debt as at 31 December 2017	122,264	—	122,264
Cash flows	262,844	—	262,844
Foreign exchange adjustment	782	—	782
Net debt as at 31 December 2018	385,890	—	385,890

28 COMMITMENTS

(a) Capital commitments

As at 31 December 2018 and 2017, the Group and the Company did not have any significant capital commitments.

(b) Commitments under operating leases

As at 31 December 2018 and 2017, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
No later than 1 year	**2,537**	20,834
Later than 1 year and no later than 2 years	**203**	403
Later than 2 years and less than 3 years	**—**	203
	2,740	21,440

29 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.

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 2018 and 2017, 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	Note
Third Harbor Construction	Controlled by the same ultimate controlling shareholder	
Shanghai Watts Gallop Holding Group Co., Ltd. ("**Watts Gallop**")	Controlled by the same ultimate controlling shareholder	
Mr. Wang Shizhong	Chairman and executive director of the Company	
Mr. Tang Liang	Senior management of the Group	
Mr. Wang Likai	Son of Mr. Wang Shizhong	
Zhejiang Zhoushan Benteng Construction Material Co., Ltd. ("**Zhoushan Benteng**")	Subsidiary of Watts Gallop	(i)
Jiangsu DOTA International Trade Co., Ltd. ("**Jiangsu DOTA**")	Subsidiary of Third Harbor construction before July 2017	(ii)
Jiangsu Shenyu Port Engineering Co., Ltd.	Subsidiary of Watts Gallop	
Zhejiang Benteng Transportation Engineering Co., Ltd. ("**Zhejiang Benteng Transportation**")	Associate of Watts Gallop	
Zhejiang Benteng Municipal Garden Construction and Engineering Co., Ltd. ("**Zhejiang Benteng Municipal**")	Controlled by the same ultimate controlling shareholders	
Yuxin Holding Co., Ltd.	Beneficially owned by Mr. Wang Likai	
HuaZi Holding	Controlled by Mr. Wang Shizhong	

(i) Zhoushan Benteng was a subsidiary of Third Harbor Construction, and Third Harbor Construction disposed of its equity interests in Zhoushan Benteng to Watts Gallop in July 2017.

(ii) Jiangsu DOTA was a subsidiary of Third Harbor Construction, and Third Harbor Construction disposed its equity interests in Jiangsu DOTA in July 2017. Accordingly, the related party transactions for the year ended 31 December 2017 represented only seven months' transactions, the transactions with Jiangsu DOTA was not disclosed for the year ended 31 December 2018, and the balances with Jiangsu DOTA International Trade Co., Ltd. was not disclosed as at 31 December 2017 and 2018.

29 RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with related parties

Save as disclosed elsewhere in these financial statements, during the years ended 31 December 2018 and 2017, the following transactions were carried out with related parties at terms mutually agreed by both parties:

(i) Purchases of goods and services

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
— Jiangsu DOTA	**—**	66,306
— Zhoushan Benteng	**—**	18,631
— Jiangsu Shenyu Port Engineering Co., Ltd.	**—**	3,642
— Zhejiang Benteng Municipal	**—**	9,584
	—	98,163

(ii) Purchases of fixed assets

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
— Jiangsu DOTA	**—**	2,338

(iii) Rental

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
— Third Harbor Construction	**403**	—

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 in the ordinary course of business of the Group and in accordance with terms of the underlying agreements.

29 RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with related parties (Continued)

(iv) 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	
	2018	2017
	RMB'000	*RMB'000*
Salaries, wages and allowances	**1,504**	962
Pension costs	**274**	208
Bonuses	**1,349**	874
	3,127	2,044

(b) Balances with related parties

(i) Amounts due from related parties

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Trade and retention receivables		
— Zhoushan Benteng	**—**	80

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Other receivables		
— Mr. Tang Liang	**501**	501
— Zhejiang Benteng Transportation	**1,169**	1,169
— Yuxin Holding Co., Ltd.	**—**	1,007
	1,670	2,677

29 RELATED PARTY TRANSACTIONS (Continued)

(b) Balances with related parties (continued)

(ii) Amounts due to related parties

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Trade and retention payables		
— Zhejiang Benteng Municipal	**27,002**	46,800
— Jiangsu Shenyu Port Engineering Co., Ltd.	**10,092**	13,037
— Zhoushan Benteng	**5,598**	7,408
	42,692	67,245

(iii) Amounts due from shareholders

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
— HuaZi Holding *(Note 21)*	**—**	8
— Shareholders of Third Harbor Construction *(a)*	**—**	294,484
	—	294,492

(a) The amounts due from shareholders are non-trade in nature.

The above balances are unsecured, interest free and receivable/repayable on demand. The carrying amount of the balances appropriated their fair value as at 31 December 2018 and 2017.

30 EVENTS AFTER THE BALANCE SHEET DATE

There were no other material subsequent events undertaken by the Company or by the Group after 31 December 2018.

31 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
ASSETS			
Non-current assets			
Investment in subsidiaries		189,418	—
Current assets			
Trade and other receivables		312	
Amounts due from shareholders		—	8
Cash and cash equivalents		212,860	—
Total assets		402,590	8
EQUITY			
Capital			
Share capital		7,303	8
Share premium		322,551	—
Capital reserve	(a)	65,859	—
Accumulated losses	(a)	(29,574)	—
Total equity		366,139	8
Liabilities			
Current liabilities			
Trade and other payables		2,699	—
Amounts due to fellow subsidiaries		33,752	—
Total liabilities		36,451	—
Total equity and liabilities		402,590	8

The balance sheet of the Company was approved by the Board of Directors on 27 March 2019 and was signed on its behalf.

Director *Director*

31 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (Continued)

(a) Reserve movement of the Company

	Accumulated losses *RMB'000*	Capital reserve *RMB'000*
At 20 December 2017 (date of incorporation) and 1 January 2018	—	—
Loss for the year	(29,574)	—
Acquisition of entities by shares issued	—	65,859
At 31 December 2018	(29,574)	65,859

32 BENEFITS AND INTERESTS OF DIRECTORS

(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 2018					
Executive directors					
Mr. Wang Shizhong *(i)(iii)*	—	73	—	—	73
Mr. Wang Xiuchun *(i)*	—	249	129	50	428
Ms. Wan Yun *(i)(iii)*	—	13	—	—	13
Ms. Olive Chen *(i)*	—	35	—	—	35
Mr. Wang Lijiang *(i)(iii)*	—	138	—	22	160
Independent non-executive directors					
Mr. Sun Dajian *(ii)*	22	—	—	—	22
Mr. How Sze Ming *(ii)*	22	—	—	—	22
Mr. Wang Hongwei *(ii)*	22	—	—	—	22
Chief executive					
Mr. Sha Yichun *(iv)*	—	235	73	50	358
	66	743	202	122	1,133

32 BENEFITS AND INTERESTS OF DIRECTORS (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 2017					
Executive directors					
Mr. Wang Shizhong*(i)(iii)*	—	—	—	—	—
Mr. Wang Xiuchun*(i)*	—	163	130	48	341
Ms. Wan Yun*(i)(iii)*	—	—	—	—	—
Ms. Olive Chen*(i)*	—	—	—	—	—
Mr. Wang Lijiang*(i)(iii)*	—	—	—	—	—
Independent non-executive directors					
Mr. Sun Dajian*(ii)*	—	—	—	—	—
Mr. How Sze Ming*(ii)*	—	—	—	—	—
Mr. Wang Hongwei*(ii)*	—	—	—	—	—
	—	163	130	48	341

(i) As at 20 December 2017, Mr. Wang Shizhong was appointed as the Company's chairman and executive director.

As at 9 April 2018, Mr. Wang Xiuchun, Ms. Wan Yun and Mr. Wang Lijiang were appointed as the Company's executive directors.

As at 18 April 2018, Ms. Olive Chen was appointed as the Company's executive director.

As at 27 March 2019, Mr. Wang Xiuchun was appointed as the chairman, and Mr. Wang Shizhong resigned with effect from 27 March 2019.

As at 27 March 2019, Ms. Wan Yun was appointed as the chief executive officer.

(ii) Mr. Sun Dajian, Mr. How Sze Ming and Mr. Wang Hongwei were appointed as the Company's independent non-executive directors as at 19 October 2018.

32 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(a) Directors and chief executive emoluments (Continued)

(iii) Mr. Wang Shizhong, Ms. Wan Yun and Mr. Wang Lijiang of the Company received emoluments from the related parties of the Group, part of which is in respect of their services to the related parties of the Group. No apportionment has been made as the qualifying services provided by these directors to the Company and its subsidiaries are incidental to their responsibilities to the larger group. The emoluments they received from the related parties during the years ended 31 December 2018 and 2017 are as follows:

(iv) Mr. Sha Yichun was appointed as the chief executive officer from 19 November 2018 to 26 March 2019.

Received from the related parties	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 2018					
Executive directors					
Mr. Wang Shizhong	—	142	887	51	1,080
Ms. Wan Yun	—	118	146	24	288
Mr. Wang Lijiang	—	108	—	7	115
	—	368	1,033	82	1,483
For the year ended 31 December 2017					
Executive directors					
Mr. Wang Shizhong	—	124	410	39	573
Ms. Wan Yun	—	118	104	24	246
Mr. Wang Lijiang	—	198	—	12	210
	—	440	514	75	1,029

(v) 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 2018 and 2017.

32 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(b) Directors' retirement benefit

There were no retirement benefits paid to any director for the years ended 31 December 2018 and 2017.

(c) Directors' termination benefits

There were no termination benefits paid to any director for the years ended 31 December 2018 and 2017.

(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 2018 and 2017.

(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 2018 and 2017.

(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 2018 and 2017.

Financial Summary

Set out below is a summary of the published results and assets, liabilities and equity of the Group for the last four financial years.

	For the year ended 31 December			
(RMB in million)	**2018**	2017	2016	2015
Revenue	**1,490**	1,412	1,264	1,125
Gross profit	**190**	159	133	120
Profit before income tax	**133**	113	101	85
Income tax expense	**(29)**	(26)	(26)	(21)
Profit for the year	**104**	87	75	64

	As at 31 December			
(RMB in million)	**2018**	2017	2016	2015
Non-current asset	**261**	206	302	331
current asset	**1,829**	1,566	1,310	1,213
Total assets	**2,090**	1,772	1,612	1,544
Non-current liabilities	**58**	193	114	109
Current liabilities	**1,500**	971	1,091	1,103
Total liabilities	**1,558**	1,164	1,205	1,212
Total equity	**532**	608	407	332