中國疏浚環保控股有限公司
China Dredging Environment Protection Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 871

Interim Report 2014

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

Mr. Huan Xuedong
Mr. Chan Ming Sun Jonathan
Mr. Xu Hengju

AUDIT COMMITTEE

Mr. Chan Ming Sun Jonathan — Chairman
Mr. Huan Xuedong
Mr. Xu Hengju

REMUNERATION COMMITTEE

Mr. Xu Hengju — Chairman
Mr. Liu Longhua
Mr. Chan Ming Sun Jonathan

NOMINATION COMMITTEE

Mr. Liu Longhua — Chairman
Mr. Xu Hengju
Mr. Chan Ming Sun Jonathan

AUTHORISED REPRESENTATIVES

Mr. Liu Kaijin
Mr. Leung Kim Hung

COMPANY SECRETARY

Mr. Leung Kim Hung

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

PRINCIPAL BANKERS

Yancheng City Branch office of Agricultural Bank of China Limited
Bank of Jiangsu, Yancheng Branch
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)

PRINCIPAL SHARE REGISTRAR

Codan Trust Company (Cayman) Limited

HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited

WEBSITE

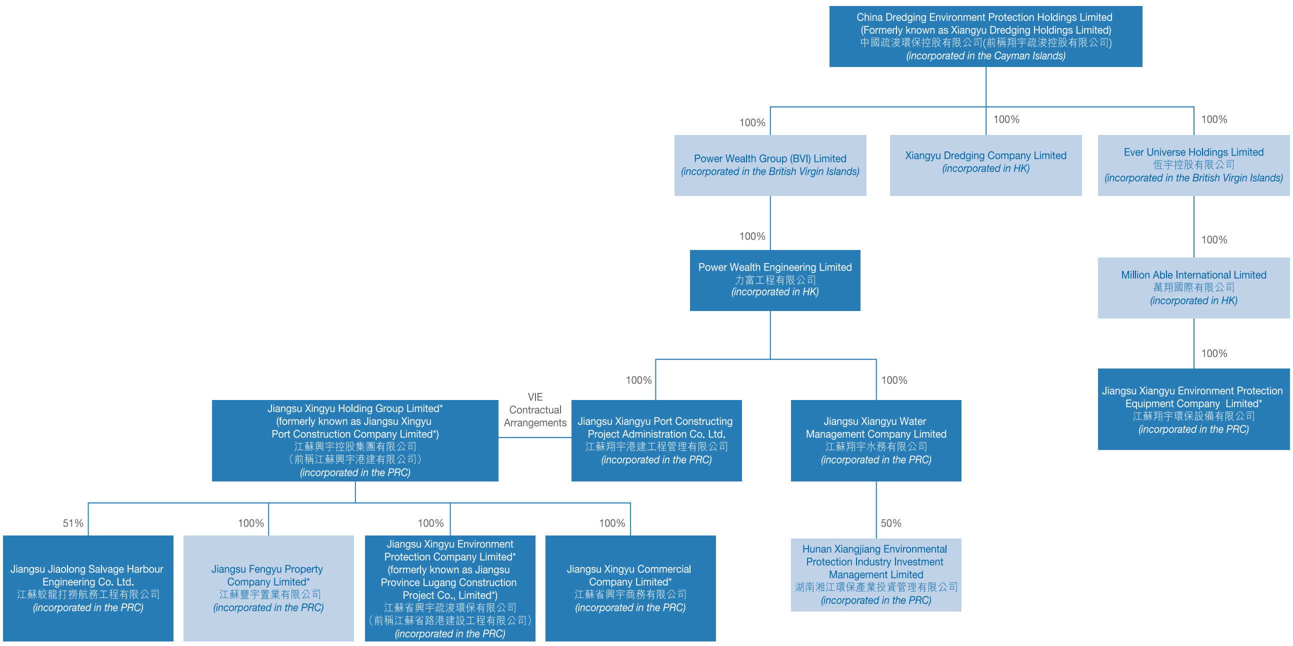
www.cdep.com.hk

"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"	China Dredging Environment Protection 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"	江蘇興宇控股集團有限公司 (Jiangsu Xingyu Holdings Group Limited*) (formerly known as 江蘇興宇港建有限公司 (Jiangsu Xingyu Port Construction Company Limited*))
"Jiangsu Xingyu EN"	江蘇興宇疏浚環保有限公司 (Jiangsu Xingyu Environment Protection Company Limited*) (Formerly known as 江蘇省路港建設工程有限公司 (Jiangsu Province Lugang Construction Project Co., Ltd.*)
"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, joint chairman, chief executive officer and an executive Director (who is the spouse of Ms. Zhou)
"Ms. Zhou"	Ms. Zhou Shuhua, an executive Director (who is the spouse of Mr. Liu)
"Reporting Period"	the six months ended 30 June 2014
"PRC"	the People's Republic of China
"RMB"	Renminbi
"SFO"	The Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong) (as amended from time to time)
"Shareholder(s)"	shareholder(s) of the Company

"Share(s)"	ordinary 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*

The following sets out the group structure as at 30 June 2014:



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.

4. Hunan Xiangjiang Environmental Protection Industry Investment Management Limited was incorporated in the PRC in February 2013.

* *For identification purpose only*

Business Review

During the Reporting Period, the Company recorded a revenue of approximately RMB450.7 million, representing a year-on-year decrease of 11%. During the Reporting Period, the gross profit of the Company was approximately RMB145.3 million, representing a year-on-year decrease of 24.8%. The net profit was approximately RMB63 million (or approximately RMB88 million if non-cash loss in fair value change of Convertible Bonds (as defined below) and Warrants (as defined below) was excluded), representing a year-on-year decrease of 45.2% from RMB115 million in the first half of 2013 (or 23.48% if non-cash loss in fair value change of Convertible Bonds and Warrants was excluded). Profit attributable to the Shareholders for the Reporting Period was approximately RMB55.0 million.

During the Reporting Period, the reclamation and capital dredging (''CRD'') business of the Company declined, while the environmental protection dredging (''EPD'') business remained stable as compared with the corresponding period of previous year. The Company took up some new orders of reclamation projects during the Reporting Period. Regarding the EPD business, with various favorable policies in water treatment industry coming into force in the PRC gradually, the segment growth is accelerating. Although the contract for Phase 2 of EPD project at Nanhu, Wuhan (武漢南湖) has not yet been signed as at the date of this report, the Group has been carrying out the work for the extension part of Phase one of the said EPD project since the completion of the work for the original Phase one in early 2014. Further, as the Group's factory started to produce dewatering equipment, the Group's capacity for EPD business would be increased to enable the Group to take up new EPD projects.

Despite the presence of the positive factors mentioned above, the Group's revenue recorded for the Reporting Period dropped as compared to the first half of 2013. One of the major factors for the decrease is that the progress of the construction of certain projects slowed down. Due to the downward pressure of the PRC domestic macroeconomic condition which was greater than expected, certain projects have not proceeded as fast as originally anticipated. Further, the construction work of the reclamation project at Longkou City, Shandong Province has been suspended and has not yet been resumed due to the variation of the construction plan made by the project owner, and the suspension time was longer than what was originally estimated. Furthermore, Phase one of EPD project at Zhuzhou (株洲) has not yet been commenced as planned before. The Group is in the course of reviewing the corresponding construction timetable with its customers in relation to the projects. The net profit of the Company for the first half of 2014 as compared to the first half of 2013 had also declined as mentioned. Apart from the drop of revenue, it was also attributable to the following factors, namely: (i) the non-cash fair value loss of (a) an unsecured convertible bonds issued in November 2013 ("Convertible Bonds") and (b) a series of warrants issued in January 2014 ("Warrants"), with an aggregate loss of approximately RMB25 million; and (ii) the increase of depreciation value of the Group's fixed asset of approximately RMB9 million.

Future Prospects

Though the construction progress of certain projects slowed down in the first half of 2014, the Company's view of the promising prospect of both CRD and EPD business in the PRC has not changed. However, the increase in projects with smaller size situated in different locations instead of a big project situated in one location with several phases such as Caofeidian (曹妃甸) has become a trend in reclamation dredging segment. Therefore, the management will pay more effort to get more projects in order to maintain the aggregate quantity of work in the order book.

Needless to reiterate, the PRC government's determination and full dedication to tackle water pollution problem is without doubt. More favorable policies regarding the water sector have been introduced and implemented gradually. The Group's management believes that the Company's leading technology which will not cause secondary pollution to the surrounding water bodies and soil with the treated water attaining level III category (suitable for swimming) and the sludge cake dehydrated more than 50% shall ensure a competitive edge over the other types of dewatering technology currently available in the PRC market. Apart from making endeavors to successfully bid EPD projects to be carried out at Taihu* (太湖), Chaohu*(巢湖) and Dian Lake* (滇池) etc., the Company shall, with its various self-developed sludge treatment technologies and processes (some of the technologies have obtained patent certificates from the PRC government) and its professional expertise in stabilizing and solidifying heavy metal contaminated soils, identify and pursue different opportunities in relation to the treatment of sludges generated from industrial contaminated and urban waste water.

Financial Review

Overview

The Group has four main operating and reportable segments, namely, (i) capital and reclamation dredging business ("CRD Business"); (ii) environmental protection dredging and water management business ("EPD and Water Management Business"); (iii) ancillary construction work related to the capital and reclamation dredging ("Dredging Related Construction Business"); and (iv) other works operated in marine sites such as salvage and hoisting works ("Other Marine Business").

Revenue

During the Reporting Period, the Group recorded a slight decrease in revenue. Revenue for the Reporting Period was about RMB450.717 million, representing a decrease of about 11% as compared with about RMB505.3 million in the corresponding period of 2013.

Regarding the CRD Business segment and EPD and Water Management Business segment, the respective revenues generated during the Reporting Period were about RMB203.065 million and about RMB129.31 million which represented a decrease of about 11.8% and a decrease of about 26.2% respectively from the corresponding segments' revenue in the corresponding period of 2013. The decrease in revenue from the CRD Business segment was primarily due to the downward of the PRC domestic macroeconomic condition and delay of certain projects. Revenue from EPD and Water Management Business segment decreased by 26.2% in the first half of 2014 because of lower revenue from the water management business during the period due to the expiration of the water management contract that was secured in 2012 in the first half of 2014.

* for identification only

Financial Review (Continued)

Revenue (Continued)

The revenue generated from the Dredging Related Construction Business during the Reporting Period was about RMB33.194 million which represented an increase of about 43.7% as compared with about RMB23.1 million in the corresponding period of 2013. The increase in revenue in this segment was due to recognition of our construction capabilities and project quality by the owners of CRD Business, who also engaged us to carry out dredging related construction work for them.

Other Marine Business contributed revenue of about RMB85.148 million to the Group for the Reporting Period, which represented an increase of about 11.2% as compared with about RMB76.6 million in the corresponding period of 2013.

Further details of the Company's business in the Reporting Period are set out in the section headed "Business Review" above.

Operating cost and gross profit

The Group's operating cost decreased from about RMB312.1 million for the six months ended 30 June 2013 to about RMB305.4 million for the Reporting Period, representing a decrease of about 2%. The Group recorded a gross profit of about RMB145.3 million for the Reporting Period, representing a decrease of 24.8% as compared with the six months ended 30 June 2013 of about RMB193.2 million. The significant decrease in gross profit was due to lower revenue as well as increased dredger depreciation, maintenance cost and staff wages.

The gross profit margin of CRD Business dropped from about 42.6% for the six months ended 30 June 2013 to 35% for the Reporting Period, mainly due to the low utilization rate of newly purchased dredger which required certain tuning of the engine and equipment during the Reporting Period for optimizing its productivity, increased depreciation as well as increase in renewal and maintenance cost and staff cost.

The Group's Dredging Related Construction Business, which principally includes ancillary construction work of capital and reclamation dredging services, is a segment that traditionally operated at relatively low but acceptable gross profit margin.

The gross profit margin of EPD and Water Management Business segment slightly decreased from about 30.9% for the six months ended 30 June 2013 to about 29.1% for the Reporting Period as the water management projects with lower gross profit margin took up the majority share of the segment during the Reporting Period. The gross profit margin of Other Marine Business was about 44.3% for the six months ended 30 June 2013 and about 28.9% for the Reporting Period, mainly due to increased competition in the salvage industry.

As a result, the overall gross profit margin of the Group decreased from 38.2% for the six months ended 30 June 2013 to 32.2% for the Reporting Period.

Other income

Other income significantly increased from RMB12.5 million for the six months ended 30 June 2013 to about RMB25.712 million for the Reporting Period, mainly due to the increase in interest income in respect of certain non-current accounts receivable and current consideration receivable during the period.

Financial Review (Continued)

Net loss due to fair value changes of derivations financial liabilities

There was a non-cash loss of about RMB25 million due to the change of fair value of Convertible Bonds and Warrants. The issue of Convertible Bonds and Warrants did provide strong capital support for the development of the Group's business, in particular the EPD business, enhance the Group's market presence and competitiveness and strengthen the Group's capital base effectively after the Convertible Bonds' and Warrants' full conversion. Please refer to the Company's announcements dated 29 October 2013, 24 December 2013, 9 January 2014 and 17 January 2014 respectively. No issuance of any bonds and/or warrants were/was made in first half of 2013.

Marketing and promotion expenses

Marketing and promotion expenses for the Reporting Period remained at a reasonable level which is in line with the corresponding period in 2013.

Administrative expenses

Administrative expenses for the Reporting Period remained at a reasonable level which is in line with the corresponding period in 2013.

Finance costs

Finance costs increased by about RMB11.4 million to about RMB28.2 million for the Reporting Period as compared to the six months ended 30 June 2013, mainly due to amortisation of convertible bonds using effective interest method.

Income tax expense

Due to the decrease in profit before tax, income tax expense for the Reporting Period amounted to about RMB37.1 million, representing a decrease of about RMB5.6 million compared with the corresponding period in 2013.

Profit for the period

As a combined effect of the above, the net profit for the period decreased by about 45% from about RMB115.0 million for the six months ended 30 June 2013 to about RMB63.0 million for the Reporting Period. Comparing the operating profit of the six months ended 30 June 2013 with the operating profit for the Reporting Period (with the non-cash net loss of about RMB25 million due to fair value changes of derivative financial liability as above mentioned not taken into account), the operating profit dropped by about 24.8%.

Earnings per share

Earnings per share decreased from RMB0.13 per share to RMB0.07 per share due to the decrease in profit for the Reporting Period.

Financial Review (Continued)

Financial position, liquidity and financial resources

The Group has remained at a sound financial resource level. As at 30 June 2014, total equity of the Group amounted to about RMB1,746.0 million (31 December 2013: RMB1,595.4 million).

The Group's net current assets as at 30 June 2014 amounted to about RMB276 million (31 December 2013: RMB105.9 million). The current ratio, which is calculated by dividing current assets by current liabilities as at 30 June 2014 was 1.23 (31 December 2013: 1.08). The increases in both the Group's net current assets and current ratio were mainly due to the decrease in short term bank borrowings and settlement of other payables, such as payment for purchasing of dredger.

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 totaling about RMB202.8 million as at 30 June 2014, representing a decrease of about RMB109.4 million as compared with about RMB312.2 million as at 31 December 2013.

Due to slower settlement from the debtors, the Group's accounts and bills receivables as at 30 June 2014 increased by about RMB193.4 million to about RMB1,178.4 million. Though the Group did not have any collateral over the receivables, the Group's management considered that there is no recoverability problem as to its receivables as the amounts were mainly due from reputable enterprises and enterprises with financial support from the PRC government. The amount of overdue receivables as at 30 June 2014 did not significantly impair the Group's liquidity position as it has a positive operating cash flows before movements in working capital changes for the period.

Total liabilities of the Group decreased from RMB1,681.2 million as at 30 June 2013 to about RMB1,583.4 million as at 30 June 2014. The decrease in total liabilities was mainly due to the decrease in bank loans and settlement of payment for purchasing of dredger. The Group's gearing ratio (calculated by bank borrowings divided by total assets) decreased to a level of 16.6% (2013: 17.9%), which the Board believes is at a healthy level.

Charge over assets of the Group

As at 30 June 2014, the Group's bank borrowings and credit facilities are secured by pledged bank deposits of about RMB72.8 million, charges over certain dredgers, accounts receivables and land owned by the Group, one parcel of land owned by 鹽城市咏恒置業有限公司 (Yancheng City Yongheng Properties Co. Ltd*) ("Yongheng"), a property owned by a company in which Mr. Liu has beneficial interest, two properties owned by certain non-controlling shareholders of the Company's subsidiary, and personal guarantees by Mr. Liu and Ms. Zhou. There were also intra-group charges 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 have been transferred to Xiangyu PRC.

Financial Review (Continued)

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 functional 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 the Reporting Period, no related hedge was made by the Group.

As current interest rates stay 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.

Material acquisitions and disposals

Apart from the framework agreement entered with a state-owned enterprise in respect of the incorporation of a joint venture for the purpose of securing environmental protection dredging projects in Hunan Province, the PRC as disclosed in the Company's announcement dated 18 March 2014, there was no other material acquisitions or disposals during the period under review.

Capital commitments and contingent liabilities

Apart from the capital commitment in respect of setting up of a joint venture as set out in the paragraph headed "Material Acquisitions and Disposals" above, the Group did not have significant capital commitments committed but not provided for as at 30 June 2014.

As at 30 June 2014, the Group did not have any material contingent liability (31 December 2013: nil).

Employees and remuneration policy

As at 30 June 2014, the Group had a workforce of 671 employees (31 December 2013: 606). Total staff cost for the Reporting Period was about RMB27.4 million (2013: RMB19.9 million). The Group's remuneration policy is basically determined by the Directors, based on the performance of individual employees and the market conditions. In addition to salaries and discretionary bonuses, employee benefits included pension contributions and options which may be granted under the Share Option Scheme (under which options to subscribe for Shares that could be granted to independent non-executive Directors would be subject to the applicable conditions and independence restrictions as set out in the Listing Rules). The Group also provides on-going training to its employees.

During the Reporting Period, the Group did not experience any strikes, work stoppages or significant labour disputes which affected its operations or any significant difficulties in recruiting and retaining qualified staff.

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

As at 30 June 2014, 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	335,301,000	39.19%
	Beneficial owner	1	10,817,000	1.26%
Ms. Zhou Shuhua	Interest in spouse	2	346,118,000	40.45%

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 the 335,301,000 Shares. Further, Mr. Liu is the beneficial owner of 10,817,000 Shares.

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

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

				Long position	
Name of Director	**Name of associated corporation**	**Capacity**	Notes	**Share capital**	**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 which had subsequently been discharged completely in July 2013 as stated in the announcements of the Company dated 19 July 2013 and 29 July 2013 respectively. Mr. Liu is also the sole beneficial owner of the entire registered capital of Jiangsu Xingyu. Mr. Liu and Ms. Zhou are the registered holders of 98.47% and 1.53% respectively 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 position 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 2014 (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 2014, 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		Short position	
Name of Shareholder	**Capacity**	Notes	**Number of ordinary Shares**	**Approximate percentage of total number of Shares**	**Number of ordinary Shares**	**Approximate percentage of total number of Shares**
Wangji	Beneficial owner		335,301,000	39.19%	—	—
Deutsche Bank Aktiengesellschaft	Beneficial owner		991,000	0.12%	988,000	0.12%
	Person having a security interest in shares		52,783,500	6.17%	—	—
CITIC Capital China Access Fund Limited (Note 1)	Beneficial owner		90,000,000	10.52%	—	—
CITIC Capital Holdings Limited (Note 2)	Interest in controlled corporations	1	90,000,000	10.52%	—	—
CITIC Group Corporation (Note 2)	Interest in controlled corporations	1	90,000,000	10.52%	—	—

Notes:

1. CITIC Capital China Access Fund Limited ("CITIC") is the beneficial owner of the 90,000,000 Shares of the Company by virtue of the convertible bonds issued by the Company to it on 8 November 2013. Further details are set out in note 18 to the condensed consolidated financial statements.

2. CITIC is wholly owned by CITIC Capital Investment Management (Cayman) Limited, which is wholly owned by CITIC Capital Asset Management Limited, which is wholly owned by CITIC Capital Holdings Limited. CITIC Capital Holdings Limited is owned as to 40.06% by CITIC Limited, which is wholly owned by CITIC Group Corporation. By virtue of the SFO, all these companies (except CITIC which is the direct beneficial owner) are deemed to be interested in the 90,000,000 Shares of the Company, where CITIC Capital Investment Management (Cayman) Limited, CITIC Capital Asset Management Limited and CITIC Limited, all being wholly owned subsidiaries, are exempted from disclosure of interests.

Saved as disclosed above, as at 30 June 2014, 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 the 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 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.

Further details of the terms of the Share Option Scheme are set out in note 20 to the condensed consolidated financial statements.

Details of the share options during the Reporting Period are as follows:

	Number of underlying shares (subject of the share options)							
Category of participant	**As at 1 January 2014**	**Granted during the period**	**Exercised, canceled or lapsed during the period**	**As at 30 June 2014**	**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	0	30 March 2012	19 April 2012 to 30 March 2014 (a)	2.04	2.192
Others								
In aggregate	12,000,000	—	12,000,000	0	30 March 2012	19 April 2012 to 30 March 2014 (b)	2.04	2.192
In aggregate	12,000,000	—	12,000,000	0	29 May 2012	18 June 2012 to 29 May 2014 (c)	1.85	1.920
In aggregate	7,600,000	—	7,600,000	0	2 September 2013	Date of appointment of the Grantee as a consultant of the Group to 1 September 2015 (d)	2.14	2.176
Total	73,600,000	—	73,600,000	0				

(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.

(d) The option shall only be exercisable if the volume weighted average traded price of the Shares based on the trading day immediately preceding the date of exercise shall be equal to or higher than HK$3.50 during the term.

* 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.

As at 30 June 2014, the Company had no outstanding options under the Share Option Scheme.

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 from 1 January 2012, 1 April 2012 and 31 December 2012 respectively.

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 in Appendix 14 of the Listing Rules for the six months ended 30 June 2014 and there was no material deviation from the CG Code.

Audit Committee and Review of Unaudited Financial Statements

The audit committee of the Company ("Audit Committee") has been set up in accordance with the Listing Rules. Members of the Audit Committee as at 30 June 2014 comprised Mr. Chan Ming Sun Jonathan (chairman), Mr. Huan Xuedong and Mr. Xu Hengju, all of whom are independent non-executive Directors.

The Audit 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 Reporting Period prior to recommending them to the Board for approval.

The unaudited condensed consolidated interim financial statements for the Reporting Period have been reviewed by the Company's auditor, Deloitte Touche Tohmatsu.

Remuneration Committee

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

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 2014, the Remuneration Committee comprised Mr. Xu Hengju (chairman) and Mr. Chan Ming Sun Jonathan, both of whom are independent non-executive Directors, and Mr. Liu Longhua, a non-executive Director.

Nomination Committee

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

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 2014, the Nomination Committee comprised Mr. Liu Longhua (chairman), a non-executive Director, Mr. Chan Ming Sun Jonathan and Mr. Xu Hengju, both of whom are independent non-executive Directors.

Interim Dividend

The Directors have determined that no dividend would be paid in respect of the Reporting Period (2013: Nil).

Purchase, sale or redemption of the company's listed securities

During the Reporting Period, neither the Company nor any of its subsidiaries had 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 during the Reporting Period.

Deloitte.
德勤

TO THE BOARD OF DIRECTORS OF CHINA DREDGING ENVIRONMENT PROTECTION HOLDINGS LIMITED
中國疏浚環保控股有限公司
(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of China Dredging Environment Protection Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 20 to 48, which comprises the condensed consolidated statement of financial position as of 30 June 2014 and the related condensed consolidated statement of profit or loss and other 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 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

29 August 2014

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2014

	Notes	Six months ended 30 June 2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Revenue	5	**450,717**	505,255
Operating costs		**(305,411)**	(312,058)
Gross profit		**145,306**	193,197
Other income	6	**25,712**	12,456
Fair value changes of derivative financial liabilities embedded in convertible bonds	18	**(1,129)**	—
Fair value changes of derivative financial liabilities			
— warrants	19	**(12,314)**	—
Marketing and promotion expenses		**(6,326)**	(6,945)
Administrative expenses		**(22,885)**	(24,093)
Finance costs	7	**(28,226)**	(16,873)
Profit before tax		**100,138**	157,742
Income tax expense	8	**(37,085)**	(42,698)
Profit and total comprehensive income for the period	9	**63,053**	115,044
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		**54,742**	106,925
Non-controlling interests		**8,311**	8,119
		63,053	115,044
Earnings per share	10		
— basic (RMB)		**0.07**	0.13
— diluted (RMB)		**0.06**	0.13

Condensed Consolidated Statement of Financial Position

At 30 June 2014

	Notes	At 30 June 2014 RMB'000 (Unaudited)	At 31 December 2013 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	12	**1,677,585**	1,693,267
Prepaid land lease payments	12	**96,181**	90,599
Goodwill		**2,956**	2,956
Intangible assets		**1,920**	2,560
Available-for-sale investment	13	**20,921**	17,147
Deposit paid for acquisition of property, plant and equipment		**696**	551
Accounts and other receivables due after one year	14	**244,211**	219,470
		2,044,470	2,026,550
CURRENT ASSETS			
Prepaid land lease payments	12	**2,554**	2,410
Accounts and other receivables	14	**1,150,073**	1,016,708
Pledged bank deposits		**72,843**	53,521
Bank balances and cash		**202,807**	312,183
		1,428,277	1,384,822
CURRENT LIABILITIES			
Accounts and other payables	15	**427,181**	524,638
Amounts due to directors		**3,399**	1,792
Amounts due to non-controlling interests of a subsidiary		**952**	4,952
Tax payable		**144,006**	109,931
Bank borrowings	16	**575,873**	631,349
Other borrowings		**856**	6,244
		1,152,267	1,278,906
NET CURRENT ASSETS		**276,010**	105,916
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,320,480**	2,132,466

At 30 June 2014

	Notes	At 30 June 2014 RMB'000 (Unaudited)	At 31 December 2013 RMB'000 (Audited)
CAPITAL AND RESERVES			
Share capital	17	**71,592**	67,200
Reserves		**1,674,758**	1,528,223
Equity attributable to owners of the Company		**1,746,350**	1,595,423
Non-controlling interests		**143,039**	134,728
TOTAL EQUITY		**1,889,389**	1,730,151
NON-CURRENT LIABILITIES			
Amounts due to non-controlling interests of a subsidiary		**89,663**	90,708
Deferred tax liabilities		**19,161**	20,063
Bank borrowings	16	**50,451**	60,717
Other borrowings		**35,814**	21,003
Convertible bonds	18	**184,554**	172,056
Derivative financial liabilities embedded in convertible bonds	18	**38,897**	37,768
Derivative financial liabilities — warrants	19	**12,551**	—
		431,091	402,315
		2,320,480	2,132,466

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2014

	Attributable to owners of the Company								
	Share capital	**Share premium**	**Share option reserve**	**PRC statutory reserve**	**Other reserve**	**Retained profits**	**Total**	**Non-controlling interests**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000 (note i)	RMB'000 (note ii)	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2013 (audited)	67,200	418,851	9,156	13,549	235,230	712,362	1,456,348	87,527	1,543,875
Profit and total comprehensive income for the period (unaudited)	—	—	—	—	—	106,925	106,925	8,119	115,044
Recognition of equity-settled share-based payments (unaudited)	—	—	2,049	—	—	—	2,049	—	2,049
Release of non-controlling interests (unaudited)	—	—	—	—	(11,782)	—	(11,782)	11,782	—
At 30 June 2013 (unaudited)	67,200	418,851	11,205	13,549	223,448	819,287	1,553,540	107,428	1,660,968
At 1 January 2014 (audited)	67,200	418,851	14,150	13,549	204,554	877,119	1,595,423	134,728	1,730,151
Profit and total comprehensive income for the period (unaudited)	—	—	—	—	—	54,742	54,742	8,311	63,053
Exercise of share options	4,392	101,716	(9,923)	—	—	—	96,185	—	96,185
Lapse of share options	—	—	(4,227)	—	—	4,227	—	—	—
At 30 June 2014 (unaudited)	71,592	520,567	—	13,549	204,554	936,088	1,746,350	143,039	1,889,389

notes:

(i) According to the rules and regulations in the People's Republic of China (the "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 other reserve of the Group represents the difference between the nominal amount of the share capital issued by the Company in exchange for the nominal amount of the share capital and share premium of its subsidiaries, including the paid-in capital of RMB39,316,000 of the PRC Operational Entity (as defined in Note 4) pursuant to the group reorganisation in 2011.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2014

	Note	Six months ended 30 June 2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
OPERATING ACTIVITIES			
Operating cash flows before movements in working capital		**173,608**	216,231
Increase in accounts and other receivables		**(193,353)**	(222,286)
Increase (decrease) in accounts and other payables		**70,023**	(26,085)
Cash generated from (used in) operations		**50,278**	(32,140)
PRC income tax paid		**(3,912)**	(3,781)
NET CASH FROM (USED IN) OPERATING ACTIVITIES		**46,366**	(35,921)
INVESTING ACTIVITIES			
Consideration received from Hongji Construction	13	**50,000**	10,000
Interest received		**3,383**	1,215
Purchase of property, plant and equipment		**(201,504)**	(46,050)
Pledged bank deposits (placed) withdrawn		**(19,322)**	41,809
Purchase of leasehold land		**(6,991)**	—
Deposit paid for acquisition of property, plant and equipment		**(145)**	—
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(174,579)**	6,974
FINANCING ACTIVITIES			
New bank borrowings raised		**329,900**	412,038
Net proceeds from issue of shares		**96,185**	—
Advance from independent third parties		**64,370**	248,020
Advance from directors		**21,892**	27,255
New other borrowings raised		**20,980**	4,275
Advance from non-controlling interests of a subsidiary		**7,305**	11,109
Net proceeds from issue of warrants		**237**	—
Repayment of bank borrowings		**(395,642)**	(284,000)
Repayment to independent third parties		**(64,370)**	(248,020)
Repayment to directors		**(20,285)**	(30,519)
Interest paid		**(17,828)**	(16,873)
Repayment to non-controlling interests of a subsidiary		**(12,350)**	(5,329)
Repayment of other borrowings		**(11,557)**	(9,631)
NET CASH FROM FINANCING ACTIVITIES		**18,837**	108,325
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(109,376)**	79,378
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		**312,183**	30,395
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by bank balances and cash		**202,807**	109,773

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 RMB, which is also the functional currency of the Company.

2. Going Concern Basis of the Condensed Consolidated Financial Statements

As at 30 June 2014, the Group has bank borrowings of approximately RMB575.9 million and other liabilities of approximately RMB576.4 million payable within one year from the end of the period of the six months ended 30 June 2014 ("Reporting Period"). While the Group has only bank and cash balances of RMB202.8 million at 30 June 2014, the Group's ability to repay its debts when they fall due relies heavily on the accounts receivables being settled within the management's expectation.

In view of the above, the Directors have carefully assessed the Group's liquidity position having taken into account (i) the estimated operating cash inflows of the Group for the next twelve months from the end of the Reporting Period; (ii) all the bank borrowings as at 30 June 2014 were secured by the Group's assets and are therefore highly probable that they can be renewed in the next twelve months; and (iii) the Group's unutilised banking facilities of RMB140.8 million as at 30 June 2014 which will be available in the next twelve months.

On the basis of the above consideration, the Directors believe that the Group can satisfy its financial obligations in the foreseeable future and accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

3. Principal Accounting Policies

The condensed consolidated financial statements have been prepared on the historical cost basis except for the derivative financial liabilities that are measured at fair values at the end of each reporting period.

Except as described below, which are applicable upon new transactions that occurred in the current interim period, the accounting policies and methods of computation used in the condensed consolidated financial statements for the Reporting Period are the same as those followed in the preparation of the annual financial statements of the Group for the year ended 31 December 2013.

Derivative financial liabilities — Warrants

Warrants issued by the Company that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instrument are accounted for as derivatives.

The warrants are initially recognised at fair value and are subsequently remeasured to their fair value at the end of the Reporting Period with changes in fair value recognised in profit or loss.

The application of the new and revised HKFRSs that are mandatorily effective for 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. Critical Accounting Judgments and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in Note 3 to the condensed consolidated financial statements, the Directors are required to make judgments, 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.

Critical Judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the condensed consolidated financial statements.

Consolidation of a structured entity

PRC laws and regulations prohibit or restrict foreign investors from owning more than a 50% equity interest in any enterprise which owns vessels for conducting dredging business.

On 19 April 2011, 江蘇翔宇港建工程管理有限公司 (Jiangsu Xiangyu Port Constructing Project Administration Co. Ltd.*) ("Xiangyu PRC"), 江蘇興宇控股集團有限公司 (Jiangsu Xingyu Holdings Group Limited*) (previously known as 江蘇興宇港建有限公司 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"). The PRC Operational Entity and its subsidiaries are engaged in the provision of dredging service of the Group. Details of the key provisions of the Contractual Arrangements are set out in the consolidated financial statements of the Group for the year ended 31 December 2013.

The Directors, after consulting PRC legal opinion, are of the view that the terms of the Contractual Arrangements have in substance enabled Xiangyu PRC to have power over PRC Operational Entity and its subsidiaries, rights to variable returns from its involvement with the PRC Operational Entity and its subsidiaries, and has the ability to use its power to affect its returns, despite the absence of formal legal equity interest held by the Group therein. Accordingly, PRC Operational Entity and its subsidiaries are accounted for as consolidated structured entities of the Group.

In the opinion of the Directors, with reference to opinion of PRC legal counsel, the Contractual Arrangements are in compliance with existing PRC laws and regulations are valid, binding and enforceable, and do not result in any violation of PRC laws or regulations currently in effect in all material respects. However, uncertainties in the PRC legal system could cause the Group's current contractual arrangement structure to be found in violation of any existing and/or future PRC laws or regulations and could limit the Company's ability, through Xiangyu PRC, to enforce its rights under the Contractual Arrangements.

The operations of the Group are substantially derived from the PRC Operational Entity and its subsidiaries. If the current structure or any of the Contractual Arrangements were found to be in violation of any existing or future PRC law, the Group may be subject to penalties, which may include but not be limited to, the cancellation or revocation of the Group's business and operating licenses, being required to restructure the Group's operations or discontinue the Group's operating activities. The imposition of any of these or other penalties may result in a material and adverse effect on the Group's ability to conduct its operations. In such case, the Group may not be able to operate or control the PRC Operational Entity and its subsidiaries.

* *for identification only*

4. Critical Accounting Judgments and Key Sources of Estimation Uncertainty (Continued)

Consolidation of a structured entity (Continued)

With reference to opinion of PRC legal counsel, the Directors are of the opinion that the Contractual Arrangements are in compliance with existing PRC laws and regulations are valid, binding and enforceable, and do not result in any violation of PRC laws or regulations currently in effect in all material respects. However, uncertainties in the PRC legal system could cause the Group's current contractual arrangement structure to be found in violation of any existing and/or future PRC laws or regulations and could limit the Company's ability, through Xiangyu PRC, to enforce its rights under the Contractual Arrangements.

Key sources of estimation uncertainty

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 of the Company 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 the original 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 are less than expected, additional allowance may be required. No allowance for accounts and other receivables were provided for both periods.

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 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 the 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. There was no change in the estimated useful lives or residual values of property, plant and equipment for both periods.

Fair value of derivative financial liabilities

The Group engages third party qualified valuer to perform the valuation of the derivative financial liabilities embedded in the convertible bonds host contract and warrants. The Chief Financial Officer of the Company works closely with the qualified external valuer to establish the appropriate valuation techniques and inputs to the model and reports to the board of Directors ("Board") to explain the cause of fluctuations in the fair value.

As described in Note 18, 19 and 24, the third party qualified valuer uses its judgment in selecting an appropriate valuation technique for the derivative financial liabilities not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. The carrying amount of the derivative financial liabilities as at 30 June 2014 is RMB38,897,000 (31 December 2013: RMB37,768,000) and the fair value of derivative financial liabilities in relation to the warrants as at 30 June 2014 is RMB12,551,000 (31 December 2013: nil). Details of the assumptions used are disclosed in Notes 18, 19 and 24. The Directors believe that the valuation techniques and assumptions used by the valuer are appropriate in determining the fair value of derivative financial liabilities.

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. Information reported to the chief operating decision makers is based on the different nature of projects carried out by the Group. No operating segments identified by the chief operating decision makers have been aggregated in arriving at the reportable segments of the Group.

Details of the Group's four reportable segments during both periods are as follows:

(i) Capital and Reclamation Dredging Business refers to the capital and reclamation dredging services and related consultation services provided by the Group;

(ii) 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;

(iii) Dredging Related Construction Business refers to ancillary construction works related to the capital and reclamation dredging services provided by the Group; and

(iv) Other Marine Business mainly comprises marine hoisting, installation, salvaging, vessel chartering and other engineering services provided by the Group.

Segment results

An analysis of the Group's reportable segment revenue and segment results is as below.

	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 2014					
Segment revenue	**203,065**	**129,310**	**33,194**	**85,148**	**450,717**
Segment results	**71,750**	**37,593**	**3,027**	**24,614**	**136,984**
Other income					**25,465**
Fair value changes of derivative financial liabilities					**(13,443)**
Unallocated corporate expenses					**(22,052)**
Finance costs					**(26,816)**
Group's profit before tax					**100,138**

5. Revenue and Segment Information (Continued)

Segment results (Continued)

	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 2013					
Segment revenue	230,280	175,252	23,124	76,599	505,255
Segment results	98,011	54,183	7,086	23,199	182,479
Other income					12,302
Unallocated corporate expenses					(22,255)
Finance costs					(14,784)
Group's profit before tax					157,742

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3 to the condensed consolidated financial statements.

Segment results represent profit earned by each segment, without allocation of central administrative expenses, fair value changes of derivative financial liabilities, certain other income and certain finance costs. This is the measure reported to the executive directors for the purposes of resource allocation and performance assessment.

6. Other Income

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Government financial incentive (note)	**7,003**	9,158
Bank interest income	**3,383**	1,215
Interest income in respect of non-current accounts receivables	**9,864**	1,999
Interest income in respect of consideration receivable	**5,189**	—
Sundry income	**273**	84
	25,712	12,456

note: Pursuant to a document issued by a PRC local government authority, one of the Company's PRC subsidiaries was granted financial incentive for a period of three years for from 2013 to 2015 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.

The PRC local government authority confirmed that the amount of such financial incentive that the Group was entitled for the Reporting Period was RMB7,003,000 (six months ended 30 June 2013: RMB9,158,000). Accordingly, the Group recognised such amount as other income for the six months ended 30 June 2014 and 2013, respectively.

7. Finance Costs

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest expenses on:		
Bank borrowings wholly repayable within five years	**14,936**	15,703
Discounted bills receivable	**36**	677
Other borrowings	**—**	493
Effective interest on convertible bonds (Note 18)	**15,354**	—
Total borrowing costs	**30,326**	16,873
Less: amounts capitalised in the cost of qualifying assets	**(2,100)**	—
	28,226	16,873

Borrowing cost capitalised during the Reporting Period of approximately RMB2,100,000 (six months ended 30 June 2013: nil) arose on the general borrowing pool calculated by applying a capitalisation rate of 7.20% (six months ended 30 June 2013: nil) per annum. Borrowing cost was capitalised as part of the construction in progress in respect of a factory at Yancheng City.

8. Income Tax Expense

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
The charge comprises:		
Current tax		
PRC Enterprise Income Tax ("EIT")	**37,987**	43,640
Deferred taxation	**(902)**	(942)
	37,085	42,698

notes:

(i) PRC EIT
PRC EIT is calculated at 25% of the assessable profits for both periods.

(ii) 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 arising in or derived from Hong Kong for both periods.

9. Profit for the Period

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**48,392**	39,276
Net foreign exchange loss (gain)	**358**	(82)
Share-based payment expense	**—**	2,049
Sub-contracting charges included in operating costs	**147,711**	160,915

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	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purposes of basic and diluted earnings per share	**54,742**	106,925
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**832,789**	800,000
Effect of dilutive potential ordinary shares:		
Options	**11,683**	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**844,472**	800,000

The weighted average number of shares for the purposes of basic earnings per share for both periods were calculated based on the weighted average number of shares in issue during both periods.

The computation of diluted earnings per share for the Reporting Period does not assume the conversion of the Company's outstanding convertible bonds, which were issued in the second half of financial year 2013, since their exercise would result in an increase in earnings per share.

The computation of diluted earnings per share for the Reporting Period does not assume the exercise of the outstanding warrants, which were issued during the Reporting Period, since their exercise would have an insignificant impact on earnings per share.

11. Dividends

No dividends were paid, declared or proposed during both periods. The Directors have determined that no dividend will be paid in respect of the Reporting Period (six months ended 30 June 2013: Nil).

12. Movements In Property, Plant and Equipment/Prepaid Land Lease Payments

During the Reporting Period, the Group made addition of property, plant and equipment and leasehold land of approximately RMB36,184,000 and 6,991,000 respectively (six months ended 30 June 2013: RMB46,050,000 and nil respectively).

13. Available-For-Sale Investment

On 31 December 2012, the Group entered into a conditional agreement with one of its major trade debtors (the "Debtor") whereby the Debtor would transfer to the Group its 95% equity interest in Yongheng (as defined below), and would assign its shareholder's loan of RMB111,271,000 therein, in lieu of settlement for certain trade debts due to the Group (the "1st Agreement").

鹽城市咏恒置業有限公司 (Yancheng City Yongheng Properties Co., Ltd*) ("Yongheng") is a limited liability company established in the PRC, the sole assets of which are two parcels of land in the PRC. The scope of business of Yongheng includes construction and development of properties. The 95% equity interest in Yongheng is determined with reference to the fair value of the net assets of Yongheng based on a valuation report issued by 江蘇仁和資產評估有限公司, a registered valuation firm in the PRC which is independent from the Group.

The amount of such trade debts to be settled in this manner is RMB288,293,000 (comprising current portion of RMB251,798,000 and non-current portion of RMB36,495,000 as of 31 December 2012).

Concurrent with the above arrangement, the Group also entered into another conditional agreement to acquire the remaining 5% equity interest in Yongheng from the non-controlling interest therein for a cash consideration of RMB400,000 (the "2nd Agreement").

On 22 March 2013, the Group entered into a conditional sale and purchase agreement with 鹽城市鴻基建築安裝工程有限責任公司 (Yancheng City Hongji Construction Installation Engineering Company Limited*) ("Hongji Construction"), an independent third party, whereby the Group has agreed to transfer to Hongji Construction its 85% equity interest in Yongheng together with 85% of the shareholder's loan for a total consideration of RMB252,968,000 (the "Consideration") (the "3rd Agreement"), to be settled in the following manner:

(i) a deposit of RMB10 million within three business days upon signing of the 3rd Agreement;

(ii) payment of not less than RMB70 million (not including the deposit) before 31 December 2013;

(iii) a further payment of not less than RMB100 million during the year ending 31 December 2014; and payment of any outstanding balance before 31 December 2015.

The consideration payable by Hongji Construction to the Group is unsecured and carries interest at a rate of 6% per annum on the amount of unpaid balance starting from 1 January 2014.

13. Available-For-Sale Investment (Continued)

On 28 June 2013, Hongji Construction gave an undertaking to the Group that Hongji Construction shall pay, before 30 June 2014, a sum of not less than RMB50 million out of the RMB100 million originally payable before 31 December 2014. As at 30 June 2014, the committed RMB50 million was fully settled. The payment per point (i) and (ii) were fully settled as at 31 December 2013.

The Group acquired the entire interest in Yongheng through the execution of the 1st Agreement and 2nd Agreement exclusively with a view to subsequent disposal of the subsidiary. At the date of completion of the 1st Agreement on 22 March 2013, the sole assets, being two parcels of land of RMB297,610,000, acquired and the liability, being the shareholder's loan of RMB111,271,000, assumed are measured at fair value. Subsequently, they are measured at the lower of their carrying amount and fair value less costs of disposal. This transaction has been accounted for as an acquisition of assets and assumption of relevant liability as it does not meet the definition of a business combination. Accordingly, it does not give rise to any goodwill.

The completion of the 3rd Agreement on 28 April 2013 did not result in any gain or loss as the consideration for the disposal was determined with reference to the same valuation report used for the 1st Agreement.

The Group's remaining 15% equity interest in Yongheng is classified as an available-for-sale investment and was measured on initial recognition at fair value, which was calculated with reference to the fair value of the equity interest in Yongheng on the date of completion of the 3rd Agreement.

As at 30 June 2014, the investment of RMB20,921,000 (31 December 2013: RMB17,147,000) is measured at cost less impairment, because there is no quoted market price in an active market and the range of reasonable fair value estimates is so significant. The Directors are of the opinion that the fair value cannot be measured reliably.

The shareholder's loan to Yongheng is unsecured, interest-free and has no fixed repayment terms. At 30 June 2014, in the opinion of the Directors, the shareholder's loan is not expected to be recovered within one year from the end of the Reporting Period. The balance is, therefore, classified as non-current.

* for identification only

14. Accounts and Other Receivables

	At 30 June 2014 RMB'000 (Unaudited)	At 31 December 2013 RMB'000 (Audited)
Non-current:		
Accounts receivables (notes (i) & (ii))	**141,482**	117,971
Value-added tax recoverable (note (iv))	**9,768**	9,953
Shareholder's loan to Yongheng (defined in Note 13)	**14,804**	18,578
Consideration receivable	**78,157**	72,968
	244,211	219,470
Current:		
Accounts receivables (notes (i) & (ii))	**1,029,808**	862,888
Bills receivable (note (iii))	**7,150**	4,150
Government financial incentive receivables (Note 6)	**17,504**	16,041
Deposits and prepayments	**32,889**	22,307
Value-added tax recoverable (note (iv))	**5,036**	5,450
Consideration receivable	**50,000**	100,000
Others	**7,686**	5,872
	1,150,073	1,016,708
	1,394,284	1,236,178

notes:

(i) 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.

The Group prepares an aged analysis for its accounts receivables based on the dates when the Group and the customers agreed on the quantum of the services provided, as evidenced by progress certificates. Periodic statements are issued and agreed by the customers for the work performed and services rendered for the customers. Most of the contracts require the customers to make monthly progress payments with reference to the value of work completed (typically 55% to 85% of the value of work completed in the previous month) within thirty days after the issuance of the progress certificate. According to these contracts, the remaining balance (15% to 45% of the value of work completed) is to be paid by the customers within thirty to sixty days after the project is completed and accepted by the customers and the customers receive payment from the project owners.

14. Accounts and Other Receivables (Continued)

notes: (Continued)

(i) (Continued)

The aged analysis of the Group's accounts receivable, prepared based on the dates of certification of work done, which approximate the respective revenue recognition dates, (net of allowance on accounts receivable) at the end of each Reporting Period is as follows:

Aged analysis of the Group's accounts receivables

	At 30 June 2014 RMB'000 (Unaudited)	At 31 December 2013 RMB'000 (Audited)
0–30 days	241,836	193,977
31–60 days	44,070	60,129
61–90 days	55,555	63,472
91–180 days	189,693	221,265
Over 180 days	640,136	442,016
	1,171,290	980,859

Included in the accounts receivables balance is retention money of approximately RMB130,000,000 (31 December 2013: RMB95,000,000) as at 30 June 2014.

The amount of accounts receivables which were past due based on the terms of contracts, as at the end of the Reporting Period but for which the Group has not provided for impairment loss is analysed as follows:

Aged analysis of accounts receivables which were past due but not impaired

	At 30 June 2014 RMB'000 (Unaudited)	At 31 December 2013 RMB'000 (Audited)
0–30 days	19,917	1,614
31–60 days	50,114	60,129
61–90 days	74,685	63,472
91–180 days	120,188	185,239
Over 180 days	468,680	310,983
	733,584	621,437

14. Accounts and Other Receivables (Continued)

notes: (Continued)

(i) (Continued)

The Group does not hold any collateral over the above balances, but the management considers that no impairment loss needs to be recognised in view of the financial background of these customers and their historical and subsequent repayments.

Included in the accounts receivable is RMB167,389,000 (31 December 2013: RMB179,031,000) due from a customer of which the dredging project has been suspended since January 2014 due to change in use of relevant reclaimed areas by the Government. The project is expected to resume in the second half of 2014. The management is of the opinion that there is no problem in the collectability by reference to the historical payment pattern and a written commitment by the customer to settle the outstanding balance in full in accordance with original settlement terms except for the retention money to be paid out upon final certification of value of work performed.

No allowance for doubtful debts was recognised by the Group during both interim periods.

Interest is charged in respect of accounts receivable balance at a rate of 10% per annum which were due for repayment over one year from the date of progress certificate.

(ii) Non-current accounts receivable represents amounts due from several customers for contract works, for which the contracts include clauses for extended payment terms beyond one year. During the Reporting Period, interest income of about RMB9,864,000 (six months ended 30 June 2013: RMB1,999,000) was recognised.

(iii) The aged analysis of the Group's bills receivable at the end of each Reporting Period is as follows:

Aged analysis of the Group's bills receivable

	At 30 June 2014 RMB'000 (Unaudited)	At 31 December 2013 RMB'000 (Audited)
0–30 days	**600**	400
31–60 days	**2,000**	750
61–90 days	**200**	3,000
91–180 days	**4,350**	—
	7,150	4,150

(iv) As at 30 June 2014, an amount of RMB14,804,000 (31 December 2013: RMB15,403,000) value-added tax paid by the Group in connection with its purchase of plant and machinery and dredgers in relation to Other Marine Business could be used to set-off against future value-added tax payable in relation to revenue generated from Other Marine Business. The Group has estimated that the value-added tax payable for the twelve months ending 30 June 2015 is approximately RMB5,036,000 (31 December 2014: RMB5,450,000). Accordingly, the remaining value-added tax recoverable of RMB9,768,000 (31 December 2013: RMB9,953,000) is not expected to be recovered within one year from the end of the Reporting Period and is classified as non-current.

15. Accounts and Other Payables

	At 30 June 2014 RMB'000 (Unaudited)	At 31 December 2013 RMB'000 (Audited)
Accounts payables		
Subcontracting charge	**180,053**	162,505
Fuel cost	**12,327**	31,227
Repair and maintenance	**10,709**	14,338
Others	**691**	1,350
	203,780	209,420
Bills payable	**97,843**	38,501
Other payables		
Payable for property, plant and equipment	**16,629**	170,540
Accrued other taxes	**75,600**	66,502
Accrued staff salaries and welfare	**15,256**	15,389
Receipts in advance	**6,418**	6,431
Interest on convertible bonds due within one year	**5,759**	5,759
Others	**5,896**	12,096
	125,558	276,717
	427,181	524,638

The aged analysis of the Group's accounts payables presented based on the invoice date, except for sub-contracting charge which is presented based on dates of the progress certificates, as at the end of each Reporting Period is as follows:

	At 30 June 2014 RMB'000 (Unaudited)	At 31 December 2013 RMB'000 (Audited)
0–30 days	**117,870**	122,391
31–60 days	**5,632**	10,190
61–90 days	**3,438**	16,213
91–180 days	**6,776**	11,082
Over 180 days	**70,064**	49,544
	203,780	209,420

16. Bank Borrowings

During the Reporting Period, the Group raised bank loans of RMB329,900,000 (six months ended 30 June 2013: RMB412,038,000) and repaid bank loans of RMB395,642,000 (six months ended 30 June 2013: RMB284,000,000). As at 30 June 2014, the effective interest rates of the bank borrowings ranged from 3.79% to 7.8% (31 December 2013: 3.62% to 7.80%) per annum.

17. Share Capital

	Number of shares	**Amount**	**RMB equivalent amount**
		HK$'000	RMB'000
Ordinary shares of HK$0.10 each			
Authorised			
At 1 January 2013, 30 June 2013, 31 December 2013 and 30 June 2014	10,000,000,000	1,000,000	N/A
Issued and fully paid			
At 1 January 2013, 30 June 2013 and 31 December 2013	800,000,000	80,000	67,200
Exercise of share options (note)			
At 30 June 2014	55,600,000	5,560	4,392
	855,600,000	85,560	71,592

note: During the Reporting Period, options were exercised to subscribe for 48,000,000 and 7,600,000 (six months ended 30 June 2013: nil) shares at an option exercise price of HK$2.192 and HK$2.176, respectively.

18. Convertible Bonds/Derivative Financial Liabilities

The Company issued unsecured convertible bonds to CITIC Capital China Access Fund Limited ("CITIC") at a total nominal value of HK$243,000,000 (equivalent to RMB191,970,000) on 8 November 2013, carrying an interest rate of 3% per annum. These convertible bonds mature in three years from the date of issue. The convertible bond holder has the option to either convert them into the Company's ordinary shares at a conversion price of HK$2.7 per share, subject to anti-dilutive adjustments, at any time after six months from the date of issue and up to the maturity date, or redeem them at 133.792% of the nominal value of the convertible bonds upon maturity, without early redemption option. The issuer has no right to early redeem the convertible bonds.

The convertible bonds contain two components, the host debt component and the conversion option. The convertible bonds are denominated in HK$, which is a currency other than the Company's functional currency. The conversion option in the convertible bonds does not exchange a fixed number of the Company's own equity instrument for a fixed amount of cash. Accordingly, the conversion option is accounted for separately as derivative liabilities, which are not closely related to the host debt component. The fair values of the debt component and the derivative component were determined at the date of issue. Subsequent to initial recognition, the debt component is carried at amortised cost while the derivative component is measured at fair value, with changes in fair value recognised in profit or loss. The effective interest rate of the debt component is 16.9%.

The convertible bonds recognised in the condensed consolidated statement of financial position are calculated as follows:

	Debt component	**Derivative component**	**Total**
	RMB'000	RMB'000	RMB'000
As at 8 November 2013 (date of issue)	173,713	18,257	191,970
Amortisation using effective interest method	4,102	—	4,102
Changes in fair value	—	19,511	19,511
At 31 December 2013	177,815	37,768	215,583
Amortisation using effective interest method (Note 7)	15,354	—	15,354
Changes in fair value	—	1,129	1,129
Interest settlement	(2,856)	—	(2,856)
At 30 June 2014	190,313	38,897	229,210

18. Convertible Bonds/Derivative Financial Liabilities (Continued)

The convertible bonds at the end of the Reporting Periods are represented by:

	At 30 June 2014 RMB'000 (Unaudited)	At 31 December 2013 RMB'000 (Audited)
Interest payable within one year included in other payables	**5,759**	5,759
Convertible bonds included as non-current liabilities	**184,554**	172,056
	190,313	177,815

Fair values of the derivative component (representing the conversion options of the convertible bonds) at 8 November 2013 (date of issue), 31 December 2013 and 30 June 2014 are determined using Black-Scholes Model by independent valuer, with inputs as follow:

	8 November 2013	31 December 2013	30 June 2014
Valuation date share price	HK$1.94	HK$2.49	**HK$2.46**
Conversion price	HK$2.70	HK$2.70	**HK$2.70**
Time to maturity	3 years	2.854 years	**2.357 years**
Risk-free rate	0.4330%	0.6336%	**0.5118%**
Volatility	35.588%	37.433%	**43.466%**
Dividend yield of the Company	0.00%	0.00%	**0.00%**

19. Warrants

On 17 January 2014, the Company issued 35,000,000 unlisted warrants ("Warrants") at a price of HK$0.01 per Warrant to 7 placees, all being independent third parties to the Group and each Warrant entitles its holder to subscribe for one ordinary share of HK$0.10 each of the Company ("Warrant Share") at the subscription price of HK$2.70 per Warrant Share at any time during the period of two years commencing from the date of issue of the Warrants.

The net proceeds from the issue amounted to HK$300,000 (equivalent to RMB237,000). The Warrants are denominated in HK$, which is a currency other than the Company's functional currency. The subscription rights in the Warrants, denominated in HK$, do not exchange a fixed number of the Company's own equity instruments for a fixed amount of cash. Accordingly, the subscription rights are accounted for as derivative liabilities and are stated at fair value with changes in fair value recognised in profit or loss. During the six months ended 30 June 2014, net fair value loss of RMB12,314,000 was recognised through profit or loss.

At 30 June 2014, the Company had outstanding 35,000,000 Warrants to be exercised at any time on or before 16 January 2016, exercise in full of such Warrants would result in the issue of approximately 35,000,000 additional ordinary shares of HK$0.10 each.

19. Warrants (Continued)

Fair values of the Warrants at 17 January 2014 (date of issue) and 30 June 2014 are determined using Black-Scholes Model by independent valuer, with inputs as follow:

	17 January 2014	30 June 2014
Valuation date share price	HK$3.02	**HK$2.46**
Exercise price	HK$2.70	**HK$2.70**
Time to maturity	2.00 years	**1.55 years**
Risk-free rate	0.3280%	**0.2550%**
Volatility	38.760%	**45.610%**
Dividend yield of the Company	0.00%	**0.00%**

20. Capital Commitments

	At 30 June 2014 RMB'000 (Unaudited)	At 31 December 2013 RMB'000 (Audited)
Capital commitments contracted but not provided for relating to the followings:		
— Acquisition of property, plant and equipment	**74,675**	88,186
— Investment in a sino-foreign joint venture in the PRC	**24,000**	24,000

21. Share-Based Payment Transactions

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.

The offer of a grant of options must be taken up within 21 days of the date of offer. 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.

21. Share-Based Payment Transactions (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**	**Exercise price per Share** HK$	**Exercisable period**	**At 1 January 2014**	**Exercised during the period**	**Lapsed during the period**	**At 30 June 2014**
Employees (note i)	30 March 2012	2.192	19 April 2012 to 30 March 2014	42,000,000	(36,000,000)	(6,000,000)	—
Others (note ii)	30 March 2012	2.192	19 April 2013 to 30 March 2014	12,000,000	(12,000,000)	—	—
Others (note ii)	29 May 2012	1.920	18 June 2013 to 29 May 2014	12,000,000	—	(12,000,000)	—
Others (note iii)	2 September 2013	2.176	note (iii)	7,600,000	(7,600,000)	—	—
				73,600,000	(55,600,000)	(18,000,000)	—
Exercisable at the respective dates				66,000,000			—
Weighted average exercise price per share				HK$2.146	HK$2.190	HK$2.011	—

notes:

(i) These options were granted to employees and they are fully vested upon grant.

(ii) These options were granted to eligible participants independent to the Group, who are considered to have contributed to the Group's continuing 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 of one year.

(iii) On 2 September 2013, the Group granted share options to subscribe up to a total of 7,600,000 ordinary shares of HK$0.10 each in the Company's share capital to an independent financial advisor. The exercise period of these options shall commence on the date of appointment of the Grantee as a financial advisor of the Group, and expire after 2 years from the date of offer of grant of the options (i.e. 1 September 2015). Further, the options shall only be exercisable if the volume weighted average traded price of the Company's shares based on the trading day immediately preceding the date of exercise is equal to or higher than HK$3.50 during the period of consultant services. The options are fully vested upon grant.

22. Major Non-Cash Transactions

During the six months ended 30 June 2013, other borrowings of the Group in an aggregate amount of RMB12,360,000 were assigned by the creditors to certain non-controlling interests of a subsidiary.

During the six months ended 31 December 2013, in lieu of settlement for trade debts of RMB288,293,000, the Group entered into the 1st Agreement, 2nd Agreement and 3rd Agreement, details of which are set out in Note 13.

23. 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 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Dredgers included in property, plant and equipment	**871,850**	876,275
Building included in property, plant and equipment	**72,119**	—
Prepaid land lease payments	**98,735**	93,009
Accounts receivables (note)	**167,389**	260,932
Pledged bank deposits	**72,843**	53,521
	1,282,936	1,283,737

note: Accounts receivable relate to certain dredging projects which were pledged to secure the Group's bank borrowings. The banks could exercise their rights over any outstanding accounts receivable relating to the relevant dredging projects in the event of the Group's breach of the terms of bank borrowings. As at 30 June 2014, outstanding accounts receivable relating to these projects amounting to RMB167,389,000 (31 December 2013: RMB260,932,000) and the related bank borrowings amounted to RMB68,169,000 (31 December 2013: RMB90,296,000).

24. Fair Value Measurements of Financial Instruments

Fair value of the Group's financial liabilities that are measured at fair value of a recurring basis

Some of the Group's financial liabilities are measured at fair value at the end of each Reporting Period. The following table gives information about how the fair values of these financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value of the Group's financial liabilities that are measured at fair value of a recurring basis (Continued)

The followings are the key inputs used in valuing the financial liabilities as at 30 June 2014:

Category	Fair value hierarchy	Fair value at 30 June 2014 RMB'000	Fair value at 31 December 2013 RMB'000	Valuation techniques	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Derivative financial liabilities embedded in convertible bonds	Level 3	**38,897**	37,768	Black-Scholes Model	Volatility	The higher the volatility, the higher the fair value, vice versa.
Derivative financial liabilities —Warrants	Level 3	**12,551**	—	Black-Scholes Model	Volatility	The higher the volatility, the higher the fair value, vice versa.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate to their fair values.

24. Fair Value Measurements of Financial Instruments (Continued)

Other price risk

For the period ended 30 June 2014, the Group is required to estimate the fair value of the derivative financial liabilities embedded in the convertible bonds and the warrants with changes in fair value to be recognised in profit or loss. The fair value will be affected either positively or negatively, amongst others, by the changes in the share price of the Company. The fair value of the derivative financial liabilities of the convertible bonds and warrants as at 30 June 2014 will be increased by approximately RMB34,000,000 and RMB13,000,000 respectively (31 December 2013: RMB60,000,000 and nil)/decreased by approximately RMB25,000,000 and RMB9,000,000 respectively (31 December 2013: RMB21,000,000 and nil) if the share price is 30% higher/lower and all other input variables of the valuation model were held constant.

A significant unobservable input for the valuation is the volatility used to determine the fair value in the Black-Scholes Model. Carrying amount of the derivative financial liabilities of the convertible bonds and warrants as at 30 June 2014 would be increased by approximately RMB11,000,000 and RMB3,000,000 respectively (31 December 2013: RMB28,000,000 and nil)/decreased by approximately RMB12,000,000 and RMB3,000,000 respectively (31 December 2013: RMB5,000,000 and nil) when the volatility increased/decreased by 10%.

In the opinion of the Directors, the sensitivity analysis above is unrepresentative of the inherent price risk and volatility as the pricing model used in the valuation of the derivative financial liability involves multiple variables and certain variables are interdependent.

25. Related Party Disclosures

(I) Related party transactions

During the Reporting Period, the Group paid rentals of RMB46,000 (six months ended 30 June 2013: RMB46,000) to certain companies controlled by Mr. Liu in respect of office premises.

In addition, the Group received other advances from, and made repayments to, Mr. Liu during the six months ended 30 June 2014 and 2013. As at 30 June 2014, the amount due to Mr. Liu was RMB1,474,000 (31 December 2013: RMB157,000).

25. Related Party Disclosures (Continued)

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

As at 30 June 2014 and 31 December 2013, other than pledge of assets of the Group, the Group's bank borrowings were also supported by:

(a) corporate guarantee given by Xiangyu PRC;

(b) personal guarantees provided by Mr. Liu and Ms. Zhou; and

(c) two properties owned by certain non-controlling shareholders of the Company's subsidiary.

In addition, as at 30 June 2014, the Group's bank borrowings to the extent of HK$121,199,000 (equivalent to RMB95,623,000) (31 December 2013: HK$267,251,000 (equivalent to RMB210,670,000)) were supported by a guarantee provided by China Merchant Bank Nanjing branch, which was in turn secured by one (31 December 2013: two) parcel(s) of land owned by Yongheng. Another bank borrowing of the Group of RMB20,000,000 (31 December 2013: RMB20,000,000) was supported by a property owned by a company in which Mr. Liu has beneficial interest.

(III) Compensation of key management personnel

Details of the emoluments paid or payable to the Directors and the chief executive of the Company during each period are as follows:

	Six months ended 30 June	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Short-term benefits	**1,819**	3,170
Post-employment benefits	**7**	7
	1,826	3,177