



华滋国际海洋股份有限公司

Watts International Maritime Company Limited

(Incorporated in the Cayman Islands with limited liability)

Stock code : 2258



INTERIM REPORT
2023

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Corporate Information

Directors

Executive Directors

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

Non-executive Director

Mr. Wang Shizhong (王士忠)

Independent non-executive Directors

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

Audit committee

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

Remuneration committee

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

Nomination committee

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

Joint company secretaries

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

Authorised representatives

Ms. Wan Yun (萬雲)
Ms. Zhang Xiao (張瀟)

Registered address in the Cayman Islands

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

Principal place of business and headquarters in the PRC

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

Principal place of business in Hong Kong

40th Floor, Dah Sing Financial Centre
No. 248 Queen's Road East
Wanchai, 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

Shops 1712–1716,
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

Principal banks

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

Company's website

www.shbt-china.com

Stock code

02258

Management Discussion and Analysis

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

Business Review

In the first half of 2023, despite the adverse impact of shrinking market demand and increasing competition pressure, the Group adhered to the general principle of seeking progress while ensuring stability and continued to improve risk management and internal control so as to achieve steady progress in core business income.

The following table sets forth a breakdown of the Group's revenue by segment for the six months ended 30 June 2023:

	Revenue recognised during the Reporting Period (Unaudited) (RMB million)
Marine construction (including infrastructure construction of ports, waterway engineering and other services)	266.8
Municipal public construction (including construction of public infrastructure within cities, urban greening and construction of buildings)	<u>771.8</u>
Total	<u>1,038.6</u>

Future Plans and Prospects

Along with the slow recovery of the world economy, the infrastructure construction market is expected to rise. The Group will be committed to the marine and municipal public construction market, and will explore new areas of environmental technology business where appropriate, optimise project cost and expense control and enhance business profit margins, with a view to improving returns to Shareholders.

In terms of the domestic market in China, the national economic growth remains on a positive trajectory over the long run, and the basket of national policies to stabilise growth has continued to gain momentum. Supported by the policy of accelerating the implementation of the major projects under the “14th Five-Year Plan”, strengthening the construction of transportation, energy, water conservancy and other infrastructure, and strengthening the interconnection of regional infrastructure, there are still opportunities in the field of infrastructure construction. The Group will continue to pay attention to new opportunities in the market development of ports, terminals and municipal public engineering projects, build core technologies and core teams around core businesses, enhance its market participation, increase continuous investment in environmental technology business, and steadily explore new market areas.

In terms of the international market, the global market and economic environment remain complex and severe. However, there is a large market potential in the field of infrastructure construction as a result of the continuously increasing demand for infrastructure construction in overseas developing countries. The Group will continue to deepen its presence in the Southeast Asian market, give full play to its pioneer advantages, further expand its market share in the Southeast Asian infrastructure market while controlling risks and participate in the construction of the “Belt and Road” initiative with high quality.

Financial Overview

Revenue

The Group’s consolidated revenue in the first half of 2023 was RMB1,038.6 million, representing a year-on-year increase of approximately 1.4% from RMB1,024.0 million in the same period of last fiscal year. The main operation income was divided into marine construction segment, and municipal public construction segment during the Reporting Period, with revenues of RMB266.8 million and RMB771.8 million, respectively. Revenues from the PRC and Southeast Asia in the first half of 2023 were RMB1,005.6 million and RMB33.0 million, respectively. The increase in revenue in the first half of 2023 was mainly attributable to the fact that the Group has undertaken more projects and strengthened project management resulting in faster project progress.

Cost of sales and profits from main operations

The consolidated cost of sales in the first half of 2023 was RMB967.9 million, representing an increase of 2.6% from RMB943.1 million in the first half of 2022. The costs of marine construction segment and municipal public construction segment in the first half of 2023 were RMB234.7 million and RMB733.2 million, respectively. In the first half of 2023, costs incurred in the PRC and Southeast Asia were RMB936.3 million and RMB31.6 million, respectively.

Cost of sales mainly consists of the cost of used raw materials and consumables and subcontracting costs. In the first half of 2023, cost of used raw materials and consumables and subcontracting costs were RMB480.3 million and RMB413.0 million, representing a decrease of 8.4% and an increase of 20.3% from the first half of 2022, respectively. The Group's profit from main operations largely depends on the location and composition of the project. In the first half of 2023, the Group's consolidated profit from main operations was RMB70.7 million, a decrease of 12.6% from RMB80.9 million in the first half of 2022. The gross profits from the marine construction segment and municipal public construction segment in the first half of 2023 were RMB32.1 million and RMB38.6 million, respectively. The gross profits from the PRC and Southeast Asia were RMB69.3 million and RMB1.4 million, respectively.

Operating profit in the first half of 2023 was RMB29.7 million, representing an increase of 1.7% from RMB29.2 million in the first half of 2022, mainly due to the reduced management fees as a result of the Group's efforts on cost control.

Administrative expenses

The administrative expenses in the first half of 2023 were RMB37.7 million, representing a decrease of 28.6% compared to RMB52.8 million in the first half of 2022, mainly due to the decrease in administrative expenses as a result of the decrease in research and development expenditure and enhanced cost control.

Income tax expense

The Group's income tax expense in the first half of 2023 was RMB5.7 million, representing an increase of 67.6% compared to RMB3.4 million in the first half of 2022, mainly due to the decrease in research and development expenses during the period, resulting in a decrease in the income tax deduction for research and development expenses as compared with the corresponding period of last year, and thus an increase in income tax expenses.

Trade and other receivables

The Group's net trade and other receivables decreased to RMB1,368.2 million as at 30 June 2023 (as at 31 December 2022: RMB1,529.1 million), which mainly comprised of progress receivables on projects, receivables on project completion, delivery and settlement, and retention receivables on completed projects. The decrease of trade and other receivables in the first half of 2023 was mainly due to the completion of some projects and the collection of payments due. The Group has assessed the expected credit losses and has made proper provisions for impairment losses. The Group's net contract assets increased by RMB91.5 million to RMB1,157.3 million as at 30 June 2023 from RMB1,065.8 million as at 31 December 2022.

Trade and other payables

The Group's trade and other payables decreased to RMB2,108.6 million as at 30 June 2023 (as at 31 December 2022: RMB2,293.9 million), mainly due to the impact of the supply shock, the Group strengthened the management of suppliers and subcontractors and payment of amounts due. The Group's trade and other payables decreased accordingly.

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 RMB179.0 million (as at 31 December 2022: RMB174.2 million) and RMB389.2 million (as at 31 December 2022: RMB540.2 million), respectively as at 30 June 2023.

As at 30 June 2023, The Group's restricted cash was approximately RMB142.5 million (as at 31 December 2022: RMB166.3 million). Cash received for specified project expenditure mainly represents deposits at bank received from customers as progress payments for certain projects, however, those deposits at bank are assigned for the expenditure of relative projects, which require additional approval by the person appointed by customers before the completion of the project. The restricted cash will be recognised as free operating cash inflow when approvals are available or the project is completed.

The Group's gearing ratio (calculating by dividing total liabilities by total assets) as at 30 June 2023 was 77.2% (as at 31 December 2022: 78.7%). The Group's bank borrowings as at 30 June 2023 were RMB214.0 million (as at 31 December 2022: RMB233.9 million) which are denominated in RMB and with fixed interest rate.

Charges on assets

As at 30 June 2023, the Group pledged long-term trade receivables with carrying amount of approximately RMB43.6 million (as at 31 December 2022: RMB44.1 million) for the long-term bank borrowings amounted to RMB17.0 million (as at 31 December 2022: RMB19.5 million).

As at 30 June 2023, bills receivables with a total net book amount of RMB10.3 million (as at 31 December 2022: RMB21.6 million) and trade receivables with a total net book amount of RMB6.0 million (as at 31 December 2022: RMB6.0 million) were pledged as collateral for the Group's bank borrowings amounted to RMB16.3 million (as at 31 December 2022: RMB27.6 million).

Foreign exchange

Operations of the Group are mainly conducted in the Major Currencies. The Group did not adopt any hedging policy and the Directors considered that the exposure to foreign exchange risks can be mitigated by using the Major Currencies (i) as principal currencies for contracts entered into by and between the Group and its customers; (ii) to settle payments to our suppliers and operating expenses where possible; and (iii) certain amounts of cash and bank balances are denominated in US\$. In the event that settlements from the Group's customer are received in a currency other than the Major Currencies, such currency will be retained for payment of operating expenditures when necessary and the remaining amount will be converted to HK\$ or US\$ promptly.

Capital expenditures and commitments

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

As at 30 June 2023, the Group had no major capital commitments.

Contingent liabilities

As at 30 June 2023, there are two outstanding claims against Watts Gallop Construction. According to the legal advisers for the claims, potential liability, legal fees and costs, and interest are not expected to be significant. As such, these legal proceedings individually or in aggregate would not have material financial or operational adverse impact on the Group's condensed consolidated interim financial statements.

Material acquisition and disposal of subsidiaries, associates and joint ventures

For the six months ended 30 June 2023, the Group had no material acquisition and disposal of subsidiaries, associates and joint ventures.

Significant investment held

As at 30 June 2023, the Group had no significant investment or future plans for significant investments or capital assets.

Use of Proceeds

The Group's net proceeds from the Listing were approximately HK\$202.9 million. As at 30 June 2023, the utilisation of net proceeds raised by the Group from the Listing is as below:

(HK\$ million)

	Original allocation of net proceeds as stated in the Prospectus	First Revised allocation of net proceeds	Second Revised allocation of net proceeds	Unutilised as at 31 December 2022	Utilised during the Reporting Period	Unutilised as at 30 June 2023	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 & 3)	—	44.2	113.0 (note 3)	—	—	68.8	June 2024 or before
Purchasing new vessels and construction equipment and repair and maintenance of vessels and construction equipment (Note 2)	—	11.2	11.2	—	—	—	—
Recruiting talent	13.0	13.0	13.0	—	—	—	—
Strategic equity investment	68.8	68.8	— (note 3)	68.8	—	—	—
General working capital	19.9	19.9	19.9	—	—	—	—
	<u>202.9</u>	<u>202.9</u>	<u>202.9</u>	<u>68.8</u>	<u>—</u>	<u>68.8</u>	

Notes:

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

Management Discussion and Analysis

3. On 15 June 2023, the Board resolved to change the use of the proceeds for strategic equity investment which remains unutilised and approved that such amount of approximately HK\$68.8 million shall be reallocated as funding the capital needs and cash flow under the Group's port, waterway and marine engineering projects. For details, please refer to the Company's announcement dated 15 June 2023.

Interim Dividend

The Company has established a dividend policy, pursuant to which the Board reserves the right to declare and distribute dividends to the shareholders of the Company as and when appropriate. In considering whether to declare a dividend, the Board shall also take into account the results of operations, cash flows, financial condition, statutory and regulatory restrictions, future development, business strategies and any other factors that the Board may consider relevant.

Having considered the above factors, in particular, the need to maintain sufficient cash flow for daily operation and expansion, the Board has resolved not to declare any dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: Nil).

Employees and remuneration policies

As at 30 June 2023, the Group had a total of 484 employees. In particular, Third Harbor Maritime had 114 employees, Benteng Indonesia had 38 employees (including 13 Chinese employees who are appointed by Third Harbor Maritime, they have entered into employment contracts with Third Harbor Maritime, and we have purchased the relevant insurance for them in both China and Indonesia), Benteng Brunei had 1 employee (1 Chinese employee who is appointed by Third Harbor Maritime and has entered into employment contracts with Third Harbor Maritime, and we have purchased the relevant insurance for him in China), Watts Environmental had 39 employees, Shanghai Municipal Group and its subsidiaries had 292 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, medical insurance, unemployment insurance and housing allowances. The staff costs, including Directors' emoluments, of the Group were approximately RMB31.3 million for the Reporting Period (six months ended 30 June 2022: approximately RMB32.3 million).

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

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.

Disclosure of Interests and Other Information

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and Its Associated Corporations

As at 30 June 2023, the interests and/or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise should be notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 of the Listing Rules were as follows:

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

Notes:

- All interests stated are long positions.
- The calculation is based on the total number of 825,400,000 Shares in issue as at 30 June 2023.
- 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 at 30 June 2023, none of the Directors and chief executive of the Company had or was deemed to have 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 pursuant to Part XV of the SFO, as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise should be notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 of the Listing Rules.

Disclosure of Interests and Other Information

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares of the Company

As at 30 June 2023, 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 Interest held jointly with another person	104,324,869 <u>315,467,967</u>	
		419,792,836	50.86%
Ms. Zhou Meng(周萌) (3)(4)(5)(6)	Interest held jointly with another person	419,792,836	50.86%
Mr. Wang Shiqin (王士勤) ⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾	Interest held jointly with another person	419,792,836	50.86%
HZ&BT Development Holding Limited	Beneficial Owner	143,542,720	17.39%

Notes:

- All interests stated are long positions.
- The calculation is based on the total number of 825,400,000 Shares in issue as at 30 June 2023.
- 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 Shares held by HuaZi Holding Limited.
- 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.
- 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, each of Mr. Wang Shizhong (王士忠), Mr. Ye Kangshun (葉康舜), Mr. Wang Xiuchun (王秀春), Ms. Zhou Meng (周萌), Mr. Wang Shiqin (王士勤) and Mr. Wang Likai (王利凱) is deemed to be interested in the Shares held by HuaZi Holding Limited and Ye Wang Zhou Holding Limited.

Save as disclosed above, as at 30 June 2023, none of the Directors of the Company 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.

Purchase, Sale or Redemption of the Company's 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 the Share Option Scheme pursuant to the written resolutions of the then Shareholders on 19 October 2018, which enabled the Company to grant share options to the eligible persons as an incentive and reward for their best contribution to the Group. Since the Listing Date and up to 30 June 2023, no share option was granted, exercised, expired or lapsed and there is no outstanding share option under the Share Option Scheme.

The number of options available for grant under the Share Option Scheme mandate at the beginning and the end of the Reporting Period are both 82,540,000.

Share Award Scheme

On 24 March 2020, the Company has adopted the Share Award Scheme to, among other things, recognise 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 is initially valid and effective for the period commencing on the adoption date (i.e. 24 March 2020) and ending on the business day immediately prior to the 10th anniversary of the adoption date.

Since the adoption date of the Share Award Scheme and up to 30 June 2023, no share award was granted, exercised, expired or lapsed and there is no outstanding share award under the Share Award Scheme.

The number of awards available for grant under the Share Award Scheme mandate previously approved by the Board at the beginning and the end of the Reporting Period are both 82,540,000.

Disclosure of Interests and Other Information

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 code provisions in Part 2 of the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. The Company has complied with all applicable code provisions under CG Code during the Reporting Period.

Change in Director’s Information

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of Directors subsequent to the date of the annual report of the Company for the year ended 31 December 2022 are set out below:

Mr. Wang Hongwei (王洪衛), an independent non-executive Director, resigned as an independent director of Shanghai Shimao Co., Ltd. (上海世茂股份有限公司, Shanghai Stock Exchange stock code: 600823), with effect from 11 August 2023.

Save as disclosed above, the Company is not aware of any other information which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Model Code for Securities Transactions by Directors

The Group has adopted the Model Code 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 have confirmed that they have fully complied with the relevant requirements set out in the Company’s own code of conduct and the Model Code during the Reporting Period.

Review of Interim Results by Audit Committee

The Audit Committee has discussed with the management of the Company and reviewed the unaudited consolidated financial statements of the Group for the Reporting Period. There is no disagreement by the Audit Committee with the accounting treatment policy adopted by the Company.

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

Shanghai, 24 August 2023

Condensed Consolidated Interim Statement of Comprehensive Income

For the six months ended 30 June 2023

	Notes	Six months ended 30 June	
		2023 Unaudited RMB'000	2022 Unaudited RMB'000
Revenue	5	1,038,568	1,024,056
Cost of sales	5	(967,905)	(943,084)
Gross profit		70,663	80,972
Selling and distribution expenses		(2,430)	(1,747)
Administrative expenses		(37,698)	(52,758)
Net impairment losses on financial assets	3.1(b)	(6,289)	(5,286)
Other operating expenses		(183)	(179)
Other income		2,342	2,593
Other gains — net		3,313	5,630
Operating profit	6	29,718	29,225
Finance income		3,419	2,110
Finance costs		(15,450)	(12,626)
Finance costs — net		(12,031)	(10,516)
Profit before income tax		17,687	18,709
Income tax expense	7	(5,685)	(3,408)
Profit for the period		12,002	15,301
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Currency translation differences		(1,513)	509
Changes in the fair value of equity instruments at fair value through other comprehensive income, net of tax		(347)	(482)
Other comprehensive income for the period, net of tax		(1,860)	27
Total comprehensive income for the period attributable to the Shareholders of the Company		10,142	15,328
Earnings per share for profit attributable to the Shareholders of the Company (expressed in RMB cents per share):			
— Basic earnings per share	8	1.47	1.87
— Diluted earnings per share	8	1.47	1.87

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

Condensed Consolidated Interim Statement of Financial Position

As at 30 June 2023

	<i>Notes</i>	30 June 2023 Unaudited RMB'000	31 December 2022 Audited RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	9	70,676	77,081
Right-of-use assets		12,518	12,464
Intangible assets		59	147
Contract assets	5	550,150	535,359
Trade and other receivables	10	112,680	129,422
Deferred tax assets		22,905	21,696
Financial assets at fair value through other comprehensive income	3.3	14,927	15,287
		783,915	791,456
Current assets			
Inventories		41,154	11,993
Contract assets	5	607,125	530,401
Trade and other receivables	10	1,255,510	1,399,712
Financial assets at fair value through profit or loss	3.3	—	1,300
Time deposits	11	1,815	—
Restricted cash	12	142,548	166,281
Cash and cash equivalents	12	389,168	540,175
		2,437,320	2,649,862
Total assets		3,221,235	3,441,318

Condensed Consolidated Interim Statement of Financial Position

As at 30 June 2023

	Notes	30 June 2023 Unaudited RMB'000	31 December 2022 Audited RMB'000
EQUITY			
Capital and reserves			
Share capital	13	7,303	7,303
Share premium	13	273,309	280,092
Other reserves		29,827	30,385
Shares held for employee share scheme		(4,756)	(4,756)
Retained earnings		429,342	418,642
Total equity		735,025	731,666
LIABILITIES			
Non-current liabilities			
Borrowings	15	12,000	14,500
Lease liabilities		3,517	3,003
Trade and other payables	14	211,043	215,180
Deferred tax liabilities		1,283	1,266
		227,843	233,949
Current liabilities			
Lease liabilities		2,158	1,498
Borrowings	15	204,261	231,411
Trade and other payables	14	1,897,574	2,078,719
Income tax payables		18,809	25,746
Contract liabilities	5	135,565	138,329
		2,258,367	2,475,703
Total liabilities		2,486,210	2,709,652
Total equity and liabilities		3,221,235	3,441,318

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

Condensed Consolidated Interim Statement of Changes in Equity

For the six months ended 30 June 2023

	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 2022	7,303	(4,756)	291,505	14,404	394,904	703,360
Comprehensive income						
Profit for the period	—	—	—	—	15,301	15,301
Currency translation differences	—	—	—	509	—	509
Changes in the fair value of equity instruments at fair value through other comprehensive income, net of tax	—	—	—	(482)	—	(482)
Total comprehensive income	—	—	—	27	15,301	15,328
Appropriation to statutory reserves	—	—	—	2,637	(2,637)	—
Dividends distribution to shareholders	—	—	(10,813)	—	—	(10,813)
Balance at 30 June 2022 (Unaudited)	7,303	(4,756)	280,692	17,068	407,568	707,875
Balance at 1 January 2023	7,303	(4,756)	280,092	30,385	418,642	731,666
Comprehensive income						
Profit for the period	—	—	—	—	12,002	12,002
Currency translation differences	—	—	—	(1,513)	—	(1,513)
Changes in the fair value of equity instruments at fair value through other comprehensive income, net of tax	—	—	—	(347)	—	(347)
Total comprehensive income	—	—	—	(1,860)	12,002	10,142
Appropriation to statutory reserves	—	—	—	1,302	(1,302)	—
Dividends distribution to shareholders	—	—	(6,783)	—	—	(6,783)
Balance at 30 June 2023 (Unaudited)	7,303	(4,756)	273,309	29,827	429,342	735,025

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

Condensed Consolidated Interim Statement of Cash Flows

For the six months ended 30 June 2023

	Notes	Six months ended 30 June	
		2023 Unaudited RMB'000	2022 Unaudited RMB'000
Cash flows from operating activities			
Cash used in operations		(102,824)	(250,705)
Income tax paid		(13,801)	(8,949)
Net cash used in operating activities		(116,625)	(259,654)
Cash flows from investing activities			
Purchase of property, plant and equipment		(2,201)	(6,762)
Purchases of time deposits with maturities of one year		(1,800)	—
Payment for financial assets at fair value through profit or loss		—	(1,300)
Proceeds from disposal of property, plant and equipment		2,927	127
Proceeds from disposal of right-of-use assets		1,267	—
Proceeds of financial assets at fair value through profit or loss		1,300	—
Interest received		2,156	747
Dividends received from financial assets at fair value through other comprehensive income		46	40
Net cash generated from/(used in) investing activities		3,695	(7,148)
Cash flows from financing activities			
Proceeds from borrowings	15	116,491	191,294
Repayments of borrowings	15	(146,141)	(102,500)
Interest paid		(6,079)	(3,686)
Lease payment		(480)	(385)
Net cash (used in)/generated from financing activities		(36,209)	84,723
Net decrease in cash and cash equivalents		(149,139)	(182,079)
Cash and cash equivalents at beginning of the period		540,175	443,833
Effects of exchange rate changes on cash and cash equivalents		(1,868)	6,134
Cash and cash equivalents at the end of the period		389,168	267,888

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

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2023

1 GENERAL INFORMATION

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

The Company, an investment holding company, and its subsidiaries (together, “**the Group**”) provide marine construction and municipal public construction 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 condensed consolidated interim financial statements are presented in Renminbi (“**RMB**”), unless otherwise stated, and were approved for issue by the Board of Directors (the “**Board**”) on 24 August 2023.

The condensed consolidated interim financial statements have not been audited.

2 BASIS OF PREPARATION

This condensed consolidated interim financial statements for the half-year reporting period ended 30 June 2023 have been prepared in accordance with Accounting Standard HKAS 34 *Interim Financial Reporting*.

The condensed consolidated interim financial statements do not include all the notes of the type normally included in an annual financial statements. Accordingly, these statements are to be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2022 and any public announcements made by the Company during the interim reporting period.

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2022, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total earnings.

2 BASIS OF PREPARATION (Continued)

(a) New and amended standards adopted by the Group

A number of new or amended standards and interpretations became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

		Effective for annual periods beginning on or after
HKFRS 17	Insurance Contracts	1 January 2023
HKAS 8 (Amendments)	Definition of Accounting Estimates	1 January 2023
HKAS 12 (Amendments)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
HKAS 12 (Amendments)	International Tax Reform — Pillar Two Model Rules	1 January 2023
HKAS 1 and HKFRS Practice Statement 2 (Amendments)	Disclosure of Accounting Policies	1 January 2023

(b) New and amended standards and interpretations not yet adopted

The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2023 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2024
HKAS 1 (Amendments)	Non-current liabilities with covenants	1 January 2024
HKFRS 16 (Amendments)	Lease liability in sale and leaseback	1 January 2024
HKAS 7 and HKFRS 7 (Amendments)	Supplier Finance Arrangements	1 January 2024
HK Int 5 (Revised)	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	Applied when an entity applies Amendments to HKAS 1
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Group is assessing the full impact of the new standards, new interpretations and amendments to standards and interpretations.

For the six months ended 30 June 2023

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.

The condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2022.

There has been no change in the risk management policies approved by the board of directors since year end.

(a) Market risk

(i) Foreign exchange risk

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

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

At 30 June 2023, if RMB had strengthened/weakened by 5% against the US\$, BN\$ and IDR with all other variables held constant, the total profit for the period ended 30 June 2023 would have been RMB6,996,000 lower/higher (period ended 30 June 2022: RMB5,183,000 lower/higher), mainly as a result of foreign exchange losses/gains on translation of US\$, BN\$ and IDR 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. 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, long-term trade receivables and contract assets. The carrying amounts of each class of these financial assets represent the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

(i) Risk management

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

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Especially the following indicators are incorporated:

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

(ii) Impairment of financial assets

The Group has several types of financial assets that are subject to the expected credit loss model, 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.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2023

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 30 June 2023 or 30 June 2022 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has considered evidence from external sources including the relevant public search results relating to the financial circumstances of the customers and expected behaviour including method of payments or payments period, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Trade and retention receivables

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

Individually impaired trade receivables and retention receivables are related to customers who are experiencing unexpected economic difficulties. The Group expects that the entire amounts of the receivables will have difficulty to be recovered and has recognised impairment losses. For the six months ended 30 June 2023, no individually impaired trade and retention receivables were identified (2022: Nil).

3 FINANCIAL RISK MANAGEMENT (Continued)**3.1 Financial risk factors** (Continued)**(b) Credit risk** (Continued)*(ii) Impairment of financial assets* (Continued)

Trade and retention receivables (Continued)

As at 30 June 2023 and 31 December 2022, the remaining 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 30 June 2023 (Unaudited)					
Expected loss rate	2.26%	3.98%	8.85%	25.03%	
Gross carrying amount	210,140	101,658	52,825	97,510	462,133
Total loss allowance provision	4,741	4,042	4,677	24,403	37,863
Retention receivables					
At 30 June 2023 (Unaudited)					
Expected loss rate	9.40%	14.61%	17.30%	58.98%	
Gross carrying amount	31,543	44,299	15,098	54,364	145,304
Total loss allowance provision	2,966	6,473	2,611	32,063	44,113

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2023

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Trade and retention receivables (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
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Trade receivables

At 31 December 2022

Expected loss rate	2.03%	3.63%	8.23%	23.39%	
Gross carrying amount	260,143	108,271	46,065	97,858	512,337

Total loss allowance provision	5,273	3,934	3,793	22,891	35,891
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	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
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Retention receivables

At 31 December 2022

Expected loss rate	8.98%	13.95%	16.77%	69.34%	
Gross carrying amount	62,051	8,843	44,160	39,166	154,220

Total loss allowance provision	5,574	1,234	7,403	27,160	41,371
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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
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Trade receivables

At 30 June 2023 (Unaudited)

Expected loss rate	3.36%	8.96%	20.94%	72.33%	
Gross carrying amount	315,363	109,863	27,241	17,417	469,884

Total loss allowance provision	10,594	9,844	5,703	12,597	38,738
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3 FINANCIAL RISK MANAGEMENT (Continued)**3.1 Financial risk factors** (Continued)**(b) Credit risk** (Continued)*(ii) Impairment of financial assets* (Continued)

Trade and retention receivables (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 30 June 2023 (Unaudited)					
Expected loss rate	5.60%	30.11%	44.47%	98.95%	
Gross carrying amount	102,840	2,088	2,434	3,765	111,127
Total loss allowance provision	5,760	629	1,082	3,725	11,196
	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 3 years RMB'000	Over 3 years RMB'000	Total RMB'000
Trade receivables					
At 31 December 2022					
Expected loss rate	3.10%	8.50%	20.41%	64.48%	
Gross carrying amount	422,340	78,626	30,496	23,938	555,400
Total loss allowance provision	12,904	6,683	6,223	15,436	41,246
	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 3 years RMB'000	Over 3 years RMB'000	Total RMB'000
Retention receivables					
At 31 December 2022					
Expected loss rate	5.11%	29.56%	43.91%	98.15%	
Gross carrying amount	119,556	1,848	2,509	4,916	128,829
Total loss allowance provision	6,111	546	1,102	4,825	12,584

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

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 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. Since the contract assets are still in performing, the payment is not due.

Individually impaired contract assets are related to projects under litigation claims. Management makes individual assessment on these contract assets based on historical settlement records, past experience, pledged assets as well as forward looking factors. As at 30 June 2023, the contract assets of RMB20,145,000 from two customers are under litigation claims. The Group made an individual loss allowance of RMB5,743,000 for these contract assets for the six months ended 30 June 2023 (2022: RMB5,704,000).

The expected loss rates of the remaining contract assets are assessed to be 2.26% for marine construction and 3.36% for municipal public construction (2022: 2.03% and 3.10%, respectively), which are the same as that of trade receivables past due up to one year, respectively.

As at 30 June 2023, the loss allowance for provision for contract assets of marine construction and municipal public construction was approximately RMB8,229,000 and RMB33,076,000 (2022: RMB7,219,000 and RMB28,170,000, 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 receivables is assessed to be the same as that of the trade receivables past due up to one year. As at 30 June 2023, the loss allowance for provision for long-term trade receivables was approximately RMB3,314,000 (2022: RMB3,099,000).

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Long-term trade receivables (Continued)

The loss allowance provision for trade receivables, retention receivables, long-term trade receivables and contract assets as at 30 June 2023 and 2022 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 2022 (Audited)	86,210	23,335	1,750	29,100	140,395
Provision for/(reversal of) loss allowance recognised in consolidated statement of comprehensive income	4,394	2,087	39	(1,234)	5,286
Currency translation differences	29	37	—	3	69
At 30 June 2022 (Unaudited)	90,633	25,459	1,789	27,869	145,750
	Trade receivables RMB'000	Retention receivables RMB'000	Long- term trade receivables RMB'000	Contract assets RMB'000	Total RMB'000
At 1 January 2023 (Audited)	77,137	53,955	3,099	35,389	169,580
(Reversal of)/provision for loss allowance recognised in consolidated statement of comprehensive income	(807)	1,099	215	5,782	6,289
Currency translation differences	271	255	—	134	660
At 30 June 2023 (Unaudited)	76,601	55,309	3,314	41,305	176,529

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2023

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Other receivables

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

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

Cash and cash equivalents

While cash and cash equivalents 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 six months ended 30 June 2023 and 2022, the following losses were recognised in profit or loss in relation to impaired financial assets and contract assets:

	Six months ended 30 June	
	2023	2022
	Unaudited	Unaudited
	RMB'000	RMB'000
Impairment losses		
— movement in loss allowance for financial assets and contract assets	(6,289)	(5,286)
Net impairment losses on financial assets and contract assets	(6,289)	(5,286)

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

3 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 2022 (Audited)					
Bank borrowings	234,042	5,690	10,104	—	249,836
Lease liabilities	1,649	373	1,155	2,173	5,350
Trade and other payables	1,916,184	109,389	127,046	2,915	2,155,534
	<u>2,151,875</u>	<u>115,452</u>	<u>138,305</u>	<u>5,088</u>	<u>2,410,720</u>
	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 30 June 2023 (Unaudited)					
Bank borrowings	207,631	5,559	7,358	—	220,548
Lease liabilities	2,415	721	1,136	2,583	6,855
Trade and other payables	1,790,780	183,035	66,596	1,522	2,041,933
	<u>2,000,826</u>	<u>189,315</u>	<u>75,090</u>	<u>4,105</u>	<u>2,269,336</u>

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2023

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 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

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
At 30 June 2023 (Unaudited)				
Financial assets at fair value through other comprehensive income	3,647	—	11,280	14,927

Recurring fair value measurements

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

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

(a) Financial assets and liabilities (Continued)

(i) Fair value hierarchy (Continued)

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. The quoted market price already incorporates the market's assumptions with respect to changes in economic climate such as rising interest rates and inflation, as well as changes due to ESG risk. 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 and for instruments where ESG risk gives rise to a significant unobservable adjustment.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2023

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 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 30 June 2023 and 31 December 2022, the level 1 instrument of the Group mainly includes investment in listed securities, the fair value of the equity instrument is based on quoted market price at the end of the year. The instrument is included in level 1.

As at 30 June 2023, the level 3 instrument of the Group mainly includes investment in equity securities that are not publicly traded.

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

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

For the Group's investments in equity securities in level 3 that are not publicly traded, the Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date to assess the fair value.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2022.

5 SEGMENT INFORMATION

(a) Description of segments and principal activities

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

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

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

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

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2023

5 SEGMENT INFORMATION (Continued)

(b) Segment results and other information

The segment information for the six months ended 30 June 2023 is as follows:

	<u>Six months ended 30 June 2023 (Unaudited)</u>		
	Marine construction <i>RMB'000</i>	Municipal public construction <i>RMB'000</i>	Total <i>RMB'000</i>
Revenue	266,798	771,770	1,038,568
Cost of sales	<u>(234,710)</u>	<u>(733,195)</u>	<u>(967,905)</u>
Gross profit	<u>32,088</u>	<u>38,575</u>	<u>70,663</u>
Unallocated items:			
Operating expenses			(46,600)
Other income			2,342
Other gains — net			3,313
Finance costs — net			<u>(12,031)</u>
Profit before income tax			17,687
Income tax expense (<i>Note 7</i>)			<u>(5,685)</u>
Profit for the period			<u>12,002</u>
Segment items included:			
Depreciation and amortisation	(5,163)	(3,483)	(8,646)
Net impairment losses on financial assets (<i>Note 3.1</i>)	<u>(5,063)</u>	<u>(1,226)</u>	<u>(6,289)</u>

The segment assets and liabilities as at 30 June 2023 are as follows:

	<u>As at 30 June 2023 (Unaudited)</u>			Total <i>RMB'000</i>
	Marine construction <i>RMB'000</i>	Municipal public construction <i>RMB'000</i>	Inter-segment elimination <i>RMB'000</i>	
Total assets	<u>1,379,129</u>	<u>1,946,202</u>	<u>(104,096)</u>	<u>3,221,235</u>
Total liabilities	<u>938,457</u>	<u>1,651,849</u>	<u>(104,096)</u>	<u>2,486,210</u>

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2023

5 SEGMENT INFORMATION (Continued)

(b) Segment results and other information (Continued)

The segment information for the six months ended 30 June 2022 is as follows:

	Six months ended 30 June 2022 (Unaudited)		
	Marine construction <i>RMB'000</i>	Municipal public construction <i>RMB'000</i>	Total <i>RMB'000</i>
Revenue	240,312	783,744	1,024,056
Cost of sales	<u>(229,977)</u>	<u>(713,107)</u>	<u>(943,084)</u>
Gross profit	<u>10,335</u>	<u>70,637</u>	<u>80,972</u>
Unallocated items:			
Operating expenses			(59,970)
Other income			2,593
Other losses — net			5,630
Finance costs — net			<u>(10,516)</u>
Profit before income tax			18,709
Income tax expense (<i>Note 7</i>)			<u>(3,408)</u>
Profit for the period			<u>15,301</u>
Segment items included:			
Depreciation and amortisation	(6,100)	(3,921)	(10,021)
Net impairment losses on financial assets (<i>Note 3.1</i>)	<u>(2,901)</u>	<u>(2,385)</u>	<u>(5,286)</u>

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

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

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2023

5 SEGMENT INFORMATION (Continued)

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

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

	For the six months ended 30 June (Unaudited)					
	2023			2022		
	Marine construction RMB'000	Municipal public construction RMB'000	Total RMB'000	Marine construction RMB'000	Municipal public construction RMB'000	Total RMB'000
Mainland China						
Revenue	233,825	771,770	1,005,595	152,184	783,744	935,928
Cost of sales	(203,076)	(733,195)	(936,271)	(147,457)	(713,107)	(860,564)
	30,749	38,575	69,324	4,727	70,637	75,364
Southeast Asia						
Revenue	32,973	—	32,973	88,128	—	88,128
Cost of sales	(31,634)	—	(31,634)	(82,520)	—	(82,520)
	1,339	—	1,339	5,608	—	5,608

(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	
	30 June 2023 Unaudited RMB'000	31 December 2022 Audited RMB'000
Mainland China	74,497	78,677
Southeast Asia	8,756	11,015
Total	83,253	89,692

5 SEGMENT INFORMATION (Continued)**(e) Contract assets and liabilities**

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

	As at	
	30 June 2023 Unaudited RMB'000	31 December 2022 Audited RMB'000
Contract assets		
Current portion		
Marine construction	327,826	338,248
Municipal public construction	301,902	210,617
Less: allowance for impairment of contract assets <i>(Note 3.1(b))</i>	(22,603)	(18,464)
	607,125	530,401
Non-current portion		
Marine construction	36,950	17,882
Municipal public construction	531,902	534,402
Less: allowance for impairment of contract assets <i>(Note 3.1(b))</i>	(18,702)	(16,925)
	550,150	535,359
Total contract assets	1,157,275	1,065,760
Contract liabilities		
Marine construction	31,984	11,279
Municipal public construction	103,581	127,050
Total contract liabilities	135,565	138,329

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2023

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 RMB389,939,000 and RMB604,010,000 of contract assets were transferred to trade receivables, while approximately RMB70,762,000 and RMB140,940,000 of contract assets were transferred to retention receivables during the six months ended 30 June 2023 and year ended 31 December 2022.

6 OPERATING PROFIT

The following items have been charged to the six months periods ended 30 June 2023 and 2022.

	Six months ended 30 June	
	2023 Unaudited RMB'000	2022 Unaudited RMB'000
Raw materials and consumables used	480,305	524,287
Subcontracting costs	413,010	343,173
Operating lease payment	37,030	51,249
Wages and salaries, social welfare and benefits, including directors' emoluments	31,304	32,250
Depreciation of property, plant and equipment (Note 9)	7,858	8,983
Depreciation and amortisation of right-of-use assets	700	928
Amortisation of intangible assets	88	110

7 INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2023 Unaudited RMB'000	2022 Unaudited RMB'000
Current income tax	6,864	7,256
Deferred income tax	(1,179)	(3,848)
Income tax expense — net	5,685	3,408

(a) Cayman Islands profit tax

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

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

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

(c) Hong Kong profits tax

One of the Company’s subsidiaries incorporated in Hong Kong, is subject to Hong Kong profits tax. The applicable Hong Kong profits tax rate is 16.5% for the six months ended 30 June 2023 and 2022.

(d) PRC corporate income tax (“CIT”)

The Group’s subsidiaries in the PRC are subject to PRC CIT which is calculated based on the applicable tax rate of 25% (2022: 25%) on the assessable profits of the subsidiaries in accordance with PRC tax laws and regulations, except for the subsidiaries as disclosed below.

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

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2023

7 INCOME TAX EXPENSE (Continued)

(e) Brunei income tax

One of the Company's subsidiaries incorporated in Brunei is subject to Brunei income tax. The applicable Brunei income tax rate is 18.5% for the six months ended 30 June 2023 and 2022.

(f) Indonesia income tax

One of the Company's subsidiaries incorporated in Indonesia is subject to Indonesia income tax. Indonesia income tax is charged through a system of withholding taxes. The customers of the Group are required to withhold final income tax for construction services and the banks are required to withhold final income tax on interest income from bank deposits. For the six months ended 30 June 2023, income tax was provided at the rate of 2.65% on the revenue from construction services (2022: 2.65%) and income tax of 20% was provided on the interest income from bank deposits, according to respective Indonesia income tax laws and regulations.

(g) Malaysia income tax

One of the Company's subsidiaries incorporated in Malaysia is subject to Malaysia income tax. The applicable Malaysia income tax rate is 24% for the six months ended 30 June 2023.

8 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 six months ended 30 June 2023 and 2022 attributable to the Shareholders of the Company and the weighted average number of ordinary shares in issue.

	Six months ended 30 June	
	2023 Unaudited	2022 Unaudited
Profit attributable to the Shareholders of the Company (RMB'000)	12,002	15,301
Weighted average number of ordinary shares in issue (thousands)	819,008	819,008
Total basic earnings per share attributable to the ordinary equity holders of the Group (RMB cents)	1.47	1.87

(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 30 June 2023 and 2022.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2023

9 PROPERTY, PLANT AND EQUIPMENT

	Industrial machinery and equipment RMB'000	Transport equipment RMB'000	Buildings RMB'000	Office supplies and electronic equipment RMB'000	Leasehold improvements RMB'000	Construction-in- progress RMB'000	Total RMB'000
At 1 January 2022							
Cost	166,739	14,476	16,526	4,115	3,923	8,454	214,233
Accumulated depreciation	(105,031)	(12,693)	(5,423)	(3,295)	(1,234)	—	(127,676)
Net book amount	61,708	1,783	11,103	820	2,689	8,454	86,557
Six months ended 30 June 2022							
Opening net book amount	61,708	1,783	11,103	820	2,689	8,454	86,557
Additions	6,339	—	—	27	396	—	6,762
Depreciation charge	(6,668)	(231)	(949)	(172)	(963)	—	(8,983)
Disposals	(6)	(124)	—	—	—	—	(130)
Currency translation differences	(26)	—	—	—	15	179	168
Closing net book amount	61,347	1,428	10,154	675	2,137	8,633	84,374
At 30 June 2022							
Cost	173,046	14,352	16,526	4,142	4,334	8,633	221,033
Accumulated depreciation	(111,699)	(12,924)	(6,372)	(3,467)	(2,197)	—	(136,659)
Net book amount	61,347	1,428	10,154	675	2,137	8,633	84,374

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2023

9 PROPERTY, PLANT AND EQUIPMENT (Continued)

	Industrial machinery and equipment RMB'000	Transport equipment RMB'000	Buildings RMB'000	Office supplies and electronic equipment RMB'000	Leasehold improvements RMB'000	Construction- in-progress RMB'000	Total RMB'000
At 1 January 2023							
Cost	171,117	14,352	16,526	13,330	4,181	2,724	222,230
Accumulated depreciation	(116,447)	(13,114)	(7,310)	(5,721)	(2,557)	—	(145,149)
Net book amount	54,670	1,238	9,216	7,609	1,624	2,724	77,081
Six months ended 30 June 2023							
Opening net book amount	54,671	1,238	9,216	7,609	1,623	2,724	77,081
Additions	1,377	—	—	370	13	441	2,201
Depreciation charge	(5,307)	(182)	(707)	(1,293)	(369)	—	(7,858)
Disposals	(64)	—	(88)	(1,092)	—	—	(1,244)
Currency translation differences	310	—	—	186	—	—	496
Closing net book amount	50,987	1,056	8,421	5,780	1,267	3,165	70,676
At 30 June 2023							
Cost	172,740	14,352	16,438	12,794	4,194	3,165	223,683
Accumulated depreciation	(121,754)	(13,296)	(8,017)	(7,014)	(2,926)	—	(153,007)
Net book amount	50,986	1,056	8,421	5,780	1,268	3,165	70,676

During the six months ended 30 June 2023 and 2022, the amounts of depreciation expenses charged to “Cost of sales”, “Administrative expenses”, “Other operating expenses” and “Selling and distribution expenses” are as follows:

	Six months ended 30 June	
	2023 Unaudited RMB'000	2022 Unaudited RMB'000
Cost of sales	3,645	6,882
Administrative expenses	4,167	2,055
Other operating expenses	30	30
Selling and distribution expenses	16	16
	7,858	8,983

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2023

10 TRADE AND OTHER RECEIVABLES

	As at	
	30 June 2023 Unaudited RMB'000	31 December 2022 Audited RMB'000
Trade receivables (i)	932,017	1,067,737
Less: allowance for impairment of trade receivables	(76,601)	(77,137)
Trade receivables — net	855,416	990,600
Retention receivables (ii)	256,431	283,049
Less: allowance for impairment of retention receivables	(55,309)	(53,955)
Retention receivables — net	201,122	229,094
Bills receivables (i)	74,276	75,113
Long-term trade receivables (iii, iv)	46,959	47,156
Less: allowance for impairment of long-term trade receivables	(3,314)	(3,099)
Long-term trade receivables — net	43,645	44,057
Other receivables	63,054	69,339
Prepayments	128,260	118,066
Prepaid taxation	2,417	2,865
	1,368,190	1,529,134
Less: non-current portion		
Retention receivables (ii)	(59,864)	(76,213)
Long-term trade receivables (iii, iv)	(39,975)	(40,463)
Other receivables	(12,841)	(12,746)
	(112,680)	(129,422)
Current portion	1,255,510	1,399,712

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2023

10 TRADE AND OTHER RECEIVABLES (Continued)

- (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 receivables are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, certain customers may have large trade receivables balances, there may be concentration of credit risk. The customers of certain long ageing trade and retention receivables are related to some large projects and the customers have strong financial capacity with low credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivables balances.

As at 30 June 2023, bills receivables with a total net book amount of RMB10,300,000 and trade receivables with a total net book amount of RMB6,001,000 were pledged as collateral for the Group's bank borrowings (As at 31 December 2022: RMB21,560,000 and RMB6,001,000) as disclosed in Note 15.

As at 30 June 2023 and 31 December 2022, the ageing analysis of the trade and bills receivables based on the payment requests acknowledged by the customers is as follows:

	As at	
	30 June 2023 Unaudited RMB'000	31 December 2022 Audited RMB'000
Within 3 months	334,221	492,062
4 to 6 months	102,981	90,755
7 to 12 months	162,576	174,779
1 to 2 years	211,521	186,897
2 to 3 years	80,067	76,561
Over 3 years	114,927	121,796
	1,006,293	1,142,850

10 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 condensed consolidated interim 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	
	30 June 2023 Unaudited RMB'000	31 December 2022 Audited RMB'000
Within 1 year	117,068	132,312
1 to 2 years	47,935	49,061
2 to 3 years	17,522	22,523
3 to 4 years	33,083	35,502
4 to 5 years	212	1,498
Over 5 years	40,611	42,153
	256,431	283,049

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

- (iii) Long-term trade receivables represent amounts due from customers for services relating to a public-private-partnership performed by the private investor 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%.
- (iv) As at 30 June 2023, the Group pledged long-term trade receivables with carrying amount of approximately RMB43,645,000 (As at 31 December 2022: RMB44,057,000) for the long-term bank borrowings amounted to RMB17,000,000 (As at 31 December 2022: RMB19,500,000) as disclosed in Note 15.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2023

11 TIME DEPOSITS

	As at	
	30 June 2023 Unaudited RMB'000	31 December 2022 Audited RMB'000
Time deposits (i)	1,800	—
Accrued interest (ii)	15	—
	1,815	—

- (i) Time deposits held by the Group as at 30 June 2023 bear interests at 2.05% per annum with a duration of one year.

As at 30 June 2023, the Group pledged the time deposits with carrying amount of RMB1,815,000 for the letter of guarantee.

- (ii) The interest on financial instruments accrued based on the effective interest rate method has been included in the balance of the corresponding financial instruments.

12 CASH AND CASH EQUIVALENTS

	As at	
	30 June 2023 Unaudited RMB'000	31 December 2022 Audited RMB'000
Cash on hand	615	590
Cash at bank	531,101	705,866
Less: Restricted cash	(142,548)	(166,281)
	389,168	540,175

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2023

12 CASH AND CASH EQUIVALENTS (Continued)

The restricted cash represents the following balances:

	As at	
	30 June 2023 Unaudited RMB'000	31 December 2022 Audited RMB'000
Cash for specific project expenditure	52,101	57,223
Deposits for wages of migrant labours	86,417	97,900
Deposits for issuing bank acceptance notes	3,500	6,500
Restricted cash for litigation	332	4,174
Deposits for issuing letter of guarantee	198	484
	142,548	166,281

13 SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares	Number of issued and fully paid shares	Amount		
			Equivalent nominal value of ordinary share Unaudited RMB'000	Share premium Unaudited RMB'000	Total Unaudited RMB'000
As at 1 January 2022	10,000,000,000	825,400,000	7,303	291,505	298,808
Dividends	—	—	—	(10,813)	(10,813)
As at 30 June 2022	10,000,000,000	825,400,000	7,303	280,692	287,995
As at 1 January 2023	10,000,000,000	825,400,000	7,303	280,092	287,395
Dividends	—	—	—	(6,783)	(6,783)
As at 30 June 2023	10,000,000,000	825,400,000	7,303	273,309	280,612

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 30 June 2023 and 2022.

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For the six months ended 30 June 2023

14 TRADE AND OTHER PAYABLES

	As at	
	30 June 2023 Unaudited RMB'000	31 December 2022 Audited RMB'000
Trade payables (i)	1,468,686	1,469,417
Bills payables (i)	9,000	13,000
Retention payables (ii)	79,554	204,054
Long-term payables (iii)	274,451	292,705
Payroll and social security	12,009	18,589
Other payables	136,229	142,200
Dividends payable	7,183	400
Other tax liabilities excluding income tax liabilities	121,505	153,534
	2,108,617	2,293,899
Less: non-current portion		
Retention payables (ii)	(85,543)	(95,570)
Long-term payables (iii)	(110,903)	(95,640)
Other payables	(14,597)	(23,970)
	(211,043)	(215,180)
Current portion	1,897,574	2,078,719

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

As at 30 June 2023 and 31 December 2022, the ageing analysis of the trade and bills payables based on the payment requests or demand notes is as follows:

	As at	
	30 June 2023 Unaudited RMB'000	31 December 2022 Audited RMB'000
Within 3 months	462,012	521,671
4 to 6 months	146,078	144,103
7 to 12 months	188,280	195,718
1 to 2 years	270,523	248,526
2 to 3 years	86,618	85,893
Over 3 years	324,175	286,506
	1,477,686	1,482,417

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2023

14 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 condensed consolidated interim 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	
	30 June 2023 Unaudited RMB'000	31 December 2022 Audited RMB'000
Within 1 year	13,336	53,002
1 to 5 years	26,301	104,758
Over 5 years	39,917	46,294
	79,554	204,054

- (iii) Long-term trade payables represent amounts due to suppliers for certain construction services with unbilled payables and the expected billing period is over one year. For some suppliers, usually 10% to 35% of the payments will be paid upon the completion of the construction and 5% to 10% of the payments will be paid after the warranty period expires. Long-term payables are measured at amortised cost using the effective interest method at the average rate from 3.85% to 5.01%. In the condensed consolidated interim 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	
	30 June 2023 Unaudited RMB'000	31 December 2022 Audited RMB'000
Within 1 year	56,189	97,252
1 to 5 years	169,172	130,085
Over 5 years	49,090	65,368
	274,451	292,705

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For the six months ended 30 June 2023

15 BORROWINGS

	As at	
	30 June 2023 Unaudited RMB'000	31 December 2022 Audited RMB'000
Non-current		
Long-term bank borrowings — Secured (i)	12,000	14,500
Current		
Long-term bank borrowings due within one year — Secured (i)	5,000	5,000
Short-term bank borrowings — Secured (ii)	196,951	214,411
Loans from shareholders — Unsecured (iii)	2,310	12,000
Total borrowings	216,261	245,911

The loan is a fixed rate, RMB dominated loan which is carried at amortised cost. It therefore did not have any impact on the Group's exposure to foreign exchange and cash flow interest rate risk.

- (i) As at 30 June 2023, the secured long-term bank borrowings of RMB17,000,000 (As at 31 December 2022: RMB19,500,000) 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 RMB43,645,000 (As at 31 December 2022: RMB44,057,000) (Note 10).
- (ii) As at 30 June 2023, secured short-term borrowings of RMB46,150,000 (As at 31 December 2022: RMB76,850,000) were guaranteed by Third Harbor Maritime, secured short-term borrowings of RMB65,000,000 (As at 31 December 2022: RMB35,000,000) were guaranteed by Shanghai Watts Gallop Holding Group Co., Ltd. ("**Watts Gallop**"), secured short-term borrowings of RMB69,500,000 (As at 31 December 2022: RMB45,000,000) were guaranteed by Zhejiang Watts Benteng Real Estate Development Co., Ltd. ("**Watts Gallop Real Estate**") (Note 18(b)(iv)).

As at 31 December 2022, secured short-term borrowings of RMB30,000,000 were guaranteed by Shanghai Third Harbor Benteng Construction and Engineering Co., Ltd. ("**Third Harbor Construction**") (Note 18(b)(iv)).

As at 30 June 2023, short-term borrowings of RMB10,300,000 (As at 31 December 2022: RMB21,560,000) were secured by the pledged of the Group's bills receivables with net book amount of RMB10,300,000 (As at 31 December 2022: RMB21,560,000) (Note 10), and short-term borrowings of RMB6,001,000 were secured by the pledged of the Group's trade receivables with net book amount of RMB6,001,000 (As at 31 December 2022: RMB6,001,000) (Note 10).

15 BORROWINGS (Continued)

(iii) As at 30 June 2023 and 31 December 2022, the unsecured loans from shareholders are interest free and repayable on demand (Note 18(b)(iii)).

Movements in borrowings are analysed as follows:

	Unaudited RMB'000
Six months ended 30 June 2022	
Opening amount as at 1 January 2022 (Audited)	124,385
New borrowings	191,294
Repayments of borrowings	<u>(102,500)</u>
Closing amount as at 30 June 2022 (Unaudited)	<u>213,179</u>
Six months ended 30 June 2023	
Opening amount as at 1 January 2023 (Audited)	245,911
New borrowings	116,491
Repayments of borrowings	<u>(146,141)</u>
Closing amount as at 30 June 2023 (Unaudited)	<u>216,261</u>

16 DIVIDENDS

At a meeting held on 28 March 2023, the Board proposed a final dividend of HK\$0.92 cent (equivalent to RMB0.82 cent) per share for the year ended 31 December 2022. This proposed dividend, representing total amount of approximately HK\$7,594,000 (equivalent to RMB6,783,000), was reflected as an appropriation of share premium for the six months ended 30 June 2023 upon approval by the Shareholders at the annual general meeting of the Company held on 15 June 2023. This final dividend has been paid in August 2023.

17 COMMITMENTS**(a) Capital commitments**

As at 30 June 2023 and 31 December 2022, the Group and the Company did not have significant capital commitments.

Notes to the Condensed Consolidated Interim Financial Statements

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17 COMMITMENTS (Continued)

(b) Non-cancellable operating leases

As lessee

The Group leases various offices and land under non-cancellable operating leases expiring within one to three years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

From 1 January 2019, the Group has recognised right-of-use assets for these leases, except for short-term and low-value leases.

Minimum lease payments under non-cancellable operating leases not recognised in the financial statements are payable as follows:

	As at	
	30 June 2023 Unaudited RMB'000	31 December 2022 Audited RMB'000
No later than 1 year	651	862

As lessor

As at 30 June 2023 and 31 December 2022, the Group had no future minimum lease receivables under the non-cancellable operating leases.

18 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 six months ended 30 June 2023 and 2022, and balances arising from related party transactions as at the respective balance sheet dates.

18 RELATED PARTY TRANSACTIONS (Continued)

Name and relationship with related parties are set out below:

Related party	Relationship
Mr. Wang Shizhong	Ultimate controlling shareholder
Third Harbor Construction	Controlled by the same ultimate controlling shareholder
Watts Gallop	Controlled by the same ultimate controlling shareholder
Watts Gallop Real Estate	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
Jiangsu Watts Energy & Engineering Co., Ltd. (" Watts Energy & Engineering ")	Subsidiary of Watts Gallop
Zhejiang Huazikexin Cultural Tourism Development Co., Ltd. (formerly known as Zhejiang Zhongjiao Tonglu Construction Co., Ltd.) (" Huazikexin Cultural ")	Subsidiary of Watts Gallop
Zhejiang Benteng Transportation Engineering Co., Ltd. (" Benteng Transportation ")	Associate of Watts Gallop
Ningguo Huazi Zhuyou Building Materials Technology Co., Ltd. (" Ningguo Huazi Zhuyou ")	Associate of Watts Gallop
Shanghai Zihui Property Management Co., Ltd. (" Zihui Property ")	Subsidiary of Watts Gallop
Zhejiang Huazi Renewable Resources Utilization Co., Ltd. (" Huazi Renewable ")	Subsidiary of Watts Gallop
Shanghai Ziguang Property Management Co., Ltd. (" Ziguang Property ")	Subsidiary of Watts Gallop
Hangzhou Huazi Greentown Real Estate Co., Ltd. (" Hangzhou Huazi Greentown ")	Subsidiary of Watts Gallop Real Estate
Zhejiang Sanmei Real Estate Development Co., Ltd. (" Zhejiang Sanmei ")	Subsidiary of Watts Gallop Real Estate

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2023

18 RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with related parties

Save as disclosed elsewhere in these financial statements, during the six months ended 30 June 2023 and 2022, the following transactions were carried out with related parties at terms mutually agreed by both parties:

(i) Provision of construction services

	Six months ended 30 June	
	2023 Unaudited RMB'000	2022 Unaudited RMB'000
Continuing connected transactions		
— Hangzhou Huazi Greentown (a)	—	26,175
— Huazi Renewable (b)	32,385	—
— Hangzhou Huazi Greentown (b)	36,016	42,777
— Watts Gallop Real Estate (b)	6,729	4,172
	57,450	46,949
	75,130	73,124

(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 six months ended 30 June 2023.

18 RELATED PARTY TRANSACTIONS (Continued)**(a) Transactions with related parties** (Continued)**(ii) Purchases of goods and services**

	Six months ended 30 June	
	2023 Unaudited RMB'000	2022 Unaudited RMB'000
Continuing connected transactions		
Purchasing raw materials		
— Ningguo Huazi Zhuyou	602	2,705
— Jiangsu Shenyu	—	408
	602	3,113

(iii) Rental from related parties

	Six months ended 30 June	
	2023 Unaudited RMB'000	2022 Unaudited RMB'000
— Third Harbor Construction	132	192

(iv) Property service

	Six months ended 30 June	
	2023 Unaudited RMB'000	2022 Unaudited RMB'000
Continuing connected transactions		
— Ziguang Property	131	—
— Zihui Property	—	28
	131	28

The related party transactions above were carried out on terms mutually agreed between the parties. In the opinion of the directors of the Company, these transactions were in the ordinary course of business of the Group and in accordance with terms of the underlying agreements.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2023

18 RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with related parties (Continued)

(v) Provision of borrowings

	Six months ended 30 June	
	2023 Unaudited RMB'000	2022 Unaudited RMB'000
Certain shareholders (Note 15)	310	6,679

(vi) Repayments of borrowings

	Six months ended 30 June	
	2023 Unaudited RMB'000	2022 Unaudited RMB'000
Certain shareholders (Note 15)	10,000	14,885

(vii) Key management compensation

Key management includes directors and senior management. The compensation paid or payable to key management for employee services is shown below:

	Six months ended 30 June	
	2023 Unaudited RMB'000	2022 Unaudited RMB'000
Salaries, wages and allowances	1,377	1,449
Bonuses	599	600
Pension costs	84	102
	2,060	2,151

18 RELATED PARTY TRANSACTIONS (Continued)**(b) Balances with related parties****(i) Amounts due from related parties**

	As at	
	30 June 2023 Unaudited RMB'000	31 December 2022 Audited RMB'000
Trade and retention receivables		
— Hangzhou Huazi Greentown	83,992	75,422
— Huazi Renewable	33,891	—
— Zhejiang Sanmei	29,029	29,029
— Benteng Transportation	7,179	7,752
— Watts Energy & Engineering	6,914	6,914
— Third Harbor Construction	4,295	4,295
— Huazikexin Cultural	1,254	1,254
— Watts Gallop Real Estate	—	41
	166,554	124,707

	As at	
	30 June 2023 Unaudited RMB'000	31 December 2022 Audited RMB'000
Contract assets		
— Hangzhou Huazi Greentown	102,265	93,935
— Watts Energy & Engineering	3,464	3,464
— Huazi Renewable	1,059	—
— Watts Gallop Real Estate	—	676
	106,788	98,075

	As at	
	30 June 2023 Unaudited RMB'000	31 December 2022 Audited RMB'000
Other receivables		
— Jiangsu Shenyu	2,000	2,000
— Third Harbor Construction	3,514	39
— Benteng Transportation	1,169	1,169
— Huazi Renewable	500	—
— Hangzhou Huazi Greentown	100	4,378
— Ziguang Property	14	9
	7,297	7,595

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2023

18 RELATED PARTY TRANSACTIONS (Continued)

(b) Balances with related parties (Continued)

(ii) Amounts due to related parties

	As at	
	30 June 2023 Unaudited RMB'000	31 December 2022 Audited RMB'000
Trade and retention payables		
— Jiangsu Shenyu	2,888	3,839
— Ningguo Huazi Zhuyou	897	1,297
— Zhoushan Benteng	481	3,895
— Third Harbor Construction	130	130
	4,396	9,161

	As at	
	30 June 2023 Unaudited RMB'000	31 December 2022 Audited RMB'000
Contract Liabilities		
— Watts Gallop Real Estate	1,477	—

	As at	
	30 June 2023 Unaudited RMB'000	31 December 2022 Audited RMB'000
Other payables		
— Watts Gallop	386	386

18 RELATED PARTY TRANSACTIONS (Continued)**(b) Balances with related parties** (Continued)**(iii) Borrowings**

	As at	
	30 June 2023 Unaudited RMB'000	31 December 2022 Audited RMB'000
Loans from shareholders (Note 15)	2,310	12,000

(c) Guarantees

As at 30 June 2023 and 31 December 2022, the Group has been guaranteed by related parties as follows:

	As at	
	30 June 2023 Unaudited RMB'000	31 December 2022 Audited RMB'000
— Watts Gallop	311,420	281,420
— Watts Gallop Real Estate	101,360	101,360
— Third Harbor Construction	100,000	100,000
	512,780	482,780

19 Contingencies

As at 30 June 2023, there are two outstanding claims against Watts Gallop Construction. According to the legal advisers for the claims, potentially liability, legal fees and costs, and interest are not expected to be significant. As such, these legal proceedings individually or in aggregate would not have material financial or operational adverse impact on the Group's condensed consolidated interim financial statements.

20 EVENTS OCCURRING AFTER THE REPORTING PERIOD

There were no other material subsequent events undertaken by the Company or by the Group after 30 June 2023.

Definitions

Acting-in-concert Confirmation	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))
Audit Committee	the audit committee of the Company
Benteng Brunei	Pahaytc & Benteng JV Sdn Bhd, a company incorporated under the laws of Brunei with limited liability in January 2016, which is an operating entity of the Company in Brunei
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, which is held directly as to 67% by the Group with the remaining 33% controlled by the Company by virtue of a series of contractual arrangements
BN\$ or BND	Brunei Dollars, the lawful currency of Brunei
Board	the board of Directors of the Company
Company	Watts International Maritime Company Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
Director(s)	the director(s) of the Company
Group	the Company and its subsidiaries from time to time
HK\$ or HK dollars	Hong Kong dollars, the lawful currency of Hong Kong
IDR	the Indonesian Rupiah, the lawful currency of Indonesia
Listing	the 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, as amended, supplemented or otherwise modified from time to time

Major Currencies	RMB, HK\$, BN\$, IDR and US\$, the major currencies used by the Group in conducting its business
PRC or China	the People's Republic of China, but for the purpose of this report only and, unless the context otherwise requires, excluding Hong Kong Special Administrative Region of the People's Republic of China, Macau Special Administrative Region of the People's Republic of China and Taiwan
Prospectus	the prospectus of the Company on 30 October 2018
Remuneration Committee	the remuneration committee of the Company
Renminbi or RMB	Renminbi, the lawful currency of the PRC
Reporting Period	the six months ended 30 June 2023
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
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 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.

Definitions

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

* *For identification purposes only*