翔宇疏浚控股有限公司
XIANGYU DREDGING HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 871

Interim Report 2012

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Liu Kaijin — Chief Executive Officer and Joint Chairman
Ms. Zhou Shuhua

Non-Executive Director

Mr. Liu Longhua — Joint Chairman

Independent Non-Executive Directors

Ms. Leung Mei Han
Ms. Peng Cuihong
Mr. Huan Xuedong

AUDIT COMMITTEE

Ms. Leung Mei Han — Chairman
Ms. Peng Cuihong
Mr. Huan Xuedong

REMUNERATION COMMITTEE

Ms. Peng Cuihong — Chairman
Ms. Leung Mei Han
Mr. Liu Longhua

NOMINATION COMMITTEE

Mr. Liu Longhua — Chairman
Ms. Leung Mei Han
Ms. Peng Cuihong

AUTHORISED REPRESENTATIVES

Mr. Liu Kaijin
Ms. Wong Elsie

COMPANY SECRETARY

Ms. Wong Elsie *(Associate Member of HKICPA)*

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

PRINCIPAL BANKERS

Rural Commercial Bank of Huanghai, Yancheng City, Jiangsu Province
Branch office of Agricultural Bank of China Limited
Jiangsu Changshu Rural Commercial Bank
China Construction Bank Asia Corporation
China Everbright Bank, Nanjing Branch

REGISTERED ADDRESS

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111, Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS

The People's Republic of China

No. 1 Xingyu Road, Baocai Industrial Zone
Yandu District, Yancheng City
Jiangsu Province, the PRC

Hong Kong

Office 19, 36th Floor, China Merchants Tower
Shun Tak Centre
Nos.168–200 Connaught Road Central, Hong Kong

LEGAL ADVISOR

Chiu & Partners *(as to Hong Kong Law)*

COMPLIANCE ADVISOR

Guotai Junan Capital Limited

PRINCIPAL SHARE REGISTRAR

Codan Trust Company (Cayman) Limited

HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited

WEBSITE

www.xiangyu.com.hk

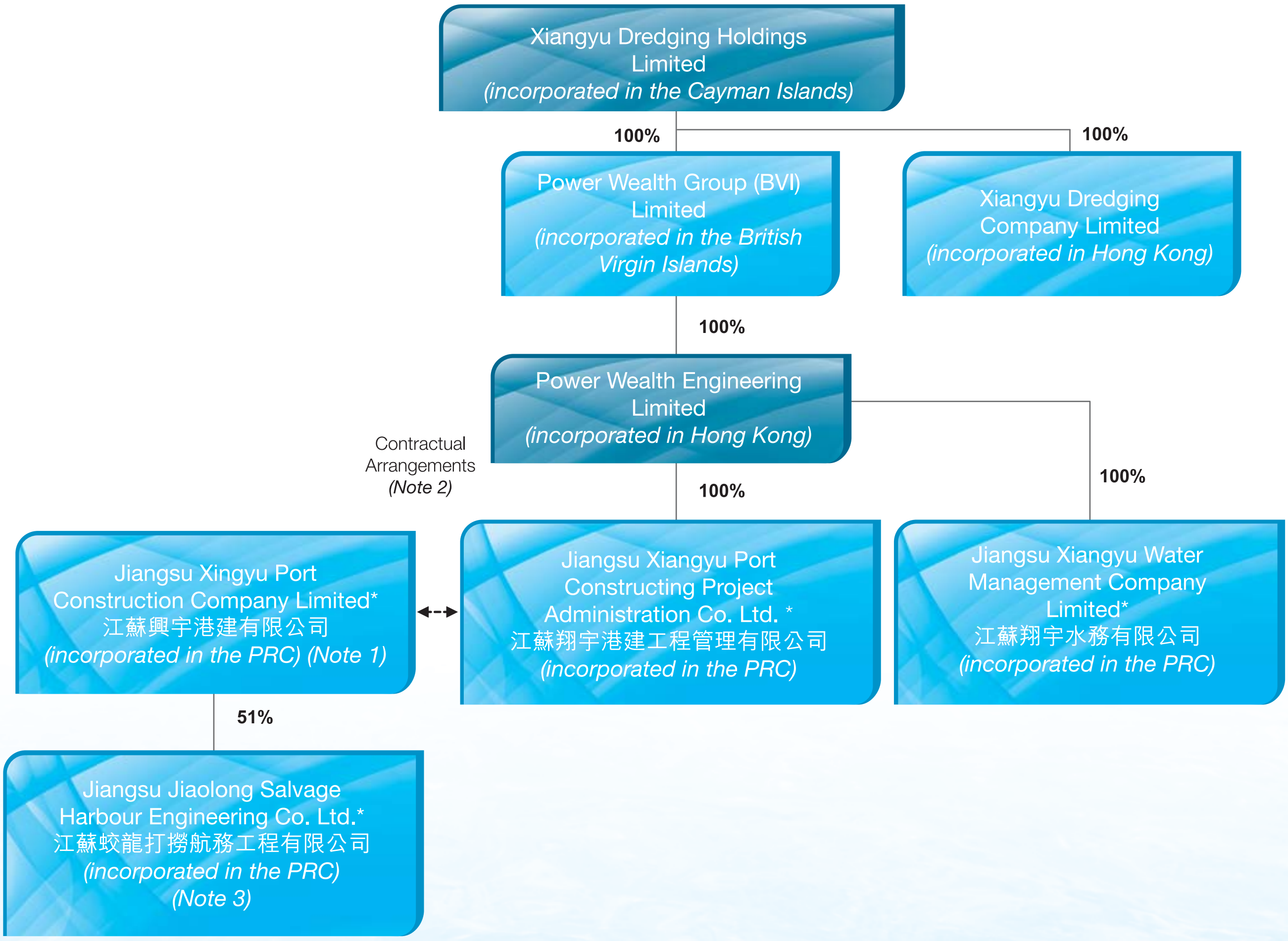
Definition

"Board"	the board of Directors
"CG Code"	Corporate Governance Code set out in Appendix 14 to the Listing Rules (as amended from time to time)
"Company"/"Xiangyu"	Xiangyu Dredging Holdings Limited
"Contractual Arrangements"	a series of contracts, details of which are set out in note 2 to the interim unaudited financial statements in this interim report, pursuant to which all economic benefits and risks arising from the business of Jiangsu Xingyu are transferred to Xiangyu PRC
"Director(s)"	director(s) of the Company
"Group"	the Company and its subsidiaries
"Jiangsu Jiaolong"	江蘇蛟龍打撈航務工程有限公司 (Jiangsu Jiaolong Salvage Harbour Engineering Co. Ltd.*)
"Jiangsu Xingyu"/"PRC Operational Entity"	江蘇興宇港建有限公司 (Jiangsu Xingyu Port Construction Company Limited*)
"Listing Rules"	Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (as amended from time to time)
"Mr. Liu"	Mr. Liu Kaijin
"Ms. Zhou"	Ms. Zhou Shuhua
"PRC"	the People's Republic of China
"RMB"	Renminbi
"SFO"	The Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong)
"Shareholder(s)"	shareholder(s) of the Company
"Share(s)"	share(s) of the Company
"Share Option Scheme"	the share option scheme approved by the Shareholders on 24 May 2011
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Wangji"	Wangji Limited, a company incorporated in the British Virgin Islands with limited liability
"Xiangyu PRC"	江蘇翔宇港建工程管理有限公司 (Jiangsu Xiangyu Port Constructing Project Administration Co. Ltd.*)
"Xiangyu Water Management"	江蘇翔宇水務有限公司 (Jiangsu Xiangyu Water Management Company Limited*)

* *For identification purpose only*

Group Chart

The following sets out the group structure as at 30 June 2012:



Notes:

1. Jiangsu Xingyu is wholly owned by Mr. Liu and Ms. Zhou, and Ms. Zhou holds all her equity interest in Jiangsu Xingyu as trustee for Mr. Liu.

2. On 19 April 2011, Jiangsu Xingyu, Xiangyu PRC, Mr. Liu and Ms. Zhou entered into the Contractual Arrangements pursuant to which all economic benefits and risks arising from the business of Jiangsu Xingyu are transferred to Xiangyu PRC.

3. The acquisition of Jiangsu Jiaolong was completed in February 2012.

* *For identification purpose only*

Management Discussion and Analysis

BUSINESS REVIEW

During the period, the Company recorded a revenue of approximately RMB482.4 million, representing a year-on-year increase of 4.5%. During the period, the gross profit of the Company was approximately RMB179.9 million, representing a year-on-year decrease of 2.1%. Profit attributable to the Shareholders was approximately RMB112.0 million. The Board resolved to pay an interim dividend of HK2 cents per Share.

Industry and Market Review

Affected by the international and domestic economic environment and the financial positions of local governments of the PRC, the industry generally faced challenges during the first half of the year. However, the prospects of the market is still promising and the medium-to-long term demand will be robust. In the long run, the "Twelfth Five-Year Plan" and the investments in water conservancy projects are positive elements to the industry. Meanwhile, as the PRC has put increasing focus on and investments in environment protection industries, environmental protection dredging business, though still in an infant stage, has a strong momentum in the PRC and it is expected to have a significant growth in demand in the next five years. Moreover, the dredging industry in certain countries in Southeast Asia are in the similar industry cycle as that in the PRC and it is expected there will be substantial opportunities and room for growth in the future.

Business Review

During the period, the Company continued to provide existing clients with high quality dredging services and actively expanded into new markets and diversified its client base. At the same time, the Company increased its investments in environmental protection dredging in such areas as capital, technology and human resources to maintain its leading position in the market. In addition, the Company further diversified its business through the acquisition of Jiangsu Jiaolong which is in line with the strategy of the Company. The Company also continued to strengthen its internal governance and improve its operation efficiency in order to enhance the core competitive edges of the Group.

During the period, the Company put more efforts in promotion and business expansion both domestically and in overseas markets. While enhancing its client base in developed markets, the Group are also actively exploring domestic and overseas markets. During the period, the Company had signed contracts for various types of dredging projects with the value of about RMB600 million, which ensured the future business income of the Company. Meanwhile, the Company secured new clients from large non-state-owned enterprises such as Shandong Nanshan Group, indicating a more diversified client base of the Company. In addition, it is also worth to have in mind the Company's projects in negotiation and its expansion into overseas markets.

The Company has completed its environment protection demonstration project in Wuhan. It recently won the bid and entered into a new contract for environmental protection dredging services for Nanhu environment protection project in Wuhan, reflecting market recognition to the technological level and quality of the environmental protection dredging projects of the Company. In addition, the Company also actively carried out research and development and technological upgrading on relevant types of equipment for environmental protection dredging services, committing to building first class sludge treatment equipment for the domestic market.

Upon acquisition of Jiangsu Jiaolong, the Company gradually carried out post-investment management, assisted Jiangsu Jiaolong in its expansion of capacity and business. During the period, "Qinhanggong No. 1"—a large lift-on-lift-off ship of Jiangsu Jiaolong successfully launched its maiden voyage and some of Jiangsu Jiaolong's vessels also participated in the construction of the bridge linking Hong Kong, Zhuhai and Macao.

In addition, the Company's fleet was well utilized. The Company made reasonable deployment of the fleet and scheduled regular maintenance for the vessels based on the progress and requirements of different projects.

BUSINESS REVIEW (Continued)

Business Review (Continued)

The Company put more focus on corporate governance, continuously enhanced the transparency of corporate information, improved its internal system, strengthened its supervision and complied with relevant regulations and rules. Meanwhile, the Company actively interacted with its domestic counterparts, and joined the China Dredging Association and China Water Transportation Construction Association as full members during the period.

During the period, the Company continued to implement various incentive programs, and carried out performance management based on the progress of the projects to drive the Company's operating results and lower the costs. Meanwhile, the Company continued to provide more training to the key staff members, recruited middle ranking and senior management personnel and motivated them with share options and bonuses to improve the operation efficiency.

FUTURE PROSPECTS

As the macroeconomic environment will improve, in the short term, the Company will put greater efforts to expand into new markets and maintain the Company's sustainable growth on the basis of the existing businesses. The Company will also capture the opportunities to gradually increase its investment and capacity, and accelerate the provision of environmental protection dredging services. In addition, the synergy effect from the merger with Jiangsu Jiaolong will also gradually be seen. Meanwhile, with the improvement of the market environment and the increase of business volume of the Company, the Company will also consider to further increase its investment in equipment and expand its capacity to meet the market demand. In the medium-to-long term, the demand in the industry will remain robust, and as the macroeconomic environment improves, the trend of the industry development will generally continue to move upward. The Company will also grasp opportunities when they arise to expand its capacity so as to capture more market shares.

Overall, although the first half of 2012 witnessed the short-term downturn in the industry, the market outlook is still very promising. Therefore, the Company is fully confident in its future prospects.

FINANCIAL REVIEW

Overview

The Group has four main operating and reportable segments, namely (i) Capital and Reclamation Dredging Business; (ii) Environmental Protection Dredging and Water Management Business; (iii) Dredging Related Construction Business; and (iv) Other Marine Business.

FINANCIAL REVIEW (Continued)

Revenue

During the period, the Group recorded a slight growth in revenue. Revenue for the six months ended 30 June 2012 was about RMB482.4 million, representing an increase of about 4.5% as compared with about RMB461.6 million in the corresponding period of 2011.

To widen its income streams to areas with high market potentials, the Group has commenced its Environmental Protection Dredging and Water Management Business since late 2011. During the six months ended 30 June 2012, the Group recorded a revenue of about RMB143.8 million in this business segment. Further, during the period, the Group has obtained a sizeable contract in the Dredging Related Construction Business with reasonable return. As a result, the Group recorded revenue of about RMB61.6 million in this segment for the six months ended 30 June 2012. Further, subsequent to the completion of the acquisition of Jiangsu Jiaolong in February 2012, the Group has expanded into Other Marine Business that has contributed revenue of about RMB63.5 million to the Group for the six months ended 30 June 2012.

Capital and Reclamation Dredging Business decreased by about RMB248.0 million to about RMB213.6 million for the six months ended 30 June 2012. Further details of the Company's business in the period are set out in the section headed "Business Review" above.

Operating Cost and Gross Profit

The Group's operating cost increased from about RMB277.7 million for the six months ended 30 June 2011 to about RMB302.5 million for the six months ended 30 June 2012, representing an increase of about 8.9%. The increase in operating cost was in line with the increase in revenue. The Group recorded a gross profit of about RMB179.9 million for the six months ended 30 June 2012, representing a slight decrease of 2.1% as compared with the six months ended 30 June 2011 of about RMB183.8 million.

During the period, the gross profit margin of Capital and Reclamation Dredging Business increased from 39.8% for the six months ended 30 June 2011 to 44.5% for the six months ended 30 June 2012 as a result of the decrease in use of chartered dredgers after the Group acquiring two additional dredgers in the second half of 2011.

Lower gross profit margins are recorded for new businesses as there are certain start up costs. As a result, the overall gross profit margin of the Group decreased slightly from 39.8% for the six months ended 30 June 2011 to 37.3% for the six months ended 30 June 2012.

Other Income

The Group has obtained incentive from the local PRC government to support the growth of the Group. Other income decreased by about RMB10.0 million to about RMB16.9 million for the six months ended 30 June 2012 which was mainly due to the decrease in such incentive.

Marketing and Promotion Expenses

Marketing and promotion expenses for the six months ended 30 June 2012 remained at a reasonable level which is in line with the same period in 2011.

FINANCIAL REVIEW (Continued)

Administrative Expenses

Administrative expenses included share-based payment expense amounted to about RMB7.3 million related to the share options issued during the six months ended 30 June 2012. Administrative expenses excluding such one-off expenses for the six months ended 30 June 2012 was about RMB16.7 million.

Higher administrative expenses was recorded for the six months ended 30 June 2012 as compared with that for the six months ended 30 June 2011 of about RMB7.3 million which was mainly due to higher professional fees and management costs which incurred subsequent to its listing and also the inclusion of the administrative expenses of Jiangsu Jiaolong.

Income Tax Expense

Due to the decrease in profit before tax, income tax expense for the six months ended 30 June 2012 amounted to about RMB45.2 million, representing a decrease of about RMB7.0 million compared with the corresponding period in 2011.

Profit for the Period

As a combination effect of the above, the profit for the period decreased by about 11.6% from about RMB135.4 million for the six months ended 30 June 2011 to about RMB119.7 million for the six months ended 30 June 2012.

Earnings per Share

Earnings per share decreased by about 36.4% from RMB0.22 per share to RMB0.14 per share. Apart from the decrease in profit for the period, the decrease was mainly due to difference in weighted average number of Shares. The Company was just listed by end of June 2011 and the new Shares issued upon listing only account for the calculation of the weighted average number of Shares from the date of listing to 30 June 2011. As a result, the weighted average number of Shares for the six months ended 30 June 2011 was considerably lower than the number of Shares for the six months ended 30 June 2012.

Financial Position, Liquidity and Financial Resources

The Group has remained at a sound financial resource level. As at 30 June 2012, total equity of the Group amounted to about RMB1,460.3 million (31 December 2011: RMB1,230.0 million).

The Group adopts a prudent cash and financial management policy. In order to achieve better cost control and minimise the costs of funds, the Group's treasury activities are centralised and cash is generally deposited with banks and denominated mostly in Renminbi and Hong Kong dollars.

Included in net current assets were cash and various bank deposits totalling about RMB137.6 million as at 30 June 2012, representing an increase of about RMB11.8 million as compared with about RMB125.8 million as at 31 December 2011.

Due to the tightening of economic environment in the PRC since late 2011, the PRC Governmental projects are unavoidably affected and the collection therefrom has been slowed down. The Group's accounts and bills receivables as at 30 June 2012 increased by about RMB229.5 million to about RMB906.2 million. During the period ended 30 June 2012, the amount received from customers was about RMB273.7 million. The management considered that there is no recoverability problem as such receivables were mainly due from reputable state-owned enterprises. The increase in amount of overdue receivables as at 30 June 2012 did not impair the Group's liquidity status.

FINANCIAL REVIEW (Continued)

Financial Position, Liquidity and Financial Resources (Continued)

In order to roll out the Group's close collaboration with the PRC Governmental projects, the Group has widened its customer base to sizable PRC private enterprises for the six months ended at 30 June 2012.

Total liabilities of the Group as at 30 June 2012 were about RMB788.2 million (31 December 2011: RMB334.9 million). In the previous years before the Company became listed on the Stock Exchange, the Group's operations were mainly financed by its shareholders' injections and internal resources. By taking up new bank borrowings of about RMB199.0 million and that of about RMB58.0 million through acquisition of Jiangsu Jiaolong for the six months ended 30 June 2012, all of which are denominated in Renminbi and will mature within one year and are mainly at variable rates, the Group's gearing ratio (calculated by bank borrowings divided by total assets) increased to a more healthy level of 11.3% (31 December 2011: 1.6%).

Charge Over Assets of the Group

As at 30 June 2012, the Group's bank borrowings are supported by pledged bank deposits of about RMB65.0 million and, charges over certain of the Group's dredgers. There were also intra-group charge between two of the Company's wholly-owned subsidiaries as a result of the Contractual Arrangements, pursuant to which all economic benefits and risks arising from the business of Jiangsu Xingyu are transferred to Xiangyu PRC.

Financial Management Policies

The Group in its ordinary course of business is exposed to market risks such as currency risk and interest rate risk. The Group's risk management strategy aims to minimise the adverse effects of these risks on its financial performance.

As most of the Group's trading transactions, monetary assets and liabilities are denominated mainly in Renminbi, which is the Group's operating and reporting currencies, and save for certain bank balances in United States dollars and Hong Kong dollars, the impact of foreign exchange exposure to the Group was minimal and there was no significant adverse effect on normal operations during the reporting period. As at the end of each reporting period, no related hedge was made by the Group.

With the current interest rates staying at relatively low levels, the Group has not entered into any interest rate hedging contracts or any other interest rate related derivative financial instrument. However, the Group continues to monitor its related interest rate exposure closely.

Capital Commitments and Contingent Liabilities

Save for the capital commitment taken out by Jiangsu Jiaolong in respect of the construction and improvement of vessels which amounted to about RMB36.4 million, the Group did not have significant capital commitments committed but not provided for as at 30 June 2012.

The capital commitment as at 31 December 2011 mainly represented the acquisition costs of Jiangsu Jiaolong of about RMB127.5 million.

As at 30 June 2012, the Group did not have any material contingent liability (31 December 2011: nil).

Material Acquisitions and Disposals

Apart from the completion of the acquisition of Jiangsu Jiaolong in February 2012 and the acquisition of land in May 2012, there were no other material acquisitions or disposals during the period under review.

LISTING PROCEEDS

As of 20 June 2011, 200,000,000 new Shares were issued at HK$3.19 per Share, resulting in gross proceeds from Listing which amounted to HK$638 million. Net proceeds after payment of all expenses related to listing was about HK$579.0 million (RMB468.3 million). Up to 30 June 2012, the net proceeds of about RMB464.7 million were used in the manner as stated in the Company's prospectus dated 8 June 2011 and subsequent announcement dated 8 May 2012.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2012, the Group had a workforce of 585 employees (31 December 2011: 211). The increase in number of employees was due to taking into account of a subsidiary acquired in early 2012. Total staff cost for the six months ended 30 June 2012 was about RMB19.9 million (2011: RMB9.4 million). The Group's remuneration policy is basically determined by the performance of individual employees and the Directors and the market conditions. In addition to salaries and discretionary bonuses, employee benefits included pension contributions and share option scheme (the share option that could be granted to independent non-executive Directors are subject to the independence restrictions as set out in the Listing Rules).

During the period under review, the Group did not experience any strikes, work stoppages or significant labor disputes which affected its operations in the past and it did not experience any significant difficulties in recruiting and retaining qualified staff.

Disclosure of Interests and Other Information

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY AND ASSOCIATED CORPORATIONS

As at 30 June 2012, the Directors and the Company's chief executive, and their respective associates had the following interests in the Shares in and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or pursuant to the Model Code, or were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO:

Interests in the Company

			Long position	
Name of Director	**Capacity**	Notes	**Number of ordinary Shares**	**Approximate percentage of total number of Shares**
Mr. Liu Kaijin	Interest in controlled corporation	1	325,100,000	40.64%
	Beneficial owner	1	2,000,000	0.25%
Ms. Zhou Shuhua	Interest in spouse	2	327,100,000	40.89%

Notes:

1. Mr. Liu is the sole beneficial owner of Wangji, a company incorporated in the British Virgin Islands with limited liability, which is the direct owner of 325,100,000 Shares. Further, Mr. Liu is the beneficial owner of 2,000,000 Shares.

2. Mr. Liu's spouse is Ms. Zhou who is also a Director. By virtue of the SFO, Ms. Zhou is deemed to be interested in such 327,100,000 Shares.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY AND ASSOCIATED CORPORATIONS (Continued)

Interests in associated corporations

Name of Director	Name of associated corporation	Capacity	Notes	Long position: Share capital	Long position: Approximate percentage of total number of shareholding
Mr. Liu Kaijin	Wangji	Beneficial owner	1	200 ordinary shares	100%
	Jiangsu Xingyu	Beneficial owner	1	Register capital of RMB39,315,800	100%
Ms. Zhou Shuhua	Wangji	Interest in spouse	2	200 ordinary shares	100%
	Jiangsu Xingyu	Interest in spouse	2	Register capital of RMB39,315,800	100%

Notes:

1. Mr. Liu is the sole beneficial owner of Wangji. His 100% shareholding interest in Wangji has been charged in favour of Apex Ally Investments Limited and Hong Jun Investment Limited as stated under the section "Pre-IPO Investments" in the Company's prospectus dated 8 June 2011. Mr. Liu is also the sole beneficial owner of the entire registered capital of Jiangsu Xingyu. Mr. Liu and Ms. Zhou are registered holders of 98.47% and 1.53% in the registered capital in Jiangsu Xingyu. The 1.53% interest in the registered capital of Jiangsu Xingyu were held on trust by Ms. Zhou for Mr. Liu pursuant to a shareholding confirmation dated 12 July 2010.

2. Ms. Zhou is the spouse of Mr. Liu who is a Director. By virtue of the SFO, Ms. Zhou is deemed to be interested in all interests of Mr. Liu in the associated corporations including long positions and short position.

Saved as disclosed above, none of the Directors and chief executive of the Company or any of their associates had any interests or short positions in the Shares, underlying shares or debentures of the Company or any associated corporation as at 30 June 2012 (within the meaning of Part XV of the SFO), which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors or chief executive of the Company were deemed or taken to have under such provisions of the SFO) or as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY AND ASSOCIATED CORPORATIONS

As at 30 June 2012, other than the Directors' and the Chief Executive's interests and short positions in the Shares in and underlying shares of the Company and associated corporations as recorded in the register required to be kept under Section 336 of the SFO, to the best of the knowledge and belief of the Directors, the following substantial shareholders had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company 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 or otherwise notified to the Company and the Stock Exchange:

Interests in the Company

			Long position	
Name of Shareholder	**Capacity**	Notes	**Number of ordinary Shares**	**Approximate percentage of total number of Shares**
Wangji	Beneficial owner		325,100,000	40.64%
Mr. Dong Liyong	Interest in controlled corporation		114,182,000	14.27%
	Beneficial owner		10,000	–
Ms. Yang Yingying	Interest of spouse	1	114,192,000	14.27%
Shen Wang Limited	Beneficial owner	1	114,182,000	14.27%
Hong Jun Investment Limited ("Hong Jun")	Nominee for another person	2	69,000,000	8.63%
CCB International Asset Management Limited (''CCBI-AM'')	Interest in controlled corporation	2	69,000,000	8.63%
CCB International (Holdings) Limited (''CCBI-H'')	Beneficial owner	2	69,000,000	8.63%
CCB Financial Holdings Limited (''CCB-FH'')	Interest in controlled corporations	2	69,000,000	8.63%
CCB International Group Holdings Limited (''CCBI-Group'')	Interest in controlled corporations	2	69,000,000	8.63%
China Construction Bank Corporation (''CCB'')	Interest in controlled corporations	2	69,000,000	8.63%
Apex Ally Investments Limited ("Apex Ally")	Beneficial owner	3	45,900,000	5.74%
ICBC International Investment Management Limited ("ICBCI-IM")	Interest in controlled corporation	3	45,900,000	5.74%

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY AND ASSOCIATED CORPORATIONS (Continued)

Interests in the Company (Continued)

			Long position	
Name of Shareholder	Capacity	Notes	Number of ordinary Shares	Approximate percentage of total number of Shares
ICBC International Holdings Limited ("ICBCI-H")	Interest in controlled corporations	3	45,900,000	5.74%
Industrial and Commercial Bank of China Limited ("ICBC")	Interest in controlled corporations	3	45,900,000	5.74%
Central Huijin Investment Ltd.	Interest in controlled corporations	4	114,900,000	14.36%

Notes:

1. Mr. Dong Liyong is the sole beneficial owner of Shen Wang Limited, a company Incorporated in the British Virgin Islands with limited liability, which is the direct owner of 114,182,000 Shares. Further, he is also the beneficial owner of 10,000 Shares. Ms. Yang Yingying is the spouse of Mr. Dong Liyong. By virtue of the SFO, Ms. Yang Yingying is deemed to be interested in all interests of Mr. Dong Liyong in the Company including long position and short position.

2. Hong Jun is the registered holder of 69,000,000 Shares. Hong Jun is 100% owned by CCBI-AM. By virtue of the SFO, CCBI-AM is deemed to be interested in the interests of the Company held by Hong Jun.

   CCBI-H is the beneficial owner of 69,000,000 Shares held under the name of Hong Jun. CCBI-H is 100% owned by CCB-FH, which is in turn 100% owned by CCBI-Group. CCBI-Group is 100% owned by CCB. By virtue of the SFO, CCB, CCBI-Group and CCB-FH are deemed to be interested in the interests of the Company held by CCBI-H.

3. Apex Ally is the beneficial owner of 45,900,000 Shares. Apex Ally is 100% owned by ICBCI-IM which is in turn 100% owned by ICBCI-H. ICBCI-H is 100% owned by ICBC. By virtue of the SFO, ICBCI-IM, ICBCI-H and ICBC are deemed to be interested in the interests of the Company held by held by Apex Ally.

4. CCB and ICBC are 57.1% owned and 35.4% owned, respectively, by Central Huijin Investment Ltd. By virtue of the SFO, Central Huijin Investment Ltd. is deemed to be interested in the interests of the Company held by CCB and ICBC as stated in note (2) and note (3) above.

Saved as disclosed above, no person (other than Directors and the Company's chief executive whose interests are set out in the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares of the Company and Associated Corporations" above) had interest or short position in the Shares or underlying shares of the Company and associated corporations that was required to be recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTION SCHEME

The Company has adopted a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The Share Option Scheme was approved by the Company's Shareholders on 24 May 2011. It became effective for a period of 10 years commencing on the date on which the Share Option Scheme was adopted.

The Directors consider the Share Option Scheme, with its broadened basis of participation, will enable the Group to reward the employees, the Directors and other selected participants for their contributions to the Group. Eligible participants of the Share Option Scheme include all Directors and employees of the Group, suppliers, customers, consultants who provide services to the Group, shareholders of the subsidiaries of the Group and joint venture partners, etc. Under the Share Option Scheme, the Directors may, at their sole discretion, grant to any eligible participants options to subscribe for ordinary Shares at the highest of (i) the closing price of Shares on the Stock Exchange as stated in the Stock Exchange's daily quotation sheet on the date of the offer of grant; (ii) the average closing price of the Shares on the Stock Exchange as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Share.

The offer of a grant of options may be accepted within 21 days from the date of the offer. A nominal consideration of HK$1 is payable on acceptance of the grant of an option. The exercise period of the options granted is determined by the Directors, and commences after a certain vesting period and ends in any event not later than 10 years from the respective date when the share options are granted, subject to the provisions for early termination thereof.

Details of the share options during the six months ended 30 June 2012 are as follows:

	Number of underlying shares (subject of the share options)						
Name or category of participant	**As at 1 January 2012**	**Granted during the period**	**As at 30 June 2012**	**Date of offer**	**Exercise period**	**Closing price immediately before the date of offer** (HK$ per Share)	**Exercise price*** (HK$ per Share)
Employees of the Group							
In aggregate	—	42,000,000	42,000,000	30 March 2012	19 April 2012 to 30 March 2014 (a)	2.04	2.192
Others							
In aggregate	—	12,000,000	12,000,000	30 March 2012	19 April 2012 to 30 March 2014 (b)	2.04	2.192
In aggregate	—	26,000,000	26,000,000	29 May 2012	18 June 2012 to 29 May 2014 (c)	1.85	1.920
Total	—	80,000,000	80,000,000				

(a) Immediately vested.

(b) Subject to vesting period from 19 April 2012 to 19 April 2013.

(c) Subject to vesting period from 18 June 2012 to 18 June 2013.

* The exercise price of the share options may be subject to some adjustments in the case of rights issues, or other similar changes in the Company's capital structure.

SHARE OPTION SCHEME (Continued)

As at 30 June 2012, the Company had outstanding options to subscribe for up to 80,000,000 Shares under the Share Option Scheme. There were no share options exercised, lapsed and cancelled during the six months ended 30 June 2012.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Stock Exchange made certain amendments ("Amendments") to the Listing Rules, which related to the CG Code, practices and reporting. Such revision took effect (or, as the case may be, would take effect) from 1 January 2012, 1 April 2012 or 31 December 2012 respectively.

With the introduction of the CG Code as amended with effect from 1 April 2012 ("Revised Code"), the Board's terms of reference was amended to be in line with the principles and code provisions of the Revised Code. As this interim period covers the period from 1 January 2012 to 30 June 2012, before and after the Revised Code took effect, all the corporate governance principles and code provisions mentioned herein shall refer to those stated in the CG Code as applied before 1 April 2012 and to those stated in the Revised Code as applied on and after 1 April 2012.

The Company is committed to high standards of corporate governance. The Directors believe that the Company has complied with all the code provisions of the CG Code and the Revised Code (as the case may be) in Appendix 14 of the Listing Rules for the six months ended 30 June 2012 and there was no material deviation from the CG Code and the Revised Code (as the case may be).

AUDIT COMMITTEE AND REVIEW OF UNAUDITED FINANCIAL STATEMENTS

The audit committee of the Company has been set up in accordance with the Listing Rules. Members of the audit committee as at 30 June 2012 comprised Ms. Leung Mei Han (chairman), Ms. Peng Cuihong and Mr. Huan Xuedong, all of them are independent non-executive Directors.

To keep the audit committee's terms of reference in line with the Amendments, the Board adopted new terms of reference of the audit committee in March 2012.

The committee has reviewed with the management the accounting principles and practices adopted by the Group, financial reporting matters including a review of the unaudited consolidated results for the six months ended 30 June 2012 prior to recommending them to the Board for approval.

The unaudited consolidated interim financial statements for the six months ended 30 June 2012 have been reviewed by the Company's auditor, Deloitte Touche Tohmatsu.

REMUNERATION COMMITTEE

The remuneration committee of the Company has been set up in accordance with Appendix 14 to the Listing Rules with written terms of reference.

REMUNERATION COMMITTEE (Continued)

To keep the remuneration committee's terms of reference in line with the Amendments, the Board adopted new terms of reference of the remuneration committee in March 2012.

The principal responsibilities of the remuneration committee include making recommendations to the Board on the Group's policy and structure for all remuneration of Directors and senior management and reviewing the specific remuneration packages of all executive Directors and senior management by reference to corporate goals and objectives resolved by the Board from time to time.

As at 30 June 2012, the remuneration committee comprised Ms. Peng Cuihong (chairman) and Ms. Leung Mei Han, both of whom are independent non-executive Directors, and Mr. Liu Longhua, a non-executive Director.

NOMINATION COMMITTEE

The nomination committee of the Company has been set up in accordance with Appendix 14 to the Listing Rules with written terms of reference.

To keep the nomination committee's terms of reference in line with the Amendments, the Board adopted new terms of reference of the nomination committee in March 2012.

The principal responsibilities of the nomination committee include formulating nomination policy and making recommendations to the Board on nomination and appointment of Directors and Board succession, developing selection procedures for nomination of candidates, reviewing the size, structure and composition of the Board, as well as assessing the independence of the independent non-executive Directors.

As at 30 June 2012, the nomination committee comprised Mr. Liu Longhua (chairman), a non-executive Director, Ms. Leung Mei Han and Ms. Peng Cuihong, both of whom are independent non-executive Directors.

INTERIM DIVIDEND

The Directors have resolved to declare an interim dividend of HK2 cents per share for the six months ended 30 June 2012 (2011: nil).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2012, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities.

DIRECTORS' COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conducts regarding Directors' securities dealings. Specific enquiries had been made to all Directors, who confirmed that they have compiled with the required standard set out in the Model Code for the six months ended 30 June 2012.

Report on Review of Condensed Consolidated Financial Statements

Deloitte.
德勤

TO THE BOARD OF DIRECTORS OF XIANGYU DREDGING HOLDINGS LIMITED
翔宇疏浚控股有限公司
(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Xiangyu Dredging Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 19 to 48, which comprises the condensed consolidated statement of financial position as of 30 June 2012 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the these condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

13 August 2012

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2012

	Notes	Six months ended 30 June 2012 RMB'000 (Unaudited)	2011 RMB'000 (Audited)
Revenue	5	482,437	461,577
Operating cost		(302,546)	(277,747)
Gross profit		179,891	183,830
Other income	6	16,917	26,937
Marketing and promotion expenses		(3,466)	(2,439)
Administrative expenses		(24,022)	(7,263)
Listing expenses		—	(11,093)
Finance costs	7	(4,350)	(2,355)
Profit before tax		164,970	187,617
Income tax expense	8	(45,248)	(52,170)
Profit for the period and total comprehensive income for the period	9	119,722	135,447
Profit for the period and total comprehensive income for the period attributable to:			
Owners of the Company		112,043	135,447
Non-controlling interests		7,679	—
		119,722	135,447
Earnings per share	10		
— basic (RMB)		0.14	0.22
— diluted (RMB)		0.14	N/A

Condensed Consolidated Statement of Financial Position

At 30 June 2012

	Notes	At 30 June 2012 RMB'000 (Unaudited)	At 31 December 2011 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	12	1,050,776	705,225
Prepaid land lease payments	12	94,005	—
Goodwill	17	201	—
Deposit paid for acquisition of property, plant and equipment		—	150
Accounts receivables due after one year	13	218,874	125,502
		1,363,856	830,877
CURRENT ASSETS			
Prepaid land lease payments	12	2,410	—
Accounts and other receivables	13	744,734	608,240
Pledged bank deposits		65,000	—
Bank balances and cash		72,562	125,788
		884,706	734,028
CURRENT LIABILITIES			
Accounts and other payables	14	260,635	138,158
Amounts due to directors		29,868	60,321
Amounts due to non-controlling interests of a subsidiary		70,512	—
Tax payable		118,020	111,445
Bank borrowings	15	254,000	25,000
Other borrowings		32,368	—
		765,403	334,924
NET CURRENT ASSETS		119,303	399,104
TOTAL ASSETS LESS CURRENT LIABILITIES		1,483,159	1,229,981

Condensed Consolidated Statement of Financial Position (Continued)

At 30 June 2012

	Notes	At 30 June 2012 RMB'000 (Unaudited)	At 31 December 2011 RMB'000 (Audited)
CAPITAL AND RESERVES			
Share capital	16	67,200	67,200
Reserves		1,282,147	1,162,781
Equity attributable to owners of the Company		1,349,347	1,229,981
Non-controlling interests		110,985	—
TOTAL EQUITY		1,460,332	1,229,981
NON-CURRENT LIABILITY			
Deferred tax liabilities		22,827	—
		1,483,159	1,229,981

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012

	Attributable to owners of the Company								
	Share capital RMB'000	**Share premium** RMB'000	**Share option reserve** RMB'000	**PRC statutory reserve** RMB'000 (note i)	**Other reserve** RMB'000	**Retained profits** RMB'000	**Total** RMB'000	**Attributable to non-controlling interests** RMB'000	**Total** RMB'000
At 1 January 2011 (audited) (note ii)	39,451	173,481	—	13,549	22	209,703	436,206	—	436,206
Profit for the period and total comprehensive income for the period	—	—	—	—	—	135,447	135,447	—	135,447
Shares exchange between the Company and Power Wealth BVI (note iii)	8,265	(173,481)	—	—	165,216	—	—	—	—
Transfer of paid-in capital of PRC Operational Entity (note iv)	(39,316)	—	—	—	39,316	—	—	—	—
Issue of new shares through Global Offering (note v)	16,800	519,120	—	—	—	—	535,920	—	535,920
Transaction costs attributable to issue of new shares	—	(45,309)	—	—	—	—	(45,309)	—	(45,309)
Capitalisation Issue (note vi)	42,000	(42,000)	—	—	—	—	—	—	—
At 30 June 2011 (audited)	67,200	431,811	—	13,549	204,554	345,150	1,062,264	—	1,062,264
At 1 January 2012 (audited)	67,200	431,811	—	13,549	204,554	512,867	1,229,981	—	1,229,981
Profit for the period and total comprehensive income for the period (unaudited)	—	—	—	—	—	112,043	112,043	7,679	119,722
Recognition of equity-settled share-based payments (unaudited)	—	—	7,323	—	—	—	7,323	—	7,323
Acquisition of a subsidiary (note 17) (unaudited)	—	—	—	—	—	—	—	103,306	103,306
At 30 June 2012 (unaudited)	67,200	431,811	7,323	13,549	204,554	624,910	1,349,347	110,985	1,460,332

Condensed Consolidated Statement of Changes in Equity (Continued)

For the six months ended 30 June 2012

Notes:

(i) According to the rules and regulations in the People's Republic of China ("PRC"), a portion of the profit after taxation of the Company's PRC subsidiaries is required to be transferred to a PRC statutory reserve before distribution of a dividend to their equity owners. The transfer can cease when the balance of the reserve reaches 50% of the registered capital of the respective subsidiaries. The reserve can be applied either to set off accumulated losses or to increase capital.

(ii) The balance of share capital at 1 January 2011 represents the paid-in capital of the PRC Operational Entity (as defined in note 2) and the share capital of Power Wealth BVI (as defined in note 2).

(iii) On 19 April 2011, the Company (a) issued a total of 99,000,000 new shares of HK$0.10 each to Wangji Limited ("Wangji") in exchange of the entire share capital of Power Wealth BVI and (b) credited as fully paid at par the 1,000,000 nil-paid shares then held by Wangji. The excess of the share capital and share premium of Power Wealth BVI over the nominal value of the shares issued by the Company was credited to other reserve.

(iv) Upon completion of the Reorganisation (as defined in note 2), the paid-in capital of the PRC Operational Entity was transferred to other reserve.

(v) On 20 June 2011, the Company issued a total of 200,000,000 new shares of HK$0.10 each at an issue price of HK$3.19 per share pursuant to its prospectus dated 8 June 2011 (the "Global Offering"). The gross listing proceeds were HK$638,000,000 (approximately RMB535,920,000).

(vi) On 20 June 2011, the Company issued and allotted a total of 500,000,000 shares of HK$0.10 each to the shareholders whose names appeared on the Company's register of members on 24 May 2011 by capitalising an amount of HK$50,000,000 standing to the credit of the Company's share premium account which was created pursuant to the Global Offering (the "Capitalisation Issue").

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2012

	Note	Six months ended 30 June 2012 RMB'000 (Unaudited)	2011 RMB'000 (Audited)
OPERATING ACTIVITIES			
Operating cash flows before movements in working capital		200,837	200,037
Increase in accounts and other receivables		(201,031)	(343,775)
Increase in accounts and other payables		78,587	104,457
Cash generated from/(used in) operations		78,393	(39,281)
PRC income tax paid		(38,850)	(322)
NET CASH FROM/(USED IN) OPERATING ACTIVITIES		39,543	(39,603)
INVESTING ACTIVITIES			
Interest received		1,015	8
Acquisition of a subsidiary (net of cash and cash equivalents acquired)	17	(17,092)	—
Purchases of property, plant and equipment		(40,215)	(149)
Deposit paid for acquisition of property, plant and equipment		—	(27,116)
Purchase of leasehold land		(89,415)	—
Proceeds from disposals of property, plant and equipment		65	—
Pledged bank deposits placed		(62,000)	(60,000)
NET CASH USED IN INVESTING ACTIVITIES		(207,642)	(87,257)
FINANCING ACTIVITIES			
Issue of ordinary shares		—	535,920
New bank borrowings raised		199,000	149,900
Repayment of bank borrowings		(27,995)	(20,000)
New other borrowings raised		290	—
Repayment to non-controlling interests of a subsidiary		(4,619)	—
Advance from directors		283,108	6,711
Repayment to a director		(330,561)	(31,900)
Interest paid		(4,350)	(2,355)
NET CASH FROM FINANCING ACTIVITIES		114,873	638,276
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(53,226)	511,416
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		125,788	12,520
Effect of changes in foreign exchange rate		—	(1,500)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by bank balances and cash		72,562	522,436

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

The condensed consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

2. REORGANISATION AND BASIS OF PRESENTATION OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the purpose of listing the Company's shares on the Stock Exchange in 2011, the entities in the Group have undergone a series of reorganisation steps to rationalise the group structure (the "Reorganisation").

As part of the Reorganisation, Jiangsu Xiangyu Port Construction Project Administration Company Limited ("Xiangyu PRC"), Jiangsu Xingyu Port Construction Company Limited ("PRC Operational Entity"), and its respective equity participants, being Mr. Liu Kaijin ("Mr. Liu") and Ms. Zhou Shuhua ("Ms. Zhou") entered into a series of agreements (the "Contractual Arrangements") on 19 April 2011 with the following key provisions:

(i) Option Agreement

Xiangyu PRC, the PRC Operational Entity, Mr. Liu and Ms. Zhou entered into an exclusive option agreement ("Option Agreement") whereby Mr. Liu and Ms. Zhou have irrevocably granted Xiangyu PRC an option to acquire, directly or through one or more nominees, the entire equity interest held by Mr. Liu and Ms. Zhou in the PRC Operational Entity at a price ("Acquisition Cost") equivalent to the fair market value of such equity interest or, where applicable, the amount as permitted by the applicable PRC laws. The Acquisition Cost, when received, will be contributed by Mr. Liu and Ms. Zhou to the Xiangyu PRC as capital surplus. Subject to the compliance with the PRC laws, Xiangyu PRC may exercise the option at any time, in respect of all or part of the equity interest of the PRC Operational Entity and in any manner at its sole discretion.

2. REORGANISATION AND BASIS OF PRESENTATION OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(i) Option Agreement (Continued)

Pursuant to the Option Agreement, each of the PRC Operational Entity, Mr. Liu and/or Ms. Zhou has given undertakings that it shall perform certain acts or refrain from performing certain other acts unless with the prior written consent of Xiangyu PRC, including but not limited to the below matters:

(a) that the PRC Operational Entity shall not alter its constitutional documents or its registered capital;

(b) that any of the PRC Operational Entity, Mr. Liu and/or Ms. Zhou shall not incur any indebtedness or guarantee (other than those incurred in the ordinary course of business and disclosed to and approved by Xiangyu PRC in advance);

(c) that the PRC Operational Entity shall not provide any loan or guarantee to any third parties;

(d) that the PRC Operational Entity shall not dispose of or create encumbrances over any part of its assets, business or revenue and that Mr. Liu and Ms. Zhou shall not dispose of or create encumbrances over the equity interest held by them in the PRC Operational Entity, except the security created under the Equity Pledge Agreement (as defined in (iv) below);

(e) that the PRC Operational Entity shall not enter into any material contracts over certain amount other than those in its ordinary course of business;

(f) that the PRC Operational Entity shall not distribute any dividend (including any undistributed attributable profit payable to the entity's shareholders prior to the Option Agreement becoming effective) to its shareholders and that Mr. Liu and Ms. Zhou undertake that such undistributed profit shall be retained in the PRC Operational Entity as its capital and/or reserved fund and shall give up and assign or transfer to Xiangyu PRC any dividend declared and distributed thereafter and payable to them by virtue of their holding of the equity interest in the PRC Operational Entity;

(g) that the PRC Operational Entity shall not make investment or engage in any merger or acquisition transactions; and

(h) that at the request of Xiangyu PRC, Mr. Liu and Ms. Zhou shall appoint such persons nominated by Xiangyu PRC to act as the directors, supervisors and senior management members of the PRC Operational Entity.

The Option Agreement became effective on 19 April 2011 and will expire on the date on which all the equity interests held by Mr. Liu and Ms. Zhou in the PRC Operational Entity are transferred to Xiangyu PRC and/or its nominee(s).

2. REORGANISATION AND BASIS OF PRESENTATION OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(ii) Proxy Agreement

Xiangyu PRC, the PRC Operational Entity, Mr. Liu and Ms. Zhou entered into a proxy agreement ("Proxy Agreement") pursuant to which Mr. Liu and Ms. Zhou have unconditionally and irrevocably undertaken to authorise such person(s) as designated by Xiangyu PRC (being PRC citizens) to exercise the shareholders' rights in relation to appointment of proxy and exercise of voting rights in the PRC Operational Entity under the articles of association of the PRC Operational Entity and the applicable PRC laws. Such shareholders' rights include but not limited to (i) calling and attending the shareholders' meetings of the PRC Operational Entity; (ii) exercising the voting rights on all matters requiring the consideration and approval of shareholders and those pursuant to articles of association of the PRC Operational Entity.

Before Xiangyu PRC acquires the entire equity interests in the PRC Operational Entity contemplated under the Option Agreement, Xiangyu PRC can exercise the voting rights of shareholders of the PRC Operational Entity as if Xiangyu PRC and hence the Group was the ultimate beneficial owner of the PRC Operational Entity by virtue of the Proxy Agreement.

The term of the Proxy Agreement commenced on 19 April 2011 and will expire on 18 April 2026, and will be renewable at the election of Xiangyu PRC for successive terms of 10 years each until termination by Xiangyu PRC with a 30-day prior notice to the PRC Operational Entity.

(iii) Composite Services Agreement

Xiangyu PRC and the PRC Operational Entity entered into an exclusive composite services agreement ("Composite Services Agreement") pursuant to which the PRC Operational Entity will exclusively engage Xiangyu PRC to provide consultation and other ancillary services in enterprise management and consultancy services, dredging project management and consultancy services.

In consideration of the provision of the aforementioned services by Xiangyu PRC, the PRC Operational Entity agrees to pay to Xiangyu PRC fees on an annual basis in arrears. Fees payable to Xiangyu PRC by the PRC Operational Entity will be equivalent to the total audited revenue less all the related costs, expenses, taxes and statutory reserve of the PRC Operational Entity. Xiangyu PRC reserves the right to identify the items of expenses to be included as related expenses when calculating the fees payable by PRC Operational Entity and is entitled to adjust the fee payable by PRC Operational Entity anytime based on the volume of service provided.

Pursuant to the Composite Services Agreement, the PRC Operational Entity shall not without the prior written consent of Xiangyu PRC to dispose of or pledge its material assets, operation rights and/or business; alter its registered capital; alter its scope of business; declare dividends; and/or remove any of its directors and senior management members. Pursuant to the Composite Services Agreement, Xiangyu PRC is required to pay to the PRC Operational Entity a surety amount of not less than HK$22,276,000 for the performance of its services provided to the PRC Operational Entity under the Composite Services Agreement. As a security for the due payment of the consultation service fees and repayment of the surety money by the PRC Operational Entity to Xiangyu PRC under the Composite Services Agreement, the PRC Operational Entity has agreed to pledge its interest in the three vessels owned or (as the case may be) jointly-owned by it to Xiangyu PRC.

The term of the Composite Services Agreement commenced from 19 April 2011, and will expire on 18 April 2026, which will be renewable at the request of Xiangyu PRC for successive terms of 10 years each until termination by Xiangyu PRC with a 30 day prior written notice to the PRC Operational Entity.

2. REORGANISATION AND BASIS OF PRESENTATION OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(iv) Equity Pledge Agreement

Xiangyu PRC, the PRC Operational Entity, Mr. Liu and Ms. Zhou entered into an equity pledge agreement ("Equity Pledge Agreement"), pursuant to which Mr. Liu and Ms. Zhou granted a continuing first priority security interests over their respective equity interests in the PRC Operational Entity to Xiangyu PRC for guaranteeing the performance of the Composite Services Agreement, the Option Agreement and the Proxy Agreement. Mr. Liu and Ms. Zhou are responsible to record the pledge of equity into the shareholders' register on the effective date of the Equity Pledge Agreement. PRC Operational Entity, Mr. Liu and Ms. Zhou are also responsible to register the pledge of equity in the State Administration for Industry and Commerce 10 days after the effective date of the Equity Pledge Agreement.

Pursuant to the Equity Pledge Agreement, without the prior written consent of Xiangyu PRC, the PRC Operational Entity shall not alter its current shareholding structure and/or its nature or scope of business, Mr. Liu and Ms. Zhou shall not allow the PRC Operational Entity to transfer or dispose of its assets or pledge or transfer their respective equity interests in the PRC Operational Entity in favor of or to other third parties. Xiangyu PRC is entitled to receive all dividends derived from the pledged equity interests. Xiangyu PRC is entitled to demand repayment of the secured indebtedness and/or to exercise its rights to sell the pledged equity interests on occurrence of certain events of default including but not limited to non-performance or breach of any of the Composite Services Agreement, the Option Agreement and the Proxy Agreement; or failure to repay other debts when due by the PRC Operational Entity, Mr. Liu or Ms. Zhou (as the case may be).

The Equity Pledge Agreement became effective from the date of its execution and shall terminate upon performance of all obligations under the Composite Services Agreement, the Option Agreement and the Proxy Agreement in full.

(v) Vessel Pledge Agreements

The PRC Operational Entity and Xiangyu PRC have entered into three vessel pledge agreements ("Vessel Pledge Agreements") dated 19 April 2011, pursuant to which the PRC Operational Entity has pledged in favor of Xiangyu PRC (i) its entire interest in the dredger "Zhuayang No. 101"; (ii) its 50% interest in the dredger "Kaijin No. 1" and (iii) its 50% interest in the dredger "Kaijin No. 3" to Xiangyu PRC, as security for the due payment of the consultation service fees and repayment of the surety money (as well as related interest and expenses, etc.) then owing by the PRC Operational Entity to Xiangyu PRC under the Composite Services Agreement.

Pursuant to the Vessel Pledge Agreements, without the prior written consent of Xiangyu PRC, the PRC Operational Entity shall not pledge or dispose of its interests in the pledged vessels or any part thereof. Xiangyu PRC is entitled to exercise its rights to sell the pledged vessels on occurrence of certain events of default, including but not limited to the non-payment of the secured indebtedness or non-performance of the Composite Services Agreement.

The Vessel Pledge Agreements became effective from the date of its execution and shall terminate upon payment or repayment of the consultation service fees, surety money and all other related expenses under the Composite Services Agreement.

2. REORGANISATION AND BASIS OF PRESENTATION OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(v) Vessel Pledge Agreements (Continued)

The directors of the Company ("Directors"), after consulting legal opinion, are of the view that the terms of the Contractual Arrangements have in substance enabled Xiangyu PRC to obtain control over, and benefit from the entire beneficial economic interests in, the PRC Operational Entity despite the absence of formal legal equity interest therein.

Power Wealth Group (BVI) Limited ("Power Wealth BVI") was incorporated on 17 May 2010 and one ordinary share having a par value of US$1.00 each was allotted and issued to Mr. Liu on 18 June 2010. Xiangyu PRC was established on 11 June 2010 as a wholly owned subsidiary of Power Wealth Engineering Limited ("Power Wealth HK"). On 30 June 2010, Power Wealth BVI acquired from Mr. Liu 100,000 shares of HK$1.00 each in Power Wealth HK, representing its entire issued share capital, in consideration of and in exchange for which Power Wealth BVI allotted and issued, credited as fully paid, a total of 9,999 new shares of US$1.00 each in its capital to Mr. Liu. Accordingly, Power Wealth HK became the wholly owned subsidiary of Power Wealth BVI. Prior to the Reorganisation and on 18 August 2010, Mr. Liu transferred the entire issued share capital of Power Wealth BVI (being 10,000 ordinary shares of US$1.00 each) to Wangji Limited ("Wangji"), a company wholly owned by himself. On 18 September 2010, Power Wealth BVI, further issued and allotted 10,000 new shares of US$1.00 each at a cash consideration of RMB173,548,000 to Wangji to raise additional capital for the Group. Through a share exchange as part of the Reorganisation which was completed on 19 April 2011 by interspersing the Company between Power Wealth BVI and Wangji, the Company became the holding company of the companies comprising the Group on the same date.

As the PRC Operational Entity, Xiangyu PRC and other companies comprising the Group have been under common control of Mr. Liu since their respective establishment date, the Reorganisation including the execution of the Contractual Arrangements is considered as a business combination under common control. Accordingly, the PRC Operational Entity is accounted for as a subsidiary of the Company throughout the periods presented on a merger basis. The assets, liabilities and results of the PRC Operational Entity are included in the condensed consolidated financial statements of the Group as if the Company had always been the parent of the PRC Operational Entity.

The condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows include the results and cash flows of the companies now comprising the Group as if the current group structure had been in existence throughout the period ended 30 June 2011 or since their respective date of incorporation or establishment.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Except as described below which are applicable for new transactions that occur in the current period, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2012 are the same as those followed in the preparation of the annual financial statements of the Group for the year ended 31 December 2011.

Basis of consolidation

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with Hong Kong Financial Reporting Standards ("HKFRS") 2 "Share-based Payment" at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another standard.

Where the consideration transferred by the Group in a business combination includes assets resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as an asset is remeasured at subsequent reporting dates in accordance with HKAS 39 with the corresponding gain or loss being recognised in profit or loss.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (which cannot exceed one year from the acquisition date), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses, if any, and is presented separately in the condensed consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units), that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the condensed consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to eligible employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of number of underlying shares (subject of the options) that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve.

When the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are cancelled or lapsed after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Share-based payment transactions (Continued)

Equity-settled share-based payment transactions (Continued)

Share options granted to eligible participants providing services to the Group

Share options issued in exchange for services are measured at the fair values of the services received, unless that fair value cannot be reliably measured, in which case the services received are measured by reference to the fair value of the share options granted. The fair values of the services received are recognised as expenses, with a corresponding increase in equity (share option reserve), when the counterparties render services, unless the services qualify for recognition as assets.

In the current interim period, the Group has applied, for the first time, the following amendments to HKFRSs issued by HKICPA:

- amendments to HKFRS 7 "Financial Instruments: Disclosures — Transfers of Financial Assets"; and
- amendments to HKAS 12 "Deferred Tax: Recovery of Underlying Assets".

The application of the above amended HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the Directors are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year are disclosed below.

Estimated allowance for accounts and other receivables

Management regularly reviews the recoverability of accounts and other receivables. Allowance for these receivables is made based on evaluation of collectability and on management's judgment by reference to the estimation of the future cash flows discounted at an effective interest rate to calculate the present value. A considerable amount of judgment is required in assessing the ultimate realisation of these debtors, including their current creditworthiness. If the actual future cash flows were less than expected, additional allowance may be required.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Estimated useful life and residual values of property, plant and equipment

Dredgers and plant and machinery included in property, plant and equipment are depreciated over their useful economic lives. The assessment of estimated useful lives and residual values are matters of judgment based on the experience of the Group, taking into account factors such as technological progress, conditions of the dredgers and plant and machinery and changes in market demand. Useful lives and residual values are periodically reviewed for continued appropriateness. Due to long lives of the dredgers and plant and machinery, changes to the estimates used can affect the amount of depreciation to be charged to profit or loss in each reporting period and consequently affect their carrying value at the end of the reporting period.

Estimated impairment of property, plant and equipment

Determining whether property, plant and equipment are impaired requires an estimation of the value in use of the cash-generating units to which property, plant and equipment have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

5. REVENUE AND SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the executive Directors who are also the chief operating decision makers that are used to make strategic decisions.

During the current reporting period, the Group has completed an acquisition of a subsidiary (detailed in note 17) and due to such acquisition, the Group had introduced a new segment, Other Marine Business and currently, the Group had four main operating and reportable segments, namely (i) Capital and Reclamation Dredging Business; (ii) Environmental Protection Dredging and Water Management Business; (iii) Dredging Related Construction Business; and (iv) Other Marine Business. The operating segments are managed separately as each business offers different services and requires different marketing strategies.

Capital and Reclamation Dredging Business refers to the capital and reclamation dredging services and related consultation services provided by the Group.

Environmental Protection Dredging and Water Management Business refers to dredging or water management services or constructions for promoting environmental interests and water quality mainly for inland rivers provided by the Group.

5. REVENUE AND SEGMENT INFORMATION (Continued)

Dredging Related Construction Business refers to ancillary construction work related to the capital and reclamation dredging services provided by the Group.

Other Marine Business mainly comprises marine hoisting, installation, salvaging and other engineering services provided by the Group.

Segment results

The following is an analysis of the Group's revenue and results by reportable segments:

	Capital and Reclamation Dredging Business RMB'000 (Unaudited)	Environmental Protection Dredging and Water Management Business RMB'000 (Unaudited)	Dredging Related Construction Business RMB'000 (Unaudited)	Other Marine Business RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Six months ended 30 June 2012					
Segment revenue	213,570	143,793	61,590	63,484	482,437
Segment profit	95,144	42,299	13,910	23,030	174,383
Other income					16,827
Unallocated corporate expenses					(23,380)
Finance costs					(2,860)
Group's profit before tax					164,970
Other information:					
Depreciation of property, plant and equipment	9,791	–	–	6,617	

5. REVENUE AND SEGMENT INFORMATION (Continued)

	Capital and Reclamation Dredging Business RMB'000 (Audited)	Environmental Protection Dredging and Water Management Business RMB'000 (Audited)	Dredging Related Construction Business RMB'000 (Audited)	Other Marine Business RMB'000 (Audited)	Total RMB'000 (Audited)
Six months ended 30 June 2011					
Segment revenue	461,577	—	—	—	461,577
Segment profit	183,830	—	—	—	183,830
Other income					26,937
Unallocated corporate expenses					(9,702)
Listing expenses					(11,093)
Finance costs					(2,355)
Group's profit before tax					187,617
Other information:					
Depreciation of property, plant and equipment	9,501	—	—	—	

Segment results represent the profit before tax earned by each segment without allocation of central administrative expenses, marketing and promotion expenses, listing expenses, other income and finance costs. For Other Marine Business, the segment result represents profit before tax earned by that segment. This is the measure reported to the Company's executive Directors for the purposes of resource allocation and performance assessment.

5. REVENUE AND SEGMENT INFORMATION (Continued)

Segment assets

	Capital and Reclamation Dredging Business RMB'000 (Unaudited)	Environmental Protection Dredging and Water Management Business RMB'000 (Unaudited)	Dredging Related Construction Business RMB'000 (Unaudited)	Other Marine Business RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
At 30 June 2012					
Segment assets	873,330	317,761	18,504	443,277	1,652,872
Unallocated assets:					
Prepaid land lease payments					96,415
Pledged bank deposits					50,000
Bank balances and cash					61,486
Other unallocated assets					387,789
Consolidated assets					2,248,562

	Capital and Reclamation Dredging Business RMB'000 (Audited)	Environmental Protection Dredging and Water Management Business RMB'000 (Audited)	Dredging Related Construction Business RMB'000 (Audited)	Other Marine Business RMB'000 (Audited)	Total RMB'000 (Audited)
At 31 December 2011					
Segment assets	876,337	169,320	—	—	1,045,657
Unallocated assets:					
Bank balances and cash					125,788
Other unallocated assets					393,460
Consolidated assets					1,564,905

For the purposes of monitoring segment performances and allocating resources between segments, assets are allocated to reportable and operating segments other than certain property, plant and equipment, prepaid land lease payments, certain other receivables, certain pledged bank deposits and certain bank balances and cash.

6. OTHER INCOME

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Bank interest income	1,015	8
Government financial incentive (note)	9,547	26,929
Interest income in respect of non-current accounts receivables (note 13)	6,275	—
Sundry income	80	—
	16,917	26,937

Note: Pursuant to a document issued by a PRC local government authority, one of the Company's PRC subsidiaries was to be granted financial incentive for a period of 3 years for its contribution to the economic development of the locality, provided it is duly registered in the locality and pays taxes according to tax laws. No other conditions are attached to the financial incentive.

In 2011, the PRC local government authority confirmed that the amount of such financial incentive the Group was entitled up to 30 June 2011 was RMB26,929,000. Accordingly, the Group recognised such amount as other income for the six months ended 30 June 2011.

In 2012, the PRC local government authority further confirmed that the amount of such financial incentive the Group was entitled for the six months ended 30 June 2012 was RMB9,547,000. Accordingly, the Group recognised such amount as other income for the six months ended 30 June 2012.

7. FINANCE COSTS

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Interest expense on:		
Bank borrowings wholly repayable within five years	4,344	1,283
Discounted bills	6	1,072
	4,350	2,355

8. INCOME TAX EXPENSE

(i) Hong Kong Profits Tax

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both periods, if any.

No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements as the Group had no assessable profits for both periods.

(ii) PRC Enterprise Income Tax

PRC Enterprise Income Tax is calculated at 25% of the assessable profits for both periods.

	Six months ended 30 June	
	2012 RMB'000 (Unaudited)	2011 RMB'000 (Audited)
Current tax:		
PRC Enterprise Income Tax	46,097	52,170
Deferred tax credit	(849)	—
	45,248	52,170

9. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2012 RMB'000 (Unaudited)	2011 RMB'000 (Audited)
Profit for the period has been arrived at after charging/(crediting) the following items:		
Depreciation of property, plant and equipment	25,255	10,073
Net foreign exchange (gain)/loss	(652)	656
Share-based payment expense (note 19)	7,323	—
Gain on disposals of property, plant and equipment	(46)	—
Sub-contracting charges included in operating cost	133,776	—

10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Earnings		
Profit for the period attributable to owners of the Company for the purposes of basic and diluted earnings per share	**112,043**	135,447
	'000	'000
Number of shares		
Shares in issue/ (2011: weighted average number of shares) for the purpose of basic and diluted earnings per share	**800,000**	612,154

The weighted average number of shares for the purpose of basic earnings per share for the period ended 30 June 2011 was calculated based on the number of shares issued, and also took into account the weighted average effect of the capital injection by Mr. Liu to the companies comprising the Group prior to Reorganisation. The number of shares for the period ended 30 June 2011 was also adjusted for the effect of the Capitalisation Issue.

No diluted earnings per share was presented for the period ended 30 June 2011 as there were no potential dilutive shares then in issue.

The computation of diluted earnings per share for the period ended 30 June 2012 does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price of shares.

11. DIVIDENDS

Subsequent to the end of the current interim period, the Directors have determined that an interim dividend of HK2 cents per share (2011: nil) will be paid.

12. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT/PREPAID LAND LEASE PAYMENTS

During the current reporting period, the Group acquired property, plant and equipment and leasehold land of approximately RMB43,599,000 and RMB96,415,000 respectively (2011: RMB422,000 and nil respectively). In addition, property, plant and equipment of approximately RMB327,226,000 (2011: nil) were acquired through the acquisition of a subsidiary (note 17).

13. ACCOUNTS AND OTHER RECEIVABLES

The Group prepares an aged analysis for its accounts receivables based on the terms specified in the contracts governing the relevant projects. Most of the contracts with customers require them to make progress payments with reference to a pre-set percentage of the value of work completed within thirty days after the issuance of the progress certificate. The remaining balance is to be paid by the customers within thirty to sixty days after the project is completed and the customers receive payment from the project owners or at other specific dates as agreed in the contracts which may be over one year.

The following is an analysis of the Group's accounts and bills receivables by age, net of allowance for doubtful debts:

	At 30 June 2012 RMB'000 (Unaudited)	At 31 December 2011 RMB'000 (Audited)
Accounts and bills receivables:		
0–30 days	162,437	227,560
31–60 days	60,239	54,303
61–90 days	14,313	56,583
91–180 days	209,462	236,719
Over 180 days	459,754	101,511
	906,205	676,676
Deposits, prepayments and other receivables:		
Government financial incentive receivables	30,089	43,100
Deposits and prepayments	16,124	8,573
Rental deposits for chartered dredgers with short term leases	244	2,053
Rental receivables	300	300
Retention receivables	4,486	109
Others	6,160	2,931
	57,403	57,066
	963,608	733,742
Less: Amounts due within one year shown under current assets	(744,734)	(608,240)
Amounts shown under non-current assets	218,874	125,502

Long-term receivables represent amounts due from a customer for a contract on certain construction works which are repayable over one year from the respective reporting date. As at 30 June 2012, long-term receivables totalling RMB218,874,000 (31 December 2011: RMB125,502,000) was recognised according to the specific repayment terms in the contract. Interest will be charged from the customer in respect of such non-current accounts receivables balance at a rate of 10% per annum. During the six months ended 30 June 2012, interest income of about RMB6.3 million (2011: nil) was recognised.

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines its credit limits based on reputation of the customers within the industry.

13. ACCOUNTS AND OTHER RECEIVABLES (Continued)

Debtors which were past due and included in the Group's accounts receivables balance as at the reporting date but for which the Group has not provided for impairment loss are as follows:

	At 30 June 2012 RMB'000 (Unaudited)	At 31 December 2011 RMB'000 (Audited)
Accounts and bills receivables:		
0–30 days	47,837	43,195
31–60 days	24,459	50,732
61–90 days	67,801	88,132
91–180 days	142,556	179,835
Over 180 days	248,428	54,352
	531,081	416,246

While the Group does not hold any collateral over the above balances, no impairment loss has been recognised because management considers that (i) the increase in the past due balance was due to the credit tightening measures in the PRC which should be temporary and that (ii) majority of the Group's customers are large state-owned enterprises with strong financial background and/or government support.

14. ACCOUNTS AND OTHER PAYABLES

The following is an analysis of the Group's accounts and bills payables by age, presented based on the invoice date:

	At 30 June 2012 RMB'000 (Unaudited)	At 31 December 2011 RMB'000 (Audited)
Accounts and bills payables:		
0–30 days	89,327	6,611
31–60 days	48,673	31,049
61–90 days	2,238	5,634
91–180 days	7,972	8,294
Over 180 days	38,628	29,109
	186,838	80,697
Other payables:		
Other payables and accruals	61,690	51,003
Receipts in advance	4,822	2,467
Others	7,285	3,991
	73,797	57,461
	260,635	138,158

15. BANK BORROWINGS

During the current reporting period, the Group raised bank loans of RMB199,000,000 (2011: RMB149,900,000). The Group's bank borrowings were also increased by RMB57,995,000 through acquisition of a subsidiary (note 17). As at 30 June 2012, the Group's bank borrowings mainly carried interest at variable market interest rates ranging from 6.56% to 8.53% (31 December 2011: 6.31% to 6.56%) per annum and with repayable on demand clause.

16. SHARE CAPITAL

	Notes	Number of shares	Amount HK$'000	RMB equivalent amount RMB'000
Ordinary shares of HK$0.10 each				
Authorised				
On incorporation of the Company	(i)	2,000,000	200	N/A
Increase on 19 April 2011	(ii)	9,998,000,000	999,800	N/A
Balance at 31 December 2011 and 30 June 2012		10,000,000,000	1,000,000	N/A
Issued and fully paid				
Issued on incorporation of the Company and balance at 31 December 2010	(i)	1,000,000	—	—
Issued pursuant to the Reorganisation	(iii)	99,000,000	9,900	8,316
Paid up the nil-paid shares previously issued	(iii)	—	100	84
Global Offering	(iv)	200,000,000	20,000	16,800
Capitalisation Issue	(v)	500,000,000	50,000	42,000
Balance at 31 December 2011 and 30 June 2012		800,000,000	80,000	67,200

Notes:

(i) The Company was incorporated on 31 May 2010 with an authorised share capital of HK$200,000 divided into 2,000,000 Shares of HK$0.10 each. On the date of incorporation, a total of 1,000,000 shares of HK$0.10 each were issued and nil-paid.

(ii) Pursuant to a resolution passed by the then sole shareholder of the Company on 19 April 2011, the authorised share capital of the Company was increased from HK$200,000 to HK$1,000 million by the creation of 9,998,000,000 new shares of HK$0.10 each in the Company.

(iii) On 19 April 2011, in exchange for the entire issued share capital of Power Wealth BVI, the Company (a) allotted and issued, credited as fully paid, 99,000,000 shares of HK$0.10 each to Wangji, and (b) credited as fully paid at par the 1,000,000 nil-paid shares then held by Wangji.

(iv) On 20 June 2011, the Company issued a total of 200,000,000 new shares of HK$0.10 each at an issue price of HK$3.19 per share pursuant to its prospectus dated 8 June 2011. The gross listing proceeds were HK$638,000,000 (approximately RMB535,920,000).

(v) On 20 June 2011, the Company issued and allotted a total of 500,000,000 shares of HK$0.10 each to the shareholders whose names appeared on the Company's register of members on 24 May 2011 by capitalising an amount of HK$50,000,000 standing to the credit of the Company's share premium account which was created pursuant to the Global Offering.

17. ACQUISITION OF A SUBSIDIARY

On 20 February 2012, the Group completed its acquisition of a 51% equity interest in 江蘇蛟龍打撈航務工程有限公司 Jiangsu Jiaolong Salvage Harbour Engineering Co. Ltd*. ("Jiangsu Jiaolong") (the "Acquisition") with details in note (i) below. The Group is entitled to share 55% of the profits of Jiangsu Jiaolong up to 31 December 2014 and 51% thereafter. Jiangsu Jiaolong is principally engaged in the business of provision of marine hoisting, installation, salvaging and other engineering services. The Acquisition will enable the Group to continue broadening its income base. The Acquisition has been accounted for using the acquisition method. Further details of the Acquisition, including considerations paid or payable, assets acquired, liabilities recognised and goodwill arising, are set out below:

	Notes	RMB'000
Consideration transferred	(i)	
Cash consideration paid upon completion		9,789
Consideration payable to Vendor Shareholders (defined below)		17,711
Subscription consideration (to be paid by the Group)		80,224
		107,724
Net assets acquired		
Provisional fair value of assets acquired and liabilities recognised at the date of acquisition are as follows:		
Property, plant and equipment	(ii)	327,226
Accounts and other receivables	(iii)	28,835
Pledged bank deposits		3,000
Bank overdraft		(7,303)
Tax recoverable		672
Accounts and other payables		(40,656)
Deferred tax liabilities		(23,676)
Amounts due to non-controlling interests		(57,420)
Amount due to the PRC Operational Entity (as prepaid consideration)		(10,000)
Other borrowings		(32,078)
Bank borrowings		(57,995)
		130,605
Subscription consideration (to be paid by the Group)		80,224
		210,829
Less: Non-controlling interests	(iv)	(103,306)
Net assets acquired (provisional)		107,523
Goodwill arising on Acquisition (provisional)	(v)	201

Net cash outflow arising on Acquisition:

	RMB'000
Cash consideration paid	9,789
Add: Bank overdraft	7,303
	17,092

17. ACQUISITION OF A SUBSIDIARY (Continued)

Notes:

(i) The Group acquired 51% equity interest in Jiangsu Jiaolong by means of (i) acquisition of 11% equity interest from the existing equity owners, independent third parties of the Group, (the "Vendor Shareholders") for a consideration of RMB27,500,000 (the "Existing Equity Consideration") and (ii) subscription for 40% equity interest in the registered capital (as enlarged) in Jiangsu Jiaolong for a consideration of RMB84,521,000 (the "Subscription Consideration"), the present value of which at date of completion of the Acquisition amounted to RMB80,224,000.

Upon completion, the Existing Equity Consideration was partially settled for an amount of RMB9,789,000 and the remaining consideration payable to Vendor Shareholders of RMB17,711,000 is included in amounts due to non-controlling interests of a subsidiary as at 30 June 2012.

No interest is charged on the Subscription Consideration. An undiscounted amount of RMB66,171,000 of the Subscription Consideration was to be settled prior to 31 December 2012 and are not discounted due to insignificant impact. The balance of the Subscription Consideration has been accounted for as deferred consideration and discounted to its net present value at RMB14,053,000 using a discount rate of 12% per annum in accordance with the agreed timing of the cash flows as set out in the agreement.

(ii) The initial accounting for the Acquisition has been determined provisionally subject to finalised professional valuation of fair values of total property, plant and equipment.

(iii) The gross contractual amounts of the accounts and other receivables were RMB33,778,000 while their fair value was RMB28,835,000.

(iv) The non-controlling interests were initially measured at the non-controlling interests' proportionate share of the provisional fair value of identifiable net assets acquired on the date of acquisition.

(v) Goodwill arose in the Acquisition because the consideration paid for the combination effectively included benefits in relation to future market development and the assembled workforce of Jiangsu Jiaolong. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on the Acquisition is expected to be deductible for tax purposes.

(vi) Pursuant to the agreements, including their supplements, for the Acquisition, the Group is entitled to share 55% of the profit after taxation of Jiangsu Jiaolong on the basis that the profit after taxation of Jiangsu Jiaolong will not be less than RMB40 million, RMB42 million and RMB45 million for each of the year ending 31 December 2012, 2013 and 2014, respectively (the "Guaranteed Profit(s)"). Should the actual profit of Jiangsu Jiaolong be less than the Guaranteed Profit in any relevant year, the Vendor Shareholders will compensate the Group for the shortfall (the "Profit Shortfall").

In the opinion of the Directors, based on a review of the financial projection of Jiangsu Jiaolong, the fair value of the Profit Shortfall is considered as insignificant at the date of the Acquisition.

(vii) Included in the profit after taxation for the six months ended 30 June 2012 is profit of RMB17,065,000 attributable to the additional business generated by Jiangsu Jiaolong. Revenue for the six months ended 30 June 2012 includes RMB63,484,000 generated from Jiangsu Jiaolong. Had the Acquisition been completed on 1 January 2012, total group revenue for the six months ended 30 June 2012 would have been RMB524,663,000 and profit for the same period would have been RMB144,214,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the Acquisition been completed on 1 January 2012, nor is it intended to be a projection of future results.

18. CAPITAL COMMITMENTS

	At 30 June 2012 RMB'000 (Unaudited)	At 31 December 2011 RMB'000 (Audited)
Capital commitment contracted but not provided in the condensed consolidated financial statements in respect of:		
— construction of a dredger	33,364	—
— acquisition of a subsidiary — Jiangsu Jiaolong	—	127,500
— acquisition of a transportation vessel	—	400
— transformation of a dredger	3,062	—
	36,426	127,900

19. SHARE-BASED PAYMENT TRANSACTION

Pursuant to the written resolution of the shareholders of the Company dated 24 May 2011, the share option scheme (the "Share Option Scheme") of the Company was approved and adopted.

The Share Option Scheme was established for the purpose of providing incentives or rewards for the contribution of Directors and eligible persons. The Share Option Scheme will remain in force for a period of ten years from adoption of the Share Option Scheme. The Share Option Scheme will expire on 23 May 2021.

Under the Share Option Scheme, the Directors may at their discretion grant options to (i) any Director (including executive Directors, non-executive Directors and independent non-executive Directors) and employees of the Company, any of its subsidiaries or any entity in which the Group holds an equity interest; or (ii) any suppliers, customers, consultants who provided services to the Group, shareholders of the subsidiaries of the Group and joint venture partners to subscribe for the Shares.

Options granted must be taken up within 21 days of the date of grant. The maximum number of Shares in respect of which options may be granted under the Share Option Scheme shall not exceed 30% of the issued share capital of the Company at any point in time. The total number of Shares in respect of which options may be granted under the Share Option Scheme must not in aggregate exceed 10% of the Shares in issue at the time dealings in the Shares first commence on the Stock Exchange. The maximum number of Shares in respect of which options may be granted to any individual in any 12-month period shall not exceed 1% of the Shares in issue on the last date of such 12-month period unless approval of the shareholders of the Company has been obtained in accordance with the Listing Rules.

Options may be exercised during such period (including the minimum period, if any, for which an option must be held before it can be exercised) as may be determined by the Directors (which shall be less than ten years from the date of issue of the relevant option). Options may be granted without initial payment except the payment of HK$1 as consideration for grant of option each time. The exercise price is equal to the highest of (i) the closing price of the Shares as stated in the daily quotations sheet issued by the Stock Exchange on the date of the grant; (ii) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of the grant; and (iii) nominal value of the Shares.

19. SHARE-BASED PAYMENT TRANSACTION (Continued)

The movements of the share options granted under the Share Option Scheme during the period is as follows:

					Number of shares in respect of the share options			
Category	Date of grant	Vesting period	Exercise price HK$	Exercise period (note 1)	Outstanding at 1 January 2012	Granted during the period	Exercised, cancelled or lapsed during the period	Outstanding at 30 June 2012
Employees	30 March 2012	nil	2.192	19 April 2012 to 30 March 2014	—	42,000,000	—	42,000,000
Others (note 2)	30 March 2012	19 April 2012 to 19 April 2013	2.192	19 April 2012 to 30 March 2014	—	12,000,000	—	12,000,000
Others (note 2)	29 May 2012	18 June 2012 to 18 June 2013	1.920	18 June 2012 to 29 May 2014	—	26,000,000	—	26,000,000
					—	80,000,000	—	80,000,000

Notes:

(1) Subject to vesting period.

(2) These options were granted to eligible participants who are considered to have contribution to the Group's development and growth, for which no written terms of reference and service period are specified. In the opinion of the Directors, the provision of such services will be coterminous with the vesting period of the options. Accordingly, the fair value of these options is recognised as share-based payment expense over their vesting period.

The aggregate fair value of the share options granted during the six months ended 30 June 2012 determined at the dates of grant using the Binomial Option Pricing model was HK$18,729,000 (RMB15,171,000), of which an amount of RMB7,323,000 was recognised as a share-based payment expense during the current interim period. The following data and assumptions were used to calculate the fair value:

	Share options granted on 30 March 2012 (without vesting period)	Share options granted on 30 March 2012 (with 1 year vesting period)	Share options granted on 29 May 2012 (with 1 year vesting period)
Share price immediately before dates of offer	HK$2.04	HK$2.04	HK$1.85
Share price at dates of acceptance	HK$1.68	HK$1.68	HK$1.88
Exercise price	HK$2.192	HK$2.192	HK$1.920
Expected volatility	39.420%	39.420%	39.282%
Expected option period	1.9452 years	1.9452 years	1.9781 years
Risk-free rate	0.223%	0.223%	0.239%
Expected dividend yield	2.00%	2.00%	2.00%
Estimated fair value of each option	0.1782	0.1794	0.3497

The variables and assumptions used in computing the fair value of the share options are based on the Directors' best estimate. The value of an option varies with different variables under certain subjective assumptions.

20. MAJOR NON-CASH TRANSACTION

During the current interim period, the PRC Operational Entity had acquired a leasehold land at a total consideration of RMB96,415,000 and amounted to which RMB7,000,000 was paid by a director on behalf of the PRC Operational Entity.

21. PLEDGE OF ASSETS

At the end of the reporting period, the following assets of the Group were pledged to secure bank borrowings and credit facilities granted to the Group during the period:

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Dredgers included in property, plant and equipment	477,062	—
Pledged bank deposits	65,000	—
	542,062	—

22. RELATED PARTY DISCLOSURES

(I) Related party transactions

During the current interim period, the Group paid rental of RMB46,000 (2011: RMB46,000) to certain companies controlled by Mr. Liu in respect of office premises.

In addition, the Group has made repayments to and advances from Mr. Liu during the period ended 30 June 2012 and 2011. As at 30 June 2012, the amount due to Mr. Liu is RMB29,618,000 (2011: RMB60,153,000).

(II) Pledge of assets and guarantees in support of the Group's borrowings

During the six months ended 30 June 2011, the Group's bank borrowings were supported by:

(a) corporate guarantee given by Xiangyu PRC.

(b) personal guarantee provided by Mr. Liu. The guarantee provided by Mr. Liu were released prior to the Listing of the Company on 20 June 2011.

At 30 June 2012, the Group's bank borrowings to the extent of RMB7,000,000 were secured by two properties owned by the Group's non-controlling interests.

22. RELATED PARTY DISCLOSURES (Continued)

(III) Pledge of the Group's assets in support of loans granted to Wangji

(a) On 7 September 2010, Wangji obtained a loan of HK$230 million from a financial institution. The collaterals of such loan were: (i) personal guarantee by Mr. Liu; (ii) pledge of the entire share capital of Wangji; (iii) pledge of the entire share capital of the Company; (iv) pledge of the entire share/registered capital of certain of the Company's subsidiaries and (v) pledge of Xiangyu PRC's interest in two dredgers. On 28 September 2010, Wangji applied an amount of HK$200 million out of the above loan proceed to subscribe for an additional 10,000 shares in Power Wealth BVI. On 4 October 2010, 40% of the collaterals (ii) to (v) were released and reassigned to another financial institution for the purpose of securing another loan of HK$153 million obtained by Wangji on that same date as more described in note (b) below.

(b) On 4 October 2010, Wangji obtained a loan of HK$153 million from another financial institution. The collaterals of such loan were: (i) personal guarantee by Mr. Liu; (ii) pledge of the 40% of the share capital of Wangji; (iii) pledge of 40% of share capital of the Company; (iv) pledge of 40% of the entire share/registered capital of certain of the Company's subsidiaries and (v) pledge of 40% of Xiangyu PRC's interest in two dredgers.

Collaterals (iii) to (v) as stated in (a) and (b) above were released during the six months ended 30 June 2011.