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

2020

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Corporate Information

Directors

Executive Directors

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

Non-executive Director

Mr. Wang Shizhong (王士忠)

Independent non-executive Directors

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

Audit committee

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

Remuneration committee

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

Nomination committee

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

Joint company secretaries

Mr. Wang Lijiang (王利江)
Ms. Zhang Xiao (張瀟) *ACIS, ACS*

Authorised representatives

Ms. Wan Yun (萬雲)
Ms. Zhang Xiao (張瀟)

Registered address in the Cayman Islands

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

Principal place of business and headquarters in the PRC

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

Principal place of business in Hong Kong

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

Auditor

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

Legal adviser as to Hong Kong law

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

Principal share registrar and transfer office

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

Hong Kong share registrar

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

Principal banks

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

Company's website

www.shbt-china.com

Stock code

02258

Chairman's Statement

Revenue of the Group for the year amounted to approximately RMB1,818.4 million

Dear Shareholders:

On behalf of the Board of Directors (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 2020 to all the Shareholders.

The shares of the Company were successfully listed on the main board of The Stock Exchange of Hong Kong Limited ("**Listing**") on 19 November 2018. The Company is a comprehensive construction service enterprise with first grade qualification of general contracting of China's port, waterway and marine engineering business, first grade qualification of general contracting of construction engineering and first grade qualification of general contracting of municipal public engineering, with existing business including port, waterway, marine engineering services and municipal utilities and construction services.

In 2020, facing the grim and complex external environment, especially the global spread of COVID-19, the Group made great efforts in governance and careful deployment, and promoted the resumption of work and production in an orderly manner. Based on our rich operation experience, we integrated internal resources of the Group, strengthened cost control, and gave full play to core business advantages, in order to minimize the impact of external environment on the overall operation of the Group. In addition, we actively explored new areas for development according to strategic plans, strengthen strategic cooperation with leading enterprises in various industries, further marched into innovative areas of environmental engineering business, and expanded our presence to water environment regulation engineering and water basin improvement engineering market, with an aim to continuously improve the market competitiveness of the Group.

For the year ended 31 December 2020, the Group recorded the revenue of approximately RMB1,818.4 million, including the revenue of approximately RMB524.3 million from the marine construction segment and the revenue of approximately RMB1,421.4 million from the municipal engineering construction segment, and recorded net profit of approximately RMB46.8 million.

At the beginning of 2021, COVID-19's prevention and control has entered a normal state. Facing the possible recurrence of COVID-19 and uncertainties in the global economic development, there will be certain challenges for the development of the Group. However, we will continue to actively monitor market trends, make active response. We will, based on our long-term business deployment, optimize our assets, focus on the main channels, invest more resources in core business areas, and constantly improve the core competitiveness of the Group.

The year 2021 is the starting year of the 14th Five-Year Plan. Facing the outbreak of the COVID-19 and changes in the international market, the Chinese government has made a series of countermeasures, including increasing investment in fixed assets and new infrastructures to hedge the impact of the epidemic, which provides opportunities for the development of the Group. The Group will continue to deepen its efforts in the domestic engineering market, while consolidating its presence in the existing overseas markets. Being internationally oriented and professional, we will promote higher quality, more efficiency, more sustainable development for the Company's development.

As one of the most outstanding private enterprises in the fields of port, waterway, marine engineering services, municipal utilities and construction projects in China, the Group is still in an important period of strategic opportunities during the 14th Five-Year Plan period, with more opportunities than challenges. The Group will continue to deepen its business development strategies, consolidate the advantages of the 4 pillar businesses: port construction business, waterway construction business, municipal engineering construction business, and building engineering construction business, extend and develop an innovative business based on the existing industry chain, enhance the engagement in environmental engineering business, and develop environmental governance engineering business, cultivate our core management team, broaden our service scope, in order to obtain more business and revenue with better products and better services, and improve the long term return to Shareholders.

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

Best regards
Wang Xiuchun (王秀春)
Chairman

25 March 2021

Management Discussion and Analysis

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

Business Review

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

In 2020, the Group recorded revenue of RMB1,818.4 million, representing a decrease of approximately 11.3% over the year ended 31 December 2019. The decrease in revenue was mainly due to the decrease in revenue generated from the marine construction segment, resulting from the reduced demand for marine expansion due to more stringent approval of coastal resources and the outbreak of COVID-19. With the continuity of COVID-19 since early 2020 and the implementation of anti-pandemic measures, including quarantine, blockade and travel restrictions, the cost of the Group's domestic and overseas projects in hand and under construction increased and the projects fell behind schedule, resulting in a reduction in the workload completed for the year ended 31 December 2020. Particularly, due to the stagnation of the Southeast Asia market in mid-2020, the Group's income from the marine construction segment in this market decreased by 52.8% over last year. For the municipal public construction segment, we continued to adopt a prudent business strategy, together with the benefit from the further expansion of urbanization plan, thus this segment has recorded marked growth of 25.9% compared to the year of 2019 in the operating income for the year ended 31 December 2020, despite the impact of COVID-19. In view of the impact of COVID-19 on the operation and cost of the Group's businesses at home and abroad, the Group recorded a gross margin of 11.1% in 2020, declined about 0.9 percentage point from 2019.

In a diverse and competitive market, it is of importance for the Group to be sustainable, adaptive to changes and responsive to market trends. In 2020, facing the normalization of pandemic prevention and control and the possible resurgence of the pandemic, which affected the normal production and operation of the Group, the Group persistently maintained the fundamentals that "opportunities coexist with and outweigh challenges", to consolidate its core competitive business while actively exploring strategic cooperation alliances with other industry leaders.

Future Plans and Prospect

Despite the double adverse effects of market sluggishness and COVID-19, the Group will continue as before to actively monitor market conditions and take appropriate measures to reduce such impacts. At the same time, the Group will strengthen its internal control and project costs, optimize and integrate Group resources, and expand its current business areas, to maximize the return of the Shareholders.

In the domestic market, pandemic prevention and control has become normality, and the pandemic might stage a comeback. Overall, China has implemented fruitful prevention and control of the pandemic and maintained the fundamentals that "opportunities coexist with and outweigh challenges". The state has made a strategic arrangement to expand domestic market demand, and increased investment in fixed assets was one of the main measures to hedge the impact of the pandemic and promote high-quality and stable growth. Furthermore, to further expand market demand, a few infrastructure projects have been initiated in new economic fields such as comprehensive urban development, ecological environmental protection, cultural tourism, health care, and multimodal transportation. The projects in these emerging industries provide the Group with a new "Blue Ocean Strategy" in the field of competition. The Group will uphold its market leadership in China's port, waterway and municipal construction industries, and give priority to "stability" in guarding against risks. By fully leveraging the competitive advantage of its core business, the Group actively participates in projects of marine infrastructure upgrading and new urbanization. Meanwhile, the Group operates the environmental engineering business on the basis of the original industrial chain, implements water environmental management and water basin management, and participates in ecological and environmental governance projects to expand the source of income.

In the international market, high uncertainty remains from the pandemic, leading to deep recession in the global economy. The occurrence of the Sino-U.S. trade war exacerbates the global economy. Chinese enterprises face a more complicated and volatile international environment, with uncertainty and instability in their overseas development increasing dramatically. The Group will keep a close eye on changes in the international market status and review the existing overseas development pattern from time to time. Based on the prevailing situation, the Group will evaluate, improve and upgrade its overseas risk control system. In addition, the Group will remain focused on "stability" in guarding against and controlling risks and surmounting difficulties, so as to promote high-quality development steadfastly.

Financial Overview

Revenue

In 2020, the Group's consolidated revenue was RMB1,818.4 million, representing a year-on-year decrease of approximately 11.3% compared with the revenue of RMB2,049.9 million of the previous fiscal year. The main operation income was divided into marine construction segment, and municipal public construction segment, with revenues of RMB524.3 million and RMB1,421.4 million, respectively (all before elimination of inter-segment transactions). Revenues from the PRC and Southeast Asia in 2020 were RMB1,725.6 million and RMB92.8 million, respectively.

The recognition of the Group's revenue mainly depends on the progress/phase of the project. The decrease in revenue from marine construction segment for the year was primarily due to the reduced demand for marine expansion and the outbreak of COVID-19 in 2020 which affected the construction plan and delayed the progress. Overseas projects are still in a slow progress, some even at a standstill. Many countries in Southeast Asia are under lockdown and are implementing strict prevention and control measures, which made it difficult to promote and expand our overseas business.

Cost of sales and profits from main operations

The consolidated cost of sales in 2020 was RMB1,615.7 million, representing a decrease of 10.4% from RMB1,803.2 million in 2019. The costs of marine construction segment and municipal public construction segment in 2020 were RMB466.8 million and RMB1,276.3 million, respectively (all before elimination of inter-segment transactions). In 2020, cost incurred in the PRC and Southeast Asia were RMB1,552.9 million and RMB62.8 million, respectively.

Cost of sales mainly consists of the cost of used raw materials and consumables and subcontracting costs. In 2020, cost of used raw materials and consumables and subcontracting costs were RMB954.2 million and RMB516.9 million, representing a decrease of 17.3% and 4.9% from 2019 respectively. The main operation profit of the Group depends largely on the location and composition of the project. The consolidated gross profit in 2020 was approximately RMB202.6 million, representing a decrease of 17.9% from RMB246.7 million in 2019.

Administrative expenses

In 2020, the administrative expenses amounted to RMB93.0 million, which decreased by 19.9% as compared with RMB116.1 million in 2019. Due to the influence of COVID-19 in 2020, the Group increased the investment and expenditure of epidemic control and prevention, also strengthened internal management and management efficiency, thereby reducing expenditure.

Income tax expense

Third Harbor Maritime, a wholly-owned subsidiary of the Group, obtained new and high-technology enterprise recognition in October 2019 and was entitled to preferential income tax rate of 15% since the year of 2019.

The Group's income tax expense in 2020 was RMB12.1 million, representing an increase of 317.2% from RMB2.9 million in 2019, mainly due to the increase in the profit of municipal public construction segment in 2020. In addition, research and development expenses decreased as compared with that in the previous year.

Trade and other receivables

The Group's net trade and other receivables decreased to RMB1,525.8 million as of 31 December 2020 (as of 31 December 2019: RMB1,856.8 million), which mainly comprised progress receivables on projects, receivables on project completion, delivery and settlement, and retention receivables on completed projects. The decrease in trade and other receivables in 2020 was mainly due to the improvement of credit control and the input in settlement of receivables. The Group has assessed the expected credit losses and has made proper provisions for impairment losses.

Trade and other payables

The Group's trade and other payables decreased to RMB2,577.7 million as of 31 December 2020 (as of 31 December 2019: RMB2,674.9 million), mainly due to the outbreak of COVID-19, which led to the slow construction progress, and thus decrease in revenue for the year. The Group's trade and other payables decreased in line with the revenue.

Current assets, capital structure and gearing ratio

The Group maintained a healthy liquidity position with net current asset and cash and cash equivalents of approximately RMB216.1 million (as of 31 December 2019: RMB389.8 million) and RMB423.7 million (as of 31 December 2019: RMB471.7 million), respectively as of 31 December 2020. The Group's gearing ratio (calculated by dividing total liabilities by total assets) as of 31 December 2020 was 80.7% (as of 31 December 2019: 80.9%). The decrease in net current asset and gearing ratio as of 31 December 2020 was mainly due to the impact of the pandemic, weak market causing longer settlement cycle of projects, and at the same time the slower acceptance by customer on delivery and the time gap with the accounts payable recognition point, which means the payment to supplier was made earlier than receipt from customer. The Group's bank borrowings as of 31 December 2020 amounted to RMB54.0 million (as of 31 December 2019: RMB58.5 million), which are denominated in RMB and with fixed interest rate.

Foreign exchange

Operations of the Group are mainly conducted in the Major Currencies. The Group did not adopt any hedging policy and the Directors considered that the exposure to foreign exchange risks can be mitigated by using the Major Currencies (i) as principal currencies for contracts entered into by and between the Group and its customers; 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 2020, the Group paid RMB13.2 million for the purchase of machinery and equipment used for construction. As of 31 December 2020, the Group had no major capital commitments.

Contingent liabilities

As of 31 December 2020, the Group had no significant contingent liabilities.

Significant investment held

For the year ended 31 December 2020, the Group had no significant investment.

Charges on assets

As of 31 December 2020, the Group pledged long-term trade receivables with carrying amount of approximately RMB52.5 million (2019: RMB56.0 million) for the long-term bank borrowings amounting to RMB29.0 million (2019: RMB33.5 million).

Material acquisition and disposal of subsidiaries, associates and joint ventures

For the year ended 31 December 2020, the Group had no material acquisition and disposal of subsidiaries, associates and joint ventures.

Use of Proceeds

The Group's net proceeds from the Listing was approximately HK$202.9 million. As of 31 December 2020, the utilisation of net proceeds raised by the Group from the Listing is as below:

(Unit: HK$ million)

	Original allocation of net proceeds as stated in the Prospectus	Revised allocation of net proceeds	Utilised up to 31 December 2020	Unutilised up to 31 December 2020	Expected timeline for utilisation of the unutilised net proceeds *(Note 1)*
Funding our capital needs and cash flow under our existing projects in the PRC and Southeast Asia	65.5	21.3	21.3	—	—
Purchasing new vessels and construction equipment	35.7	24.5	24.5	—	—
Funding the capital needs and cash flow under the Group's port, waterway and marine engineering projects *(Note 2)*	—	44.2	—	44.2	December 2022 or before
Purchasing new vessels and construction equipment and repair and maintenance of vessels and construction equipment *(Note 2)*	—	11.2	—	11.2	December 2022 or before
Recruiting talent	13.0	13.0	6.8	6.2	December 2022 or before
Strategic equity investment	68.8	68.8	—	68.8	December 2022 or before
General working capital	19.9	19.9	19.9	—	—
Total	202.9	202.9	72.5	130.4	

Notes:

1. The expected timeline for utilising the remaining proceeds is based on the best estimation of the future market conditions made by the Group. It will be subject to change based on the current and future development of market conditions.

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

During the year ended 31 December 2020, the proceeds raised by the Company from the Listing were utilised, or were proposed to be utilised, according to the intentions previously disclosed by the Company.

Event After The Reporting Period

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

Biographical Details of Directors and Senior Management

Board of Directors

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

Executive Directors

Mr. Wang Xiuchun (王秀春), aged 53, was appointed as an executive Director on 9 April 2018, and was appointed as the chairman of the Board on 27 March 2019. Mr. Wang Xiuchun is a distant relative of Mr. Wang Shizhong (王士忠), our non-executive Director. Mr. Wang Xiuchun joined the Group in January 2002 and is primarily responsible for overall management and strategic planning. Mr. Wang Xiuchun is a director of a number of subsidiaries of the Group. From January 1993 to December 1999, Mr. Wang Xiuchun served as a construction engineering team member and project manager at Zhejiang Benteng Municipal (formerly known as Fuyang Municipal Engineering Company (富陽市市政工程公司)). From January 2002 to February 2014, Mr. Wang Xiuchun served in various positions in Third Harbor Construction, including manager of the equipment department, administrative deputy general manager, general manager and chairman. During these tenures, he was primarily responsible for production equipment management, administrative and general management, and day-to-day business, management and production operations, respectively. From February 2009 to December 2013, he was also the chairman of Shanghai Watts Gallop Holding Industrial Co., Ltd. (上海華滋奔騰控股集團實業有限公司), where he was primarily responsible for overall management and strategic planning. From January 2014 to August 2017, he was the chairman of Third Harbor Construction, where he was responsible for business planning, development strategies, formulation of major guidelines and policies, and making major business decisions.

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

Ms. Wan Yun (萬雲), aged 42, was appointed as an executive Director on 9 April 2018, and was appointed as the chief executive officer on 27 March 2019. Ms. Wan joined the Group in January 2010 and is primarily responsible for day-to-day business operation, accounting and financial management. Ms. Wan is a director of a number of subsidiaries of the Group. From July 2002 to June 2006, Ms. Wan was the financial administrator in Fuyang Gallop Real Estate Development Co., Ltd. (富陽奔騰房地產開發有限公司). From January 2006 to December 2009, she served as the secretary to the board of directors of Watts Gallop. From January 2010 to January 2012, she served at Third Harbor Construction as a chief accountant. From January 2012 to February 2018, she was the chief financial officer of Watts Gallop.

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

Mr. Wang Lijiang (王利江), aged 33, was appointed as an executive Director on 9 April 2018. Mr. Wang is also a joint company secretary of the Company. Mr. Wang Lijiang is the nephew of Mr. Wang Shizhong (王士忠), our non-executive Director, and the son of Mr. Wang Shiqin (王士勤), a controlling shareholder of the Company. Mr. Wang Lijiang joined the Group in March 2014 and is primarily responsible for 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 Energy & Engineering Co., Ltd. (江蘇華滋能源工程有限公司) (formerly known as Jiangsu Watts Offshore & Engineering Co., Ltd. (江蘇華滋海洋工程有限公司)). From February 2016 to February 2018, he also served as the secretary to the board of directors of Watts Gallop.

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

Mr. Wang Likai (王利凱), aged 28, was appointed as an executive Director on 18 June 2020. Mr. Wang Likai is the son of Mr. Wang Shizhong, our non-executive Director. Mr. Wang Likai joined the Group in May 2020 and is primarily responsible for management of personnel and integration of resources of the Group. Mr. Wang Likai is a director of a number of subsidiaries of the Group. From May 2017 to June 2020, Mr. Wang Likai was the chairman and general manager of Shanghai Watts Property Management Co., Ltd.* (上海華滋物業管理有限公司). From August 2017 to April 2020, he served as an executive director and general manager of Shanghai Ziguang Property Management Co., Ltd.* (上海滋廣物業管理有限公司). From October 2018 to April 2020, he was an executive director and general manager of Shanghai Watts Medical Technology Co., Ltd.* (上海華滋醫療科技有限公司). Mr. Wang Likai has been an executive director and general manager of Shanghai Watts Gallop Holding Industrial Co., Ltd* (上海華滋奔騰控股集團實業有限公司) since July 2017 and a director of Jiangsu Watts Energy Engineering Co., Ltd* (江蘇華滋能源工程有限公司) since February 2018.

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

Non-executive Director

Mr. Wang Shizhong (王士忠), aged 56, was appointed as an executive Director on 20 December 2017, and was re-designated from executive Director to non-executive Director on 18 June 2020. Mr. Wang Shizhong is the father of Mr. Wang Likai (an executive Director), the uncle of Mr. Wang Lijiang (an executive Director and a joint company secretary of the Company), a distant relative of Mr. Wang Xiuchun (an executive Director), and the brother of Mr. Wang Shiqin (a controlling Shareholder). Mr. Wang Shizhong joined the Group in November 2003 and is primarily responsible for advising on strategy and business development of the Group. Mr. Wang is a director of a number of subsidiaries of the Group. From December 1987 to May 2004, Mr. Wang held several positions at Zhejiang Benteng Municipal (formerly known as Fuyang Municipal Engineering Company (富陽市市政工程公司)), including general manager and chairman. From May 2004 to December 2007, Mr. Wang was the chairman of Third Harbor Construction. Since November 2003, he has been the chairman of Watts Gallop and Zhejiang Watts Gallop Real Estate Development Co., Ltd. (浙江華滋奔騰房地產開發有限公司) (formerly known as Zhejiang Gallop Real Estate Development Co., Ltd. (浙江奔騰房地產開發有限公司)).

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

Independent Non-executive Directors

Mr. Sun Dajian (孫大建), aged 66, 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). From May 1990 to April 2017, Mr. Sun successively served as a certified accountant at Dahua Accountants Firm (大華會計師事務所), the deputy chief accountant, the chief accountant and the financial director at Shanghai Yaohua Pilkington Glass Group Co., Ltd. (上海耀華皮爾金頓玻璃股份有限公司, a glass manufacturer listed on the Shanghai Stock Exchange (Stock Code: 600819)), and a certified public accountant at the Shanghai branch of Zhongxinghua Certified Public Accountants LLP. (中興華會計師事務所(特殊普通合夥)). From May 2017 to present, Mr. Sun has been working as a certified public accountant at Shanghai New JaHwa CPAs (上海新嘉華會計師事務所有限公司). Mr. Sun 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 is an independent director of Shanghai Jahwa United Co., Ltd. (上海家化聯合股份有限公司, stock code: 600315), a company listed on the Shanghai Stock Exchange, and a supervisor of Zhejiang Haers Vacuum Containers Co., Ltd. (浙江哈爾斯真空器皿股份有限公司, stock code: 002615), a company listed on the Shenzhen Stock Exchange. In the past three years, Mr. Sun was an independent director of Zhejiang Haers Vacuum Containers Co., Ltd. (浙江哈爾斯真空器皿股份有限公司, stock code: 002615) and Shanghai SK Petroleum &Chemical Equipment Corporation Ltd. (上海神開石油化工裝備股份有限公司, stock code: 002278), both listed on the Shenzhen Stock Exchange, L&K Engineering (Suzhou) Co., Ltd. (亞翔系統集成科技(蘇州)股份有限公司, stock code: 603929), a company listed on the Shanghai Stock Exchange. Mr. Sun was also an independent director of Shanghai Fortune Techgroup Co., Ltd. (stock code: 300493), a company listed on the Shenzhen Stock Exchange.

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

Mr. How Sze Ming (侯思明), aged 44, 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 20 years of experience in investment banking and business assurance industries. 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), 1957 & Co. (Hospitality) Limited (Stock Code: 8495) and Ruicheng (China) Media Group Limited (Stock Code: 1640). In the past three years, Mr. How was an independent non-executive Director of the following companies listed on the Stock Exchange, Forgame Holdings Limited (Stock Code: 484) and Shanghai Zendai Property Limited (Stock Code: 755).

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

Mr. Wang Hongwei (王洪衛), aged 53, 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 Shanghai University of Finance and Economics (上海財經大學). From August 2013 to May 2016, Mr. Wang Hongwei was the dean of Shanghai Finance University (上海金融學院). 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).

Mr. Wang Hongwei is an independent director of Bank of Hangzhou Co., Ltd. (stock code: 600926), a company listed on the Shanghai Stock Exchange.

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

Senior Management

Mr. Ye Sheng (葉盛), aged 40, was appointed as our chief financial officer on 27 March 2019. Mr. Ye joined the Group in June 2018 and has over 15 years' experience in auditing and finance industries. Mr. Ye is a director of a number of subsidiaries of the Group. Prior to joining the Group, Mr. Ye served at PricewaterhouseCoopers Zhong Tian LLP (普華永道中天會計師事務所(特殊普通合夥)) from August 2003 to May 2018, and PricewaterhouseCoopers LLP Australia from September 2012 to August 2014 as a senior manager of Audit and Assurance.

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

Mr. Zhang Hanchun (張寒春), aged 47, was appointed as the general manager of Third Harbor Maritime on 18 January 2021, primarily responsible for the day-to-day business operations of Third Harbor Maritime. Mr. Zhang is also a director of Benteng Brunei. Mr. Zhang joined the Group in August 2001. From August 2001 to December 2018, Mr. Zhang assumed various positions in Third Harbor Construction, of which included 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, majoring in management engineering, from Beijing Wuzi University (北京物資學院) in the PRC in June 1997.

Ms. Wang Huina (王慧娜), aged 41, was appointed as the general manager at Zhejiang Benteng Municipalon on 1 March 2018, primarily responsible for the day-to-day business operations of Zhejiang Benteng Municipal. Ms. Wang joined Zhejiang Benteng Municipal in February 2003 and held several positions in Zhejiang Benteng Municipal, including manager of the general management department, assistant to general manager, deputy general manager and general manager.

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

Joint company secretaries

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

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

Ms. Zhang Xiao obtained a bachelor's degree in computer science from The Chinese University of Hong Kong in Hong Kong in 2010 and a master's degree in corporate governance from The Open University of Hong Kong in Hong Kong in 2018. She 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 annual report and the audited financial statements of the Group for the year ended 31 December 2020.

Principal place of business and principal activities

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

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

Business review and results

The Group's business review for the year is set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this annual report. The Group's future business development discussion is set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this annual report. The key financial performance indicators used in the Group's performance analysis for the year are set out in the section headed "Five Year Financial Summary" of this annual report. The Group's results for the year ended 31 December 2020 are set out in the section headed "Consolidated Statement of Comprehensive Income" of this annual report.

Dividend policy

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

Final dividend

The Board recommended the payment of a final dividend of HK0.80 cent (equivalent to approximately RMB0.68 cent) (2019: HK2.20 cents (equivalent to RMB1.97 cents) per Share) per Share for the year ended 31 December 2020 to the Shareholders whose names appeared on the register of members of the Company on Friday, 25 June 2021. Subject to the approval of the Shareholders at the 2021 AGM, such dividend is expected to be paid on Tuesday, 17 August 2021.

Closure of Register of Members

For the purpose of determining the identity of the Shareholders entitled to attend and vote at the 2021 AGM, the register of members of the Company will be closed from Friday, 11 June 2021 to Thursday, 17 June 2021, both days inclusive, during the period no transfer of Shares shall be registered. All transfer documents accompanied by the relevant certificates and transfer forms must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 10 June 2021.

For the purpose of determining the entitlement of the shareholders of the Company to the proposed final dividend, the register of members of the Company will be closed from Wednesday, 23 June 2021 to Friday, 25 June 2021, both days inclusive, during which period no transfer of Shares shall be registered. In order to qualify for the proposed final dividend, all transfers of Shares accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 22 June 2021.

Major customers, suppliers and subcontractors

For the year ended 31 December 2020, our revenue generated from our top five customers amounted to approximately RMB773.3 million, representing approximately 42.5% of our total revenue for the same period, while our revenue generated from our largest customer amounted to approximately RMB287.1 million, representing approximately 15.8% of our total revenue for the same period.

For the year ended 31 December 2020, purchase from our largest raw material supplier amounted to approximately RMB72.3 million, representing approximately 7.6% 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 RMB230.5 million, representing approximately 24.2% of our total cost of raw materials and consumables used for the same period.

For the year ended 31 December 2020, our subcontracting costs to the top five subcontractors amounted to approximately RMB422.7 million, representing approximately 81.8% of our total subcontracting costs for the same period, while the subcontracting cost to our largest subcontractor amounted to approximately RMB269.0 million, representing approximately 52.0% of our total subcontracting costs for the same period.

During the year ended 31 December 2020, to the knowledge of the Directors, none of the Directors, their close associates, or shareholders of the Company (which, to the knowledge of the Directors, owned more than 5% of the number of issued Shares) had interests in the five largest suppliers or customers or subcontractors of the Company.

Backlog of our projects

During the year ended 31 December 2020, we completed 260 contracts with original contract value of RMB929.9 million and we also entered into 296 new contracts with original contract value of RMB2,177.6 million. As of 31 December 2020, we have 95 contracts on hand with original contract value of RMB7,668.0 million and aggregate value of RMB4,295.7 million in our backlog.

Property, plant and equipment

Details of the movements in the property, plant and equipment of the Group during the year ended 31 December 2020 are set out in Note 14 to the consolidated financial statements of this annual report.

Subsidiaries

Particulars of the names, principal activities and places of operation, places of incorporation/establishment and issued and paid-in share capital of the principal subsidiaries of the Company as of 31 December 2020 are set out in Note 13 to the consolidated financial statements of this annual report.

Financial summary

A summary of the Group's published financial information for the latest five financial years is set out on page 188 under the section headed "Five Year Financial Summary" of this annual report. The summary does not form part of the consolidated financial statements.

Financial statements

The financial position of the Group for the year ended 31 December 2020 and the financial position of the Group on that date are set out in the consolidated financial statements of this annual report.

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

Share capital

Details of the movements in the share capital of the Company for the year ended 31 December 2020 are set out in Note 24 to the consolidated financial statements of this annual report.

Distributable reserves

Details of the movements in the reserves of the Group during the year ended 31 December 2020 are set out in the section headed "Consolidated Statement of Changes in Equity" of this annual report. As of 31 December 2020, 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) of the Cayman Islands, amounted to RMB297.0 million. 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.

Directors

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

Name	Age	Position	Date of appointment as a Director
Mr. Wang Xiuchun (王秀春) *(Notes 1, 2)*	53	Chairman & executive Director	9 April 2018
Ms. Wan Yun (萬雲)	42	Executive Director & chief executive officer	9 April 2018
Mr. Wang Lijiang (王利江) *(Notes 1, 2)*	33	Executive Director	9 April 2018
Mr. Wang Likai (王利凱) *(Notes 1, 2)*	28	Executive Director	18 June 2020
Mr. Wang Shizhong (王士忠) *(Notes 1, 2, 3)*	56	Non-executive Director	20 December 2017
Mr. Wang Hongwei (王洪衛)	53	Independent non-executive Director	19 October 2018
Mr. How Sze Ming (侯思明)	44	Independent non-executive Director	19 October 2018
Mr. Sun Dajian (孫大建)	66	Independent non-executive Director	19 October 2018

Notes:

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

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

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

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

In accordance with Article 109(a) of the Articles, at each annual general meeting, one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. Accordingly, Mr. How Sze Ming (侯思明), Mr. Sun Dajian (孫大建) and Mr. Wang Shizhong (王士忠). will retire by rotation at the 2021 AGM and be eligible to offer themselves for re-election as Directors.

In accordance with Article 113 of the Articles, the Board shall have power from time to time at any time to appoint any person as a Director either to fill a casual vacancy or as an additional Director, provided that the number of Directors so appointed shall not exceed the maximum number determined from time to time by the Shareholders in general meeting. Any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Accordingly, Mr. Wang Likai (王利凱), who was appointed as an executive Director on 18 June 2020, will retire from office at the 2021 AGM and be eligible to offer himself for re-election as Director.

Board of directors and senior management

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

Directors' service contracts

Each of our Directors, other than Mr. Wang Likai and Mr. Wang Shizhong, 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.

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

Mr. Wang Shizhong has entered into a new letter of appointment with the Company as a non-executive Director for a fixed term of three years commencing from 18 June 2020, subject to retirement by rotation in accordance with the Articles. Upon re-designation as a non-executive Director, Mr. Wang Shizhong will not receive any Director's fee for his service.

None of the Directors who are proposed for re-election at the 2021 AGM has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

Directors' interests in transactions, arrangements or contracts of significance

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

Management contract

For the year ended 31 December 2020, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed.

Employees and remuneration policies

As of 31 December 2020, the Group had a total of 557 employees. In particular, Third Harbor Maritime had 135 employees, Benteng Indonesia had 111 employees (including 20 Chinese employees who are appointed by Third Harbor Maritime and have entered into employment contracts with Third Harbor Maritime, and we have purchased the relevant insurance for them in both China and Indonesia). Benteng Brunei had 1 employee (1 Chinese employee who is appointed by Third Harbor Maritime and has entered into employment contracts with Third Harbor Maritime, and we have purchased the relevant insurance for them in China). Shanghai Third Harbor Benteng Environmental Technology Co., Ltd. had 50 employees. Shanghai Municipal Group had 260 employees. Our employees have been paid remuneration in accordance with relevant laws and regulations in China, Indonesia and Brunei. The Company pays appropriate salary and bonuses with reference to actual practice. Other related benefits include pensions, unemployment insurance and housing allowances. The staff costs, including Directors' emoluments, of the Group were approximately RMB58.1 million for the Reporting Period (2019: approximately RMB55.7 million).

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

During the Reporting Period, the Group did not experience any strikes, lockouts or major labour disputes affecting operations, or encounter any major difficulties in hiring and retaining qualified employees.

Remuneration to the Directors and the five highest paid individuals

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

The senior management's total remuneration paid/payable for the year ended 31 December 2020 (including all executive Directors) by band is as follows:

Band	Number of senior management for the year ended 31 December 2020
Nil to RMB1,000,000	9
Over RMB1,000,000	0

Change in information of Directors

Below is the change in Directors' information, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

Mr. How Sze Ming (侯思明), an independent non-executive Director, resigned as an independent non-executive director of Shanghai Zendai Property Limited (Stock Code: 755) on 11 January 2021.

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

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

As of 31 December 2020, 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 Likai (王利凱)(3)	Interest held jointly with another person	419,792,836	50.86%
Mr. Wang Shizhong (王士忠)(3)	Interest in a controlled corporation	315,467,967	
	Interest held jointly with another person	104,324,869	
		419,792,836	50.86%

Notes:

1. All interests stated are long positions.

2. The calculation is based on the total number of 825,400,000 Shares in issue as of 31 December 2020.

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

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

Save as disclosed above, as of 31 December 2020, none of the Directors and chief executive of the Company had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations which would have to be notified to the Company and the Stock Exchange under Part XV of the SFO, or as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise should be notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 of the Listing Rules.

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

As of 31 December 2020, 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%
HZ&BT Development Holding Limited	Beneficial Owner	143,542,720	17.39%
Worldlink Resources Limited(7)	Beneficial Owner	55,714,444	6.75%
Ms. Olive Chen(7)	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 of 31 December 2020.

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

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

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

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

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 of 31 December 2020, none of the Directors was aware of that any persons (other than Directors or chief executives of the Company) or companies had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Directors' rights to purchase shares or debentures

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

Pension scheme

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

Purchase, sale or redemption of listed securities

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

Share Option Scheme

The Company adopted a share option scheme pursuant to the written resolutions of the then Shareholders on 19 October 2018.

Set out below is a summary of the Share Option Scheme

1. Purpose of the Share Option Scheme

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

2. Participant of the Share Option Scheme

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

3. Duration

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

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

4. Grant of Share Options

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

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

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

5. Maximum number of Shares available for Issue

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 as of 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 of 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 of 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 of 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:

(1) the nominal value of Share;

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

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

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:

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

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

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

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

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

Share award scheme

On 24 March 2020, the Company adopted a share award scheme (the "**Share Award Scheme**") to, among other things, recognize the contributions of the eligible persons of the Share Award Scheme and motivate them to strive for the future development and expansion of the Group. The Share Award Scheme does not constitute a share option scheme or an arrangement analogous to a share option scheme for the purpose of Chapter 17 of the Listing Rules. No Shareholders' approval was required to adopt the Share Award Scheme.

For details of the Share Award Scheme, please refer to the Company's announcement dated 24 March 2020.

Set out below is a summary of the Share Award Scheme

1. Purpose of the Scheme

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

2. Grant of Award

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

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

3. Restrictions on Grant

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

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

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

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

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

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

4. Maximum Number of Shares to be Granted

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

5. Satisfaction of Awards

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

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

6. Vesting of Award Shares

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

7. **Voting Rights**

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

8. **Assignment or Transfer of Award**

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

9. **Alteration of the Scheme**

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

10. **Duration and Termination**

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

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

Since the adoption date of the Share Award Scheme to 31 December 2020, no share award was granted, exercise, expired or lapsed and there is no outstanding share award under the Share Award Scheme.

Continuing connected transactions

For the year ended 31 December 2020, the following transactions of the Group constituted its continuing connected transactions.

Non-exempt continuing connected transactions

(1) Master Procurement Agreement

Reasons for the Master Procurement Agreement and its Pricing Policy

On 19 October 2018, the Company entered into an agreement with Watts Gallop in order to govern the procurement of raw materials from Watts Gallop Group (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 Group for a term commencing from the Listing Date to 31 December 2020. Separate definitive procurement agreements will be entered into between members of the Group and Watts Gallop Group 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 Group 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 Group and Watts Gallop Group's experience in the supply of the Procured Raw Materials, the Directors believe that Watts Gallop Group 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 Group prior to the three financial years ended 31 December 2015, 2016 and 2017 and the four months ended 30 April 2018. Hence, Watts Gallop Group 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 Group 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 Group during the three financial years ended 31 December 2015, 2016 and 2017 and the four months ended 30 April 2018, 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 Group.

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 three financial years ended 31 December 2015, 2016 and 2017 and the four months ended 30 April 2018, 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 estimated 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 RMB26.0 million for the three years ended 31 December 2018, 2019 and 2020, respectively.

For the year ended 31 December 2020, there was no transaction under the Master Procurement Agreement.

Implications under the Listing Rules

As Watts Gallop was owned as to 56% by Mr. Wang Shizhong (a non-executive Director and a controlling Shareholder) and therefore is an associate of Mr. Wang Shizhong and a connected person of the Company 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 Arrangements

Reasons for the Contractual Arrangements

We are primarily engaged in the port, waterway and marine engineering business in the PRC and Southeast Asia. Pursuant to the relevant Indonesian laws and regulations, the maximum foreign ownership in a company that engages in port infrastructure is limited to 67%. As of 31 December 2020, we directly held 67% equity interests in Benteng Indonesia. To consolidate control over and derive the economic benefits and risks from the remaining 33% equity interests in Benteng Indonesia, we have entered into contractual arrangements with PTPB (the "**Contractual Arrangements**").

Risk relating to the Contractual Arrangements

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

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

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

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

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

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

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

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

Particulars and principal activities of Benteng Indonesia

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

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

Summary of main terms of the Contractual Arrangements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Significance of business activities of Benteng Indonesia to the Company

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

Revenue and Assets

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

	Year ended 31 December 2020 ***RMB in million***
Revenue	**92.9**
Profit for the year	**6.5**

	As of 31 December 2020 ***RMB in million***
Total assets	**113.7**

For the year ended 31 December 2020, the revenue and profit for the year subject to the Contractual Arrangements amounted to approximately 5.1% and 13.9% of the revenue and profit for the year of the Group. As of 31 December 2020, the total assets subject to the Contractual Arrangements amounted to approximately 3.3% of the total assets of the Group.

During the year ended 31 December 2020, no dividends or other distributions have been made by Benteng Indonesia to PTPB.

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

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

Material change in the Contractual Arrangements

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

Unwinding the Contractual Arrangements

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

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

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

Implications under the Listing rules

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

Waiver from the Stock Exchange

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

(3) Greentown Fuchun Rose Garden phase 2 zone 3 (綠城富春玫瑰園華墅二期三區)

Construction Agreement

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

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

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

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

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

The material terms of the Greentown Construction Agreement

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

Annual caps

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

(in RMB)

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

For the year ended 31 December 2020, the aggregate amount in respect of the transaction under the Greentown Construction Agreement was approximately RMB120.1 million.

Pricing policy

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

Reasons for and benefits of the continuing connected transaction

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

Implications under the Listing Rules

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

(4) Master Construction Services Agreement

Reasons for the Master Construction Services Agreement and its Pricing Policy

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

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

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

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

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

Annual Caps

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

For the year ended 31 December 2020, the amount in respect of the transaction under the Master Construction Services Agreement was approximately RMB53.5 million.

Implications under the Listing Rules

Mr. Wang Shizhong, a non-executive Director and a controlling Shareholder, owned 56% equity interest in Watts Gallop, and Mr. Wang Shizhong and the parties acting in concert with him (including Mr. Ye Kangshun, Mr. Wang Xiuchun, Ms. Zhou Meng, Mr. Wang Shiqin and Mr. Wang Likai) together owned an aggregate of 74.52% equity interest in Watts Gallop. As such, Watts Gallop is a connected person of the Company. The Master Construction Services Agreement and the transactions contemplated thereunder constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

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

Confirmation from independent non-executive directors

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

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

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

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

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

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

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

Letter from the Company's independent auditor

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

Related party transactions

The related party transactions undertaken during the year ended 31 December 2020 are set out in Note 34 to the consolidated financial statements, among which, the continuing connected transactions as set out in items (a) (i) to (a) (iii) also constituted continuing connected transactions of the Company as defined in Chapter 14A of the Listing Rules. The Company has complied with all applicable disclosure requirements as set out in Chapter 14A of the Listing Rules.

Pre-emptive right

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

Non-competition undertakings

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

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

Directors' interests in competing business

During the year ended 31 December 2020, none of the Directors had any interest in any businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

Contract of significance

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

Compliance with laws and regulations

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

For the year ended 31 December 2020 and up to the date of this annual report, the Company had not been and was not a party to any material legal, arbitral or administrative proceedings, and the Company was not aware of any pending or threatened legal, arbitral or administrative proceedings against the Company or any of the Directors which could have a material adverse effect on the Company's operations or financial condition.

Compliance with key regulatory requirements

The Group's business is mainly operated by the Company's subsidiaries located in China, Indonesia and Brunei. Therefore, the establishment and operation of the Group are subject to the relevant laws and regulations of the above jurisdictions. For the year ended 31 December 2020 and up to the date of this annual report, the Group has complied with all relevant laws and regulations of the above jurisdictions in all material respects.

Principal risks and uncertainties

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

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

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

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

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

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

Environmental policies and performance

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

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

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

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

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

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

Equity-linked agreement

Save as disclosed under the sections headed "Share Option Scheme" and "Share Award Scheme", no equity-linked agreements were entered into by the Company during the year ended 31 December 2020 or have subsisted as of 31 December 2020.

Permitted Indemnity Provision

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

Charitable donations

For the year ended 31 December 2020, the Group's charitable and other donations were approximately HK$395,700.

Audit Committee

The Audit Committee has discussed with management and reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2020.

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

Sufficiency of public float

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

Auditor

PricewaterhouseCoopers has been appointed as auditor of the Company. PricewaterhouseCoopers shall retire at the conclusion of the 2021 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 2021 AGM. PricewaterhouseCoopers has audited the consolidated financial statements of the Company for the year ended 31 December 2020.

By order of the Board

Watts International Maritime Engineering Limited
Wang Xiuchun (王秀春)
Chairman and Executive Director

Shanghai, 25 March 2021

Compliance with Corporate Governance Code

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the shareholders and to enhance corporate value and accountability. The Company has adopted all the code provisions in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. As of 31 December 2020, the Company has complied with all applicable code provisions under the CG Code.

The Board

Board composition

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

Chairman and chief executive officer

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

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

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

Responsibilities

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

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

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

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

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

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

Directors' training and professional development

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

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

All Directors have received training regarding compliance with Listing Rules offered by the agency hired by the Company on 10 December 2020. The individual training record of each Director received for the year ended 31 December 2020 is summarised in the section headed "Number of meetings and Directors' attendance" below.

Board meetings

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

For the year ended 31 December 2020, four Board meetings were held; and two general meetings were convened.

Board committees

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

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

Audit 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.

For the year ended 31 December 2020, a total of four meetings were held by the Audit Committee and, among others, discussed:

- the audited financial statements of the Group for the year ended 31 December 2019;
- continuing connected transactions of the Group for the year ended 31 December 2019;
- proposed re-appointment of the auditor in 2020;
- risk management and internal control systems and their effectiveness;
- the unaudited financial statements of the Group for six months ended 30 June 2020; and
- the effectiveness of the internal audit function.

Remuneration Committee

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

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

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

For the year ended 31 December 2020, two meetings were held by the Remuneration Committee and, among others, discussed:

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

Nomination Committee

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

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

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

For the year ended 31 December 2020, two meetings were held by the Nomination Committee to, among others:

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

Nomination policy

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

(1) Appointment of Directors

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

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

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

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

(2) Re-appointment of Directors

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

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

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

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

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

Board diversity

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

Corporate governance functions

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

- To develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

- To review and monitor the training and continuous professional development of directors and senior management;

- To review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

- To develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

- To review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

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

Number of meetings and directors' attendance

The attendance record of each Director at the Board meetings, Board committee meetings and general meetings of the Company held for the year ended 31 December 2020 is set out in the table below:

Name of Director	Board meetings	General meetings	Audit Committee meetings	Remuneration Committee meetings	Nomination Committee meetings	Training regarding compliance with the Listing Rules
Executive Directors						
Mr. Wang Xiuchun (王秀春)	4/4	2/2	NA	NA	NA	√
Ms. Wan Yun (萬雲)	4/4	2/2	NA	NA	NA	√
Mr. Wang Lijiang (王利江)	4/4	2/2	NA	NA	NA	√
Ms. Olive Chen[(1)]	4/4	1/1	NA	NA	NA	√
Mr. Wang Likai (王利凱)[(2)]	2/2	1/1	NA	NA	NA	√
Non-executive Director						
Mr. Wang Shizhong (王士忠)[(3)]	4/4	2/2	NA	NA	NA	√
Independent Non-executive Directors						
Mr. Sun Dajian (孫大建)	4/4	2/2	4/4	2/2	2/2	√
Mr. How Sze Ming (侯思明)	4/4	2/2	4/4	2/2	2/2	√
Mr. Wang Hongwei (王洪衛)	4/4	2/2	4/4	2/2	2/2	√

Notes:

1. Ms. Olive Chen has resigned as an executive Director with effect from 31 October 2020.

2. Mr. Wang Likai (王利凱) has been appointed as an executive Director with effect from 18 June 2020.

3. Mr. Wang Shizhong (王士忠) has been re-designated from executive Director to non-executive Director.

Remuneration of Directors and senior management

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

Directors' responsibilities for financial reporting

The Directors acknowledge their responsibilities for preparing the financial statements for the year ended 31 December 2020 which has been mentioned in the independent auditor's report on page 87.

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

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

Internal control and risk management

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

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

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

- We regularly provide the Directors with the latest information on the Company's performance, status and prospects so that the entire Board and Directors can perform their responsibilities;

- We adopt different policies to ensure compliance with the Listing Rules, including rules regarding risk management, continuing connected transactions and information disclosure;

- We have implemented an internal control policy on financial management;

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

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

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

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

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

The Board has reviewed the risk management and internal control systems of the Company and its subsidiaries during the year ended 31 December 2020. 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 2020, 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 2020 financial statements	3,500
Non-auditing services[1]	125

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

Joint company secretaries

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

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

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

Both Mr. Wang Lijiang (王利江) and Ms. Zhang Xiao (張瀟) have confirmed that they have received not less than 15 hours of relevant professional training as required by Rule 3.29 of the Listing Rules during the year ended 31 December 2020.

Convening of extraordinary general meetings

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

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

Procedures for shareholders to make proposals at general meetings

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

Directors' and officers' liability insurance

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

Model code for securities transactions by Directors

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

Communication with shareholders and investors

The Company considers that effective communication with the shareholders is essential for enhancing investor relations and investors' understanding of the Group's business, performance and strategies. The Company also recognises the importance of timely and non-selective disclosure of information, which will enable shareholders and investors to make the informed investment decisions.

The 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. For the year ended 31 December 2020 and up to the date of this annual report, the Company has not made any amendments to the Articles of Association. Relevant information is available on the websites of the Stock Exchange and the Company.

Investors' relationship

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

Inquiry to the Board

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

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

Reporting Scope

On 24 December 2019, the Company completed the acquisition of Shanghai Watts Benteng Municipal Public Engineering Co., Ltd. and its subsidiaries, expanding its businesses from port, waterway and marine engineering services to the municipal public engineering and construction business areas.

Compared with the 2019 ESG Report, the ESG Report this year additionally covers Shanghai Watts Benteng Municipal Public Engineering Co., Ltd. and its subsidiaries, the environmental key performance indicators disclosed mainly cover the Group's Shanghai and Hangzhou offices, while other information and the social key performance indicators relates to the Group and its subsidiaries.

The ESG Report covers the period from 1 January 2020 to 31 December 2020 (the "**Reporting Period**").

Reporting Principles

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

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

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

➢ "Consistency": the statistical methods and environmental key performance indicators are consistent with the previous year, and part of social key performance indicators are additionally disclosed.

Responsibility Governance

ESG Strategy and Organization Structure

The Group understands the importance of the enhancement of its environmental and social benefits to the Group's sustainable operation and has incorporated ESG risks and opportunities into the Group's business strategy. We have established a three-level ESG governance structure composed of the Board, senior management and ESG working groups with clarified corresponding ESG governance functions, so as to achieve top-down supervision of ESG issues and ensure the smooth development of the Group's ESG efforts.

The Board is the highest decision-making body of ESG management, oversees the Group's ESG issues, and takes full responsibility for the Group's ESG strategy and reporting. The Board develops ESG management approach and strategy, including evaluating, prioritizing, and managing material ESG-related issues and their risks to the Group' business. The Board regularly reviews the Group's ESG performance, and examines and approves the Group's annual ESG report.

The management of the Group is responsible for arranging ESG working group to carry out relevant work according to the approach and strategy formulated by the Board. The management reports ESG-related risks and opportunities to the Board, and provides the Board with the annual ESG performance and annual ESG report.

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

Stakeholders Engagement

The Group actively communicates with stakeholders and establishes a diverse and smooth communication channel to learn the opinions and suggestions from stakeholders on the Group's sustainable development performance and development strategy. The stakeholders engagement situation is as follows:

Stakeholder	Expectations and requirements	Communications and responses
Government and regulators	• Implementing the policies and regulatory rules which are enforced by government • Operating by the law • Tax paying according to the law • Advocating employment	• Daily management • Work meeting • Supervision and inspection
Shareholders	• Earning returns on investment • Good development of corporate business • Corporate governance • Risk management and control	• General meetings • Annual reports, interim reports and announcements • Investor relation activities • Company website
Clients	• Providing high quality projects and services • Equal and reciprocal cooperation	• Close communication with clients • Improving in client complaint response mechanism

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

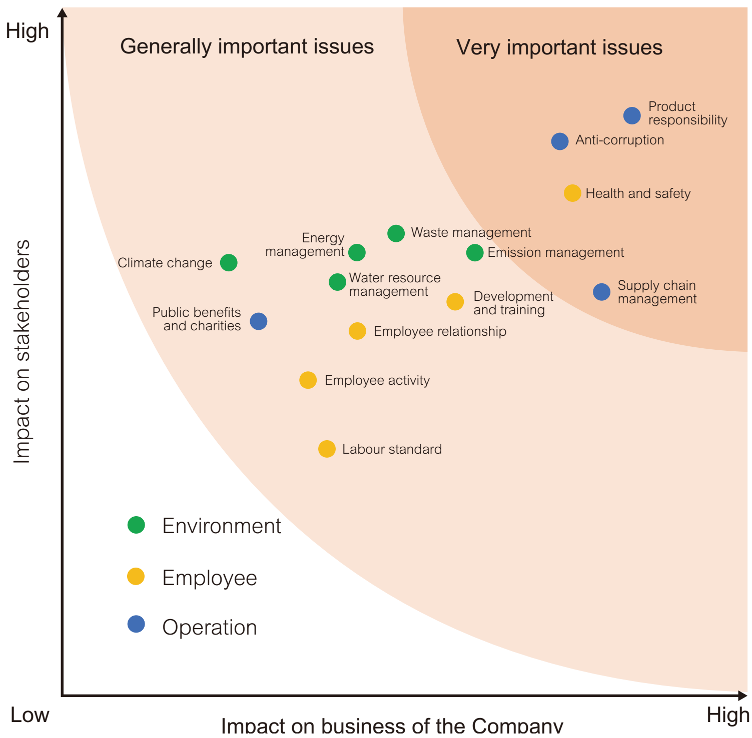
Materiality Assessment

To further clarify the Group's key area of environmental, social and governance concern and to respond to stakeholders' expectations of the Group's ESG aspects, we conducted a materiality assessment for the year 2020:

- Step 1 — Identification of ESG issues: Based on the ESG Reporting Guide, we identified 14 ESG issues and classified them into three categories, namely, Environment, Employee and Operation;

- Step 2 — Ranking of ESG issues: We invited internal and external stakeholders to fill out a questionnaire to assess the importance of ESG issues, and analyzed the results of the questionnaire in terms of "importance to the business of the Company" and "importance to stakeholders" to generate a materiality assessment matrix to rank the importance of ESG issues;

- Step 3 — Verification of the assessment results: The senior management and the ESG working group of the Group reviewed the results of the materiality assessment and finalized the identification of very important issues and generally important issues.



Priority on Honesty for Sound Operation

Product Responsibility

In compliance with relevant laws and regulations of the places where the Group operates, including but not limited to the Construction Law of the People's Republic of China, the Regulations on the Administration of Qualifications of Enterprises in Construction Industry and the Standards for Special Grade Qualification of General Contracting Enterprises for Construction, etc., the Group is committed to providing professional engineering services to cross-industry customers in different regions.

In accordance with the *Quality Management System* (GB/T19001–2016/ISO9001:2015), the *Code for Quality Management Of Engineering Construction Enterprises* (GB/T50430–2007), the *Environmental Management System Requirements and Usage Guidelines* (GB/T24001-2016/ISO14001:2015) and the *Occupational Health and Safety Management System* (GB/T45001-2020/ISO45001:2018), we have established systems of quality, environment, and occupational health and safety management, and obtained certifications for the three systems. We have formulated the Quality, Environment, Occupational Health and Safety Management Manual, and make clear provisions for management principles, management goals, organizational structure and responsibilities and corresponding management requirements. In accordance with policies including the Measures for the Management of Engineering Projects' Technical Quality, the Measures for the Management and Verification of Project Processes, the Rules for Handling Project Quality Incidents, etc., we provided guidance, supervision, inspection and services for project quality and ensured quality and safety of the Group's construction services.

The relevant personnel of the project management department of the Group are responsible for touring to the construction site to check the effectiveness and verify whether the building materials, finished products, semi-finished products, components and equipment meet the design requirements and product quality standards; if quality problems are found, they will take measures in a timely manner and report to the superior; if a project quality accident occurs, the project department will report the cause, status and loss of the accident within 24 hours and coordinate the investigation and evaluation. The relevant responsible persons will be punished according to the economic loss caused by the quality accident, and the results are included in the performance assessment. All projects are delivered to the owner for handover acceptance after passing the self-inspection and self-assessment.

Besides, the project management department holds symposiums on the comprehensive quality to continuously review and improve the management system, develop and implement improvement measures, and enhance quality management performance. In order to further motivate employees' enthusiasm at work, the Group formulates the Incentive Measures of the Company for Projects Wining Quality Award to encourage employees to continuously improve project quality and carry out innovate work. Zhejiang Benteng Municipal has set up a reward standard of up to RMB100,000 to encourage project products, services or management to obtain municipal, provincial, and national honorary titles, trophies or certificates, so as to lead the comprehensive improvement of safety and quality management on construction site.

The Group complies with national regulations such as the Patent Law of the People's Republic of China, Law of the People's Republic of China on Confidentiality and the Enterprise Intellectual Property Management Standards. It has formulated the Intangible Assets Management Policy to strengthen the management on intangible assets such as patents, trademarks and proprietary technology rights, to protect the rights and interests of the Group, and to prevent the loss of intangible assets. The Group has formulated a series of policies such as the Confidentiality Management Policy and the Information System Management Policy, which classify customer information as the Company's confidential information to effectively protect customer privacy. Each new employee is required to sign the Confidentiality Agreement, which will be maintained by the HR supervisor.

The Group provides port infrastructure, waterway engineering and marine engineering, municipal utilities and construction services, and has no products subject to recalls for safety and health reasons, so KPI B6.1 and KPI B6.4 are not applicable to the Group. Each project team of the Group communicates with the owners instantly at the construction site. If the customers have any comments, the project management team will solve them at the construction site. We will also visit the owners regularly to listen to their feedback according to the needs of the project. During the reporting period, the Group didn't receive any product and service related complaints.

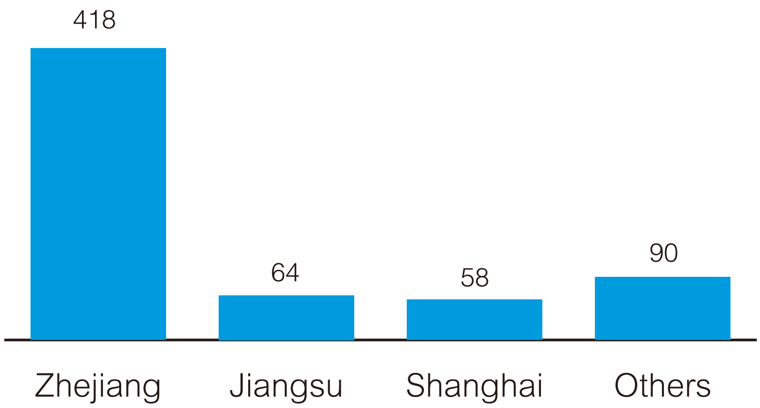
Supplier Management

The Group adheres to the principle of win-win cooperation with its supply chain partners, standardizing its supply chain through management systems and standards such as the Procurement Management System and the Material Management System.

When selecting suppliers, we will conduct background investigation on their business license, qualification certificate and material inspection certificate and complete the corresponding approval process. In addition to quality assessment, the Group also pays attention to the environmental and occupational health and safety performance of suppliers, requiring the suppliers to use equipment featuring energy conservation, consumption reduction, no or less pollution and high safety protection performance. Only the suppliers that meet the requirements will be included in our List of Qualified Suppliers. The Materials and Equipment Department of the Group will review the availability, product quality, service and integrity and other factors of the qualified suppliers every year, in order to determine whether they still meet the qualification criteria as qualified suppliers and update the List of Qualified Suppliers in a timely manner. Suppliers that have experienced major environmental pollution, major environmental accidents, occupational diseases and major safety accidents without taking corrective actions are rejected and disqualified from our selection.

The suppliers of the Group are required to enter into the Environmental Protection Agreement, the Safety Management Agreement and the Integrity Construction Agreement. During the cooperation, they shall implement environmental protection measures as required by the Group and give corresponding environmental awareness education to their employees, so as to jointly fulfill their commitments in environmental protection, safety and social responsibility with the Group. We have regular business communications with the suppliers and subcontractors through various channels such as email, telephone and face to face meeting, sharing advanced ideas and experience, and growing together with the suppliers.

As of 31 December 2020, the Group had 630 suppliers, divided by region as follows:



Anti-corruption

The Group complies with relevant laws and regulations in China and other places where the Group operates, such as the Criminal Law of the People's Republic of China, the Tendering and Bidding Law of the People's Republic of China, the Anti-Unfair Competition Law of the People's Republic of China, and practices good business ethics. We explicitly prohibit the employees from bribery, extortion, fraud and money laundering in their work through the Corruption Prevention Policy, the Human Resources and Wages Management Policy and the Labour Contract. During the reporting period, there is no concluded legal case regarding corrupt practices brought against the Group or its employees.

For agents, suppliers, customers or other business counterparties, the Group will consider whether they have a record of dishonest conduct before engaging in business dealings with them, so as to avoid doing business with dishonest counterparties. The partners are required to enter into an Integrity Construction Agreement when entering into the commercial cooperation contract with the Group, so as to regulate activities of both parties.

The Group organizes education, training and propaganda on anti-corruption for directors, supervisors, managers and all employees regularly. Besides that, the major partners who have business transactions with the Group have to participate in the training in order to ensure the effective implementation of anti-corruption policy. On 10 December 2020, we launched an anti-corruption management training program for 32 members of the Group's board of directors and management, enabling the board of directors and the management to better understand the national anti-corruption laws, regulations and management policies, avoid the management risks that may be caused by corruption, and enhance the acceptance and trust of all stakeholders to the Company.

The Group also sets up a reporting hotline, reporting e-mail, etc. for our employees and external third parties to report misconducts that might break the principle of honest trading.

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

- Reporting hotline: 021-66189006

Any employees who violate any article of the Anti-Corruption Policy will be given disciplinary punishments. For severe violations, the violators will be terminated for appointment/employment. Those who are involved in corruption or criminal offence may even be transferred to judicial authorities. We will give appropriate rewards to the entities or individuals who provide clues or evidence.

Public Benefits and Charities

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

➢ ***Fight against COVID-19***

The sudden outbreak of COVID-19 in 2020 has brought great challenges to the global economy. We actively responded to the call of the Party and the government, and carried out external donations while focusing on internal pandemic prevention and control:

- ✓ In February 2020, the Group donated a total of 5,000 masks and 300 protective suits to Changhai Hospital, Shanghai and Songnan Community Hospital, totaling RMB67,150. In addition, we organized a voluntary donation of employees, in which RMB7,520 was donated and handed over to the Party committee of Songnan Town to help prevent and control the pandemic;

- ✓ In January 2020, Zhejiang Benteng Municipal launched the “You and Me United Together — Fundraising Initiative for Fighting COVID-19” to initiate company donation and organize employee contribution. In total RMB250 thousand was donated to Hangzhou Fuyang District Charity Federation;

- ✓ Employees of the Group actively participated in the pandemic prevention volunteer activities in their communities, actively publicized and learned the pandemic prevention knowledge, helping the communities investigate and control the pandemic, and build a social atmosphere in anti-pandemic together.

➢ ***Joint Development of Communities***

During the construction of Yinhu Primary School project in Hangzhou, Zhejiang Benteng Municipal took the initiative to interact with the local community and signed a joint construction agreement, and actively participated in the organization of patrol and control, garbage sorting, population migration management and other activities, assisting in the community building. In July 2020, Zhejiang Benteng Municipal set up a 15-member emergency response team for flood and typhoon control, and prepared flood control equipment and materials to assist in the flood prevention of Xin'an River Reservoir.

➢ ***Caring for the Elderly***

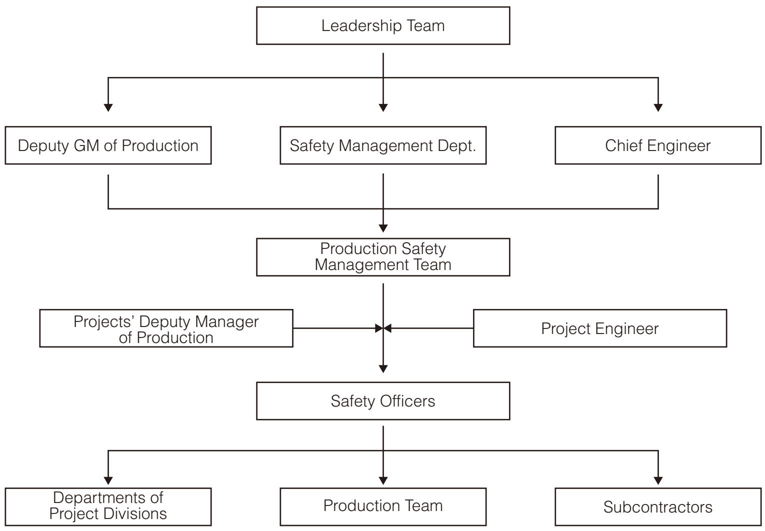
In October 2020, representatives of the Group prepared milk, fruit and nutrition products for 280 elderly people in Songnan Nursing Home, Shanghai. In December, Zhejiang Benteng Municipal sent milk, food and condolence money to the elderly at a home care service center in Zishu Village, Yinhu Subdistrict, Fuyang District, Hangzhou.

Achieving Growth Together Based on the People-oriented and Win-win Principle

Health and safety

In strict compliance with relevant laws and regulations of the places where the Group operates, including but not limited to the Labour Law of the People's Republic of China, the Work Safety Law of the People's Republic of China, the Law of the People's Republic of China on Prevention and Control of Occupational Diseases, the Regulations on Work Safety Licenses, etc., the Group provides employees with a safe and healthy working environment.

The Group adheres to the principle of "people-oriented, safe development, safety first, precaution emphasis and comprehensive treatment", and insists on strengthening the management of production safety constantly. We have established a production safety leadership team, with the General Manager taking the overall responsibility. Each project division is required to establish a production safety management team and appoint full-time safety officers to establish a comprehensive production safety management network.



In addition, the Group has formulated a series of safety management policies, including but not limited to the Measures for the Management of Production Safety, the Regulations on Division of Duties for Production Safety, the Regulations on Production Safety Inspections and the Measures for the Management and Assessment of Safety Objectives, the Regulations on Safety Education and Training, in order to provide institutional guarantee to production safety management. We regularly hold safety work meetings to educate all staff on safety in production. In the past three years, no work-related fatalities occurred in the Group. During the reporting period, no work injuries occurred in the Group.

In October 2020, the safety production inspection team of the Group inspected on the construction situation, emergency rescue activities and the ledger data management of Third Harbor Maritime and Zhejiang Benteng Municipal to ensure that all projects were implemented according to the production safety requirements of the Group.

The Group has formulated a series of policies, including the Measures for Production Safety Management on Subcontractors, the Measures for the Management of Subcontractors' Qualifications and Personnel Qualifications, to strengthen the safety management on subcontracted projects. The Group reviews the safety qualifications of subcontractors before signing subcontracts. The Group signs additional agreements on safety management, public security, fire protection, environmental health and other concerns together with the subcontract to clarify the matters including safety goals, personnel responsible for safety, personnel responsible for security, etc. The Group also puts forward detailed requirements for personnel, equipment and on-site safety management of subcontracted projects.

Case: safety training

In July 2020, Zhejiang Benteng Municipal arranged its staff for the safety education training conference, which featured the prevention and control of safety risks, standardized construction requirements and the relevant laws and regulations for improved safety operation.

Case: fire drill

In December 2020, the management team of the Group's Shangpu lock and section 2 of navigation project arranged all its staff for a fire drill to acquaint them with the firefighting knowledge for improved awareness of safety risks and the skills to respond to escape and evacuate from accident fires.

The Group cares about the health of employees and formulates and enacts policies such as the Measures for the Prevention and Control of Occupational Health Hazards and sets up an Leading Team for Occupational Hazard Prevention and Control led by the GM to conduct specific work related to the management of occupational disease prevention and control, members of which are mainly relevant department heads. The Administrative Management Department complies a comprehensive archive of occupational health and arranges regular health examinations for the employees who are exposed to toxic and hazardous substances and this establishes their health supervision record accordingly. The Safety Management Department and Project Department offers employees educations and trainings on occupational hygiene and health to ensure that employees have relevant knowledge and awareness. Project Departments provide employees with facilities and personal items that meet occupational disease protection requirements, and supervises and directs employees to wear and use these supplies in a right way. We also have in place harm prevention measures for all professions to prevent occupational health hazards:

- ✓ To use the ventilation and dedusting system and install suction hoods on the mechanical tips and edges;
- ✓ To use non-toxic or low-toxic materials and be equipped with gas masks and use enclosed operation and detoxing equipment; and
- ✓ Control and lower noise sources and launch reform on process by replacing noisy tools with silent ones and use the low-noise construction machinery that meet international standards.

Feature: pandemic prevention and control

In 2020, facing the COVID-19 pandemic outbreak, we took faster action to set up a leading team for prevention and control and formulated and enacted the Proposal on the Prevention and Control of COVID-19 Pneumonia, followed by further targeted measures, in order to ensure that all the staff are healthy and safe.

We actively purchased supplies dedicated to the pandemic prevention and control to put the staff under protection. The Administrative Management Department daily traced staff's health; members of the leading team conducted two temperature measurement twice a day and took charge of the pandemic track record. For the projects at home and abroad, the Group also had in place targeted plans for the pandemic combating and work resumption so as to ensure that all efforts progress as scheduled. All project departments set up their own leading teams for pandemic prevention and control, which is responsible for counting, screening, reporting and filing health record for those accessing sites. We distributed masks, disinfectants and other supplies to our staff. We also disinfected office and living areas twice a week with cans for collecting waste masks dedicated to the pandemic. In addition, we made public the development, way and form of spread and other relevant knowledge and put up labels and signs to make our staff more aware of safety.

Development and training

The Group is committed to building up a community of a shared future to its staff by constantly offering learning and development opportunities for its staff. Every year from October to November, the Human Resources Department of the Group will collect the annual training needs from each department with the "Annual Training Needs Form" and formulate the annual training plan for the next year based on the information collected.

Furthermore, the Group also provides the intern and regular staff with education and training programs on quality control, laws & regulations, safety operation and other subjects.

➢ Intern training: the Group formulated the Regulations on the Internship Training for Fresh Graduates, which detailed the internship management of fresh graduates, including the training plan, coaches, internship assessment, etc. In accordance with the regulations, two stages, i.e. corporate recognition and elementary job skills training and basic job skills training, are set to help the graduates grow into qualified employees.

➢ Internal training: organising the training on technology and quality regularly, and requiring relevant employees to attend;

➢ External training: arranging the staff to get external training in professional institutes, participate in examination and obtain professional certificates for those who need professional training programs and certificates in construction, quality and safety.

During the Reporting Period, the percentage of trained employees and the average hours for each employee with complete training by gender and employment type of the Group are as follows:

	Percentage of trained employees	Average hours for each employee with complete training
By gender		
Male	76.1%	18.2
Female	23.9%	28.4
By employment type		
Senior management	7.5%	17.2
Middle management	22.1%	26.2
Staff	70.4%	19.2

From March to April 2020, the Group arranged medium and senior management for production technology training with topics covering basic operation knowledge, basic knowledge of port and shipping, construction procedures and methods of port and shipping project.

Zhejiang Benteng Municipal arranged four key technical job training programs for building constructors, with a total of 44 attendances; arranged three continuing education programs for key technical jobs of building constructors, with a total of 242 attendances.

Employment and Labour Standards

The Group strictly complies with the relevant laws and regulations of the places where the Group operates, including but not limited to the Labour Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China, etc. Meanwhile, in line with the Group's reality, the Group formulated the Human Resource Management Policy and other rules and regulations, which provided detailed regulations on employee recruitment, promotion, assessment, dismissal, compensation calculation and other issues.

➤ ***Recruitment and Dismissal***

Always adhering to the principles of openness, fairness, competition and selection, the Group introduced various talents through social recruitment and campus recruitment and other channels and had in place the Internal Recommendation System to encourage employees to recommend suitable talents to the Company. The Group signs the Labour Contract with its regular employees, which stipulates obligations and rights of the parties and works out Staff Entry and Quitting Management System and other systems, which stipulate that the staff shall not be fired in violation of regulations.

➤ ***Compensation, Benefits and Promotion***

The Group formulated and implemented the Management Policy of Compensation and Benefits. Competitive compensation in the market is provided according to job requirements and staff's contributions, so as to build a practical and reasonable salary system. Each staff member's compensation is composed of basic salary, job subsidy, monthly performance bonus and annual performance bonus. In addition, they all enjoy the social security scheme, including the basic pension insurance, basic medical insurance, unemployment insurance, work injury insurance and maternity insurance, as well as related benefits such as the housing fund and group accident insurance. The Group also provides the staff with additional welfare allowances for transportation, meal, communication, accommodation, project post subsidy, etc.

In 2020, the Group bought the mutual insurance for the staff on active duty, covering three benefits for hospitalization, special illness and accidents. In September, the Group arranged its female staff for the health examination of gynaecopathia and mastopathy. In addition, in middle August, we sent summer supplies and condolence cash paid by the labour union to the frontline staff from several project departments.

The Group established three position lines for management staff, support staff and project management staff, respectively. Each line has corresponding ranks, thereby a sound rank system was established to provide the staff with clear promotion channels. Meanwhile, the Group carried out performance appraisals on a seasonal, semi-annual and annual basis under the Regulations on Performance Appraisal. The appraisal result is used as the major basis for determining the staff's performance bonuses, and their salary and post adjustment in the next year, so as to continuously optimize the human resources team.

- ***Working Hours and Rest Periods***

  The Group formulated and enacted the Attendance and Leave Policy, which stipulates a standard working hours system, a comprehensive working hours system and a flexible working hours system according to positions. The staff may, according to their realities, apply for annual leave, unpaid leave, sick leave, work injury leave, marriage leave, bereavement leave, family planning leave, rescheduled leave and other leaves specified by the State. In case of continuous operations or suspension as a result of seasonal climate conditions, each subsidiary and project department can also adjust the working hours under the Leave Policy for Project Departments as required.

- ***Equal Opportunity, Diversity and Anti-discrimination***

  The Group recruits talents in the principles of fairness, impartiality and openness and selects outstanding ones under the equal conditions. It also strictly abides by the laws and regulations issued by the State and local governments, without discriminating against any employees due to their personal characteristics such as race, gender, color, age, family background, national tradition, religion, physical fitness and original nationality such that they could enjoy fair treatment in all aspects of compensation and dismissal, recruitment and promotion, working hours, rest periods, other benefits, welfare, etc., and can have equal employment access.

- ***Employees' Activities***

  The Group arranges diversified activities for its staff to shape its young and energetic corporate culture.

Badminton Fitness Activity

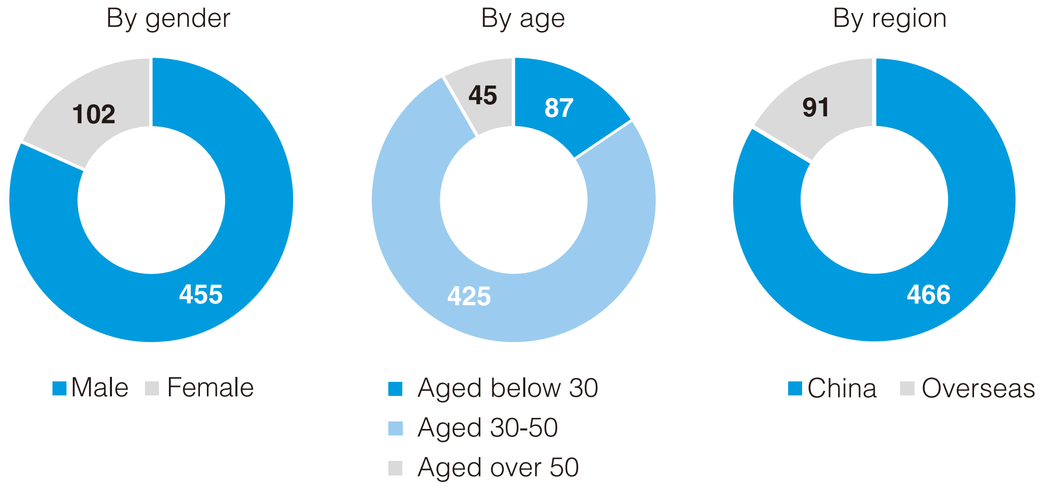
- ***Labour Standards***

  In compliance with relevant laws and regulations of the places where the Group operates, including but not limited to the Labour Law of the People's Republic of China, the Provisions on the Prohibition of Using Child Labour, etc., the Group prohibits any child labour and forced labour in its whole operation chain. The Group will check the employees' academic certificates and identity cards when they are employed, so as to avoid from the use of child labour.

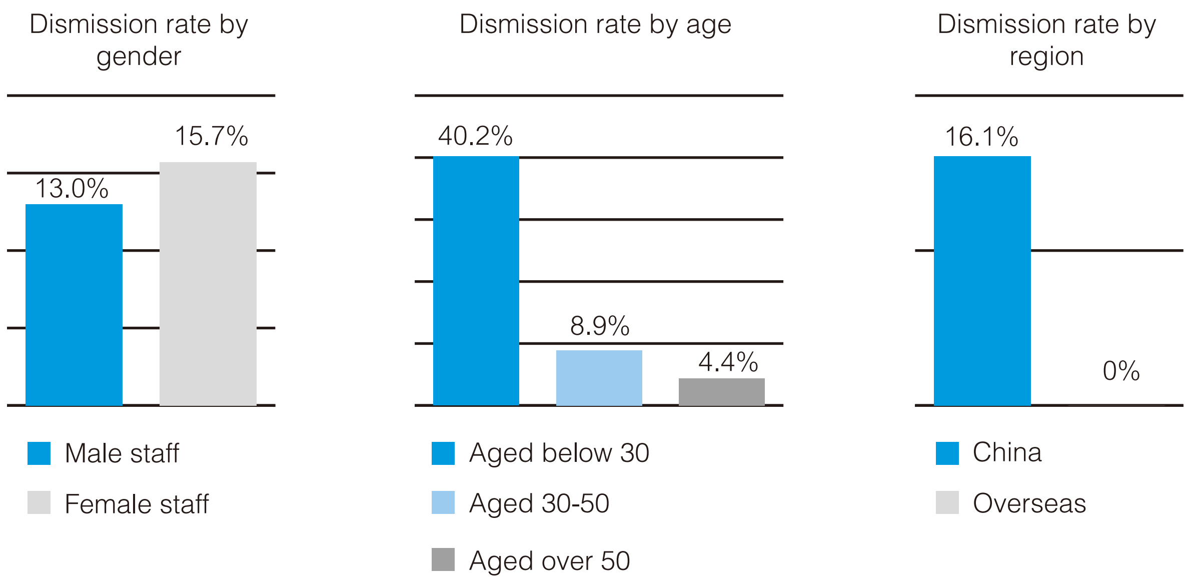
  The Group specifies in its Labour Contracts that statutory working hours are strictly followed so as to prevent forced labour. The Group continues strengthening staff management and skill training and minimizing the overtime and overtime frequency of the staff by improving labour efficiency in order to better control the overtime for the staff's health physically and mentally. The staff's overtime is subject to the approval of the manager where he/she works with and responsible business leader; the overtime on days off and overtime on working days in principle shall be compensated by the scheduled leave by the department. Where the scheduled leave is impossible, the overtime pay shall be paid to the staff, subject to the approval of the deputy general manager and general manager of the human resources department.

➤ ***Staffing***

As of 31 December 2020, the Group had a total of 557 staff and they are all full-time. The number of staff classified by gender, age and the region is as follows:



We strictly obey the labour contract and the provisions of the relevant laws and regulations issued by the State when implementing the dismission process. During the Reporting Period, the dismission rate of the staff of the Group was 13.5%, which, by gender, age and region, is classified as follows:



Environmental Protection and Energy Conservation and Emission Reduction

The Group sticks to the principle of "green growth, harmonious cooperation and mutual benefits", and complies with the Environmental Protection Law of the People's Republic of China and relevant laws and regulations of the places where the Group operates. It is committed to minimizing the pollution emission and resource consumption caused by the operation by promoting the construction of the environment management system. We formulated a series of internal policies, including the Measures for Environmental Protection and Pollution Prevention and Control to provide guidelines on the management of noise, wastewater, waste, dust and other environmental issues in constructions and set up relevant environment objectives:

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

Emissions

The Group implements the provisions of the Law of the People's Republic on Environmental Impact Assessment, Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution, the Law of the People's Republic of China on the Prevention and Control of Water Pollution and the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste as well as the relevant local regulations on the civilized construction in major projects so as to enhance the control over the construction raised dust and dust and other emissions. The safety management department under the Group, as the function in charge of the environmental protection, check and supervision, is responsible for the regular overall and daily environmental check. It shall stop the safety risk immediately and order the relevant department to correct the spotted risk. During the Reporting Period, the Group had no violations related to emissions.

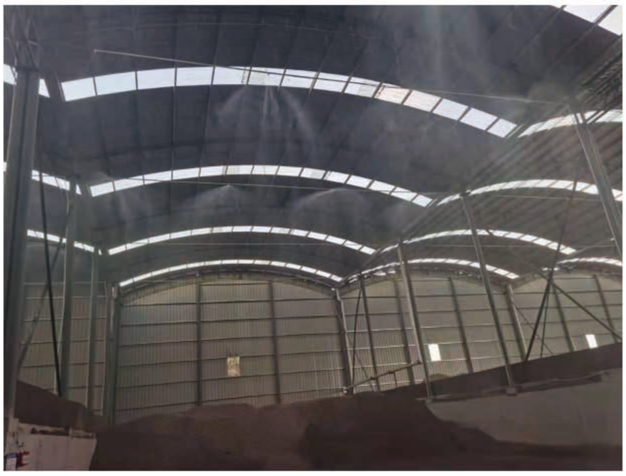
The Group's emissions mainly comprise of dust and wastewater generated in construction activities, nitrogen oxide ("**NOx**"), sulfur dioxide ("**SO_2**"), particulate matters ("**PM**") and other air pollutants and greenhouse gas emissions from the combustion of gasoline, greenhouse gas emissions from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

Dust	Wastewater	greenhouse gas and air pollutant	Waste
• Hardens the ground, regularly sprays water onto the ground to reduce the raised dust emission;	• Builds a sedimentation tank to filter out the dirt in the waste rinsing water; • Equips all of the Group's vessels with fuel leakage protection equipment for suppressing the spread of floating fuel spills in case of leakage;	• Controls the air pollutant emissions in the construction; • Promotes low-energy, pollution-free, high-efficiency technology, equipment and products; • Rolls out the energy reduction program to reduce greenhouse gas emission;	• Sorts out excavated materials of dredging and excavation works such as materials containing pollutant sediment and disposes of the excavated materials at the designated dumping area according to relevant laws and regulations; • Strictly complies with the relevant provisions of the Regulations of Shanghai Municipality on the Administration of Domestic Garbage, and sets up a dedicated garbage collection area to collect and classify the garbage; • Actively cooperates with owners to put the emissions generated in the construction under unified management and disposal; • Encourages paperless office by restricting unnecessary document copying and printing, and advocates double-sided printing and waste paper recycling;

Enclosed mixing plant

Monitoring over raised dust and noise

Dust remover



Spraying device for stock bin

During the Reporting Period, the Group's emissions are shown as below:

Emissions[1]	2020
NOx emissions (kg)[2]	861.49
SO_2 emissions (kg)[2]	1.52
PM emissions (kg)[2]	82.55
Scope 1: Direct greenhouse gas emissions (tCO2e)[3]	220.08
Scope 2: Energy indirect greenhouse gas emissions (tCO2e)[3]	100.82
Total greenhouse gas emissions (tCO2e)[3]	320.90
Intensity of greenhouse gas emissions (tCO2e per person)[3]	2.45
Total non-hazardous wastes (tons)[1]	14.83
Intensity of non-hazardous wastes (tons per person)[1]	0.11

Notes:

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

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

3. The ESG report only discloses the greenhouse gas emissions generated from the use of gasoline by vehicles owned by the Group's Shanghai and Hangzhou offices and the electricity used by the Shanghai headquarters; the greenhouse gas emission data is presented in carbon dioxide equivalent. The conversion factors of greenhouse gas emissions are 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 number of waste toner cartridges, waste ink cartridges, etc., and all wastes are recycled by qualified recyclers, only limited impact is exerted on the environment. Therefore, KPI A1.3 (total hazardous waste produced) has not been disclosed in the ESG report.

Use of Resources

The Group is well aware of the importance of environmental protection and resource saving for the sustainable development of the Company. In compliance with relevant laws and regulations of the places where the Group operates, including but not limited to the Energy Conservation Law of the People's Republic of China, etc., and the Group implemented a series of measures: promoting the green concept and continuously improving energy performance; enhancing the utilization efficiency of energy, water, and materials. The Group carries out training to enhance employees' awareness of energy conservation and emission reduction, in order to encourage employees to practice energy-saving habits at the workplace. The Group also takes various administrative measures to reduce the consumption of energy, water and other resources.

- Energy conservation:

  - Make full use of natural light and turn off lights when leaving;

  - Make full use of natural wind and set a moderate AC temperature in summer and winter to reduce AC power consumption;

  - Accelerate the elimination of high-energy-consumption equipment and put the purchase and use of energy-saving and environmentally-friendly equipment in priority;

  - Keep accurate records of power consumption by setting up power consumption standard and strengthening monitoring;

  - Use video conferences as many as possible so as to reduce the conference travel costs and resource consumption.

- Water management:

  - Carry out daily maintenance of water-using equipment to prevent leaking;

  - Keep accurate records of water consumption by setting up water consumption standards and strengthening monitoring over exceptional water usage data.

During the Reporting Period, the Group's use of resources are shown as below:

Use of Resources[1, 3]	2020
Total direct energy consumption (MWh)[1]	900.17
Total indirect energy consumption (MWh)	143.31
Total energy consumption (MWh)	1,043.48
Intensity of energy consumption (MWh per person)	7.97
Total water consumption (tons)[2]	1,004.00
Intensity of total water consumption (tons per person)	7.66

Notes:

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

2. Most of the water used in the construction site of the Group are provided by the project owner. The Group cannot collect all water usage data. The ESG report only discloses the water consumption of the Group's Shanghai and Hangzhou offices. All the water used by the Group's Shanghai and Hangzhou offices comes from municipal water;

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

Environment and Natural Resources

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

The Group complies with relevant laws and regulations of the places where the Group operates, including but not limited to the Law of the People's Republic of China on Prevention and Control of Pollution from Environmental Noise, the Emission Standard for Community Noise, etc. The Group strictly implements the Environmental Protection and Prevention Policy to control noise at its construction site through establishing a management system, enhancing noise-preventing awareness among all staff on site, using weak-noise/noise-reduction machinery when possible and setting an enclosed machinery operation shed for noisy machinery on site to block the transmission of strong noise. Besides, the Group requires subcontractors to take measures so as to ensure that noise for the boundary of construction site does not exceed the limit.

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 pollution emission, and attaches great importance to the protection of the natural environment and biodiversity in the project operation area.

Climate Change

The Group is well aware of the impact of climate change and includes it into the risk assessment and business management. We have identified the possible negative influence of floods and typhoons and other extreme weather conditions on the company's business operation and formulated and enacted the Plan for Flood and Typhoon Prevention and the plan dedicated to climate change. In addition, we guided the flood prevention preparations, flood season efforts and emergency and rescue efforts during the construction period. The workplace accident emergency rescue leading team and various professional rescue teams will handle the emergencies as per the emergency rescue process so as to prevent the harm of the extreme weather conditions to the business operation and staff's lives. In 2020, we arranged the staff for several flood prevention and emergency rescue drills to enhance their awareness and ability to respond to the extreme weather conditions.

Independent Auditor's Report

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 89 to 187, which comprise:

- the consolidated statement of financial position as at 31 December 2020;
- 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 2020, 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 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.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Key Audit Matters

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

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

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition Refer to Note 2.22 in the summary of significant accounting policies, Notes 4(d) and 5 to the consolidated financial statements. The Group derives its revenues from marine construction services and municipal public construction services which amounted to approximately RMB524.3 million and RMB1,421.4 million for the year ended 31 December 2020, respectively. Revenue is recognised over the period in which the marine construction services and municipal public construction services are rendered, using the output method, with the reference to the project progress measurement and payment requests (the "**Requests**") acknowledged by customers and/or third-party engineering project supervisors who are authorised by customers. We focused on this area due to complexity of measuring the progress of different projects in many different locations and significant audit efforts spent.	Our procedures in relation to revenue recognition of marine construction services and municipal public construction services 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 municipal public construction services and agreed the contract sum and key transaction terms; (ii) checked the acknowledgements of the Requests from customers and/or third-party engineering project supervisors; (iii) checked the mathematical accuracy of the Requests and agreed the amounts with the revenue breakdown; and

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of trade receivables, retention receivables, long-term trade receivables and contract assets Refer to Notes 2.10 and 2.13 in the summary of significant accounting policies, Notes 3.1, 4(c), 5(e) and 20 to the consolidated financial statements. As at 31 December 2020, trade receivables, retention receivables, long-term trade receivables and contract assets of the Group amounted to RMB1,124.1 million, RMB259.9 million, RMB54.4 million and RMB1,187.4 million, while the impairment provision of which amounted to RMB74.0 million, RMB18.2 million, RMB1.9 million and RMB25.7 million, respectively. The impairment of trade receivables, retention receivables, long-term trade receivables and contract assets were assessed individually or collectively by the management. The management made significant judgments and estimates on the expected loss rates which is considered with factors including the past collection history of customers and is adjusted for forward-looking elements, such as expected significant changes in business, financial or economic conditions that may impact the customers' ability to meet its obligation, expected significant changes in the performance and behaviour of customers including changes in the payment period. We identified the impairment provision on trade receivables, retention receivables, long-term trade receivables and contract assets as a key audit matter due to the high degree of estimation uncertainties and the subjectivity of judgements involved in determining the impairment provision.	Our procedures in relation to management's assessment on the impairment of trade receivables, retention receivables, long-term trade receivables and contract assets included: — We obtained an understanding of the management's internal control and assessment process of the impairment assessment of trade receivables, retention receivables, long-term trade receivables and contract assets and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity of management's significant judgements, changes and susceptibility to management bias or fraud. — We tested, on a sample basis, the accuracy of ageing profiles on trade receivables, retention receivables, long-term trade receivables and contract assets by checking to the underlying invoices, payment demand notes or the Requests. — We obtained management's assessment on the collectability of individual trade receivables, retention receivables, long-term trade receivables and contract assets, and corroborated management's assessment against relevant supporting evidence, including credit history and financial capability of these customers. — For those trade receivables, retention receivables, long-term trade receivables and contract assets that were not assessed individually, we assessed the appropriateness of the Group's grouping by considering the credit risk, and we assessed the appropriateness of the management's simplified approach including rollrate method to determine historical loss rate and industry and country modelling to determine forward looking adjustments.

Key Audit Matter	How our audit addressed the Key Audit Matter
	— We evaluated the reasonableness of the default rates of different groups by considering the actual losses incurred and whether the expected loss rates were assessed by the management based on the default rates considering the forward-looking elements, such as the Group's future business relationship with these customers, evidence from external sources including the relevant public search results relating to the financial circumstances of the customers, expected payments periods, GDP and industry investment index. — We assessed the adequacy of the disclosures related to the impairment assessment of trade receivables, retention receivables, long-term trade receivables and contract assets in the context of HKFRSs. We found that the judgements and estimates adopted by management in the assessment of impairment of trade receivables, retention receivables, long-term trade receivables and contract assets were supported by available evidence.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in corporate information, management discussion and analysis, biographical details of directors and senior management, report of the directors, corporate governance report and environmental, social and governance report (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 chairman's statement 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 chairman's statement and 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, actions taken to eliminate threats or safeguards applied.

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 March 2021

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020

	Note	**Year ended 31 December**	
		2020	2019
		RMB'000	*RMB'000*
Revenue	5	**1,818,384**	2,049,922
Cost of sales	5, 8	**(1,615,743)**	(1,803,190)
Gross profit		**202,641**	246,732
Selling and distribution expenses	8	**(3,530)**	(2,971)
Administrative expenses	8	**(93,046)**	(116,060)
Net impairment losses on financial assets	3.1(b)	**(26,800)**	(32,634)
Other operating expenses	8	**(1,372)**	(682)
Other income	6	**6,125**	6,379
Other (losses)/gains — net	7	**(12,441)**	12,137
Operating profit		**71,577**	112,901
Finance income	10	**7,568**	10,571
Finance costs	10	**(20,248)**	(19,401)
Profit before income tax		**58,897**	104,071
Income tax expense	11	**(12,061)**	(2,908)
Profit for the year		**46,836**	101,163
Other comprehensive income			
Items that may be reclassified to profit or loss			
Currency translation differences	26	**(8,244)**	2,471
Changes in the fair value of equity instruments at fair value through other comprehensive income	22, 26	**(1,531)**	(2,422)
Other comprehensive income for the year, net of tax		**(9,775)**	49
Total comprehensive income for the year attributable to the Shareholders of the Company		**37,061**	101,212
Earnings per share for profit attributable to the Shareholders of the Company (expressed in RMB cents per share):			
— Basic earnings per share	12	**5.69**	12.26
— Diluted earnings per share	12	**5.69**	12.26

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

Consolidated Statement of Financial Position

As of 31 December 2020

	Note	As at 31 December 2020 RMB'000	2019 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	**107,116**	110,628
Right-of-use assets	15	**15,972**	16,582
Intangible assets	17	**403**	603
Contract assets	5	**482,300**	346,533
Trade and other receivables	20	**112,386**	114,096
Deferred tax assets	30	**10,457**	9,751
Financial assets at fair value through other comprehensive income	22	**3,792**	4,844
		732,426	603,037
Current assets			
Inventories	19	**68,781**	31,978
Contract assets	5	**679,468**	516,804
Trade and other receivables	20	**1,413,376**	1,742,741
Financial assets at fair value through profit or loss	21	**50**	50
Restricted cash	23	**114,231**	59,023
Cash and cash equivalents	23	**423,696**	471,711
		2,699,602	2,822,307
Total assets		**3,432,028**	3,425,344
EQUITY			
Capital and reserves			
Share capital	24	**7,303**	7,303
Share premium	24	**296,997**	313,609
Other reserves	26	**11,521**	14,328
Shares held for employee share scheme	25	**(4,756)**	–
Retained earnings	27	**352,659**	318,823
Total equity		**663,724**	654,063

	Note	As at 31 December 2020 RMB'000	2019 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	29	24,500	29,000
Lease liabilities	16	4,087	4,657
Trade and other payables	28	256,224	301,885
Deferred tax liabilities	30	–	3,198
		284,811	338,740
Current liabilities			
Lease liabilities	16	2,507	1,810
Borrowings	29	29,500	29,500
Trade and other payables	28	2,321,453	2,372,979
Income tax payables		18,579	13,871
Contract liabilities	5	111,454	14,381
		2,483,493	2,432,541
Total liabilities		2,768,304	2,771,281
Total equity and liabilities		3,432,028	3,425,344

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

The financial statements on pages 89 to 187 were approved by the Board of Directors on 25 March 2021 and were signed on its behalf.

Director *Director*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

		Attribute to the Shareholders					
	Note	Share capital *RMB'000*	Shares held for employee share scheme *RMB'000*	Share premium *RMB'000*	Other reserves *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*
Balance at 1 January 2019		7,303	–	322,551	193,718	506,390	1,029,962
Comprehensive income							
Profit for the period		–	–	–	–	101,163	101,163
Currency translation differences		–	–	–	2,471	–	2,471
Changes in the fair value of equity instruments at fair value through other comprehensive income		–	–	–	(2,422)	–	(2,422)
Total comprehensive income		–	–	–	49	101,163	101,212
Appropriation to statutory reserves		–	–	–	9,628	(9,628)	–
Dividends distribution to shareholders	31	–	–	(8,942)	–	–	(8,942)
Dividends distribution by the Acquired Group to shareholders	27(a)	–	–	–	–	(150,000)	(150,000)
Deemed distribution to shareholders	26(c), 27(b)	–	–	–	(25,000)	(129,102)	(154,102)
Acquisition of the Acquired Group	26(d)	–	–	–	(164,067)	–	(164,067)
Balance at 31 December 2019		7,303	–	313,609	14,328	318,823	654,063

	Note	Attribute to the Shareholders					
		Share capital *RMB'000*	Shares held for employee share scheme *RMB'000*	Share premium *RMB'000*	Other reserves *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*
Balance at 1 January 2020		7,303	–	313,609	14,328	318,823	654,063
Comprehensive income							
Profit for the period		–	–	–	–	46,836	46,836
Currency translation differences		–	–	–	(8,244)	–	(8,244)
Changes in the fair value of equity instruments at fair value through other comprehensive income		–	–	–	(1,531)	–	(1,531)
Total comprehensive income		–	–	–	(9,775)	46,836	37,061
Appropriation to statutory reserves		–	–	–	6,968	(6,968)	–
Dividends distribution to shareholders	31	–	–	(16,612)	–	(6,032)	(22,644)
Acquisition of shares for employee share scheme	25	–	(4,756)	–	–	–	(4,756)
Balance at 31 December 2020		7,303	(4,756)	296,997	11,521	352,659	663,724

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 2020

	Note	Year ended 31 December 2020 RMB'000	2019 RMB'000
Cash flows from operating activities			
Cash generated from operations	32(a)	**43,846**	71,720
Income tax paid		**(11,284)**	(36,206)
Net cash generated from operating activities		**32,562**	35,514
Cash flows from investing activities			
Purchase of property, plant and equipment		**(13,219)**	(20,867)
Interest received		**4,234**	8,717
Proceeds from disposal of property, plant and equipment	32(c)	**719**	141
Dividends received from financial assets at fair value through other comprehensive income		**529**	—
Cash consideration paid during business combination under common control		**(25,000)**	(10,000)
Purchase of intangible assets	17	**–**	(352)
Purchase of financial assets at fair value through profit or loss		**–**	(14,000)
Purchase of financial assets at fair value through other comprehensive income		**–**	(7,744)
Proceeds from sale of financial assets at fair value through profit or loss		**–**	36,066
Net increase of amounts due from shareholders		**–**	(32,594)
Net cash used in investing activities		**(32,737)**	(40,633)
Cash flows from financing activities			
Proceeds from borrowings	29	**–**	25,000
Dividend paid	31	**(22,049)**	(8,942)
Interest paid		**(5,351)**	(19,455)
Repayments of borrowings	29	**(4,500)**	(6,500)
Acquisition of shares for employee share scheme	25	**(4,756)**	–
Lease payment	32(d)	**(1,590)**	(903)
Net cash used in financing activities		**(38,246)**	(10,800)
Net decrease in cash and cash equivalents		**(38,421)**	(15,919)
Cash and cash equivalents at beginning of the financial year		**471,711**	484,461
Effects of exchange rate changes on cash and cash equivalents		**(9,594)**	3,169
Cash and cash equivalents at end of year	23	**423,696**	471,711

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

1 GENERAL INFORMATION

1.1 General Information

Watts International Maritime 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, Harbour Place, 103 South Church Street, P.O. Box 10240, Grand Cayman KY1-1002, Cayman Islands.

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

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

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

The consolidated financial statements have been approved for issue by the Board of Directors (the "**Board**") on 25 March 2021.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

The preparation of the consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(i) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2020:

- Definition of Material — amendments to HKAS 1 and HKAS 8
- Definition of a Business — amendments to HKFRS 3
- Interest Rate Benchmark Reform — amendments to HKFRS 9, HKAS 39 and HKFRS 7
- Revised Conceptual Framework for Financial Reporting

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(ii) New and amended standards and revised conceptual framework not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group. These standards and revised conceptual framework are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

		Effective for annual periods beginning on or after
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2022
HKAS 16 (Amendments)	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
HKAS 37 (Amendments)	Onerous Contracts — Cost of Fulfilling a Contract	1 January 2022
HKFRS 3 (Amendments)	Reference to the Conceptual Framework	1 January 2022
HKFRS 17	Insurance contracts	1 January 2023
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
Annual Improvements to HKFRS Standards 2018–2020		1 January 2022

(iii) Application of business combination under common control

On 14 November 2019, Shanghai Third Harbor Benteng Maritime Engineering Co., Ltd., a wholly-owned subsidiary of the Company ("**Third Harbor Maritime**"), as the purchaser and Shanghai Watts Gallop Holding Group Co., Ltd. ("**Watts Gallop**"), a company also controlled by the Controlling Shareholders, as the vendor entered into a sale and purchase agreement, pursuant to which Watts Gallop agreed to sell, and Third Harbor Maritime agreed to purchase, the entire issued share capital of Shanghai Watts Benteng Municipal Public Engineering Co., Ltd. and its subsidiaries (the "**Acquired Group**"), at an initial cash consideration of RMB170,000,000.

The Acquired Group is principally engaged in municipal public construction business in the PRC focusing on (i) construction of public infrastructure within cities which includes public roads, bridges, and tunnels; (ii) urban greening; and (iii) construction of buildings.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(iii) Application of business combination under common control (Continued)

The consideration to be satisfied by the Group in the following manner:

(a) assumption of debt in the amount of RMB84,490,000 owed by Watts Gallop to the Acquired Group (the "**Debt**"). The Debt represents the non-trade advances resulting from an intra-group funding arrangement within entities controlled by the Controlling Shareholders of Watts Gallop from time to time as at 31 August 2019, which was mainly for working capital purpose, and was interest-free and repayable on demand; and

(b) a sum of RMB85,510,000 was paid/shall be payable by Third Harbor Maritime to Watts Gallop by the following instalments by cash:

i) RMB10,000,000 (equivalent to approximately HK$11,111,111) was paid in December 2019, after the condition precedent was satisfied;

ii) RMB25,000,000 (equivalent to approximately HK$27,777,778) was paid on or before 31 December 2020;

iii) RMB25,000,000 (equivalent to approximately HK$27,777,778) shall be paid on or before 31 December 2021; and

iv) RMB25,510,000 (equivalent to approximately HK$28,355,556) shall be paid on or before 31 December 2022.

The acquisition was considered as a business combination under common control as Third Harbor Maritime and the Acquired Group are both ultimately controlled by Controlling Shareholders. Under HKFRS, the acquisition of the Acquired Group was accounted for using merger accounting in accordance with Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" ("**AG 5**") issued by the HKICPA. Accordingly, the Acquired Group was included in the consolidated financial statements from the beginning of the earliest period presented as if the Acquired Group had always been part of the Group. As a result, the Group has included the operating results of the Acquired Group and eliminated its transactions with the Acquired Group, as if the acquisition had been completed on the earliest date being presented. The fair value of the total consideration to be satisfied by the Group is approximately RMB164,067,000, which is considered as a deemed distribution to shareholders.

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.

(b) Equity method

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

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

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

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

When the Group ceases to have control, any retained interest in the entity is remeasured 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Business combinations

(a) 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.

(b) Business combination not under common control

The Group applies the acquisition method to account for business combinations other than those under common control (Note 2.3(a)). The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

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 the consolidated statement of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Business combination (Continued)

(b) Business combination not under common control (Continued)

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 charge 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.

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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Separate financial statements

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

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

2.5 Segment reporting

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

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

2.6 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Foreign currency translation (Continued)

(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.

2.7 Property, plant and equipment

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Property, plant and equipment (Continued)

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

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

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

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

2.8 Intangible assets

(a) Licences

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

(b) Software

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

(c) Research and development

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Impairment of non-financial assets

Assets that are subject to amortisation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The re-coverable 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.

2.10 Financial assets

(a) Classification

The Group classifies its financial assets in the following categories:

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

- those to be measured at amortised cost.

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

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

(b) Recognition and derecognition

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

(c) Measurement

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial assets (Continued)

(c) ***Measurement*** (Continued)

(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 (losses)/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 (losses)/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 (losses)/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 (losses)/gains — net" in the period in which it arises.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 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 (losses)/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 3.4(a).

(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 4.1 details how the Group determines whether there has been a significant increase in credit risk.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial assets (Continued)

(d) Impairment (Continued)

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.

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

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

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

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

2.11 Offsetting financial instruments

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

2.12 Inventories

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 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.

2.14 Cash and cash equivalents

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

2.15 Share capital

Ordinary shares are classified as equity.

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

2.16 Trade and other payables

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Borrowings

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

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

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

2.18 Borrowing cost

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

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

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

2.19 Current and deferred income tax

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

(a) Current income tax

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 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)

2.20 Employee benefits

(a) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the re-porting 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)

2.21 Provisions

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

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

Warranty provision is provided to customers in conjunction with the construction services. The warranty obligation arises through the contract signed between the Group and customers, which lasts from one to five years after completion of construction. The Group's retention money are collected after the warranty period. During the years ended 31 December 2020 and 2019, the warranty cost was rare and immaterial, therefore provision for the warranty obligation was not recognised.

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

2.22 Revenue recognition

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 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 non-refundable consideration from the customer.

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Revenue recognition (Continued)

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

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

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

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

2.23 Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares

by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(ii) Diluted earnings per share

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Leases

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

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

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

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

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

- fixed payments (including in-substance fixed payments), less any lease incentives receivable

- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date

- amounts expected to be payable by the Group under residual value guarantees the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and

- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Leases (Continued)

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

To determine the incremental borrowing rate, the Group:

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

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

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

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

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

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

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 Dividend distribution

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

2.26 Government grants

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

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

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

2.27 Interest income

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

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

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. The Group entities collect most of the revenue and incur most of the expenditures in respect of their functional currencies. Foreign exchange risk arises from various currency exposures primarily through proceeds received from customers and shareholders, and payments to the suppliers that are denominated in a currency other than the Group's entities' functional currency. The currencies giving rise to this risk are primarily US dollar ("**US$**") and Brunei dollar ("**BN$**"), as certain purchase and sales of the Group are denominated in US$ and BN$. The Group also has certain amounts of cash and bank balances denominated in HK dollar ("**HK$**") 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 2020, 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 RMB10,864,000 lower/higher (2019: RMB13,128,000), mainly as a result of foreign exchange gains/losses on translation of US$, BN$ and HK$ denominated cash and cash equivalents, trade and other receivables and trade and other payables.

(ii) Cash flow and fair value interest rate risk

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk

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

(i) Risk management

To manage the risk with respect to cash and cash equivalents and restricted cash, the Group placed them in banks with 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 of the date of initial recognition. It considers available reasonable and supportive forward-looking information. Especially the following indicators are incorporated:

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

(ii) Impairment of financial assets

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

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

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

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

The expected loss rates are based on the payment profiles of providing marine construction services and municipal public construction services over a period of 5 years before 31 December 2020 or 1 January 2020 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has considered evidence from external sources including the relevant public search results relating to the financial circumstances of the customers and expected behaviour including method of payments or payments period, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Trade and retention receivables

For trade and retention receivables, the Group performs ongoing credit evaluations of its debtors' financial condition and does not require collateral from the debtors on the outstanding balances. 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, the actual default for these receivables was rare. As at 31 December 2019, the Group has assessed that the expected loss rate for such trade and retention receivables was immaterial. No loss allowance provision for trade and retention receivables of approximately RMB262,581,000 relating to such customers was recognised as at 31 December 2019. As at 31 December 2020, no similar circumstances were identified by the Group.

Individually impaired trade receivables and retention receivables are related to customers who are experiencing unexpected economic difficulties. The Group expects that the entire amounts of the receivables will have difficulty to be recovered and has recognised impairment losses. The fair value of individually impaired trade receivables and retention receivables were nil. For the year ended 31 December 2020, no individually impaired trade and retention receivables were identified (2019: Nil).

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

As at 31 December 2020 and 2019, the trade receivables and retention receivables have been grouped on the basis of shared credit risk characteristics and the days past due for the measurement of expected credit loss:

i) Marine construction services group

	Within 1 year *RMB'000*	1 to 2 years *RMB'000*	2 to 3 years *RMB'000*	Over 3 years *RMB'000*	Total *RMB'000*
Trade receivables					
At 31 December 2020					
Expected loss rate	1.59%	2.57%	6.43%	23.64%	
Gross carrying amount	196,853	186,404	106,158	114,423	603,838
Total loss allowance provision	3,129	4,798	6,829	27,046	41,802

	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 2020					
Expected loss rate	2.53%	3.93%	4.92%	15.98%	
Gross carrying amount	63,538	12,855	51,536	24,324	152,253
Total loss allowance provision	1,610	506	2,537	3,887	8,540

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

i) Marine construction services group (Continued)

	Within 1 year *RMB'000*	1 to 2 years *RMB'000*	2 to 3 years *RMB'000*	Over 3 years *RMB'000*	Total *RMB'000*
Trade receivables					
At 31 December 2019					
Expected loss rate	1.31%	2.54%	4.89%	10.33%	
Gross carrying amount (excluding receivables assessed individually)	291,310	140,256	134,099	12,037	577,702
Total loss allowance provision	3,818	3,565	6,563	1,244	15,190

	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 2019					
Expected loss rate	6.26%	7.63%	8.96%	10.99%	
Gross carrying amount (excluding receivables assessed individually)	92,021	3,692	73,702	4,893	174,308
Total loss allowance provision	5,759	282	6,603	538	13,182

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

ii) Municipal public construction services group

	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 3 years RMB'000	Over 3 years RMB'000	Total RMB'000
Trade receivables					
At 31 December 2020					
Expected loss rate	2.56%	6.24%	12.89%	50.80%	
Gross carrying amount	396,046	76,729	18,083	29,442	520,300
Total loss allowance provision	10,141	4,790	2,332	14,956	32,219

	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 2020					
Expected loss rate	5.15%	15.51%	21.71%	53.21%	
Gross carrying amount	95,265	4,816	10	7,568	107,659
Total loss allowance provision	4,907	746	2	4,027	9,682

	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 2019					
Expected loss rate	2.22%	6.48%	25.38%	28.83%	
Gross carrying amount	470,088	36,448	26,948	60,247	593,731
Total loss allowance provision	10,436	2,362	6,839	17,369	37,006

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

ii) Municipal public construction services group (Continued)

	Within 1 year *RMB'000*	1 to 2 years *RMB'000*	2 to 3 years *RMB'000*	Over 3 years *RMB'000*	Total *RMB'000*
Retention receivables					
At 31 December 2019					
Expected loss rate	8.18%	10.00%	13.98%	25.81%	
Gross carrying amount	89,117	1,340	1,298	12,727	104,482
Total loss allowance provision	7,290	134	181	3,285	10,890

Contract assets

Contract assets relate to unbilled work in progress which have substantially the same risk characteristics as the trade receivables for the same types of contract. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets. Since the contract assets are still in performing and the payment is not due. The expected loss rates of contract assets are assessed to be 1.59% for marine construction and 2.56% for municipal public construction (2019: 1.31% and 2.22%, respectively), which are the same as that of trade receivables past due up to one year respectively. As at 31 December 2020, the loss allowance for provision for contract assets of marine construction and municipal public construction was approximately RMB7,765,000 and RMB17,896,000 (2019: RMB6,220,000 and RMB8,972,000, respectively).

Long-term trade receivables

Long-term trade receivables relate to a public-private-partnership project in municipal public construction services and are recognised as contract assets when the project is still performing and transferred to receivables after the project is finished. Since the customer is a government owned company with strong reputation and the payment is not due according to the contract, the expected loss rate for the long-term trade receivables is assessed to be the same as that of the trade receivables past due up to one year. As at 31 December 2020, the loss allowance for provision for long-term trade receivables was approximately RMB1,880,000 (2019: RMB1,773,000).

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

The loss allowance provision for trade receivables, retention receivables, long-term trade receivables and contract assets as at 31 December 2020 and 2019 reconciles to the opening loss allowance for that provision is as follows:

	Trade receivables *RMB'000*	Retention receivables *RMB'000*	Long-term trade receivables *RMB'000*	Contract assets *RMB'000*	Total *RMB'000*
At 1 January 2019	37,212	9,314	1,754	12,167	60,447
Provision for loss allowance recognised in consolidated statement of comprehensive income	14,892	14,692	19	3,031	32,634
Currency translation differences	92	66	—	(6)	152
At 31 December 2019	52,196	24,072	1,773	15,192	93,233
Provision for/(reversal of) loss allowance recognised in consolidated statement of comprehensive income	**21,946**	**(5,624)**	**107**	**10,371**	**26,800**
Currency translation differences	**(121)**	**(226)**	**—**	**98**	**(249)**
At 31 December 2020	**74,021**	**18,222**	**1,880**	**25,661**	**119,784**

Other receivables

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.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) *Credit risk* (Continued)

(ii) Impairment of financial assets (Continued)

Cash and cash equivalents and bills receivables

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

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

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

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Impairment losses		
— movement in loss allowance for financial assets and contract assets	**26,800**	32,634
Net impairment losses on financial assets and contract assets	**26,800**	32,634

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

(iii) Financial guarantees

The Group granted financial guarantees to its related party and third parties with maximum exposure to credit risk as follows:

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Credit risk exposure relating to off-balance sheet items		
— Financial guarantees to third parties	**—**	20,000

Management has established limits on the financial guarantee contract to be granted and expects that no material liabilities will arise from the financial contracts. The Group has determined that the corporate guarantees had insignificant fair values as at 31 December 2019, and there was no financial guarantees provided by the Group to others as at 31 December 2020.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Liquidity risk

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

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

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At 31 December 2019					
Bank borrowings	31,938	5,948	17,846	10,104	65,836
Lease liabilities	2,053	1,306	1,471	3,328	8,158
Trade and other payables	2,253,294	85,381	194,738	38,882	2,572,295
Financial guarantees (off-balance sheet items) *(Note 3.1(b))*	20,000	—	—	—	20,000
	2,307,285	92,635	214,055	52,314	2,666,289
At 31 December 2020					
Bank borrowings	**30,948**	**6,208**	**17,067**	**4,675**	**58,898**
Lease liabilities	**2,752**	**1,143**	**1,118**	**2,583**	**7,596**
Trade and other payables	**2,144,980**	**121,447**	**145,020**	**22,466**	**2,433,913**
	2,179,118	**128,798**	**163,205**	**29,724**	**2,500,845**

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Capital management

The capital structure of the Group consists of equity and borrowings. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce borrowings. The Group monitors capital on the basis of debt to equity ratio. The debt to equity ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings less cash and cash equivalents, time deposits and pledged bank deposits. The net cash position as at 31 December 2020 and 2019 was resulted from the Group's operation. The debt to equity ratios as at 31 December 2020 and 2019 are as follows:

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Total bank borrowings *(Note 29)*	**54,000**	58,500
Less: cash and cash equivalents, time deposit with maturity over 3 months and pledged bank deposits *(Note 23)*	**(537,927)**	(530,734)
Net cash	**(483,927)**	(472,234)
Total equity	**663,724**	654,063
Total capital	**179,797**	181,829
Debt to equity ratio	**N/A**	N/A

3 FINANCIAL RISK MANAGEMENT (Continued)

3.4 Fair value estimation

(a) Financial assets and liabilities

(i) Fair value hierarchy

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

Recurring fair value measurements	***Note***	**Level 1** ***RMB'000***	**Level 2** ***RMB'000***	**Level 3** ***RMB'000***	**Total** ***RMB'000***
At 31 December 2020					
Financial assets at fair value through profit or loss	21	**—**	**—**	**50**	**50**
Financial assets at fair value through other comprehensive income	22	**3,792**	**—**	**—**	**3,792**
		3,792	**—**	**50**	**3,842**

Recurring fair value measurements	*Note*	Level 1 *RMB'000*	Level 2 *RMB'000*	Level 3 *RMB'000*	Total *RMB'000*
At 31 December 2019					
Financial assets at fair value through profit or loss	21	—	—	50	50
Financial assets at fair value through other comprehensive income	22	—	—	4,844	4,844
		—	—	4,894	4,894

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)

3.4 Fair value estimation (Continued)

(a) Financial assets and liabilities (Continued)

(ii) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- the use of quoted market prices or dealer quotes for similar instruments

- for other financial instruments discounted cash flow analysis.

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

As at 31 December 2019, the level 3 instrument of the Group mainly includes investment in listed securities and investments in a wealth management product. The equity instrument is held with a lock-up for six months from the listing date of the investee. In that case the fair value of the instrument would be measured on the basis of the quoted price for an otherwise identical unrestricted equity instrument of the same issuer that trades in a public market, adjusted to reflect the effect of the restriction. As at 31 December 2020, the lock-up period expired and accordingly the fair value of the equity instrument is based on quoted market price since then. The instrument is included in level 1.

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

The Group used discounted cash flows approach to value the fair value of the instrument as at year end, which approximates 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.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.5 Offsetting financial assets and financial liabilities

The following table presents the recognised financial instruments that are offset as at 31 December 2019. The column 'net amount presented in the balance sheet' shows the impact on the Group's balance sheet if all set-off rights were exercised. As at 31 December 2020, there was no significant financial assets and financial liabilities offsetting.

	Effects of offsetting on the balance sheet		
	Gross amounts *RMB'000*	Gross amounts set off in the balance sheet *RMB'000*	Net amounts presented in the balance sheet *RMB'000*
As at 31 December 2019			
Financial assets			
Trade and other receivables *(a)*	1,954,439	(97,602)	1,856,837
Financial liabilities			
Trade and other payables *(a)*	2,771,663	(97,602)	2,674,061

(a) Offsetting arrangements

During the year ended 31 December 2019, A customer and Third Harbor Maritime are engaged in four subrogation arrangements with a subcontractor and three suppliers from the same marine construction project separately. Under the term of the arrangement, the amounts payables to be satisfied by Third Harbor Maritime are offset against the amounts receivables from the customer and only the net amounts are settled. The relevant amounts have therefore been presented net in the consolidated statement of financial position.

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.

(b) Income taxes and deferred tax assets/liabilities

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

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

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

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

(e) Long-term payables

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

5 SEGMENT INFORMATION

(a) Description of segments and principal activities

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

(i) Marine construction, including infrastructure construction of ports, waterway engineering and other services; and

(ii) Municipal public construction, including construction of public infrastructure within cities, urban greening and construction of buildings.

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

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

	Year ended 31 December 2020			
	Marine construction *RMB'000*	Municipal public construction *RMB'000*	Inter-segment elimination *RMB'000*	Total *RMB'000*
Revenue	524,322	1,421,426	(127,364)	1,818,384
Cost of sales	(466,835)	(1,276,272)	127,364	(1,615,743)
Gross profit	57,487	145,154	—	202,641
Unallocated items				
Operating expenses				(124,748)
Other income *(Note 6)*				6,125
Other losses — net *(Note 7)*				(12,441)
Finance costs — net *(Note 10)*				(12,680)
Profit before income tax				58,897
Income tax expense (Note 11)				(12,061)
Profit for the year				46,836
Segment items included:				
Depreciation and amortisation	(11,277)	(6,409)	—	(17,686)
Net impairment losses on financial assets *(Note 3.1)*	(23,761)	(3,039)	—	(26,800)

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

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

5 SEGMENT INFORMATION (Continued)

(b) Segment results and other information (Continued)

The segment information for the year ended 31 December 2019 is as follows:

	Year ended 31 December 2019			
	Marine construction *RMB'000*	Municipal public construction *RMB'000*	Inter-segment elimination *RMB'000*	Total *RMB'000*
Revenue	921,258	1,128,664	—	2,049,922
Cost of sales	(791,366)	(1,011,824)	—	(1,803,190)
Gross profit	129,892	116,840	—	246,732
Unallocated items				
Operating expenses				(152,347)
Other income *(Note 6)*				6,379
Other gains — net *(Note 7)*				12,137
Finance costs — net *(Note 10)*				(8,830)
Profit before income tax				104,071
Income tax expense *(Note 11)*				(2,908)
Profit for the year				101,163
Segment items included:				
Depreciation and amortisation	(13,811)	(6,545)	—	(20,356)
Net impairment losses on financial assets *(Note 3.1)*	(28,257)	(4,377)	—	(32,634)

The segment assets and liabilities at 31 December 2019 are as follows:

	As at 31 December 2019			
	Marine construction *RMB'000*	Municipal public construction *RMB'000*	Inter-segment elimination *RMB'000*	Total *RMB'000*
Total assets	2,009,846	1,430,965	(15,467)	3,425,344
Total liabilities	1,502,746	1,284,002	(15,467)	2,771,281

5 SEGMENT INFORMATION (Continued)

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

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

	For the year ended 31 December						
	2020				2019		
	Marine construction RMB'000	Municipal public construction RMB'000	Inter-segment elimination RMB'000	Total RMB'000	Marine construction RMB'000	Municipal public construction RMB'000	Total RMB'000
Mainland China							
Revenue	431,495	1,421,426	(127,364)	1,725,557	724,705	1,128,664	1,853,369
Cost of sales	(403,987)	(1,276,272)	127,364	(1,552,895)	(613,270)	(1,011,824)	(1,625,094)
	27,508	145,154	—	172,662	111,435	116,840	228,275
Southeast Asia							
Revenue	92,827	—	—	92,827	196,553	—	196,553
Cost of sales	(62,848)	—	—	(62,848)	(178,096)	—	(178,096)
	29,979	—	—	29,979	18,457	—	18,457

The breakdown of individual customer's revenue exceeds 10% of the Group's total revenue for the year ended 31 December 2020 and 2019 is as follows:

	Year ended 31 December 2020 RMB'000
Customer A	287,080

No individual customer's revenue exceeds 10% of the Group's total revenue for the year ended 31 December 2019.

5 SEGMENT INFORMATION (Continued)

(d) Segment assets by territory

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

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Mainland China	**108,071**	108,596
Southeast Asia	**15,420**	19,217
Total	**123,491**	127,813

(e) Contract assets and liabilities

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

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Contract assets		
Current portion		
Marine construction	**414,458**	292,645
Municipal public construction	**278,734**	233,174
Less: allowance for impairment of contract assets *(Note 3.1(b))*	**(13,724)**	(9,015)
	679,468	516,804
Non-current portion		
Marine construction	**73,997**	182,025
Municipal public construction	**420,240**	170,685
Less: allowance for impairment of contract assets *(Note 3.1(b))*	**(11,937)**	(6,177)
	482,300	346,533
Total contract assets	**1,161,768**	863,337
Contract liabilities		
Marine construction	**40,483**	2,186
Municipal public construction	**70,971**	12,195
Total contract liabilities	**111,454**	14,381

5 SEGMENT INFORMATION (Continued)

(e) Contract assets and liabilities (Continued)

(i) Significant changes in contract assets and liabilities

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

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

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

Due to the completion of the construction, approximately RMB135,907,000 and RMB340,240,000 of contract assets were transferred to trade receivables, while approximately RMB41,469,000 and RMB142,915,000 of contract assets were transferred to retention receivables during the years ended 31 December 2020 and 2019.

(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 2020 and 2019 relates to carried-forward contract liabilities.

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Marine construction	**2,186**	4,761
Municipal public construction	**12,195**	3,483
	14,381	8,244

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 2020 and 2019.

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Marine construction	**1,157,293**	1,358,403
Municipal public construction	**2,650,042**	2,807,077
	3,807,335	4,165,480

For marine construction services, management expects that 89% of the transaction price allocated to the unsatisfied contracts as of 31 December 2020 will be recognised as revenue before 31 December 2021, the remaining 11% will be recognised as revenue before 31 December 2022. For municipal public construction services, management expects that 67% of the transaction price allocated to the unsatisfied contracts as of 31 December 2020 will be recognised as revenue before 31 December 2021, 25% will be recognised as revenue before 31 December 2022, 5% will be recognised as revenue before 31 December 2023, 2% will be recognised as revenue before 31 December 2024, the remaining 1% will be recognised as revenue before 31 December 2025.

6 OTHER INCOME

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Rental income	**4,694**	3,348
Government grants relating to operating costs	**1,431**	3,031
	6,125	6,379

7 OTHER (LOSSES)/GAINS — NET

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Net foreign exchange (losses)/gains	**(13,241)**	5,426
Dividend income from financial assets at fair value through other comprehensive income	**529**	—
Donations	**(333)**	(20)
Net losses on disposal of property, plant and equipment *(Note 32(c))*	**(34)**	(222)
Fair value gains on financial assets at fair value through profit or loss	**—**	305
Others — net	**638**	6,648
	(12,441)	12,137

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	
	2020	2019
	RMB'000	*RMB'000*
Raw materials and consumables used	**954,217**	1,153,292
Subcontracting costs	**516,894**	543,401
Operating lease expenses	**78,702**	65,568
Wages and salaries, social welfare and benefits, including directors' emoluments *(Note 9)*	**58,144**	55,731
Depreciation of property, plant and equipment *(Note 14)*	**15,623**	18,988
Travelling and entertainment expenses	**8,386**	7,937
Consulage and agency expenses	**7,526**	2,839
Utilities	**7,617**	6,102
Taxes and surcharges	**7,474**	6,487
Auditors' remuneration		
— Audit services	**3,500**	3,500
— Non-audit services	**125**	3,680
Transportation expenses	**2,991**	3,071
Depreciation of right of use assets *(Note 15)*	**1,863**	1,123
Amortisation of intangible assets *(Note 17)*	**200**	245
Other expenses	**50,429**	50,939
	1,713,691	1,922,903

The Group incurred expenses amounted to approximately RMB53,316,000 and RMB65,420,000 related to research and development of new construction techniques for the years ended 31 December 2020 and 2019 respectively. All of these expenses comprise material costs in "Raw materials and consumables used", remuneration paid to certain staff in "Wages and salaries, social welfare and benefits and depreciation of certain equipment in "Depreciation of property, plant and equipment".

9 EMPLOYEE BENEFIT EXPENSES

(a) Employee benefit expenses

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Salaries, wages and allowances	**46,482**	44,478
Pension costs	**3,435**	4,335
Bonuses	**8,227**	6,918
Total employee benefit expenses	**58,144**	55,731

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include two directors whose emoluments are reflected in the analysis presented in Note 38 during the year ended 31 December 2020 (year ended 31 December 2019: two). The emoluments paid to the remaining individuals for the years ended 31 December 2020 and 2019 are as follows:

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Salaries, wages and allowances	**1,067**	1,632
Pension costs	**70**	121
Bonuses	**409**	60
Total employee benefit expenses	**1,546**	1,813

The number of highest paid non-director individuals, whose remuneration for the years ended 31 December 2020 and 2019 fell within the following bands:

	Year ended 31 December	
	2020	2019
Emolument bands HK$100,000 to HK$1,000,000	**3**	3

During the years ended 31 December 2020 and 2019, no emoluments were paid to the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

10 FINANCE COSTS AND INCOME

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Finance income		
— Interest income derived from cash and bank and other financial instruments	**4,514**	7,343
— Unwinding of discount of long-term receivables	**3,054**	3,228
	7,568	10,571
Finance costs		
— Unwinding of discount of long-term payables *(i)*	**(16,904)**	(15,758)
— Interest expenses on bank borrowings	**(3,065)**	(3,430)
— Interest expenses paid/payable for lease liabilities	**(279)**	(213)
	(20,248)	(19,401)
Finance costs — net	**(12,680)**	(8,830)

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

11 INCOME TAX EXPENSE

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

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Current income tax	**16,469**	12,638
Deferred income tax *(Note 30)*	**(4,408)**	(9,730)
Income tax expense — net	**12,061**	2,908

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 profits tax

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

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

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

(iii) Hong Kong profits tax

One of the Company's subsidiaries incorporated in Hong Kong is subject to Hong Kong profits tax. The applicable Hong Kong profits tax rate is 16.5% for the years ended 31 December 2020 and 2019.

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

The Group's subsidiaries in the PRC are subject to PRC CIT which is calculated based on the applicable tax rate of 25% (2019: 25%) on the assessable profits of the subsidiaries in accordance with PRC tax laws and regulations, except for one as disclosed below.

Third Harbor Maritime, a subsidiary of the Group, is approved to be new and high-technology enterprise since the year ended 31 December 2019 and is entitled to a preferential income tax rate of 15%. The certificate of new and high-technology enterprise is subject to renewal for each three years interval.

11 INCOME TAX EXPENSE (Continued)

(v) Brunei income tax

One of the Company's subsidiaries incorporated in Brunei is subject to Brunei income tax. The applicable Brunei income tax rate is 18.5% for years ended 31 December 2020 and 2019.

(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 2020 and 2019, income tax was provided at the rate of 3% on the revenue from construction services, and income tax of 20% was provided on the interest income from bank deposits, according to the respective Indonesia income tax laws and regulations.

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	
	2020	2019
	RMB'000	*RMB'000*
Profit before income tax	**58,897**	104,071
Tax calculated at applicable tax rates	**20,041**	18,843
Expenses not deductible for tax purpose	**280**	204
Tax losses for which no deferred income tax asset was recognised	**299**	18
Super deduction of research and development expenses	**(8,559)**	(16,157)
Tax charge	**12,061**	2,908

During the years ended 31 December 2020 and 2019, 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 2020 and 2019 in the foreseeable future.

12 BASIC AND DILUTED EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of the basic earnings per share is based on the profit for the year attributable to the Shareholders of the Company and the weighted average number of ordinary shares in issue during the year, as adjusted to reflect the shares repurchased under the share award scheme during the year ended 31 December 2020 (2019: Nil).

	2020	2019
Profit attributable to the Shareholders of the Company *(RMB'000)*	46,836	101,163
Weighted average number of ordinary shares in issue *(thousands)*	822,455	825,400
Total basic earnings per share attributable to the ordinary equity holders of the Group *(RMB cents)*	5.69	12.26

(b) Diluted earnings per share

Diluted earnings per share is of the same amount as the basic earnings per share as there was no potentially dilutive ordinary share outstanding as at 31 December 2020 and 2019.

13 SUBSIDIARIES

As at 31 December 2020, the Company had direct and indirect interests in the following subsidiaries:

Name of entity	Place of incorporation/ establishment and type of legal entity	Date of incorporation/ establishment	Issued and Paid-in capital	Ownership interest held by the Group	Principal activities and place of operation
HuaZi Rosely Limited	BVI, limited liability company	5 January 2018	US$1	100%	Investment holding, BVI
Maritime Vansun Limited	BVI, limited liability company	5 January 2018	US$1	100%	Investment holding, BVI
Engineering Prosper Limited	BVI, limited liability company	5 January 2018	US$1	100%	Investment holding, BVI
Royal Karry HK Engineer Limited	HK, limited liability company	8 February 2018	HK$1	100%	Investment holding, HK
Shanghai Shanyu Construction and Engineering Co., Ltd.	PRC, wholly foreign owned enterprise	30 November 2017	RMB122,440,000	100%	Investment holding, PRC
Shanghai Yubo Construction and Engineering Co., Ltd.	PRC, limited liability company	1 December 2017	RMB120,000,000	100%	Investment holding, PRC

13 SUBSIDIARIES (Continued)

Name of entity	Place of incorporation/ establishment and type of legal entity	Date of incorporation/ establishment	Issued and Paid-in capital	Ownership interest held by the Group	Principal activities and place of operation
Shanghai Xingning Construction and Engineering Co., Ltd. ("**Shanghai Xingning**")	PRC, limited liability company	14 December 2017	RMB120,000,000	100%	Investment holding, PRC
Shanghai Third Harbor Benteng Maritime Engineering Co., Ltd. ("**Third Harbor Maritime**")(i)	PRC, limited liability company	14 August 2017	RMB120,000,000	100%	Provision of engineering and construction services, PRC
Pahaytc & Benteng JV Sdn Bhd ("**Benteng Brunei**")	Brunei, limited liability company	19 January 2016	BN$25,000	100%	Provision of engineering and construction services, Brunei
PT. Shanghai Third Harbor Benteng Construction and Engineering ("**Benteng Indonesia**")	Indonesia, limited liability company	21 September 2016	IDR13,162,000,000	100%	Provision of engineering and construction services, Indonesia
Shanghai Watts Benteng Municipal Public Engineering Co., Ltd.	PRC, limited liability company	30 April 2019	RMB130,500,000	100%	Investment holding, PRC
Zhejiang Benteng Municipal Gardening Construction Engineering Co., Ltd. ("**Zhejiang Benteng Municipal**")	PRC, limited liability company	10 December 1999	RMB130,500,000	100%	Provision of Municipal Public construction services, PRC
Lanxi Watts Construction Engineering Co., Ltd.	PRC, limited liability company	2 March 2016	RMB26,500,000	100%	Provision of Municipal Public construction services, PRC
Qingtian Chunjiang Construction Engineering Co., Ltd.	PRC, limited liability company	6 March 2014	RMB16,950,000	100%	Provision of Municipal Public construction services, PRC
Shanghai Third Harbor Benteng Environmental Technology Co., Ltd. ("**Third Harbor Benteng Environmental**")(ii)	PRC, limited liability company	7 July 2020	—	100%	Provision of engineering and construction services, PRC

(i) The issued capital of Third Harbor Maritime reaches RMB200,000,000, among which, increment amounted to RMB80,000,000 subscribed by Shanghai Xingning was not paid as at 31 December 2019.

(ii) The issued capital of Third Harbor Benteng Environmental reaches RMB50,000,000, the subscribed capital by Third Harbor Maritime was not paid as at 31 December 2020.

14 PROPERTY, PLANT AND EQUIPMENT

	Industrial machinery and equipment *RMB'000*	Transport equipment *RMB'000*	Buildings *RMB'000*	Office supplies and electronic equipment *RMB'000*	Construction-in-progress *RMB'000*	Total *RMB'000*
At 1 January 2019						
Cost	177,246	14,618	6,886	3,548	5	202,303
Accumulated depreciation	(80,237)	(10,878)	(1,407)	(2,955)	—	(95,477)
Net book amount	97,009	3,740	5,479	593	5	106,826
Year ended 31 December 2019						
Opening net book amount	97,009	3,740	5,479	593	5	106,826
Additions	20,330	958	255	282	429	22,254
Transfer upon categories	—	—	434	—	(434)	—
Depreciation charge	(15,654)	(2,073)	(975)	(286)	—	(18,988)
Disposals	(322)	(16)	—	(25)	—	(363)
Currency translation differences	881	12	—	6	—	899
Closing net book amount	102,244	2,621	5,193	570	—	110,628
At 31 December 2019						
Cost	197,781	15,152	7,575	3,372	—	223,880
Accumulated depreciation	(95,537)	(12,531)	(2,382)	(2,802)	—	(113,252)
Net book amount	102,244	2,621	5,193	570	—	110,628

14 PROPERTY, PLANT AND EQUIPMENT (Continued)

	Industrial machinery and equipment RMB'000	Transport equipment RMB'000	Buildings RMB'000	Office supplies and electronic equipment RMB'000	Long-term deferred Assets RMB'000	Construction-in-progress RMB'000	Total RMB'000
Year ended 31 December 2020							
Opening net book amount	102,244	2,621	5,193	570	—	—	110,628
Additions	1,701	315	8,952	380	1,871	—	13,219
Transfer upon categories	(8,348)	(315)	—	(19)	—	8,682	—
Depreciation charge	(13,124)	(881)	(1,102)	(273)	(243)	—	(15,623)
Disposals	(725)	(28)	—	—	—	—	(753)
Currency translation differences	(525)	—	—	(5)	9	166	(355)
Closing net book amount	81,223	1,712	13,043	653	1,637	8,848	107,116
At 31 December 2020							
Cost	173,323	13,841	16,526	3,662	1,871	8,848	218,071
Accumulated depreciation	(92,100)	(12,129)	(3,483)	(3,009)	(234)	—	(110,955)
Net book amount	81,223	1,712	13,043	653	1,637	8,848	107,116

During the years ended 31 December 2020 and 2019, the amounts of depreciation expense charged to "Cost of sales", "Administrative expenses", "Other operating expenses" and "Selling and distribution expenses" are as follows:

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Cost of sales	**13,680**	16,870
Administrative expenses	**1,222**	2,038
Other operating expenses	**698**	59
Selling and distribution expenses	**23**	21
	15,623	18,988

15 RIGHT-OF-USE ASSETS

	Land use rights *RMB'000*	Land under leases *RMB'000*	Properties *RMB'000*	Total *RMB'000*
At 1 January 2019				
Cost	12,210	3,717	601	16,528
Accumulated depreciation	(1,662)	—	—	(1,662)
Net book amount	10,548	3,717	601	14,866
Year ended 31 December 2019				
Opening net book amount	10,548	3,717	601	14,866
Additions	—	723	2,116	2,839
Depreciation charge	(276)	(350)	(497)	(1,123)
Closing net book amount	10,272	4,090	2,220	16,582
At 31 December 2019				
Cost	12,210	4,440	2,717	19,367
Accumulated depreciation	(1,938)	(350)	(497)	(2,785)
Net book amount	10,272	4,090	2,220	16,582
At 1 January 2020				
Cost	**12,210**	**4,440**	**2,717**	**19,367**
Accumulated depreciation	**(1,938)**	**(350)**	**(497)**	**(2,785)**
Net book amount	**10,272**	**4,090**	**2,220**	**16,582**
Year ended 31 December 2020				
Opening net book amount	**10,272**	**4,090**	**2,220**	**16,582**
Additions	**–**	**–**	**1,253**	**1,253**
Depreciation charge	**(276)**	**(507)**	**(1,080)**	**(1,863)**
Closing net book amount	**9,996**	**3,583**	**2,393**	**15,972**
At 31 December 2020				
Cost	**12,210**	**4,440**	**3,970**	**20,620**
Accumulated depreciation	**(2,214)**	**(857)**	**(1,577)**	**(4,648)**
Net book amount	**9,996**	**3,583**	**2,393**	**15,972**

15 RIGHT-OF-USE ASSETS (Continued)

During the year ended 31 December 2020 and 2019, depreciation of right-of-use assets charged to "Cost of sales", "Administrative expenses" and "Other operating expenses" are as follows:

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Cost of sales	**1,057**	390
Administrative expenses	**530**	468
Other operating expenses	**276**	265
	1,863	1,123

Land use rights of the Group represent prepaid operating lease payments for the land located in Zhejiang Province in the PRC. The Group has land lease agreements with mainland China government and obtained the land use right certificates. Land under leases of the Group represent lease arrangements with third parties without land use right certificates.

16 LEASE LIABILITIES

This note provides information for leases where the Group is a lessee.

(i) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Lease liabilities		
Current	**2,507**	1,810
Non-current	**4,087**	4,657
	6,594	6,467

(ii) Amounts recognised in the statement of profit or loss

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Depreciation charge of right-of-use assets		
Properties	**1,080**	497
Land under leases	**507**	350
Land use rights	**276**	276
	1,863	1,123
Interest expense (included in finance cost)	**279**	213
Expense relating to short-term leases (included in cost of sales)	**78,702**	65,568

During the year ended 31 December 2020, the total cash outflow for leases was approximately RMB76,623,000 (2019: RMB69,875,000).

17 INTANGIBLE ASSETS

	Licences RMB'000	Computer software RMB'000	Total RMB'000
At 1 January 2019			
Cost	100	992	1,092
Accumulated amortisation	(60)	(536)	(596)
Net book amount	40	456	496
Year ended 31 December 2019			
Opening net book amount	40	456	496
Additions	—	352	352
Amortisation charge	(10)	(235)	(245)
Closing net book amount	30	573	603
At 31 December 2019			
Cost	100	1,344	1,444
Accumulated amortisation	(70)	(771)	(841)
Net book amount	30	573	603
Year ended 31 December 2020			
Opening net book amount	**30**	**573**	**603**
Amortisation charge	**(10)**	**(190)**	**(200)**
Closing net book amount	**20**	**383**	**403**
At 31 December 2020			
Cost	**100**	**1,344**	**1,444**
Accumulated amortisation	**(80)**	**(961)**	**(1,041)**
Net book amount	**20**	**383**	**403**

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

18 FINANCIAL INSTRUMENTS BY CATEGORY

The Group holds the following financial instruments:

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Financial assets		
Financial assets at amortised cost		
— Trade and other receivables excluding prepayments and prepaid taxation	**1,418,771**	1,786,612
— Cash and cash equivalents *(Note 23)*	**423,696**	471,711
— Restricted cash *(Note 23)*	**114,231**	59,023
Financial assets at fair value through profit or loss *(Note 21)*	**50**	50
Financial assets at fair value through other comprehensive income *(Note 22)*	**3,792**	4,844
Total	**1,960,540**	2,322,240

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Financial liabilities		
Liabilities at amortised cost		
— Borrowings *(Note 29)*	**54,000**	58,500
— Trade and other payables excluding payroll and social security, other tax liabilities	**2,410,221**	2,539,801
— Lease liabilities *(Note 16)*	**6,594**	6,467
Total	**2,470,815**	2,604,768

The Group's exposure to various risks associated with the financial instruments is discussed in Note 3. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

19 INVENTORIES

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Raw materials	**68,781**	31,978

Inventories recognised as an expense during the year ended 31 December 2020 amounted to RMB954,217,000 (2019: RMB1,153,292,000). These were included in cost of sales amounted to RMB913,406,000 (2019: RMB1,101,486,000) and research and development expenses amounted to RMB40,811,000 (2019: RMB51,806,000). There were no provision for or reversal of write-down of inventories during the years ended 31 December 2020 and 2019.

20 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Trade receivables *(i)*	**1,124,138**	1,404,877
Less: allowance for impairment of trade receivables *(iv)*	**(74,021)**	(52,196)
Trade receivables — net	**1,050,117**	1,352,681
Retention receivables *(ii)*	**259,912**	307,927
Less: allowance for impairment of retention receivables *(iv)*	**(18,222)**	(24,072)
Retention receivables — net	**241,690**	283,855
Bills receivables *(i)*	**21,381**	26,145
Long-term trade receivables *(v, vi)*	**54,398**	57,738
Less: allowance for impairment of long-term trade receivables *(iv)*	**(1,880)**	(1,773)
Long-term trade receivables — net	**52,518**	55,965
Other receivables *(iii)*	**53,065**	67,966
Prepayments	**106,396**	70,078
Prepaid taxation	**595**	147
	1,525,762	1,856,837

20 TRADE AND OTHER RECEIVABLES (Continued)

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Less: non-current portion		
Retention receivables *(ii)*	**(59,474)**	(59,496)
Long-term trade receivables *(v, vi)*	**(49,158)**	(52,767)
Other receivables *(iii)*	**(3,754)**	(1,833)
	(112,386)	(114,096)
Current portion	**1,413,376**	1,742,741

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

The carrying amounts of trade and retention receivables approximate their fair value as at 31 December 2020 and 2019.

As at 31 December 2020 and 2019, the ageing analysis of the trade and bills receivables based on the payment requests acknowledged by the customers is as follows:

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Within 3 months	**374,850**	463,023
4 to 6 months	**144,160**	180,333
7 to 12 months	**95,271**	229,522
1 to 2 years	**263,133**	291,746
2 to 3 years	**124,241**	162,261
Over 3 years	**143,864**	104,137
	1,145,519	1,431,022

20 TRADE AND OTHER RECEIVABLES (Continued)

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

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Within 1 year	**42,864**	153,589
1 to 2 years	**103,467**	25,198
2 to 3 years	**19,862**	77,759
3 to 4 years	**53,410**	19,625
4 to 5 years	**18,309**	19,007
Over 5 years	**22,000**	12,749
	259,912	307,927

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

(iii) Other receivables mainly represent tender deposits and performance deposits due from customers. The tender deposits are usually returned after the biding process, which may last approximately three months. The performance deposits are usually returned after the construction project is finished. Certain other receivables represent the reimbursed expenses paid on behalf of related parties (Note 34 (b)). These receivables are unsecured, interest free and receivable/repayable on demand. The carrying amount of other receivables approximate their fair value and there is no indication of significant credit risk. Other receivables are classified as current assets if they are expected to be paid in one year or less. If not, they are presented as non-current assets.

(iv) The Group applies simplified approach to provide for expected credit losses prescribed in HKFRS 9 as disclosed in Note 3.1(b). Provision for impaired receivables has been included in "Net impairment losses on financial assets" in the consolidated statement of comprehensive income.

20 TRADE AND OTHER RECEIVABLES (Continued)

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

(vi) As at 31 December 2020, the Group pledged long-term trade receivables with carrying amount of approximately RMB52,518,000 (2019: RMB55,965,000) for the bank borrowings amounted to RMB29,000,000 (2019: RMB33,500,000) as disclosed in Note 29(i).

(vii) The carrying amounts excluding provision of the Group's trade receivables, bills receivables, retention receivables, other receivables and long-term trade receivables are denominated in the following currencies:

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
RMB	**1,406,666**	1,695,619
Indonesian Rupiah ("**IDR**")	**47,596**	112,511
US$	**41,145**	33,989
BN$	**10,314**	22,271
HK$	**7,173**	263
	1,512,894	1,864,653

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss are all held for trading and include the following:

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Current assets		
Bank products for wealth management	**50**	50

The above financial assets at fair value through profit or loss are denominated in RMB.

Change in fair values of financial assets at fair value through profit or loss is recorded in "Other (losses)/gains — net" in the consolidated statement of comprehensive income.

22 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Financial assets at fair value through other comprehensive income are equity securities which are not held for trading, and which the Group has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the Group considers this classification to be more relevant. Equity investments at FVOCI comprise the following individual investments:

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Non-current assets		
Listed securities	**3,792**	4,844

In September 2019, the Group invested in listed securities with a consideration of RMB7,744,000 (equivalent to approximately HK$8,500,000).

As at 31 December 2020, the fair value of the financial assets at FVOCI is approximately RMB3,792,000 (2019: RMB4,844,000). The changes of fair value of the financial assets are accumulated within the other reserve in consolidated financial statements.

23 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Cash on hand	**296**	315
Cash at bank	**537,631**	530,419
Less: Restricted cash *(i)*	**(114,231)**	(59,023)
	423,696	471,711

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

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
RMB	**310,913**	278,596
US$	**202,143**	128,803
IDR	**21,187**	13,983
BN$	**2,479**	1,856
HK$	**1,205**	107,496
	537,927	530,734

(i) The restricted cash represents the following balances:

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Deposits for wages of migrant labours	**58,588**	18,477
Cash for specific project expenditure	**32,551**	19,867
Deposits for issuing bank acceptance notes	**11,200**	11,756
Deposits for issuing letter of guarantee	**8,797**	8,923
Restricted cash for litigation	**3,095**	—
	114,231	59,023

24 SHARE CAPITAL AND PREMIUM

		Amount		
	Number of ordinary shares	Equivalent nominal value of ordinary share *RMB'000*	Share premium *RMB'000*	Total *RMB'000*
Authorised:				
At 1 January 2019, 31 December 2019 and 2020	10,000,000,000	88,498	—	88,498
Issued:				
Balances as at 1 January 2019	825,400,000	7,303	322,551	329,854
Dividends *(Note 31)*	—	—	(8,942)	(8,942)
Balance as at 31 December 2019	825,400,000	7,303	313,609	320,912
Dividends *(Note 31)*	**—**	**—**	**(16,612)**	**(16,612)**
Balance as at 31 December 2020	**825,400,000**	**7,303**	**296,997**	**304,300**

The total number of issued share capital of the Company comprised 825,400,000 ordinary shares with a par value of HK$0.01 each as at 31 December 2020.

25 SHARES HELD FOR EMPLOYEE SHARE SCHEME

The Group has adopted share awarded scheme (the "**Scheme**"), effective from 24 March 2020 (the "**Adoption Date**"). The Scheme is established to, among other things, recognise the contributions of the eligible persons and motivate them to strive for the future development and expansion of the Group. The Scheme will initially be valid and effective for the period commencing on the Adoption Date and ending on the business day immediately prior to the 10th anniversary of the Adoption Date. Pursuant to the Scheme, the award shares will be satisfied by (i) existing Shares to be acquired by a trustee (the "**Trustee**") on the market, and/or (ii) new shares to be allotted and issued to the Trustee. The total number of the award shares underlying all grants made pursuant to the Scheme shall not exceed 10% of the issued share capital of the Group as at the Adoption Date.

During the year ended 31 December 2020, the Group has set up a trust specially for the management of the Scheme and through the trust, a total of 6,392,000 shares of the Group have been purchased by the Trustee at a cost of approximately HK$5,263,000 (equivalent to approximately RMB4,756,000). No shares have been granted during the year ended 31 December 2020.

26 OTHER RESERVES

	Other reserves				
	Statutory reserve *RMB'000* *Note (a)*	Merge reserve *RMB'000*	Financial assets at FVOCI *RMB'000*	Exchange reserve *RMB'000* *Note (b)*	Total *RMB'000*
Balance as at 1 January 2019	23,127	170,016	—	575	193,718
Appropriation to statutory reserves	9,628	—	—	—	9,628
Currency translation differences	—	—	—	2,471	2,471
Deemed distribution to shareholders *(c)*	—	(25,000)	—	—	(25,000)
Acquisition of the Acquired Group *(Note 2.1(iii))*	—	(164,067)	—	—	(164,067)
Revaluation *(d)*	—	—	(2,422)	—	(2,422)
Balance as at 31 December 2019	32,755	(19,051)	(2,422)	3,046	14,328
Balance as at 1 January 2020	**32,755**	**(19,051)**	**(2,422)**	**3,046**	**14,328**
Appropriation to statutory reserves	**6,968**	**—**	**—**	**—**	**6,968**
Currency translation differences	**—**	**—**	**—**	**(8,244)**	**(8,244)**
Revaluation *(e)*	**—**	**—**	**(1,531)**	**—**	**(1,531)**
Balance as at 31 December 2020	**39,723**	**(19,051)**	**(3,953)**	**(5,198)**	**11,521**

(a) Statutory reserves comprise statutory surplus reserve of the subsidiary companies in the PRC. The Company's subsidiaries incorporated in the Mainland China are required to make appropriations to statutory reserves from their profit for the year after offsetting accumulated losses carried forward from prior years as determined under the Mainland China accounting regulations and before distribution to shareholders. The percentages to be appropriated to such statutory reserve are determined according to the relevant regulations in the Mainland China at rate of 10% or at the discretion of the board of directors of the Mainland China subsidiaries, and further appropriation is optional when the accumulated fund is 50% or more of the registered capital of the subsidiaries.

(b) Exchange reserve of the Group represents the difference arising from the translation of the financial statements of companies within the Group that have a functional currency different from RMB, the presentation currency of the financial statements of the Company and the Group.

26 OTHER RESERVES (Continued)

(c) On 14 August 2019, the share capital of Zhejiang Benteng Municipal, a subsidiary of the Acquired Group, was reduced by RMB25,000,000 as part of reorganisation and was accounted for as deemed distribution to shareholders.

(d) The Group has elected to recognise changes in the fair value of certain investments in equity securities in OCI, as explained in Note 22. These changes are accumulated within the FVOCI reserve within equity. The Group transfers amounts from this reserve to retained earnings when the relevant equity securities are derecognised.

27 RETAINED EARNINGS

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
At beginning of year	**318,823**	506,390
Profit for the year	**46,836**	101,163
Appropriation to statutory reserves	**(6,968)**	(9,628)
Dividend distribution to shareholders *(Note 31)*	**(6,032)**	—
Dividend distribution by the Acquired Group to shareholders *(a)*	**—**	(150,000)
Deemed distribution to shareholders *(b)*	**—**	(129,102)
At end of year	**352,659**	318,823

(a) On 31 August 2019, Zhejiang Benteng Municipal distributed dividend of RMB150,000,000 to Watts Gallop before Zhejiang Benteng Municipal acquired by the Group, which was settled through the net-off of amounts due from shareholders.

(b) The waiver of amounts due from shareholders as part of the reorganisation of the Acquired Group was recorded as deemed distribution to shareholders for the year ended 31 December 2019.

28 TRADE AND OTHER PAYABLES

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Trade payables *(i)*	**1,674,743**	1,468,289
Bills payables *(i)*	**28,000**	29,390
Retention payables *(ii)*	**180,382**	297,211
Long-term payables *(iii)*	**438,401**	659,987
Payroll and social security	**23,355**	13,941
Other payables *(iv)*	**88,695**	84,924
Other tax liabilities excluding income tax liabilities	**144,101**	121,122
	2,577,677	2,674,864
Less: non-current portion		
Retention payables *(ii)*	**(95,654)**	(136,392)
Long-term payables *(iii)*	**(129,770)**	(160,493)
Other payables *(iv)*	**(30,800)**	(5,000)
	(256,224)	(301,885)
Current portion	**2,321,453**	2,372,979

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

As at 31 December 2020 and 2019, the ageing analysis of the trade and bills payables based on the payment requests or demand notes is as follows:

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Within 3 months	**634,850**	784,262
4 to 6 months	**190,834**	167,860
7 to 12 months	**234,488**	120,911
1 to 2 years	**321,015**	213,158
2 to 3 years	**144,190**	127,780
Over 3 years	**177,366**	83,708
	1,702,743	1,497,679

28 TRADE AND OTHER PAYABLES (Continued)

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

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Within 1 year	**34,438**	131,186
1 to 5 years	**101,449**	136,972
Over 5 years	**44,495**	29,053
	180,382	297,211

(iii) As at 31 December 2020, long-term payables mainly consist of long-term trade payables and amount due to Watts Gallop of approximately RMB46,863,000 (2019: RMB69,578,000) representing unsettled consideration for the acquisition of the Acquired Group. Long-term trade payables represent amounts due to suppliers for certain construction services with unbilled payables and the expected billing period is over one year. For some suppliers, usually 10% to 35% of the payments will be paid upon the completion of the construction and 5% to 10% of the payments will be paid after the warranty period expires. Long-term payables are measured at amortised cost using the effective interest method at the average rate from 4.35% to 4.90%. In the consolidated statement of financial position, long-term payables are classified as current liabilities if they will be required to be paid in one year or less. If not, they are presented as non-current liabilities. The ageing analysis of the long-term payables is as follows:

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Within 1 year	**131,265**	291,539
1 to 5 years	**237,570**	350,455
Over 5 years	**69,566**	17,993
	438,401	659,987

(iv) Other payables mainly represent performance deposits due to suppliers, which are usually repaid after the construction project is finished. Other payables are classified as current liabilities if they are expected to be paid in one year or less. If not, they are presented as non-current liabilities.

28 TRADE AND OTHER PAYABLES (Continued)

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

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
RMB	**2,288,964**	2,402,962
BN$	**66,423**	65,087
IDR	**31,817**	70,706
HK$	**17,809**	721
US$	**5,208**	325
	2,410,221	2,539,801

29 BORROWINGS

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Non-current		
Long-term bank borrowings — Secured *(i)*	**24,500**	29,000
Current		
Long-term bank borrowings due within one year — Secured *(i)*	**4,500**	4,500
Short-term bank borrowings — Secured *(ii)*	**25,000**	25,000
	54,000	58,500

The bank borrowings of the Group as of the respective balance sheet dates are all at fixed rate.

(i) As at 31 December 2020, the secured long-term bank borrowings of RMB29,000,000 (2019: RMB 33,500,000) were guaranteed by Zhejiang Kexin Engineering Materials Co., Ltd. ("**Zhejiang Kexin**"), a third party, and were secured by the pledge of long-term trade receivables carrying amount of approximately RMB52,518,000 (2019: RMB55,965,000) (Note 20).

(ii) As at 31 December 2020, the secured short-term borrowings of RMB25,000,000 (2019: RMB25,000,000) were guaranteed by Watts Gallop.

29 BORROWINGS (Continued)

At 31 December 2020 and 2019, the Group's borrowings were repayable as follows:

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Within 1 year	**29,500**	29,500
Between 1 and 2 years	**5,000**	4,500
Between 2 and 5 years	**12,500**	15,000
Over 5 years	**7,000**	9,500
	54,000	58,500

The weighted average effective interest rates during the years ended 31 December 2020 and 2019 were as follows:

	Year ended 31 December	
	2020	2019
Bank borrowings	**5.11%**	5.17%

The carrying amount and fair value of non-current borrowings are as follows:

	As at 31 December			
	2020		2019	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Non-current				
Bank borrowings	**24,500**	**24,776**	29,000	29,525

The fair values of non-current borrowings are based on discounted cash flows using a current borrowing rate. They are classified as level 3 fair values in the fair value hierarchy (see Note 3.4) due to the use of unobservable inputs, including own credit risk.

For the current borrowings, the fair values are not materially different to their carrying amounts, since the borrowings are of a short-term nature.

29 BORROWINGS (Continued)

Movements in borrowings are analysed as follows:

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
At beginning of year	**58,500**	40,000
New borrowings from bank	**—**	25,000
Repayments of borrowings	**(4,500)**	(6,500)
At end of year	**54,000**	58,500

30 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets and liabilities relate to income tax levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. The analysis of deferred tax assets and deferred tax liabilities is as follows:

	As at 31 December	
	2020	2019
	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	**10,457**	9,751
Deferred tax liabilities:		
— Deferred tax liabilities to be recovered within 12 months	**—**	(2,481)
— Deferred tax liabilities to be recovered after more than 12 months	**—**	(717)
	—	(3,198)
Deferred tax assets/(liabilities) — net	**10,457**	6,553

30 DEFERRED INCOME TAX (Continued)

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

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
At beginning of year	**6,553**	(3,666)
Credited		
— to profit or loss	**4,408**	9,730
— to other comprehensive income	**(478)**	478
Currency translation differences	**(26)**	11
At end of year	**10,457**	6,553

30 DEFERRED INCOME TAX (Continued)

(a) Deferred tax assets

The movement in deferred tax assets and liabilities during the years ended 31 December 2020 and 2019, without taking consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Allowance for impairment of financial assets and contract assets *RMB'000*	Tax losses *RMB'000*	Lease liabilities *RMB'000*	Others *RMB'000*	Total *RMB'000*
At 1 January 2019	14,287	—	—	643	14,930
Credited to profit or loss	3,201	482	1,354	582	5,619
Credited to other comprehensive income	—	—	—	478	478
Currency translation differences	—	11	—	—	11
At 31 December 2019	17,488	493	1,354	1,703	21,038
At 1 January 2020	**17,488**	**493**	**1,354**	**1,703**	**21,038**
Credited to profit or loss	**5,104**	**123**	**7**	**174**	**5,408**
Charged to other comprehensive income	**—**	**—**	**—**	**(478)**	**(478)**
Currency translation differences	**—**	**(26)**	**—**	**—**	**(26)**
At 31 December 2020	**22,592**	**590**	**1,361**	**1,399**	**25,942**

Deferred tax assets are recognised for tax losses carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable.

30 DEFERRED INCOME TAX (Continued)

(b) Deferred tax liabilities

	Property, plant and equipment RMB'000	Long-term payables RMB'000	Right-of-use assets RMB'000	Others RMB'000	Total RMB'000
At 1 January 2019	(11,397)	(6,712)	—	(487)	(18,596)
Credited/(charged) to profit or loss	4,725	255	(1,318)	449	4,111
At 31 December 2019	(6,672)	(6,457)	(1,318)	(38)	(14,485)
At 1 January 2020	**(6,672)**	**(6,457)**	**(1,318)**	**(38)**	**(14,485)**
Credited/(charged) to profit or loss	**226**	**(1,179)**	**(47)**	**—**	**(1,000)**
At 31 December 2020	**(6,446)**	**(7,636)**	**(1,365)**	**(38)**	**(15,485)**

31 DIVIDENDS

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Interim, paid	**6,032**	8,942
Final, proposed	**5,677**	16,612
	11,709	25,554

According to the resolutions of the Board dated 27 August 2020, the Company declared an interim dividend to the shareholders amounting to approximately HK$6,603,000 (equivalent to RMB6,032,000) (2019: HK$9,905,000 (equivalent to RMB8,942,000)), representing an interim dividend of HK0.80 cent (equivalent to RMB0.73 cent) per share (2019: HK1.20 cents (equivalent to RMB1.10 cents per share)). The interim dividend was paid in 2020.

At a meeting held on 25 March 2021, the Board proposed a final dividend of HK0.80 cent (equivalent to RMB0.68 cent) (2019:HK2.20 cents (equivalent to RMB1.97 cents)) per share for the year ended 31 December 2020, representing total amount of approximately HK$6,745,000 (equivalent to RMB5,677,000) (2019:HK$18,159,000 (equivalent to RMB16,612,000)) to be distributed from the share premium account. This dividend is not reflected as a dividend payable in these consolidated financial statements, but will be reflected as an appropriation from the share premium account for the year ending 31 December 2021.

32 CASH GENERATED FROM OPERATIONS

(a) Reconciliation of profit before income tax to cash generated from operations

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Profit before income tax	**58,897**	104,071
Adjustments for:		
— Depreciation of property, plant and equipment *(Note 14)*	**15,623**	18,988
— Depreciation of right-of-use assets *(Note 15)*	**1,863**	1,123
— Amortisation of intangible assets *(Note 17)*	**200**	245
— Net losses on disposal of property, plant and equipment *(Note 7)*	**34**	222
– Dividend income from financial assets through other comprehensive income *(Note 7)*	**(529)**	—
— Fair value gains on financial assets through profit or loss *(Note 7)*	**—**	(305)
— Provision for impairment of financial assets and contract assets *(Note 3)*	**26,800**	32,634
— Finance costs — net *(Note 10)*	**12,680**	8,830
— Net foreign exchange losses/(gains)	**14,241**	(5,426)
Operating capital before working capital changes	**129,809**	160,382
Changes in working capital:		
— Increase in restricted cash	**(55,208)**	(51,889)
— Increase in inventories	**(36,803)**	(3,404)
— (Increase)/decrease in contract assets	**(308,900)**	56,276
— Increase in contract liabilities	**97,073**	6,137
— Decrease/(increase) in trade and other receivables	**309,980**	(315,391)
— (Decrease)/increase in trade and other payables	**(92,105)**	219,609
Cash generated from operations	**43,846**	71,720

32 CASH GENERATED FROM OPERATIONS (Continued)

(b) Non-cash investing and financing activities

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Settlement of dividend distribution and amounts due from shareholders	**—**	150,000
Offsetting consideration relating to business combination under common control	**—**	84,490
Losses recognised in other comprehensive income related to equity investments	**1,531**	2,422
	1,531	236,912

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

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Net book amount for disposals *(Note 14)*	**753**	363
Losses on disposal of property, plant and equipment — net *(Note 7)*	**(34)**	(222)
Proceeds from disposal of property, plant and equipment	**719**	141

32 CASH GENERATED FROM OPERATIONS (Continued)

(d) Reconciliation of liabilities arising from financing activities

	Other assets	Liabilities from financing activities			
	Cash and cash equivalents	Borrowings (Current)	Borrowings (Non-current)	Lease liabilities	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Net debt as at 1 January 2019	484,461	(6,500)	(33,500)	—	444,461
Recognised on adoption of HKFRS 16	—	—	—	(4,318)	(4,318)
Addition of lease	—	—	—	(2,839)	(2,839)
Finance charges for lease liabilities	—	—	—	(213)	(213)
Non-cash changes — reclassification	—	(4,500)	4,500	—	—
Cash flows	(15,919)	(18,500)	—	903	(33,516)
Foreign exchange adjustments	3,169	—	—	—	3,169
Net debt as at 31 December 2019	471,711	(29,500)	(29,000)	(6,467)	406,744
Addition of lease	**—**	**—**	**—**	**(1,438)**	**(1,438)**
Finance charges for lease liabilities	**—**	**—**	**—**	**(279)**	**(279)**
Non-cash changes — reclassification	**—**	**(4,500)**	**4,500**	**—**	**—**
Cash flows	**(38,421)**	**4,500**	**—**	**1,590**	**(32,331)**
Foreign exchange adjustments	**(9,594)**	**—**	**—**	**—**	**(9,594)**
Net debt as at 31 December 2020	**423,696**	**(29,500)**	**(24,500)**	**(6,594)**	**363,102**

33 COMMITMENTS

(a) Capital commitments

As at 31 December 2020 and 2019, the Group and the Company did not have any significant capital commitments.

(b) Non-cancellable operating leases

As lessee

The Group leases various offices and land under non-cancellable operating leases expiring within one to three years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

From 1 January 2019, the Group has recognised right-of-use assets for these leases, except for short-term and low-value leases, see Notes 2.24 and 16 for further information.

Minimum lease payments under non-cancellable operating leases not recognised in the financial statements are payable as follows:

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
No later than 1 year	**300**	1,310
Later than 1 year and no later than 2 years	**150**	300
Later than 2 years and less than 3 years	**—**	150
	450	1,760

As lessor

As at 31 December 2020 and 2019, the Group had the following total future minimum lease receivables under the non-cancellable operating leases falling due as follows:

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
No later than 1 year	**1,932**	1,932
Later than 1 year and no later than 2 years	**1,932**	1,932
Later than 2 years and less than 3 years	**—**	1,932
	3,864	5,796

34 RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control, jointly control or exert significant influence over the other party in holding power over the investee; exposure, or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect the amount of the investor's returns. Parties are also considered to be related if they are subject to common control or joint control. Related parties may be individuals or other entities.

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 2020 and 2019, 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*
Mr. Wang Shizhong	Ultimate controlling shareholder	
Shanghai Third Harbor Benteng Construction and Engineering Co., Ltd. ("**Third Harbor Construction**")	Controlled by the same ultimate controlling shareholder	
Watts Gallop	Controlled by the same ultimate controlling shareholder	
Zhejiang Zhoushan Benteng Construction Material Co., Ltd. ("**Zhoushan Benteng**")	Subsidiary of Watts Gallop	
Jiangsu Shenyu Port Engineering Co., Ltd. ("**Jiangsu Shenyu**")	Subsidiary of Watts Gallop	
Zhejiang Benteng Transportation Engineering Co., Ltd. ("**Benteng Transportation**")	Associate of Watts Gallop	
Fuyang Benteng Labour Service Co., Ltd. ("**Benteng Labour**")	Controlled by the same ultimate controlling shareholder before July 2019	(i)
Zhejiang Watts Gallop Real Estate Development Co., Ltd. ("**Watts Gallop Real Estate**")	Controlled by the same ultimate controlling shareholder	
Zhejiang Sanmei Real Estate Development Co., Ltd. ("**Zhejiang Sanmei**")	Subsidiary of Watts Gallop Real Estate	
Hangzhou Huazi Greentown Real Estate Co., Ltd. ("**Hangzhou Huazi Greentown**")	Subsidiary of Watts Gallop Real Estate	
Hangzhou Fuyang Huazi Zhongwang Real Estate Co., Ltd. ("**Huazi Zhongwang**")	Subsidiary of Watts Gallop Real Estate	
Hangzhou Fuchun Rose Manor Hotel Co., Ltd. ("**Fuchun Rose Hotel**")	Subsidiary of Watts Gallop Real Estate	
Jiangsu Watts Energy & Engineering Co., Ltd. ("**Watts Energy & Engineering**")	Subsidiary of Watts Gallop	
Zhejiang Zhongjiao Tonglu Construction Co., Ltd. ("**Zhongjiao Tonglu**")	Subsidiary of Watts Gallop	
Hangzhou Fuyang Chenfan Building Materials Business Department ("**Fuyang Chenfan**")	Controlled by Ms. Xiong Guihua	
Mr. Wang Shiqin	Brother of Mr. Wang Shizhong	
Ms. Xiong Guihua	Wife of Mr. Wang Shiqin	

34 RELATED PARTY TRANSACTIONS (Continued)

(i) Benteng Labour was disposed to a third party by the Group in July 2019, accordingly, the related party transactions for the year ended 31 December 2019 represented only six months' transactions.

(a) Transactions with related parties

Save as disclosed elsewhere in these financial statements, during the years ended 31 December 2020 and 2019, the following transactions were carried out with related parties at terms mutually agreed by both parties:

(i) Provision of construction services

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Continuing connected transactions		
— Hangzhou Huazi Greentown *(a)*	**120,129**	13,780
— Hangzhou Huazi Greentown *(b)*	**46,982**	—
— Zhejiang Sanmei *(b)*	**2,655**	—
— Benteng Transportation *(c)*	**1,806**	—
— Huazi Benteng Real Estate *(b)*	**163**	—
— Huazi Zhongwang *(b)*	**976**	—
—Watts Energy & Engineering *(c)*	**875**	—
	53,457	—
Discontinued transactions		
— Hangzhou Huazi Greentown *(b)*	**—**	178,122
— Zhejiang Sanmei *(b)*	**—**	53,982
— Benteng Transportation *(c)*	**—**	13,641
	—	245,745
	173,586	259,525

(a) The Group has entered into the Greentown Fuchun Rose Garden phase 2 zone 3 Construction Agreement with Hangzhou Huazi Greentown for providing building construction services in July 2019.

(b) The Group has entered into construction services agreement and provided building construction services to these related parties during the years ended 31 December 2020 and 2019.

(c) The Group has entered into construction services agreement and provided public infrastructure construction services to these related parties during the years ended 31 December 2020 and 2019.

34 RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with related parties (Continued)

(ii) Purchases of goods and services

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Continuing connected transactions		
Purchasing raw materials		
— Jiangsu Shenyu	—	6,220
— Zhoushan Benteng	—	6,822
	—	13,042
Discontinued transactions		
Subcontracting cost		
— Benteng Labour	—	95,572
Purchasing raw materials		
— Fuyang Chenfan	—	829
— Watts Energy & Engineering	—	30
	—	96,431
	—	109,473

(iii) Rental

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Continuing connected transactions		
— Third Harbor Construction	**422**	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 entered into in the ordinary courses of business of the Group and in accordance with the terms of the underlying agreements.

34 RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with related parties (Continued)

(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	
	2020	2019
	RMB'000	*RMB'000*
Salaries, wages and allowances	**4,291**	4,223
Pension costs	**214**	244
Bonuses	**275**	196
	4,780	4,663

(b) Balances with related parties

(i) Amounts due from related parties

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Trade and retention receivables		
— Hangzhou Huazi Greentown	**107,443**	166,399
— Zhejiang Sanmei	**45,827**	84,241
— Benteng Transportation	**14,002**	18,922
— Third Harbor Construction	**4,295**	4,346
— Watts Energy & Engineering	**3,252**	5,787
— Zhongjiao Tonglu	**1,352**	1,352
— Huazi Zhongwang	**1,259**	676
— Watts Gallop Real Estate	**664**	660
— Fuchun Rose Hotel	**62**	171
	178,156	282,554

34 RELATED PARTY TRANSACTIONS (Continued)

(b) Balances with related parties (Continued)

(i) *Amounts due from related parties* (Continued)

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Contract assets		
— Hangzhou Huazi Greentown	**60,128**	5,257
— Watts Energy & Engineering	**2,010**	—
	62,138	5,257

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Other receivables		
— Benteng Transportation	**1,169**	1,169
— Hangzhou Huazi Greentown	**100**	100
	1,269	1,269

(ii) *Amounts due to related parties*

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Trade and retention payables		
— Jiangsu Shenyu Port Engineering Co., Ltd.	**16,415**	16,915
— Zhoushan Benteng	**9,086**	11,171
— Watts Energy & Engineering	**1,350**	30
— Fuyang Chenfan	**—**	109
	26,851	28,225

34 RELATED PARTY TRANSACTIONS (Continued)

(b) Balances with related parties (Continued)

(ii) Amounts due to related parties (Continued)

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Other payables		
— Watts Gallop	**13,102**	1,589
— Hangzhou Huazi Greentown	**1,086**	—
	14,188	1,589

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Long-term payables		
— Watts Gallop *(Note 21(iii))*	**50,510**	75,510

The above balances are unsecured, interest free and receivable/repayable on demand, except for long-term payables. The carrying amount of the balances appropriated their fair value as at 31 December 2020 and 2019.

(iii) Guarantees

As at 31 December 2019, the Group has been guaranteed for bank facility by related parties as follows:

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
— Watts Gallop	**170,000**	170,000

35 CONTINGENCIES

As at 31 December 2020, there is one outstanding claim against Zhejiang Benteng Municipal. According to the legal adviser for the claim, potentially liability, legal fees and costs, and interest are not expected to be significant. As such, these legal proceedings individually or in aggregate would not have material financial or operational adverse impact on the consolidated financial statements.

36 EVENTS AFTER THE BALANCE SHEET DATE

The final dividend described in Note 31 was proposed.

Other than the above and elsewhere disclosed in this report, there was no significant event of the Group occurred after the balance sheet date.

37 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	Note	As at 31 December 2020 RMB'000	2019 RMB'000
ASSETS			
Non-current assets			
Investment in subsidiaries		**189,418**	189,418
Current assets			
Trade and other receivables		**61,212**	26,330
Cash and cash equivalents		**146,772**	180,804
Total assets		**397,402**	396,552
EQUITY			
Capital			
Share capital		**7,303**	7,303
Share premium		**296,997**	313,609
Shares held for employee share scheme		**(4,756)**	—
Capital reserve	(a)	**65,859**	65,859
Accumulated losses	(a)	**(9,652)**	(27,099)
Total equity		**355,751**	359,672
Liabilities			
Current liabilities			
Trade and other payables		**150**	888
Amounts due to fellow subsidiaries		**41,501**	35,992
Total liabilities		**41,651**	36,880
Total equity and liabilities		**397,402**	396,552

The balance sheet of the Company was approved by the Board of Directors on 25 March 2021 and was signed on its behalf.

Director *Director*

37 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

(Continued)

(a) Reserve movement of the Company

	Accumulated losses *RMB'000*	Capital reserve *RMB'000*
1 January 2019	(29,574)	65,859
Profit for the year	2,475	—
At 31 December 2019	(27,099)	65,859
Profit for the year	**23,479**	**—**
Dividend distribution	**(6,032)**	**—**
At 31 December 2020	**(9,652)**	**65,859**

38 EMPLOYEE BENEFIT EXPENSES

(a) Directors and chief executive emoluments

The remuneration expenses of every director and the chief executive recorded in the consolidated statement of comprehensive income is set out below:

Name	Fees *RMB'000*	Salaries, housing allowance and other allowances *RMB'000*	Bonuses *RMB'000*	Employer's contribution to pension scheme *RMB'000*	Total *RMB'000*
For the year ended 31 December 2020					
Executive directors					
Mr. Wang Xiuchun *(i)*	—	630	—	41	671
Ms. Wan Yun *(i)(iii)*	—	533	—	26	559
Mr. Wang Shizhong *(i)(iv)*	—	175	—	—	175
Mr. Wang Lijiang *(i)*	—	291	—	21	312
Mr. Wang Likai (iv)	—	175	—	—	175
Ms. Olive Chen *(i)(v)*	—	233	—	—	233
Independent non-executive directors					
Mr. Sun Dajian *(ii)*	168	—	—	—	168
Mr. How Sze Ming *(ii)*	168	—	—	—	168
Mr. Wang Hongwei *(ii)*	168	—	—	—	168
	504	2,037	—	88	2,629

38 EMPLOYEE BENEFIT EXPENSES (Continued)

(a) Directors and chief executive emoluments (Continued)

Name	Fees *RMB'000*	Salaries, housing allowance and other allowances *RMB'000*	Bonuses *RMB'000*	Employer's contribution to pension scheme *RMB'000*	Total *RMB'000*
For the year ended 31 December 2019					
Executive directors					
Mr. Wang Xiuchun *(i)*	—	573	—	48	621
Ms. Wan Yun *(i)*	—	553	—	31	584
Mr. Wang Shizhong *(i)*	—	408	—	—	408
Mr. Wang Lijiang *(i)*	—	333	—	31	364
Ms. Olive Chen *(i)*	—	280	—	—	280
Independent non-executive directors					
Mr. Sun Dajian *(ii)*	176	—	—	—	176
Mr. How Sze Ming *(ii)*	176	—	—	—	176
Mr. Wang Hongwei *(ii)*	176	—	—	—	176
Chief executive					
Mr. Sha Yichun *(iii)*	—	71	—	12	83
	528	2,218	—	122	2,868

(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.

(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.

38 EMPLOYEE BENEFIT EXPENSES (Continued)

(a) Directors and chief executive emoluments (Continued)

(iii) Mr. Sha Yichun was appointed as the chief executive officer from 19 November 2018 to 26 March 2019. As at 27 March 2019, Ms. Wan Yun was appointed as the chief executive officer.

(iv) As at 18 June 2020, Mr. Wang Likai has been appointed as an executive director of the Company and Mr. Wang Shizhong has been re-designated from executive director of the Company to non-executive director of the Company.

(v) As at 30 October 2020, Ms. Olive Chen has resigned as the executive director of the Company.

(vi) 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 2020 and 2019.

(b) Directors' retirement benefit

There were no retirement benefits paid to any director for the years ended 31 December 2020 and 2019.

(c) Directors' termination benefits

There were no termination benefits paid to any director for the years ended 31 December 2020 and 2019.

(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 2020 and 2019.

(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 2020 and 2019.

(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 2020 and 2019.

Five Year Financial Summary

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

	Year ended 31 December				
(RMB in million)	**2020**	2019	2018 (restated) (i)	2017	2016
Revenue	**1,818**	2,050	2,308	1,412	1,264
Gross profit	**203**	247	306	159	133
Profit before income tax	**59**	104	169	113	101
Income tax expense	**(12)**	(3)	(38)	(26)	(26)
Profit for the year	**47**	101	131	87	75

	As at 31 December				
(RMB in million)	**2020**	2019	2018 (restated) (i)	2017	2016
Non-current assets	**732**	603	572	206	302
Current assets	**2,700**	2,822	3,050	1,566	1,310
Total assets	**3,432**	3,425	3,622	1,772	1,612
Non-current liabilities	**285**	339	310	193	114
Current liabilities	**2,483**	2,432	2,282	971	1,091
Total liabilities	**2,768**	2,771	2,592	1,164	1,205
Total equity	**664**	654	1,030	608	407

(i) As a result of the acquisition of Shanghai Municipal Group which has been accounted for under business combinations under common control, the Group has restated its 2018 comparative amounts of the consolidated statement of comprehensive income by including the operating results of the Shanghai Municipal Group and eliminated its transactions with the Shanghai Municipal Group, as if the acquisition had been completed on 1 January 2018. The consolidated statement of financial position of the Group as at 31 December 2018 was also restated to include the assets and liabilities of the Shanghai Municipal Group. No such restatement has been made to the consolidated statements of comprehensive income and financial position of the Group for the three years ended and as at 31 December 2016 and 2017.

Definitions

2021 AGM	the forthcoming annual general meeting of the Company to be held on Thursday, 17 June 2021
Acting-in-concert Confirmation	the acting-in-concert confirmation dated 22 August 2004 entered into among Mr. Wang Shizhong, Mr. Ye Kangshun (葉康舜), Mr. Wang Xiuchun (王秀春), Ms. Zhou Meng (周萌) and Mr. Wang Shiqin (王士勤) (as supplemented by another acting-in-concert confirmation dated 25 May 2018 entered into among the same parties and Mr. Wang Likai (王利凱))
Audit Committee	the audit committee of the Company
Acquisition	the acquisition of the entire equity interest of the Shanghai Municipal pursuant to the terms and conditions of the Sale and Purchase Agreement
Benteng Brunei	Pahaytc & Benteng JV Sdn Bhd, a company incorporated under the laws of Brunei with limited liability on January 2016
Benteng Indonesia	PT. Shanghai Third Harbor Benteng Construction and Engineering, a company incorporated under the laws of Indonesia on 16 September 2016 and obtained its legal entity status on 21 September 2016
BN$ or BND	Brunei Dollars, the lawful currency of Brunei
Board	the board of Directors of the Company
Companies Law	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
Company	Watts International Maritime Engineering Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange
COVID-19 outbreak	the outbreak of the Coronavirus Disease 2019
Engineering Prosper	Engineering Prosper Limited, a BVI business company incorporated under the laws of the BVI with limited liability on 5 January 2018 and is a direct wholly-owned subsidiary of our Company
ESG	Environmental, Social and Governance
ESG Reporting Guide	Appendix 27 Environmental, Social and Governance Reporting Guide to the Hong Kong Listing Rules
Group	the Company and its subsidiaries from time to time

Hangzhou Huazi Greentown	Hangzhou Huazi Greentown Real Estate Co., Ltd.* (杭州華滋綠城房地產有限公司), a limited liability company established in the PRC on 9 February 2007, which is indirectly held as to an aggregate of approximately 73.77% by Mr. Wang Shizhong (王士忠) and the parties acting in concert with him (including Mr. Ye Kangshun, Mr. Wang Xiuchun, Ms. Zhou Meng (周萌), Mr. Wang Shiqin and Mr. Wang Likai) and therefore is a connected person of the Company
HK$ or HK dollars	Hong Kong dollars, the lawful currency of Hong Kong
HuaZi Holding	HuaZi Holding Limited, a BVI business company incorporated under the laws of the BVI with limited liability on 8 December 2017, which is wholly owned by Mr. Wang Shizhong and a Controlling Shareholder
HuaZi Rosely	HuaZi Rosely Limited, a BVI business company incorporated under the laws of the BVI with limited liability on 5 January 2018 and is a direct wholly-owned subsidiary of our Company
HZ&BT Development Holding	HZ&BT Development Holding Limited, a BVI business company incorporated under the laws of the BVI with limited liability on 8 December 2017, which is owned as to 15.71%, 15.70%, 15.70%, 10.60%, 8.08%, 7.85%, 5.34%, 5.34%, 3.92%, 3.92%, 1.96%, 1.96%, 1.96%, 1.96% and 1.96% by Mr. Li Hongwei (李紅衛), Mr. Li Weifei (李為飛), Mr. Huang Guanming (黃冠明), Mr. Tang Jinxin (湯金鑫), Mr. Pan Xinfa (潘新法), Ms. Zhu Weier (朱衛兒), Mr. Shen Jianli (沈建力), Mr. Jin Yuhuan (金玉煥), Mr. Yan Xinsheng (閆新生), Mr. Lu Yang (魯楊), Ms. Wan Yun (萬雲), Ms. Zhu Qiulian (朱秋蓮), Mr. Xu Mingsong (徐明松) and Mr. Chen Yan (陳岩), respectively, and is a substantial shareholder
IDR	the Indonesian Rupiah, the lawful currency of Indonesia
Lanxi Watts	Lanxi Watts Construction Co., Ltd.* (蘭溪華滋建設有限公司), a limited liability company established in March 2016 under the laws of the PRC and an wholly-owned subsidiary of Zhejiang Benteng Municipal
Listing	the Company's shares were listed on the main board of the Stock Exchange on 19 November 2018
Listing Date	19 November 2018, the date on which the shares of the Company were listed on the main board of the Stock Exchange and approved for trading
Listing Rules	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time

Major Currencies	RMB, HK$, BN$, IDR and US$, the major currencies used by the Group in conducting its business
Marine Construction Services	port, waterway and maritime engineering services
Municipal Public Construction Services	services of construction of public infrastructure within cities, urban greening and construction of buildings
Nomination Committee	the nomination committee of the Company
PRC or China	People's Republic of China, except where the context requires otherwise, references in this annual report to "China" and the "PRC" do not apply to Hong Kong, Macau and Taiwan
Prospectus	the prospectus of the Company on October 30, 2018
PTPB	PT. Indo Panshi Bumi, a company established under the laws of Indonesia on 17 January 2018, the current registered holder of 33% shareholding interest in Benteng Indonesia under the Contractual Arrangements, and a connected person
PTSP	PT. Indo Sichuan Petroleum, a company established under the laws of Indonesia on 3 November 2018, the former registered holder of 33% shareholding interest in Benteng Indonesia under the Contractual Arrangements
Remuneration Committee	the remuneration Committee of the Company
Renminbi or RMB	Renminbi, the lawful currency of the PRC
Reporting Period	the period from 1 January 2020 to 31 December 2020
Sale and Purchase Agreement	the sale and purchase agreement dated 14 November 2019 (after trading hours) entered into between Third Harbor Maritime and Watts Gallop in relation to the acquisition of Shanghai Municipal
SFO	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
Shanghai Municipal	Shanghai Watts Benteng Municipal Public Engineering Co., Ltd.* (上海華滋奔騰市政工程有限公司), a company established in the PRC and acquired by the Company on 24 December 2019
Shanghai Municipal Group	Shanghai Municipal and its subsidiaries
Share(s)	ordinary shares of HK$0.01 each in the share capital of the Company
Shareholder(s)	holder(s) of the Shares

Definitions

Share Option Scheme	the share option scheme conditionally approved and adopted by the Company on 19 October 2018
Share Award Scheme	the share award scheme adopted by the Company on 24 March 2020
Stock Exchange	The Stock Exchange of Hong Kong Limited
Third Harbour Construction	Shanghai Third Harbor Benteng Construction and Engineering Co., Ltd.* (上海三航奔騰建設工程有限公司) (formerly known as First Engineering Company of Third Harbor Bureau* (第三航務工程局第一工程公司)), a company established under the laws of the PRC as a limited liability company on 1 June 1989
Third Harbor Maritime	Shanghai Third Harbor Benteng Maritime Engineering Co., Ltd.* (上海三航奔騰海洋工程有限公司), established under the laws of the PRC as a limited liability company on 14 August 2017, and a wholly-owned subsidiary of our Company
US$, USD or US dollars	U.S. dollars, the lawful currency of U.S.
Watts Gallop	Shanghai Watts Gallop Holding Group Co., Ltd. (formerly known as Zhejiang Benteng Investment Co., Ltd.* (浙江奔騰投資有限公司) and Zhejiang Benteng Investment Group Co., Ltd.* (浙江奔騰投資集團有限公司), a company established under the laws of the PRC on November 2003
Watts Gallop Group	Watts Gallop and its subsidiaries
Zhejiang Benteng Municipal	Zhejiang Benteng Municipal Gardening Construction Engineering Co., Ltd. (浙江奔騰市政園林建設工程有限公司), a company established in the PRC on December 1999 with limited liability, formerly known as Fuyang Municipal Engineering Company (富陽市政工程公司)

* *For identification purposes only*